An Assessment of the Efficacy of Delivering the Annual Development Program in Bangladesh

Sabbih Mostafa Amir

KDI School of Public Policy and Management

December 2017

Online at https://mpra.ub.unimuenchen.de/84668/
MPRA Paper No. 84668, posted 18 February 2018 12:09 UTC
AN ASSESSMENT OF THE EFFICACY OF DELIVERING THE ANNUAL DEVELOPMENT PROGRAM IN BANGLADESH

Mostafa Amir Sabbih

Supervised Research Project (SRP)
Submitted in partial fulfillment of the requirements for the Degree of Master of Development Policy

KDI School of Public Policy & Management

December 2017
ABSTRACT

In order to achieve the goal of reaching a middle-income country status by 2021, Bangladesh requires increased public investment, particularly in order to close severe education, health, and infrastructure gaps. The major proportion of public investment in Bangladesh is channeled through the Annual Development Program (ADP). The government takes many projects every year for implementation in the ADP but a significant proportion of these projects are revised by cost escalation with time overrun as the implementation status remains poor. This study aims to assess and diagnose the ADP execution process against a sound public investment management framework, to identify the barriers responsible for poor implementation of ADP; and to recommend policy options to raise the efficacy of delivering ADP.

The assessment of this study, using secondary data, found a weak project screening and appraisal status in the project preparation stage. This is supported by the finding of inadequate independent review of project proposals (e.g. log frames and CBA), as well as the practice of pervasive and increasing allocations to symbolic (small) projects and the substantial growth in the number of unapproved new projects.

Although a significant improvement has been achieved in the ADP execution rate in the last two decades particularly for GOB projects (89 per cent), the execution rate of DP assisted projects (72 per cent) lags far behind. Furthermore, the evidence of fourth quarter syndrome suggests significant potential problems regarding the spending quality, and therefore the continued presence of project preparation and implementation weaknesses. In addition, the large share of projects which were declared completed despite not being 100 per cent complete indicates the necessity of reviewing and rationalizing quality of ADP spending.

Two key indicators for evaluating the PIM system effectiveness are cost and time overrun. While some the average cost overrun showed some improvement in recent years, the
average cost overrun is still on an increasing trend. Weaknesses in project preparation, financing, and execution are likely to have contributed to such inefficiency.

Finally, inadequate follow-up on the recommendations generated from external audits, as well as IMED impact evaluations and lack of attention to the operation and maintenance of newly created assets are the two other critically important factors which hamper the efficacy of ADP delivery of Bangladesh. Therefore, the current study recommends that these weaknesses should be addressed in the short, medium and long term to increase the effectiveness of PIM system in Bangladesh.
ACKNOWLEDGEMENTS

I am very grateful to Professor Cheol Liu, KDI School of Public Policy and Management for his advice and guidance in preparing the paper.

I also sincerely acknowledge the support and suggestions offered by my friends and colleagues at KDI School.

I would also like to acknowledge the support of my organization, Centre for Policy Dialogue (CPD) for providing me data and allowing me to use them whenever needed.

Last but not the least, I am grateful to my wife, Samiha Rahman Bushra for her never ending support and encouragement to complete this study.

I alone remain liable for the assessment, explanations and results presented in this paper.
TABLE OF CONTENTS

List of Tables .................................................................................................................. 5
List of Figures .................................................................................................................. 6
Abbreviations .................................................................................................................. 7
Chapter 1. Introduction ................................................................................................... 9
  1.1 Background ............................................................................................................... 9
  1.2 Research Questions ............................................................................................... 11
  1.3 Research Methodology ......................................................................................... 12
  1.4 Organization of the Paper .................................................................................... 12
  1.5 Limitation of the Study ......................................................................................... 12
Chapter 2. Review of Literatures on Public Investment Management ...................... 13
  2.1 Defining Key Features for an Efficient PIM System ............................................. 13
    2.1.1 Guidance to investment, development and preliminary screening of projects. .. 14
    2.1.2 Formal appraisal of projects .......................................................................... 15
    2.1.3 Independent appraisal review ......................................................................... 15
    2.1.4 Selection of projects and budgeting ............................................................... 16
    2.1.5 Implementation of projects ........................................................................... 17
    2.1.6 Adjustment of projects .................................................................................. 18
    2.1.7 Facility operation ........................................................................................... 19
    2.1.8 Basic review and evaluation of completed projects ...................................... 19
Chapter 3. An assessment of the PIM of Bangladesh against the eight features .......... 21
  3.1 Guidance to Investment, Development and Preliminary Screening of Projects 21
    3.1.1 National plans and strategies exist, but connection between them and the ADP is weak. ........................................................................................................... 21
    3.1.2 The level of project formulation capacity in agencies is low. ....................... 22
    3.1.3 The project screening capacity of respective authorities is generally low. .. 22
  3.2 Formal Appraisal of Projects .............................................................................. 23
    3.2.1 The formal guideline on technical aspects of project appraisal is not available to project development officials ................................................................. 23
  3.3 Independent review of appraisal .......................................................................... 24
    3.3.1 PEC lacks in-depth independent review capacity ........................................... 24
    3.3.2 Independent appraisal review of DP projects by the government are limited. ......................................................................................................................... 24
3.4 Project Selection and Budgeting .................................................................25

3.4.1 Absence of inventory of appraised projects and electronic database of all ADP projects .................................................................25

3.4.2 FD sets an aggregate ceiling at the start of the annual budget cycle. .......25

3.4.3 Domestically-financed projects are selected on ad-hoc basis ..................26

3.4.4 For TA projects, there is a set of delegation in place ............................26

3.4.5 ADP is comprised of a large number of projects, including a high proportion of small projects ....................................................................26

3.4.6 Funding is slashed and reallocated in RADP due to underutilization. ......27

3.4.7 Projects, expected to be completed in the next year, are given priority in funding decisions ...............................................................27

3.4.8 There is no clear definition of the margins of the ADP and the NDB .......28

3.5 Project Implementation ...........................................................................28

3.5.1 Project directors do not have a comprehensive manual on project implementation ..............................................................................28

3.5.2 Implementing agencies do not face problems with regard to availability and timeliness of their allocated funds .................................................28

3.5.3 Procurement remains a major area of concern despite showing signs of improvement ..................................................................................29

3.5.4 Evidence of ‘fourth quarter syndrome’ ...................................................29

3.5.4 DP-funded projects have lower execution rate than GOB projects ..........30

3.5.5 High ADP fund spending, but low real physical performance ................31

3.6 Project Adjustment .................................................................................32

3.6.1 Project revision and adjustment system is present with some rigidities ....32

3.6.2 Project revisions seldom prompt a re-appraisal of the continued justification of projects .................................................................33

3.7 Facility Operation .....................................................................................33

3.7.1 Delays and difficulties in operating and maintenance of newly completed assets .........................................................................................33

3.7.2 Despite the lack of systematic data, evidences of low quality facilities after project completion are frequent ...........................................33

3.8 Basic Completion Review and Evaluation ...............................................34

3.8.1 Project completion reviews are completed systematically, and there is a comprehensive database of statistics on completed projects ..........34

3.8.2 There are large average cost and (especially) time overruns on completed projects ....................................................................................35

3.8.3 Number of audits, project evaluation and impact evaluation have increased, but follow up is weak ............................................................35

Chapter 4. Findings, recommendations and conclusion .................................37
4.1 Findings........................................................................................................37
4.2 Policy Recommendations.............................................................................38
4.3 Conclusion ..................................................................................................40

Appendix 1........................................................................................................42
Appendix 2........................................................................................................43
Bibliography .....................................................................................................44
### LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Status of PCR submission, FY2013-15</td>
<td>34</td>
</tr>
<tr>
<td>Table 2</td>
<td>Accounts of completed project evaluation, FY2008-15</td>
<td>36</td>
</tr>
<tr>
<td>Appendix 1</td>
<td>Comparison between ADP and RADP, by number of projects and allocation, FY2006-16</td>
<td>42</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>Cost over-run and time over-run of completed projects, FY2003-14</td>
<td>43</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Pattern of quarterly ADP implementation as against original allocation, FY2006-16</td>
<td>30</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Components of ADP implementation as against original allocation, FY2001-16</td>
<td>31</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Percentage of completed projects that are not 100 per cent physically completed</td>
<td>32</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Cost Overrun and Time Overrun (%) of Completed Projects</td>
<td>35</td>
</tr>
</tbody>
</table>
ABBREVIATIONS

7FYP    Seventh Five Year Plan
ADP     Annual Development Programme
C&AG    Comptroller & Auditor General
CBA     Cost Benefit Analysis
CPD     Centre for Policy Dialogue
CPTU    Central Procurement Technical Unit
DP      Development Partner
DPP     Development Project Proforma
DSPEC   Departmental Special Project Evaluation Committee
EA      Executing Agency
ECNEC   Executive Committee of the National Economic Council
ERD     Economic Relations Division
FAPAD   Foreign Assisted Projects Audit Directorate
FD      Finance Division
FY      Financial Year or Fiscal Year
GED     General Economics Division
GOB     Government of Bangladesh
IIFC    Infrastructure Investment Facilitation Center
IMED    Implementation Monitoring and Evaluation Division
LGED    Local Government Engineering Department
LMs     Line Ministries
MBF     Ministry Budget Framework
MoF     Ministry of Finance
MTBF    Medium Term Budgetary Framework
MTFF    Medium Term Fiscal Framework
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDB</td>
<td>Non-Development Budget</td>
</tr>
<tr>
<td>NSAPR</td>
<td>National Strategy for Accelerated Poverty Reduction</td>
</tr>
<tr>
<td>PC</td>
<td>Planning Commission</td>
</tr>
<tr>
<td>PCR</td>
<td>Project Completion Report</td>
</tr>
<tr>
<td>PEC</td>
<td>Project Evaluation Committee</td>
</tr>
<tr>
<td>PIM</td>
<td>Public Investment Management</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RADP</td>
<td>Revised Annual Development Program</td>
</tr>
<tr>
<td>SM</td>
<td>Sponsoring Ministry</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>TPP</td>
<td>Technical Project Proforma</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Background

A number of studies have already proven the positive association of public investment with economic growth (Chakraborty & Dabla-Norris, 2009; Ghazanchyan & Stotsky, 2013). The empirical result by Gupta, Kangur, Papageorgiou and Wane (2014) shows that public capital is a significant contributor to growth when adjusted for efficiency. This indicates that when efficiency of investment processes is controlled, the productivity of public capital exceeds the marginal cost of investment significantly. The IMF (2014) argues that investment can bring significant growth dividend, but the dividend will be lower in case of inefficient public investment. For example, the impact of public investment on economic output was found 0.15 percentage point higher in the same year and 1.0 percentage point higher after four years in efficient advanced economies compared to the inefficient developing economies (IMF, 2014).

In order to achieve the goal of reaching a middle-income country status by 2021, Bangladesh requires increased public investment, particularly in order to close severe education, health, and infrastructure gaps (World Bank, 2011). The profitability or rate of return of private sector to invest in public goods and services such as education, health and basic infrastructures is low and as a result private investors are reluctant to invest in these public goods. In contrast, due to the expected social rate of return and addition to national income through productivity increase, public investment is the most preferred tool for the government to narrow the gaps in infrastructure and social sectors. However, the argument that additional resources allocated to public investment will increase the rate of economic growth can be negated by the weaknesses in the management of public investment.
The major proportion of public investment in Bangladesh is channeled through the Annual Development Program (ADP). Bangladesh has a dual-budgeting system – development budget and non-development budget (NDB). ADP constitutes more than 95 per cent of the development budget which finances investment projects and technical assistance projects while the on-going recurrent costs of government are financed by the NDB. Meanwhile, ADP fails to server its purpose of increasing economic growth and generating employment when its implementation is inefficient. Mujeri and Alam (2011) in their background papers for Sixth Five Year Plan of Bangladesh 2011-2015 argues that the current project selection and implementation process, based on the ADP framework, has not been that much effective in meeting today’s demands and challenges. While the ADP model worked during the 1970s and the 1980s for meeting the investment demand of public infrastructure, when the country had a small domestic resource base and depended mostly on development assistance to finance its public investment program, it is no longer an adequate mechanism as has been increasingly apparent (Mujeri and Alam, 2011). Today the government depends less on foreign aid to finance its ADP while the availability of domestic resource is also not adequate to meet the fast growing physical infrastructure demand in the economy. Data from the Implementation Monitoring and Evaluation Division (IMED) of the Planning Commission shows that on an average only 38 per cent of ADP was financed from project aid (PA) during 2006-15 period which was 55 per cent in the 1990s. In addition, The Seventh Five Year Plan (7FYP) estimates that Bangladesh needs about USD 410 billion worth of physical infrastructure to grow at a rate of 8 per cent by 2020, which is twice the size of country’s current GDP (GED, 2015).

Further, the size of ADP is increased by time overrun and cost escalation which deteriorate the quality of implementation as well as increase social cost. Time escalation causes more problems for projects that are financed through foreign aids as longer implementation period are associated with high rate of interest and the addition of a longer repayment schedule.
The government takes many projects every year for implementation in the ADP but a significant proportion of these projects are revised by cost escalation with time overrun as the implementation status remains poor. Kettlewell et al. (2014) attempts to analyze the quality of project execution by assessing the time and cost overruns on completed projects based on a sample of all 256 ADP projects provided by IMED which were all closed in FY2011. From this sample, 80 projects (31 per cent) were found to have overspent their original budget while 167 (65 per cent) projects had a time overrun. The average cost of these projects increased by 34 per cent and average execution period extended by 2.70 years or 76 per cent. The study also found that most projects with a cost overrun also encountered a time overrun (Kettttewell et al., 2014). All these factors indicate towards the inefficient management of public investment of Bangladesh. Therefore, the demonstrated failure of the ADP-based project execution implies that the emerging needs of the economy that should grow at a rate of 8 per cent cannot be tackled through following the traditional way of financing and implementing infrastructure projects. In this respect, the current study can make potential contribution to policymakers in detecting the barriers to ADP execution and recommending policy measures to guarantee efficient delivery of ADP and thus ensuring proper utilization of public investment.

This study aims to assess and diagnose the ADP execution process against a sound public investment management framework, to identify the constraints and weaknesses in the PIM system of Bangladesh; and to suggest policy measures to raise the efficacy of delivering ADP.

1.2 Research Questions

To fulfill the objectives, the current study will attempt to answer the following questions:

- What are the features of a sound public investment management framework?
- Does the execution of ADP in Bangladesh follow a sound public investment management framework?
- What are the factors hampering the effectiveness of delivering the ADP in Bangladesh?
1.3 Research Methodology

Any study about the ADP implementation requires the answer of both macro and micro type investigation. This study used secondary data sources. A detailed review of national and international literatures relevant to the topic was conducted. Data were collected from published statistics, different research reports and government publications. Secondary data sources include ADP and ADP progress reports (English and Bangla), National Development Plans, annual reports of IMED, and other national and international research articles.

The paper adopts a descriptive and elaborative way of presenting with some data analysis. The study is primarily based on qualitative assessment, but it also analyzes descriptive statistics using appropriate tools.

1.4 Organization of the Paper

This study is organized as follows. Following this introduction, chapter 2 reviews literatures, concepts and theories on public investment management. Chapter 3 assesses the ADP delivery process against a sound public investment management framework. Chapter 4 concludes the study by summarizing the key constraints affecting the effectiveness of delivering the ADP and providing recommendations for raising the efficacy of ADP execution in Bangladesh.

1.5 Limitation of the Study

The analysis and findings of the study were mainly based on secondary data sources. Due to limited time and resources it was not possible to collect primary data from Key Informants to cross-check the validity of our findings and other qualitative aspects. Therefore, the analysis was mainly restricted to data which were available either on electronic sources or other secondary studies.
CHAPTER 2

REVIEW OF LITERATURES ON PUBLIC INVESTMENT MANAGEMENT

Fiscal institutions have played a key role in ensuring efficiency of public investment performance. Empirical studies found positive association of weak institutions with higher investment levels, but also with greater expenditure volatility and lower infrastructure quality (Tanzi & Davoodi, 1997; Keefer & Knack, 2007; Grigoli & Mills, 2014). In contrast, strong institutions are generally associated with higher efficiency in public investment and lower dependency on natural resource revenues (Albino-War et al., 2014). Gupta et al. (2014) also found that the quality of PIM is an important determinant of the productivity of public capital. Further, Dabla-Norris, Brumby, Kyobe, Mills and Papageorgiou (2012) developed an index on Public Investment Management (PIM) and observed that the efficiency and effectiveness of PIM varied widely across middle- and low-income countries. However, the index could not evaluate all public investment related key institutions due to its reliance on secondary-data sources.

2.1 Defining Key Features for an Efficient PIM System

The literature on the practices of PIM highlighted that well-governed institutions are critically important at key stages of the investment cycle (Balassone & Franco, 2000; Dabla-Norris et al., 2012; OECD, 2014; IMF, 2015). Using country experiences, Rajaram, Le, Kaiser, Kim and Frank (2014) identified “eight essential features” for achieving PIM efficiency. The rationale behind choosing Rajaram et al. (2014) as the main framework is that it deals with each stages of project cycle and therefore more comprehensive as a diagnostic assessment framework than other relevant literatures. The following subchapters will describe and justify each of these features.
2.1.1 Guidance to investment, development and preliminary screening of projects.

A vital approach to guide policy makers toward country priorities is the broad strategic planning for public investment. Balassone and Franco (2000), Creel, Monperrus-Véroni and Saraceno (2007), and Schaechter, Kinda, Budina and Weber (2012), discussed the importance of effective, integrated strategic planning for guiding public investment at the national and subnational level. A national development plan or other medium to long-term strategic document that comprises economy wide development priorities can provide such guidance. Examples of such guiding documents include, Poverty Reduction Strategy Paper (PRSP); longer-term national vision documents; and sector-level or even subsector-level strategy that translate the overarching priorities in a detailed way. Rajaram, Biletska and Brumby (2010) stated that a credible strategic guidance to public investment, which can be meaningfully interpreted at sector or subsector levels, can also be used as a reference of instructions during annual budget preparation.

Beyond the strategic guide, a formal process needs to be followed for project development as well as initial screening. A project profile with basic project information should be prepared by line ministries and implementing bodies commencing public investment projects (Rajaram et al., 2010). The basic project information includes “the relevant strategic priority and program or subprogram, the specific problem to be addressed, the project objective, the main activities, the expected results, and the estimated budget” (Rajaram et al., 2014). At this stage, it is also important to consider options for addressing the problem associated with a project and to undertake demand, supply, and gap analyses. In addition, preliminary screening of all project proposals should be undertaken to ensure that they are (a) consistent with the strategic goals of government, and (b) eligible for inclusion as a project through budget classification test. A project should be rejected if it fails to meet this screening test, and no further evaluation will be required.
2.1.2 Formal appraisal of projects.

Projects or programs should go through the feasibility test as part of appraisal of their viability that meet the first screening test (World Bank, 2011). This phase requires the spending agency or line ministry to assess whether a project should proceed further, once it has been found to be consistent with the priorities set by the government. A structured set of steps related to project preparation such as prefeasibility and feasibility studies (including primary design and impact assessments: social and environmental) are required in this process that must be completed and independently evaluated before approving a project for funding (Rajaram et al., 2014). The prefeasibility study is undertaken before conducting a full-fledged feasibility study to identify relevant alternatives. The feasibility study compiles all relevant data obtained from the prefeasibility study, refines project outputs and outcomes, outlines and analyzes the selected alternatives in depth for achieving project objectives, and assesses numerous background information (Rajaram et al., 2010). Therefore, the scope of a project can be narrowed down through identifying an optimal option for preliminary design.

2.1.3 Independent appraisal review.

It is always sound practice to conduct an independent review of project appraisals. Investment decisions can be skewed by optimism bias of those involved with developing project proposals which is reflected in underestimated costs and overestimated benefits (Rajaram et al., 2010). An independent peer review might be necessary where, instead of a central ministry, the appraisal is undertaken by departments and ministries, to check that the evaluation does not suffer from any subjective bias. The ministry of finance (MoF) or other designated institutions such as a university or a policy research institute with an independent relationship to government can perform this function (Rajaram et al., 2014). The appraisal of donor-financed projects should be similar to government-funded projects. However, it is
critically important to clarify specific responsibilities in case of aided projects as the appraisal system can be overburdened by a multiplicity of players with unclear accountabilities.

2.1.4 Selection of projects and budgeting.

A linkage between the process of appraisal and selection of public investment and the budget cycle is essential even though there exists a different timetable for the project evaluation cycle. In order to undertake a sustainable investment program, aggregate or sectoral public investment packages need to be established by the fiscal framework and the yearly budget (Fainboim, Last and Tandberg, 2013). Dabla-Norris et al. (2012) stressed the importance of medium-term budget frameworks, the unification of current and capital budgets, and consolidation of extra-budgetary funds to the effective allocation of investment to the most productive sectors. Much emphasis was put on having a medium-term framework because it creates a link between medium-term fiscal objectives or rules and national priorities.

The keys to quality investment include good choices of investment, active asset portfolio management, and the flow of recurrent budget that ensures adequate funding for the operation and maintenance of existing assets (Rajaram et al., 2010). The flow of recurrent budget is particularly important for projects funded by donors that only create assets while government borne the expenses of operation and maintenance of those assets. Another important budgetary factor of efficient investment decision is whether the impact of the capital projects is reflected by recurrent budget adjustments. For instance, sources of funding the extra expenses that may be experienced during the maintenance and operation of existing assets should be considered. Hence, both the MoF and sector ministries should systematically review the future costs of investment projects, and their funding during budget preparation.

Perhaps, the most critical stage of the PIM process is project selection because it is one of the stages of the investment cycle that is often the most contentious. Typically a lot of pressure is exerted on project selection agencies and committees by political patrons for their
projects and high-level political intervention is sought to overlook any technical analysis that are not favorable (Rajaram et al., 2014). Ministries and departments also look for ways to strike deals to ensure the selection of the projects that stand beneficial for them. Private lobbyists and contractors will also work through both political and bureaucratic channels to influence the selection of the project in a hope to win the contractual right to construction. Therefore, existence of a strong gatekeeping function is critical to increase the credibility of the selection process and to ensure the rejection of wasteful projects. To prevent the vested groups from undermining this important stage of the investment process, a legislative backing for a gatekeeping function may help (Rajaram et al., 2014). Attempts to influence the selection process may also be limited through transparent disclosure of the project selection basis.

2.1.5 Implementation of projects.

A further scrutiny of projects that have been objectively appraised and selected for investment should be undertaken for implementation practicality. A realistic timetable with clear organizational arrangements should be included in the project design to guarantee the project implementation capacity. Dabla-Norris et al. (2012) and Flyvberg (2009) underscored that firm control of expenditures, efficient management of liquidity, regular reporting of project execution and arrangements of strong project management are some of the key factors that ensure the timely and cost-efficient delivery of investment projects. In order to manage and monitor the implementation of projects, developing effective action strategies such as efficient procurement plans and establishing institutional capacity is critically important. A government should ideally establish a system of total project cost management and multiyear budgeting for complex projects, anticipating the budgetary needs throughout the project implementation period (Rajaram et al., 2010).

Procurement, although, is typically a difficult element of project implementation, needs to be addressed due to its undeniable importance as a part of the overall PIM process. Country
experiences suggested that implementation problems are often due to procurement challenges rather than to poor selection of projects and budgeting (Rajaram et al., 2014). To facilitate procurement, an accounting system – capable of capturing and reporting all project costs instead of tracking separate contracts or stages against annual appropriations – is required in order to manage the total cost of projects over their life. Meanwhile, fund allocation for the implementation over a project’s life cycle is facilitated by multiyear budgeting as it reduces future uncertainty through ensuring a predictable flow of finances.

2.1.6 Adjustment of projects.

An essential element of an efficient PIM is the flexibility of the annual budgeting process to capture changes in project circumstances and to allow changes in the disbursement profile accordingly. For instance, the funding requests should reflect any cost increase which are caused due to delays in project implementation. There should be an arrangement through the process of funding approval or monitoring to ask project sponsors for reformulation of the project or even halting fund disbursements if project cost escalates to the point where it is no longer beneficial (Rajaram et al., 2010). This approach indicates towards carrying out of funding in phases, and in accordance with the cost-benefit analysis of discrete phases. This approach will increase the efficiency of investment through identifying the wasteful projects and adjusting the annual budgets allocation accordingly.

Further, the nature of the monitoring process can be reinforced by these funding mechanisms, making it active rather than passive. Governments can increase the proactivity of their project monitoring system through enhancing the capacity and addressing the implementation problems as soon as they are identified. Comparing project progress against the implementation plan would be the central task of monitoring (Rajaram et al., 2014). Both financial and physical progress of projects need to be audited by monitoring agencies based on the progress reports that will be submitted by the implementing agencies on a mandatory basis.
2.1.7 Facility operation.

A desirable component of guaranteeing that the purpose is served by the new public assets over their active lifetime is active monitoring. A process should be there to safeguard that an asset, once it completed, is prepared for operation and delivering services. An effective mechanism is required by this process for (a) responsibility transfer with regard to the management of asset operation and maintenance in future, and (b) ensuring sufficient funding sources for the operation and maintenance of these newly created assets (Rajaram et al., 2010). However, verifying the extent of post-completion adaptation or additional outlay requirement by the newly completed facility is also important in case they are not suitable for service delivery and still lie idle. In addition, maintaining asset registers and recording asset values are equally important. This suggests the need for tracking service delivery related to facility operation through time and by both quantity and quality. Moreover, institutions should be held accountable for results who are responsible for service delivery.

2.1.8 Basic review and evaluation of completed projects.

Finally, an often missing but essential feature of PIM systems is a basic completion review and evaluation of projects (Rajaram et al., 2014). A systematic way needs to be followed to conduct basic completion review of all projects. It involves an examination sometime after the project completion by a responsible agency or line ministry, comprising (a) whether the project was finished within the original (or revised) time frame and budget, and (b) whether the project delivered the intended output. In addition, an audit of a sample of investment projects should be conducted by a supreme audit institution as a supplement to this basic completion review.

Ex-post project evaluation should compare the outputs and outcomes of projects against the set of objectives documented in the project plan. This process is highly selective and is usually carried out after project completion with a time lag of two to five years. Good practice
suggests that future project design and implementation can be improved through lessons learned from such ex-post evaluations (Rajaram et al., 2010). Therefore, for example, if during the evaluation it is found that the procurement processes led to costly delays, it should drive the agencies to address the problem as a systemic remedy.
CHAPTER 3

AN ASSESSMENT OF THE PIM OF BANGLADESH AGAINST THE EIGHT FEATURES

This chapter covers a detailed assessment (gap analysis) of the functioning of Bangladesh’s PIM system against eight essential features of the PIM system, as set out in the previous chapter. The assessment is also supported by analysis of system’s performance on quantitative indicators based on available data. Though, the assessment is concentrated on public investment by the central government, with a particular focus on the ADP, it also incorporates the relevant NDB.

3.1 Guidance to Investment, Development and Preliminary Screening of Projects

3.1.1 National plans and strategies exist, but connection between them and the ADP is weak.

Bangladesh has a number of national development plans and strategy documents, including a long-term perspective plan, Vision 2021, the National Strategy for Accelerated Poverty Reduction II (NSAPR II 2009-11), the Seventh Five Year Plan (7FYP 2016-2020), and medium term budgetary strategy set out in the Medium Term Budgetary Frameworks (MTBFs). However, at the sector level, World Bank (2010) found “while sector policy frameworks are in place and appear to be appropriately formulated, intra-sector budget allocations and usage do not always reflect the sector’s policy, revealing a passive budgeting/allocation stance”. This provides an indication towards weak connections between strategy documents and the actual resource allocation for ADP projects. It also reflects a budgeting process that is largely incremental and bottom-up where often new project proposals are generated following informal processes (World Bank, 2011).
3.1.2 The level of project formulation capacity in agencies is low.

Except a few agencies, most agencies lack the required capacity to prepare a sound project log-frame. Agencies usually focus on inputs and outputs in their project proposals, while the outcomes and intended impacts of those projects, and the alternative means of achieving intended outcomes get inadequate attention. As World Bank (2011) stated, due to the unavailability of detailed guidance on project formulation to agencies, many projects are formulated without pre-feasibility and/or feasibility studies.

3.1.3 The project screening capacity of respective authorities is generally low.

The planning units in the respective line ministries (LMs) conduct the first screening of proposals developed by agencies during the year. These planning wings often fail to effectively screen out low quality proposals at the early development stage due to the lack of adequate manpower and training in project appraisal (World Bank, 2011). Time pressures and informal pressures to pass proposals on to the Planning Commission (PC) are two other factors that they face. The second preliminary screening takes place during the annual budget round after a large number of new project proposals are put forward by agencies and LMs for consideration. These proposals consist of only a two-page description and often only a one-line project title (World Bank 2011). At the meeting of the Programming Committee of PC, these projects are screened for inclusion in the ADP on a list of “unapproved new projects without allocations”. This practice of including unapproved projects in the ADP over the years have been sustaining due to a limited number of proposals of better quality projects, continued pressure to maintain a predetermined ADP size, and the provisions that allow spending for unapproved projects based on recommendations by the PC (World Bank and Asian Development Bank, 2003). All these factors contributed to double the number of unapproved new projects in the ADP since 2007-08, increasing from 402 in 2007-08, to 857 in 2015-16 (CPD, 2015).
3.2 Formal Appraisal of Projects

3.2.1 The formal guideline on technical aspects of project appraisal is not available to project development officials.

The policy guidelines issued by the PC for framing the ADP for a fiscal year only cover procedural aspects with regard to developing project proposals. However, any technical guidelines substantive issues, for instance how to conduct cost benefit analysis (CBA) appear to be missing at the sector or sub-sector level (World Bank, 2011).

3.2.2 Project appraisal capacity at agency and ministry level is relatively weak.

Over the last two decades, the formal project appraisal capacity has been weakening gradually in Bangladesh. Apart from a very few agencies such as Local Government Engineering Department (LGED) and the Power Cell, agencies in general have weak capacities in developing project proposals based on sound appraisal, including the use of CBA (World Bank, 2011). There is a requirement to prepare a detailed development project proforma (DPP) for investment projects or technical project proforma (TPP) for technical assistance (TA) projects, where the project costs, financing, as well as the implementation plans and risks are required to be assessed carefully. However, World Bank (2010, 2011) found an often superficial level of rationality analysis of the overall project, and the CBA of alternative options. Inadequate formal technical training for officials coupled with frequent within and between PC and LM transfers of officials are considered as the major factors behind such weak capacity of project appraisal.
3.3 Independent review of appraisal

3.3.1 PEC lacks in-depth independent review capacity.

The Project Evaluation Committee (PEC) meetings are attended by officials from different ministries/divisions\(^1\), chaired by the Member of the Planning Commission in charge of the relevant sector. Prior to submission to the PEC, approval by a Committee chaired by the Additional Secretary, FD is required where either implementation or operating manpower salary costs are involved. While the procedural aspects, the costs, and to some extent the possible social and environmental impacts of projects are thoroughly reviewed by the PEC, the underlying project rationality and possible alternatives are not adequately scrutinized (World Bank, 2011). The capacity of PEC is also inadequate to review the log-frames, and the quality of CBA for those projects\(^2\) where expected economic rates of returns are estimated by the sponsoring agency. Furthermore, some arbitrary changes are made at times by PEC or approving authority to project parameters without considering whether the decision is feasible or financially viable, e.g. reducing the number of project completion years on the priority basis.

3.3.2 Independent appraisal review of DP projects by the government are limited.

In order to submit to the PEC and Executive Committee of the National Economic Council (ECNEC), all development partner (DP) investment and TA projects are required to be prepared in the same format as GOB projects since 2005 (World Bank, 2010). Due to the limited capacity in government agencies, LMs, or the PC, to independently appraise the quality of DP projects, often these DPP/TPPs are contracted out by agencies to local consultants for preparation. Such contracting may lead to reduced local ownership and increased project risk.

---

\(^1\) These include the Executing Agency (EA), their Sponsoring Ministry (SM), General Economics Division (GED), Programming Division, the relevant sector Division of the PC, the Finance Division (FD), the Economic Relations Division (ERD) of MoF, Ministry of Public Administration, Ministry of Environment and Forest, Ministry of Women’s Affairs, and IMED.

\(^2\) Mainly energy and transport sector projects.
In addition to the quality, there is only limited analysis on other important issues such as whether the government can afford the future operating and maintenance costs of the completed assets.

3.4 Project Selection and Budgeting

3.4.1 Absence of inventory of appraised projects and electronic database of all ADP projects.

DPPs are submitted to the PEC regularly by some sectors during the year, while others pile up their DPPs and submit them towards the end of the fiscal year. This practice creates imbalance for the review and selection system. Projects with estimated costs of BDT 250 million or less are submitted to the Minister for Planning, and to ECNEC with estimated costs more than BDT 250 million, for final approval after being recommended by PEC (World Bank, 2011). Projects are selected for financing in the ADP upon getting ECNEC’s approval. ECNEC make these decisions project by project and without having information of their individual and cumulative impact on the current and midterm ADP portfolio cost. This lack of information about the expected aggregate cost over the medium term is caused by absence of an electronic database of all the projects in the ADP. During the annual budget round in April/May, the budget financing decisions are taken for all on-going and new ADP projects (World Bank, 2010).

3.4.2 FD sets an aggregate ceiling at the start of the annual budget cycle.

In the context of the Medium Term Fiscal Framework (MTFF), the fiscal forecasts are prepared and the preliminary envelope for total NDB/ADP spending are set by FD. FD, then gives agencies/LMs a preliminary expenditure ceiling and ask them to prepare a Ministry Budget Framework (MBF) under the MTBF system. A tripartite meeting attended by FD, PC, EA/SM finalize the MBFs and budget ceilings. Then funds are allocated between NDBs and ADP by EAs under the supervision of SMs/LMs.
3.4.3 Domestically-financed projects are selected on ad-hoc basis.

Due to enormous pressure put by informal channels to agencies, LMs and the PC to include projects, a bulk of proposals for “unapproved new projects without allocation” can be found particularly for infrastructure construction projects in the ADP/RADP round in February-April each year. These unapproved new projects thereby get the authorization to be proceeded to full DPPs for PEC/ECNEC consideration during the following FY. This practice is very pervasive over the last decade and it is very hard to find a new project into the ADP/RADP unless it was included in the previous ADP/RADP. However, this is an improvement on the situation, considering a large number of new projects, generated informally, entered directly into the ADP prior to 2003-04 (World Bank, 2011).

3.4.4. For TA projects, there is a set of delegation in place.

Departmental Special Project Evaluation Committee (DSPEC), chaired by the concerned Secretary of the Sponsoring Ministry/Division are responsible for processing TA projects with estimated costs up to BDT 70 million. Then the concerned Minister approve these TA projects following the recommendations of the DSPEC. However, Minister for Planning approve TA projects, with an estimated cost of over BDT 70 million, after Special Project Evaluation Committee’s consideration.

3.4.5 ADP is comprised of a large number of projects, including a high proportion of small projects.

The total number of ADP projects in FY2016 was 998, which increased to 1557 projects (56 per cent increase) in the RADP of the same FY (see Appendix 1). This indicates that there is a high probability of additional new projects in the ADP in the same FY when it is revised. Meanwhile, the practice of adding small and symbolic (the minimum allocation to keep the project in the ADP list) projects has become more pervasive in recent years. CPD (2016a) in their budget analysis found that, in FY2017, 18 projects under ADP received only BDT 0.1
million (14 projects received such allocation in FY2016) while 8 out of those 18 projects are from Transport sector. Further, under ADP in FY2016, 31 investment projects from 12 sectors received only BDT 10 million or less (CPD, 2016a). In most cases, these discrete projects with same objective and same implementing agency (e.g. Transport sector) could be combined into a single larger project. In contrast, sector-wide program (e.g. health and primary education) type projects contain a large number of sub-projects/components that constitute separate projects in other occasions.

3.4.6 Funding is slashed and reallocated in RADP due to underutilization.

In March, each year, a mid-year review of the implementation status of the ADP takes place. In the backdrop of under-execution each year, funding are slashed in RADP from ADP. In addition, significant amount of funds are reallocated from under-spent projects to well-spent projects to facilitate them to spend the additional fund in the last few months of the FY. Annex 1 shows that in contrast to increasing number of projects, funds are reduced (6.6 per cent in FY2016) in RADP compared to ADP in each fiscal year. This reflects LM/agency’s poor quality projections of their budget requirements, as well as RADP’s impact on the sectoral and overall resource distribution in the ADP.

3.4.7 Projects, expected to be completed in the next year, are given priority in funding decisions.

Both the ADP and RADP encompass a list of projects that are scheduled to be completed within the FY as per project timeline. According to recent ADP circulars issued by the PC in the last quarter of FY, there is a clear indication that on-going projects, scheduled for completion during the following FY, should be given priority (World Bank, 2011). However, once funds are made for priority areas, not enough funding space is left in the ADP to fully meet all on-going projects’ disbursement requirements. This causes under-funding of many
projects compared to their DPP disbursement profile (expected), leading to time and cost escalation of many ADP projects.

3.4.8 There is no clear definition of the margins of the ADP and the NDB.

While some capital expenditures are outside the ADP and the normal project review process owing to historical reasons, similar to most development assistance receiving countries there are also elements of recurrent expenditure in the ADP. Perhaps this resulted in a confusion between capital and recurrent and “ADP and Revenue” expenditures and ambiguity over the use of key fiscal terminologies such as capital and current expenditures (World Bank, 2010).

3.5 Project Implementation

3.5.1 Project directors do not have a comprehensive manual on project implementation.

As is found from literature review, having an implementation manual available to project directors is regarded as a good practice where project management requirements and processes, both are covered comprehensively. In Bangladesh, project directors do not have such a comprehensive manual. Indeed, delay in appointing project directors is often cited by officials as one of the major causes of delayed start of projects.

3.5.2 Implementing agencies do not face problems with regard to availability and timeliness of their allocated funds.

In recent years, no in-year cash shortages were experienced by GOB as faced by many other countries during project implementation. FD has also given the authority to LMs and agencies to spend against their allocation in July/August each year, covering the first three quarters of the year. Thus, delay in fund release which was a major cause of day in Bangladesh in the past, no longer a cause today. Funding of larger projects, due to their phase wise design, are linked to previous phase(s)’s completion.
3.5.3 Procurement remains a major area of concern despite showing signs of improvement.

With regard to procurement, a major achievement was the enactment and implementation of the Public Procurement Act 2006, together with Public Procurement Rules 2008 (revised in 2009). Preparation and practice of standard tender document, establishment and institutionalization of the Central Procurement Technical Unit (CPTU) and a procurement complaints mechanism, and implementation of capacity building programs with DP assistance are some of the positive features in procurement of Bangladesh. There is also sign of quality improvement of annual procurement plans. However, major areas of concern include “collusion amongst bidders, breaking down of tenders into smaller amounts to get under thresholds, and inappropriate involvement of senior decision makers in tendering” (World Bank, 2011). Furthermore, project directors usually have no procurement related experience or training.

3.5.4 Evidence of ‘fourth quarter syndrome’.

ADP suffers from the chronic problem of low implementation rate for the first three quarters with a large jump in spending in the final quarter (April-June) of the FY, especially in June. It raises the question about spending quality (CPD, 2016b). Figure 1 shows that during FY2006-16, around 41 per cent of the total ADP allocation was spent in the last quarter on an average while the corresponding proportion was only 9-17 per cent for the first three quarters of FY. More than 23 per cent of total ADP allocation was spent in June alone which is the final month of FY in Bangladesh. Despite such spike in the last quarter 16.2 of ADP allocation was unutilized on an average during the aforesaid period.
Figure 1. Pattern of quarterly ADP implementation as against original allocation, FY2006-16.

Adapted from *State of the Bangladesh Economy in FY2015-16: Third Reading*, by CPD, 2016b, Dhaka: Centre for Policy Dialogue.

The main cause of delays in implementation, as identified in IMED reports include, delays in procurement, land acquisition, and appointment of project personnel, frequent change of project directors, insufficient monitoring, and untimely adjustments to projects (World Bank, 2011).

**3.5.4 DP-funded projects have lower execution rate than GOB projects.**

The average execution rate of PA allocations (72 per cent) in ADP, is significantly lower than that of GOB allocations (89 per cent) during FY2001-16 period (figure 2). The trend reversed a little during FY2006-08, particularly during the rule of the caretaker government, but could not sustain and moved back to its previous trend since FY2009.
Figure 2. Components of ADP implementation as against original allocation, FY2001-16. Calculated from the Implementation Monitoring and Evaluation Division data.

This phenomenon in case of DP-financed projects can be explained by a mismatch in expectations between the authorities and DPs over the procurement related requirement. Procurement is reported as a major source of delay in implementing DP projects as requirements often vary according to the preferences of DPs.

3.5.5 High ADP fund spending, but low real physical performance.

A large number of projects are declared as completed every fiscal year. However, financial progress does not necessarily lead to physical progress and can be very different. Financial progress is often considered as a proxy measure for assessing implementation progress. However, in reality actual physical progress status can be very different from spending of funds. Figure 3 shows that during FY2001-FY2016 period, around 65 per cent projects (on an average) were stated as complete while their physical progress was not 100 per cent. Thus, the overall quality of ADP implementation is often compromised.
**Figure 3.** Percentage of completed projects that are not 100 per cent physically completed. Calculated from the Implementation Monitoring and Evaluation Division data.

Insufficient monitoring of physical progress by implementing agencies and their LMs, and insufficient response to the identified problems are some of factors behind such discrepancy.

### 3.6 Project Adjustment

**3.6.1 Project revision and adjustment system is present with some rigidities.**

Broadly, for both GOB and DP-financed projects, a project may be revised during implementation through formal approval of a revised DPP/TPP only twice. Some discipline is introduced through this system to maintain original DPP’s relevance, and limit arbitrariness in making changes to projects during implementation. However, such a system also presents some rigidities in changing circumstances during implementation, particularly reflected by the indication of PC of not allowing retroactive approval for adjustments. This has resulted in some procurement problems as a lowly evaluated tender, more than the DPP/ TPP provision, cannot be accepted by procuring entities, disregarding its market price compatibility. Such rigidity has
prompted the implementing agencies to group all the changes that they think necessary, and seek approval for the collective changes in one adjustment (World Bank, 2011).

3.6.2 Project revisions seldom prompt a re-appraisal of the continued justification of projects.

According to the PC Circular, thorough reviews are required for revised projects with unusual increase of excessive cost. However, no such review of project’s continued justification, redesign or cancellation takes place where a project seriously exceeds its cost or lags behind from its schedule, or where the final service demand from a project has fundamentally changed.

3.7 Facility Operation

3.7.1 Delays and difficulties in operating and maintenance of newly completed assets.

Delays in transferring payments/salaries for officials/staff, from ADP (capital budget) to the NDB (recurrent budget) after project completion cause delays in newly completed facility operation. Moreover, apart from registers of agencies office furniture and equipment type small items, asset registers are not kept by LMs. This makes the assessment of the requirements as well as the adequacy of current funding for maintenance and rehabilitation difficult.

3.7.2 Despite the lack of systematic data, evidences of low quality facilities after project completion are frequent.

Not systematic data on asset quality after completion are generated monitoring system. However, anecdotal references such as “bridges without roads” and “roads without bridges” are not too hard to find. Infrastructure Investment Facilitation Center (IIFC) in their report states: “There are many instances of projects including railway, factory, irrigation, barrage, and
textile and jute mill projects where projects were abandoned after completion with colossal loss of public funds” (World Bank, 2011). Other examples of such cases are also cited by IIFC: “It is well known that Raujan Power Plant (2 units) was completed much before the gas was ready for the plants. Many hospital facilities were created where either necessary equipment or manpower were not ready” (World Bank, 2011).

3.8 Basic Completion Review and Evaluation

3.8.1 Project completion reviews are completed systematically, and there is a comprehensive database of statistics on completed projects.

It is a perquisite to submit a detailed project completion report (PCR) by project directors, within three months of the project completion according to IMED specified detailed template. The template covers allocation (original and revised), costs, and timeliness, project personnel, financing, procurement, the achievement of objectives, analysis of benefits, and post-implementation analysis (World Bank, 2011). However, average compliance rate is around 60 per cent (table 1). In addition, often PCRs, submitted to the IMED are not fully complete.

Table 1.

<table>
<thead>
<tr>
<th>FY</th>
<th>Number of completed projects</th>
<th>PCR submitted</th>
<th>PCR not submitted</th>
<th>% of total completed projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>206</td>
<td>134</td>
<td>72</td>
<td>65.0</td>
</tr>
<tr>
<td>FY14</td>
<td>233</td>
<td>141</td>
<td>92</td>
<td>60.5</td>
</tr>
<tr>
<td>FY15</td>
<td>240</td>
<td>141</td>
<td>99</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Note. Adapted from State of the Bangladesh Economy in FY2016 (Second Reading), by CPD, 2016c, Dhaka: Centre for Policy Dialogue.

As IMED use these PCRs for analytical purpose, non-submission hampers this evaluation process. Further, the monthly and annual recommendations by IMED based on these reports on performance of completed projects are not adequately followed up.
3.8.2 There are large average cost and (especially) time overruns on completed projects.

In recent years, cost and time overrun for completed ADP projects has become a common trend. Figure 4 shows that only 14 per cent out of 233 completed projects were completed within scheduled time and estimated cost in FY2014, which the lowest since FY2001. Among the completed projects, 48.9 per cent could not be finish within the stipulated timeline.

![Figure 4. Cost and time overrun (%) of concluded projects, FY2001-14. Calculated from the Implementation Monitoring and Evaluation Division data.](image)

Among the completed projects in FY2014, average years that projects took to complete was 5 years as against the planned 2.9 years (see Appendix 2). Due to this time overrun, average project cost for all concluded projects increased to 51.1 per cent, highest since FY2006.

3.8.3 Number of audits, project evaluation and impact evaluation have increased, but follow up is weak.

The regularity audits are completed by the Comptroller and Auditor General’s Office (C&AG) which focus on individual transaction, rather than on PFM’s soundness. To audit DP-financed projects, a separate unit has been established within C&AG – the Foreign Assisted Projects Audit Directorate (FAPAD). Some DPs accept FAPAD’s audits, while private
international audit companies are hired for other DPs to audit their projects (World Bank, 2011). Sometimes, concerned government agencies are forced to follow up serious audit objection in cases where DPs withhold their disbursement. The C&AG began to conduct a small number of performance audits in 2009.

Moreover, IMED conducts approximately 6-15 impact evaluation each year of selected projects (table 2). Also, the number of audits and completed project evaluation by IMED officials increased substantially both in FY2009-10 and FY2012-15 periods. However, due to limited manpower and expertise, IMED cannot conduct impact evaluation for a majority of projects.

**Table 2.**

Accounts of completed project evaluation, FY2008-15

<table>
<thead>
<tr>
<th>FY</th>
<th>Total number of projects</th>
<th>Number of audits</th>
<th>Number of evaluation of completed projects</th>
<th>Impact evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td>1058</td>
<td>608</td>
<td>178</td>
<td>9</td>
</tr>
<tr>
<td>FY09</td>
<td>1040</td>
<td>710</td>
<td>228</td>
<td>7</td>
</tr>
<tr>
<td>FY10</td>
<td>1090</td>
<td>1053</td>
<td>314</td>
<td>6</td>
</tr>
<tr>
<td>FY11</td>
<td>1193</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FY12</td>
<td>1340</td>
<td>912</td>
<td>251</td>
<td>10</td>
</tr>
<tr>
<td>FY13</td>
<td>1328</td>
<td>1178</td>
<td>N/A</td>
<td>22</td>
</tr>
<tr>
<td>FY14</td>
<td>1366</td>
<td>951</td>
<td>276</td>
<td>14</td>
</tr>
<tr>
<td>FY15</td>
<td>1458</td>
<td>1302</td>
<td>N/A</td>
<td>15</td>
</tr>
</tbody>
</table>

*Note. N/A = Not applicable.*
CHAPTER 4
FINDINGS, RECOMMENDATIONS AND CONCLUSION

4.1 Findings

Identifying the components of the system that are hampering the marginal performance is the key strategic issue assessment of PIM system. On the basis of diagnosis in Chapter 3, the critical weaknesses in delivery of the ADP in Bangladesh currently are found to be:

- **Weaknesses in technical capacity related to identification, formulation, and appraisal of quality projects.** Officials at all levels in Bangladesh, agencies, LMs and the PC, don’t have adequate technical capacity of preparing and appraising ADP projects. With the exception of some expertise in few selected agencies, project formulation, independent review and appraisal are done by the PC in a superficial way. This absence of required in-depth technical rigor often results in poor quality projects and non-alignment with country priorities. This is critically important for large infrastructure projects anticipated to generate large scale impact.

- **Weaknesses in the project screening and selection, and effectiveness of budgeting for their implementation.** The continuation of informal practices in the initial proposal screening of new projects result in the inclusion too many projects in the ADP. The project by project approval practice by ECNEC during the year for including in the ADP without information of their impact on the individual and aggregate ADP portfolio cost leads to inefficiency. Further, under-funding of on-going projects due to systemic causes contributes to project completion delays and cost escalation. There is also not much effort in ensuring adequate budget for the future operation and maintenance of completed projects.
• **Low quality of implementation of the projects.** Although improvement was achieved in the quantity of spending, particularly for GOB projects, the quality of spending remain a major area of concern. Weaknesses associated with project implementation include procurement related delays and informal practices, inadequate physical progress monitoring, and persistent evidence of the fourth quarter spike. In addition, low rate of DP-funded ADP projects mainly due to delays caused by DPs procurement related complications.

• **Lack of attention to newly created facilities.** The investment cycle is systematically neglected in the ADP modelled PIM system of Bangladesh due to its overwhelming focus on the project cycle. Put it differently, Bangladesh focus overwhelmingly on annual budget spending and project completion, and overlook the central public investment objective of creating new assets in order to deliver higher quality services to its citizens. Further attention is needed to ensure that these costly new assets are not wasted and serves the fundamental objective of public investment.

### 4.2 Policy Recommendations

This section presents a summary of recommendations for strengthening the effectiveness of PIM system in Bangladesh. It also coincides with recommendations of IMED, stated in their implementation progress reports from FY2009 to FY2013. It also accommodates Centre for Policy Dialogue (CPD) recommendations (different years) on different ADP implementation problems.

**Planning and Approval Phase.**

• Conducting feasibility study and preparation of detailed design before preparing Development Project Proposal (DPP) (IMED, 2009). Logical Framework of projects should be properly made and included in project document (IMED, 2014). Necessary
allocation should be made according to DPP under MTBF keeping number of projects at a rational level (IMED, 2011).

- Seasonality, weather and other natural issues should be considered while preparing work plan (IMED, 2012).

**Procurement and implementation phase.**

- Procurement activities could be done in advance in some instances (IMED, 2009). Intense training for every procurement office head and procurement related officers on public procurement act and rules should be continued. Regular analysis should be done on annual procurement plan and should be updated if necessary (IMED, 2012).

- Initial steps of land acquisition should be taken based on feasibility study before project preparation (IMED, 2009). An outline on increasing loses due to land acquisition could be prepared by land ministry. Besides, upward enhancing policy could be adopted and implemented to reduce the use of land (IMED, 2014).

- Tendering and other necessary work should start at the beginning of the fiscal year through making time based work plan (IMED, 2014).

- Necessary manpower should be recruited as per DPPs including joint chief in large and important ministry/divisions to achieve desired competency (CPD, 2009, IMED, 2014). Like other project matters, manpower related matter should also be recommended by the PEC instead of manpower selection committee of finance division (IMED, 2012).

- ECNEC should be discouraged to change project directors frequently and project directors should be discouraged to lead more than one project (IMED, 2011). All projects should have full time project directors (CPD, 2009). A ‘Project Director Pool’ consisting of expert and experience project directors of different sectors can be formulated under IMED direction (IMED, 2009).
<table>
<thead>
<tr>
<th>Monitoring and evaluation phase.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close monitoring should be done by every ministry/division to ensure quality of project works. Administrative capacity of ministries/ divisions should be increased to monitor project preparation and implementation. IMED should be strengthened at different monitoring stage for ensuring adequate qualitative and quantitative monitoring of the implementation (CPD, 2010, IMED, 2011).</td>
</tr>
<tr>
<td>In order to understand the real implementation situation (physical progress), the PCRs should also be made public. Also, impact analysis of selective types of projects needs to be initiated to prioritize the approval of future projects (CPD, 2011). PCRs should be prepared and submitted to IMED in proper time (IMED, 2011, 2014). An inter-ministerial committee could be formulated to maintain coherence in different ministry reports as much as possible (CPD, 2016c).</td>
</tr>
</tbody>
</table>

4.3 Conclusion

To achieve middle-income country status by 2021, Bangladesh requires increased public investment, particularly in order to close severe education, health, and infrastructure gaps. The major proportion of public investment in Bangladesh is channeled through the Annual Development Program (ADP). The current study attempted to assess the key factors affecting the effectiveness of ADP delivery in Bangladesh against a sound PIM framework.

The assessment of this study found a weak project screening and appraisal status in the project preparation stage. This is supported by the finding of inadequate independent review of project proposals (e.g. log frames and CBA), as well as the practice of pervasive and increasing allocations to symbolic (small) projects and the substantial growth in the number of unapproved new projects (which doubled between FY2008 and FY2016). Moreover, the unapproved new
projects in previous fiscal years may lead to further growth in the number of symbolic projects in the ADP in the coming years, putting further pressure and perhaps exacerbate resources for the already under-funded on-going projects.

Although a significant improvement has been achieved in the ADP execution rate in the last two decades particularly for GOB projects (89 per cent), the execution rate of DP assisted projects (72 per cent) lags far behind. Furthermore, the evidence of fourth quarter syndrome suggests significant potential problems regarding the spending quality, and therefore the continued presence of project preparation and implementation weaknesses. In addition, the large share of projects which were declared completed despite not being 100 per cent complete indicates the necessity of reviewing and rationalizing quality of ADP spending.

Two key indicators for evaluating the PIM system effectiveness are cost and time overrun. While some the average cost overrun showed some improvement in recent years, the average cost overrun is still on an increasing trend. Weaknesses in project preparation, financing, and execution are likely to have contributed to such inefficiency.

Finally, inadequate follow-up on the recommendations generated from external audits, as well as IMED impact evaluations and lack of attention to the operation and maintenance of newly created assets are the two other critically important factors which hamper the efficacy of ADP delivery of Bangladesh. Therefore, the currents study recommends that these weaknesses should be addressed in the short, medium and long term to increase the effectiveness of PIM system in Bangladesh.
## APPENDIX 1

Comparison between ADP and RADP, by number of projects and allocation, FY2006-16

<table>
<thead>
<tr>
<th>FY</th>
<th>Number of Projects</th>
<th>% of increase</th>
<th>Allocation</th>
<th>% of decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADP</td>
<td>RADP</td>
<td></td>
<td>ADP</td>
</tr>
<tr>
<td>FY06</td>
<td>859</td>
<td>1,081</td>
<td>25.8</td>
<td>24,500</td>
</tr>
<tr>
<td>FY07</td>
<td>886</td>
<td>1,098</td>
<td>23.9</td>
<td>26,000</td>
</tr>
<tr>
<td>FY08</td>
<td>931</td>
<td>1,058</td>
<td>13.6</td>
<td>26,500</td>
</tr>
<tr>
<td>FY09</td>
<td>904</td>
<td>1,040</td>
<td>15.0</td>
<td>25,600</td>
</tr>
<tr>
<td>FY10</td>
<td>886</td>
<td>1,090</td>
<td>23.0</td>
<td>30,500</td>
</tr>
<tr>
<td>FY11</td>
<td>916</td>
<td>1,193</td>
<td>30.2</td>
<td>38,500</td>
</tr>
<tr>
<td>FY12</td>
<td>1,039</td>
<td>1,340</td>
<td>29.0</td>
<td>46,000</td>
</tr>
<tr>
<td>FY13</td>
<td>1,037</td>
<td>1,328</td>
<td>28.1</td>
<td>55,000</td>
</tr>
<tr>
<td>FY14</td>
<td>1,046</td>
<td>1,366</td>
<td>30.6</td>
<td>65,872</td>
</tr>
<tr>
<td>FY15</td>
<td>1,034</td>
<td>1,458</td>
<td>41.0</td>
<td>80,315</td>
</tr>
<tr>
<td>FY16</td>
<td>998</td>
<td>1,557</td>
<td>56.0</td>
<td>97,000</td>
</tr>
</tbody>
</table>
APPENDIX 2

Cost over-run and time over-run of completed projects, FY2003-14

<table>
<thead>
<tr>
<th>FY</th>
<th>No. of concluded projects</th>
<th>Average implementation period (year)</th>
<th>(%) increase</th>
<th>Average project cost (Million BDT)</th>
<th>(%) increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Planned</td>
<td>Actual</td>
<td>Project Cost</td>
<td>Expenditure</td>
</tr>
<tr>
<td>FY03</td>
<td>169</td>
<td>3.0</td>
<td>5.6</td>
<td>465</td>
<td>836</td>
</tr>
<tr>
<td>FY04</td>
<td>232</td>
<td>3.7</td>
<td>6.8</td>
<td>609</td>
<td>826</td>
</tr>
<tr>
<td>FY05</td>
<td>164</td>
<td>3.7</td>
<td>7.1</td>
<td>706</td>
<td>1,024</td>
</tr>
<tr>
<td>FY06</td>
<td>225</td>
<td>3.9</td>
<td>7.2</td>
<td>783</td>
<td>1,435</td>
</tr>
<tr>
<td>FY07</td>
<td>181</td>
<td>4.6</td>
<td>7.6</td>
<td>1,526</td>
<td>2,066</td>
</tr>
<tr>
<td>FY08</td>
<td>239</td>
<td>3.7</td>
<td>6.4</td>
<td>911</td>
<td>1,200</td>
</tr>
<tr>
<td>FY09</td>
<td>173</td>
<td>3.2</td>
<td>5.8</td>
<td>654</td>
<td>873</td>
</tr>
<tr>
<td>FY10</td>
<td>195</td>
<td>3.5</td>
<td>6.3</td>
<td>1,089</td>
<td>1,370</td>
</tr>
<tr>
<td>FY11</td>
<td>257</td>
<td>3.5</td>
<td>6.2</td>
<td>1,156</td>
<td>1,493</td>
</tr>
<tr>
<td>FY12</td>
<td>199</td>
<td>3.3</td>
<td>5.3</td>
<td>889</td>
<td>1,151</td>
</tr>
<tr>
<td>FY13</td>
<td>206</td>
<td>2.9</td>
<td>5.3</td>
<td>1,062</td>
<td>1,416</td>
</tr>
<tr>
<td>FY14</td>
<td>233</td>
<td>2.9</td>
<td>5.0</td>
<td>793</td>
<td>1,198</td>
</tr>
</tbody>
</table>


