

**Bangladesh: Report on the Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency for Bangladesh was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 10, 2005. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Bangladesh or the Executive Board of the IMF.

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**International Monetary Fund  
Washington, D.C.**



INTERNATIONAL MONETARY FUND

BANGLADESH

**Report on the Observance of Standards and Codes  
Fiscal Transparency Module: An Update**

**June 10, 2005**

**I. INTRODUCTION**

1. The original fiscal Report on the Observance of Standards and Codes (ROSC) was issued in June 2003. During the 2005 Article IV consultation, the IMF staff reviewed developments in the areas pertaining to Bangladesh's observance of the fiscal transparency practices assessed in 2002, with a view to updating, where relevant, changes in current practices, or describing the implementation of the earlier ROSC's recommendations. Unless otherwise indicated below, the recommendations made in the 2003 ROSC remain relevant.

**II. DESCRIPTION OF PROGRESS**

2. The 2003 ROSC recorded progress in recent years in improving fiscal reporting and meeting basic requirements of fiscal transparency. Separation of the accounting function from the Comptroller and Auditor-General's (C&AG) office was one important achievement. However, it noted that considerable work was required to improve data reliability, particularly with regard to foreign financed projects. Major weaknesses were noted because of continuing quasi-fiscal operations of state-owned enterprises (SOEs) and the nationalized commercial banks (NCBs); the budget documents did not give a systematic picture of the assumptions underlying fiscal policy; and mechanisms for oversight of the public finances were greatly in need of strengthening. The ROSC recommended that immediate priority be given to consolidating the gains in improving fiscal reporting—suggesting a number of specific measures. It also suggested that an immediate start be made to improving reporting on SOEs and to take contingent liabilities and quasi-fiscal activities (QFA) into account in setting fiscal policy. Moves to strengthen watchdog institutions, such as the C&AG, were also strongly recommended.

3. The authorities have implemented a number of the measures recommended in the ROSC, particularly those aimed at establishing reliable fiscal reports and have moved toward establishing an effective basis for medium-term budgeting. Progress on longer-term issues with regard to improving reporting and control over QFAs of SOEs and strengthening government watchdog institutions will require continuing sustained effort. Actions have been taken in the following areas (references indicate the relevant section of the fiscal transparency code):

### **Improved fiscal accounts reporting**

4.1.1

4. An Economic Monitoring Committee has been established to oversee fiscal reporting including review of the *Monthly Report on the Fiscal Position* (MRFP). The timeliness of these reports (six weeks after the end of the month) is being sustained. Reconciliation statements have been established as a routine element of MRFP statements; and in support of these measures, suspense balances (other than railways) have been reduced, changes in balances are monitored, and transfers from the consolidated fund to the public account have been eliminated. With support under the Financial Management Reform Program (FMRP) financed by DFID of the United Kingdom, the government will examine suspense balances in outlying departmental accounts offices to ascertain the accuracy of public accounts balances and will prepare a manual on the treatment of these balances. Government accounts for FY02 through FY04 have been published in *Government Finance Statistics* (GFS) 2001 format and posted on the General Data Dissemination System website.

5. A PRGF monitoring team, comprised of officials of the Ministry of Finance, the Bangladesh Bank (BB), and the External Relations Department (ERD), meets each month to ensure that fiscal, monetary, and external data sets are broadly consistent. Annual accounts are certified by the Controller General of Accounts (CGA), and the C&AG's office is developing a certification process that explicitly comments on the quality of these financial statements. Moreover, a Data Quality Assurance Team is now in place at the CGA to review and ensure the integrity of fiscal data submitted to the CGA by district and sub-district accounts offices. Limited progress has been made, however, in addressing the problems of reporting on foreign-financed development projects, in part because many of these transactions occur outside the government ledgers and bank accounts, and effective systems for compiling donor data have not been established.

### **Improved budget information**

2.1.1

6. The 2005 budget was for the first time prepared in a format that is more consistent with GFS principles, with grants included above the line and the deficit shown as a percent of GDP. The basic macro-economic assumptions underlying the 2005 budget were presented by the Minister of Finance during his budget presentation to parliament and some of the assumptions used in preparation of the budget were included in the Budget Summary. The 2005 budget also provided extensive explanatory notes and memorandum items to clarify how budgetary figures were arrived at. It is planned to introduce a more explicit analytical budget presentation for the 2006 budget, including a statement of basic macroeconomic assumptions and assessment of their impact on revenue projections and other fiscal variables. A statement of contingent liabilities and tax expenditures is to be introduced in the 2007 budget (as memorandum items).

### **Medium-term budgeting**

3.1.3

7. Substantial progress is being made toward establishing a medium-term budget framework (MTBF) that is based on clearer costing of policies and disciplined setting of

budget priorities. The FMRP is assisting in putting in place a MTBF at four key line ministries (Ministry of Education, Ministry of Agriculture, Ministry of Women's and Children's Affairs, and Ministry of Social Welfare), and the FMRP and financial management units at these ministries are together establishing a process of costing and priority setting involving department secretaries, ministers and parliament—as well as civil society and the media. Joint-call notices for the 2006 budget exercise were issued to these four ministries and these included indicative ceilings on both revenue and development expenditure. Broad expenditure parameters for the next two years for these four line ministries will be referred to in the presentation of the FY06 budget to parliament. The government plans to roll out the MTBF and joint call notices to more line ministries for preparation of the FY07 budget.

### **SOE reporting and QFAs**

1.1.4/2.1.3

8. Limited progress has been made in improving reporting on the QFAs of the NCBs and SOEs. With regard to the NCBs, and in line with recommendations made in the Financial Sector Assessment Program, the banking supervision activities of BB are being strengthened. The government has begun the process of closing SOEs and reforming the NCBs. Work is progressing with donor assistance to assess the fiscal risks posed by the SOEs and the NCBs and to develop a financial recovery plan for the state-owned energy sector. It is planned that budgets will include an annex that will review the fiscal costs and risks from QFAs once comprehensive and verified data are available. Moreover, basic reporting on the public enterprise sector still requires substantial improvement.

### **External audit and parliamentary oversight**

4.2.1

9. Further efforts are being made to consolidate the independence of the C&AG's office, including through preparation of a new Audit Act. In addition, the audit and accounts cadres have been functionally separated. The Public Accounts Committee (PAC) of Parliament now receives reports of the auditor general and is taking an active role in recommending corrective actions to ministries based on these reports. Further steps are, however, needed to strengthen support to the PAC to conduct its oversight functions and to ensure that ministries follow through on the recommendations of the C&AG and the PAC.

### **Strengthening local government**

1.1.2

10. To help establish more accountable and transparent local government, the Ministry of Local Government and Rural Development is preparing instructions to be issued in June 2005 requiring all city corporations and municipalities to prepare annual reports and publish audited financial statements. Currently a training program for local government finance and audit staff is underway and accrual accounting is being adopted by city corporations.

## **III. IMF STAFF COMMENTARY**

11. Bangladesh has improved fiscal transparency in its fiscal reporting and budget preparation, and has been assisted in this regard by the FMRP. Progress in monitoring and

reporting on foreign assisted project spending, however, continues to be problematic. A coordinated effort is required by donors and the authorities to consolidate reporting of development projects in the government system. Development of capacity in this regard is central to a sustained reform of the accounting and fiscal reporting system.

12. The pace of reform has been slow in many other aspects of transparency identified in the 2003 ROSC. However, the authorities have set clear target dates for moving forward in a number of these areas (such as improving the budget presentation, and strengthening reporting requirements for local government). It is important to continue to monitor progress in these areas and, as needed, provide additional efforts to show demonstrable change.

13. The lack of transparency and reporting of performance of SOEs and the NCBs continues to be a major problem for public policymaking. Improvement of the availability of information, integration of analysis of these sectors with the budget process, and dissemination of information to the public, are all essential to establishing a basis for reform of the government enterprise and banking sectors. Further action in this area should be given highest priority for the immediate future.