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BANGLADESH

**GOVERNMENT THAT WORKS:
REFORMING THE PUBLIC SECTOR**

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**Private Sector Development & Finance Division
Country Department 1 - South Asia Region**

CURRENCY EQUIVALENTS

The external value of the Bangladesh Taka (Tk) is fixed in relation to a basket of reference currencies, with the US dollar serving as the intervention currency. The official exchange rate on February 13, 1996 was:

$$\begin{array}{lcl} \text{US \$ 1} & = & \text{Tk 41.00} \\ \text{Tk 1} & = & \text{US \$ 0.024} \end{array}$$

Following local convention, expenditures and revenues are sometimes denominated in units of *crore* (abbreviated Cr), which is equal to Tk 10 million. At the current official exchange rate, Tk 1.0 Cr = US \$ 243,900.

In this report, US \$ is sometimes abbreviated as \$.

WEIGHTS AND MEASURES

kWh	=	kilo watt-hour
MCF	=	million cubic feet
MMCFD	=	million cubic feet per day
MT	=	metric ton
MW	=	megawatts

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BANGLADESH

GOVERNMENT THAT WORKS: REFORMING THE PUBLIC SECTOR

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PREFACE

“To every thing there is a season, and a time to every purpose under heaven.” Ecclesiastes 3:1

Bangladesh has had more than its fair share of studies on public administration — with few practical results. So why yet another? Well, sometimes just changing the angle of approach can lend a fresh perspective which helps to reveal solutions to seemingly intractable issues. The starting point of this Report was to ask some fundamental questions. What should be the role and nature of government in Bangladesh? How can it best serve its citizens? How can the Government energize the private sector and harness its potential?

So far, studies on public management reforms have largely been restricted to the “how” of government. Any effective reform program has to recognize the link between the “how” and “what” of government. In reforming countries, the “what” has influenced the approach to the “how”. At another level, the ultimate test of doing the “how” better is whether it supports the government and community in making better decisions about the “what”.

One of the unique features of this Report is that it is homegrown. The key public sector issues were studied by a group of Bangladeshi citizens with knowledge of and interest in public sector reforms. The findings of the Report are based on case studies, survey of citizens, business firms and government officials, and content analysis of newspapers.

The Report is organized into eight chapters, covering the following key public sector management topics: overextension of government; incentives and organizational features of successful government initiatives; inadequate level and nature of accountability; regulatory overburden and poorly functioning legal system; weak policy formulation and implementation, and slow decision-making; and finally dysfunctional compensation and personnel management systems.

The report is expected to: enhance the quality and depth and breadth of the on-going debate within the country on the role of the state and public sector performance; raise awareness in the body politic on the linkage between public sector performance and growth; provide the cross-country experience and analytical underpinnings for reform of the public sector; and help accelerate the momentum for change and strengthen those forces in Bangladesh which are pressing for change. The report generates ideas for changes to GOB’s on-going Public Sector reform initiatives potentially enabling them to have an impact which has thus far been elusive. Indeed, these initiatives lacked the broader context and focus on actions essential to induce behavioral change in organizations. In general, the report is normative in nature. To aid the incoming Government in drawing up an agenda for public sector reform, it makes: recommendations on priority areas of reform during the short-term; and provides advice on preparation of a comprehensive medium-term Action Plan in context of a long-term vision of the redefined role of the state.

EXECUTIVE SUMMARY

Bangladesh has an enormous amount to be proud of. Its outstanding performance in many areas (Box 1) would make Bangladesh an envy of a large number of developing countries. But this is looking at Bangladesh from the wrong end of the telescope. **Most people remain mired in poverty** and incomes are growing very slowly. For the vast majority of the people, bypassed by much of the economic growth and unable to gain access to basic services, **current trends hold out little hope of a brighter future.**

Bangladesh is a country with considerable potential that is trapped in a low growth cycle. There is now clear worldwide evidence on the significant and positive correlation between efficiency of public institutions and economic growth. It is also becoming increasingly clear that the inability of Bangladesh to get out of the low growth trap is largely due to the weak implementation capacity and inefficiencies of public institutions, the government's inability to plan and manage key reforms, and its predilection to manage

economic activities at the micro-level. Bangladesh will be a different country as it enters the 21st Century. This is not a matter of choice. The internal pressures from a rapidly growing, and more demanding, population will fuse with the external pressures, from a much more competitive global economic environment, to create new opportunities and new demands. The public sector, as presently constituted, will not be able to cope.

Governments all over the world are painfully coming to terms with a new era. The dizzying pace of political and technological change and fast-moving globalized markets, are posing fundamental questions about the role of the Government and how it can lead nations to respond to changing circumstances — a world of much greater uncertainty where the relationships and balances between government, the private sector and non-governmental organizations, are rapidly being renegotiated and where government's performance is being held to much higher standards by economic agents. All these issues apply with particular force to Bangladesh.

Box 1. Government: Its Score Card

The Government has reasons to be proud, but deep-seated institutional problems seriously undermine its performance.

Achievements

The Government has shown outstanding performance in: enabling self sufficiency in rice; reduction of population growth; significant increase in immunization and primary school enrollment; fiscal stabilization; and rapid growth of garment exports.

Government: A View from Below

- Government is seen as: preoccupied with process; too pervasive; highly centralized; overly bureaucratic; too discretionary in governance; unaccountable and unresponsive; and wasteful.
- Based on a nationally representative sample of 1500 rural/urban households, not only is access to government provided education, health, and extension services deficient, but the quality of service is also poor. In almost all areas, services provided by government ranks lower than services provided by NGOs and the private sector.
- According to a survey of 200 businessmen and 70 exporters, government officials are unresponsive and oblivious to cost of delay, and there is little improvement in the day-to-day hassles of interaction with public agencies: two thirds of exporters have lost export orders due to delays in dealing with public agencies and, on average, exporters spend 7% of sales to expedite government agency decision making.

Continuing Inefficiencies: The Last Decade - A look from Above

- Bangladesh is trapped in a low growth and low investment cycle, and 50% of people live in poverty.
- The level of Public Investment Programs continues to remain low, at 8-9% of GDP, despite availability of concessional funds.
- Private investment levels are also low at 6 - 7% of GDP.
- The impact of many programs is negligible. Only 4% of students entering Grade one complete Grade 12. It takes seven years to complete the primary education cycle of five years. The occupancy rate of rural health clinics is only 55% despite widespread morbidity.
- Annual losses of public enterprises are staggering, about 2% of GDP, while their outstanding debt, a large part of which is non-performing and would have to be absorbed by the budget (i.e., future generations), accounts for 90% of GDP.

While the Public Sector has its pockets of excellence, collectively its performance leaves a lot to be desired. A quantum leap in efficiency and effectiveness of the government is needed if Bangladesh has to accelerate and sustain growth, reduce poverty, anticipate the opportunities and challenges of the future, and enable its enterprising citizens and private sector to realize their full potential and compete in a fiercely competitive global markets. The purpose of this Report is to sketch a road map, and identify a menu of options/choices and building blocks, for establishing an efficient and effective government. Based on the experience of successful initiatives in Bangladesh, and taking into account experience of reforming and high performing countries, a paradigm shift in the quality of, and access to, core functions of government and essential services would require coordinated initiatives at:

- **Redefining the frontiers of Public Sector** and focusing its energies and resources to core functions, which only government can provide, and programs (e.g. poverty alleviation) which are not being adequately provided by others. A government which is overextended, like the Government of Bangladesh, cannot be efficient. Redefining would involve rightsizing of central

government, on one hand, while enlarging the space for Non-Governmental Organizations (NGOs), local governments and the private sector on the other hand. Bangladesh is rich in NGOs -- many world renowned -- and it has an entrepreneurial private sector, both remain

underutilized. NGOs have tremendous potential for enhancing the quantity and quality of delivering social sector services, while tapping the energies of the private sector would accelerate growth.

- **Enhancing the level and nature of accountability and responsiveness** of public agencies to citizens. A government and public institutions which are accountable to their “owners”, i.e., parliament, citizens and consumers, work better.
- **Streamlining the regulations, laws and processes** through which government interacts

and regulates the citizens and private sector. The level and extent of transparency, fairness and automaticity of the legal and regulatory

I. REDEFINING THE FRONTIERS OF PUBLIC SECTOR

Since independence, the size of Government has virtually doubled in terms of ministries, departments and officials. The number of ministries in Bangladesh (35), is large compared with other countries such as Malaysia (24), South Korea (25), and Thailand (14). Though all bureaucracies change in response to changing priorities, in Bangladesh the changes have been, regrettably, unidirectional. The usual practice has been to create a new ministry, division or department. But what is absent, is a concomitant shedding of some lower priority responsibilities or any attempt to eliminate redundancy.

In most countries, disputes over the frontiers of the state are generally fought within the gray area of 'quasi-public' goods — education, health or railways — where investment bears dividends for the country as a whole, yet the benefits accrue, often unequally, to individuals. In Bangladesh, however,

the Government performs, not just the core functions of a state -- national defense, law and order, judicial system, etc. -- but virtually all of the gray area. It then encroaches significantly into purely private territory. Indeed, most citizens believe that the **Government is doing too many commercial functions that others can do better,**

institutions, policies and practices, have a major bearing on the efficiency of government.

- **Overhauling the rules and processes by which government conducts its policy and decision making** functions. Sound policy formulation, its effective implementation and speedy and transparent decision making, are hallmarks of an efficient government.
- **Maintaining an efficient, committed and professional public servant**, without which government can neither be efficient nor responsive.

and too little --in quantity and quality-- of what it should be doing more, i.e. poverty alleviation , rural infrastructure, etc. It is overextended-- with attendant regulatory intrusiveness, inefficient in most of its activities and has too many people doing too little but more often obstructing initiative without any penalty for delayed decisions. It accounts for almost two-thirds of formal sector GDP, its tentacles are spread all over through direct intervention and/or overbearing and discretionary regulations, and its inefficiency affects the entire economy.

The staffing cost of government, about 4.5% of GDP, is in line with other comparator countries at similar economic development The staffing cost of government, about 4.5% of

GDP, is in line with other comparator countries at similar economic development levels. However, this “reasonable” cost to the taxpayer should not be taken as a source of comfort. What matters is the value the taxpayer receives and their perception of “big” government. Korean and Singaporean governments costs (as % of GDP) their citizens about as much as the Bangladesh government, but the efficiency and quality of these governments is far superior to Bangladesh.

market to provide the service, public interest, strategic reason and social/equity consideration. Several departments/programs were reviewed to examine whether they were justified on ground of these rationales (Box 2); few passed the test. Similarly, if the country's 154 commercial public enterprises were judged against the conventional rationales for public ownership, few would qualify to remain in the public domain.

As in most countries, governments in Bangladesh used one or more of the following rationale to expand its wings -- failure of

Box 2. Value for money: The constitutional right of every taxpayer and consumer

Few government departments or programs face the discipline of the market. So their legitimacy needs to be established by other means. One mechanism is the Value-For-Money (VFM) analysis. This asks a number of hard questions. What value does the taxpayer get for supporting the department or program, and what value does the client get? Is its' function needed at all? If not, it should be abolished. If the function must continue, does it need to remain a Government responsibility? If not, it should be privatized. If the Government needs to remain in charge, could the function nevertheless be undertaken better by a private sector firm? If so, it should be contracted out. If it cannot be contracted out, could it be done differently? Finally, can the service be provided in a less costly way? All government agencies and programs should be subject to these questions. Listed below are a few GOB departments whose need is questionable, or which offer poor value for money.

The Department of Cooperatives (DOC) — The DOC exists to promote, register, regulate and supervise cooperatives. The department has a staff of 4,700 and costs the taxpayer Tk. 270 million annually. With over 133,000 cooperatives, it might claim great success. Unfortunately, most of the cooperatives are in a dysfunctional state. Hence the question of what this enormous staff accomplishes must be asked. Since NGOs have had immense success in group and social mobilization, the scope and size of continued government support for the cooperative movement needs to be fundamentally reassessed. Registration of cooperatives, for example, could be done by mail. Regulation could be supervised by a small and highly professional unit who could contract work out to reputable firms of chartered accountants.

The Bureau of Manpower Employment and Training — The Bureau of Manpower Employment and Training employs 2,000 people in 76 offices at an annual cost to the taxpayer of Tk 84 million. Its main goal is training manpower for export. However, there is no evidence that it has had any significant impact. Most workers have received training on their own. And it is by no means clear that manpower exports would have been lower had the Department not existed.

The Bangladesh Rural Development Board. This seeks to help landless and marginal farmers through programs of credit, training, and marketing. At the end of 1992, total cumulative investment in the BRDB was around Tk. 13.3 billion, with loans outstanding of Tk. 8.6 billion. The loan recovery rate for crops was about 77 percent, and for equipment about 20 percent. The primary rationale for the BRDB is that of promoting social equity. But given the dramatic growth of NGOs, particularly those involved in micro-credit schemes, it is doubtful whether this role is as vital as it used to be. BRDB's credit functions could be easily divested to the successful Poverty Foundation (PKSF).

The Government has long been aware of the deterioration in the quality and reach of basic public services. With the assistance of the private sector, and NGOs, it has been experimenting with alternative forms of delivery -- many with great success. These include, among others: programs implemented by the Local Government Engineering Department; government financed primary and non-formal education program implemented by a large NGO (BRAC); Expanded Program for Immunization implemented by local government (LGs); Rural Electrification

Program implemented through rural cooperatives; and financing of micro-credit NGOs by the Poverty Foundation (PKSF). Decentralization, accountability, community participation, partnership with NGOs were key ingredients of these successful initiatives (Box 3).

The above examples point to the need for a critical scrutiny of departments and programs, re-evaluation of their rationale and assessment of Value-for-Money to the taxpayer/user, **with a view to refocus the energies of government to needs of the present and challenges of the future.** Four interrelated initiatives would be needed to redefine the role of government and proactively promote alternative institutions to enable them to fill the space created by this role redefinition.

- Rightsizing and Downsizing Government.
- Enhancing Role of NGOs.
- Nurturing Local Governments.
- Promoting the Private Sector.

Box 3. Lessons from Successful Service Delivery Institutions.

The key lessons emerging from these success stories are:

Decentralization was an important factor in the success of: the immunization program which allowed LG managers to plan for their own areas; the rural electrification program through the Palli Bidyut Samity cooperatives (PBSs), which distribute electricity in the rural areas, and whose local managers have considerable operational autonomy. However, decentralization is not a panacea. It requires sound monitoring systems to guard against misuse of authority at lower levels.

Performance-based accountability contributed to the success of the PBSs, which use a detailed performance appraisal system with salary increments dependent on satisfactory achievement. This model should be followed in other commercial public enterprises.

Community participation was important to the success of BRAC's primary education program. For example, each village in the program has a five-member committee consisting of teachers, community leaders and BRAC officials, which meets regularly to address any problems which arise.

Accountability to Customer has been an important factor in achieving high cost recovery. Since PBSs are consumer-owned cooperatives, everyone benefits from efficiency by paying reduced tariffs. The PBSs have also clearly demonstrated the importance of customer satisfaction; they hold village meetings of consumers two or three times a year in order to discuss problems or complaints.

Separating funding from provision enabled the funding agency to demand high quality service from the provider. By opting for private sector consultant, instead of the Public Works Department (PWD), for planning, design, and other activities related to the construction of health and family planning facilities, the Building and Planning Design Unit of the Ministry of Health, has been able to reap the benefits of lower costs combined with better quality service. Compared to the PWD which charges 15% for this service, the private consultants charged about 6%.

Partnerships with NGOs led to better quality and higher outreach of service delivery as exemplified by the use of NGOs in the water and sanitation program and non-formal education. The establishment of the Poverty Foundation (PKSF), which lends government funds to NGOs for micro-credit schemes, is also a successful model of this kind of cooperation.

Rightsizing Government

Reforming countries have used differing institutional models for engendering, conceptualizing and managing the rightsizing issue. In the US, the Gore Commission formulated and spearhead reforms. In the UK, the Efficiency Unit in the PM's office, together with the Treasury, played a crucial role; while in Canada, a full fledged Cabinet Minister for Public Sector reforms provided the leadership. In New Zealand, the Treasury took the leadership role in defining the agenda and scope/pace of reforms, within context of fundamental budgetary reforms. In Malaysia, a Panel on Administration Improvements to the Civil Service was established under the Chief Secretary, to act as a think tank for administrative reforms; in addition, an Administrative Modernization and Management Planning Unit was established in the PM's office to operationalize reforms and monitor implementation. **In all countries budget process and legislative reviews were also critical, besides strong institutions, in the redefinition of role of state.**

The GOB has already recognized the need to shrink government and for this purpose established the Nurun Nabi Reorganization Committee. So far, this committee has reviewed 80 departments. But its impact has been negligible because its terms of reference are limited, it is part of the executive branch and it does not have the capacity to undertake fundamental analyses of rationale. In addition, GOB has also established an Efficiency Unit in the PM's office. Its success will depend on its staffing and mandate as well as the support it receives from the PM. Success also depends on building broad-based public support and developing suitable processes/mechanisms to generate awareness and support for change. Notwithstanding the Unit's placement in the PM's office or support from the PM, a bureaucratic unit in the present environment would fail to muster the broad-based support necessary for fundamental reforms. Therefore,

it is recommended that a **new Commission — National Commission for Reforming Government (NCRG) — be established** to carry on the work of the NurunNabi Committee. The Commission would need to be independent — comprising parliamentarians, civil servants and private sector representatives, professionally staffed and must have the capacity to critically re-evaluate the rationale for each agency, assess value taxpayers and users are getting for supporting agency, etc. **Public hearings by the Commission would help generate public support for reform.**

It is envisaged that the Commission would provide the analytical underpinnings for the paradigm shift, and formulate specific proposals and strategies. It would be the institutional agent for questioning prevalent ways of doing business, raising awareness on the need for change and harnessing public support. The Efficiency Unit would operationalize the Commission's work, and act to spearhead change within the Executive Branch. It would also be responsible for monitoring the implementation of the reform program. The Efficiency Unit could also act as the staff secretariat to the Commission, providing it with analytical support, rather than building a separate analytical capacity within the Commission itself. It is important that both the Commission and the Unit be staffed by high caliber professionals. While political vision is needed to jump start the reform process, **high caliber institutions are necessary to engender and implement reforms.** Two areas should be accorded high priority by the Commission:

- ***Closing down and streamlining institutions*** — Some agencies have now lost their relevance and persist only through bureaucratic inertia. Also with the changing economic landscape and new priorities, the functions of many ministries/agencies need to be looked at afresh. Thus, for example: the Ministries

of Textiles and Jute will not have much to do when the state-owned mills have been divested or closed. As another example, the Department of Prices and Market Intelligence could be closed and its residual responsibilities for monitoring price changes transferred to the Bangladesh Bureau of Statistics. A critical review of many agencies will suggest that many could be made smaller. For example, the functions of the Bangladesh Rural Development Board and Department of Cooperatives are not only overlapping, but also redundant in many cases keeping in mind the successful provision of similar services by NGOs.

- ***Unbundling and contracting-out activities*** — Many agencies undertake activities which can be better performed by the private sector; in a large number of cases, policy making and operations are combined. Unbundling this would reduce the administrative burden and improve service delivery, since ministries (which would be funding other institutions for services) would be in a much better position to demand higher standards. The Ministry of Communications, for example, could divest itself of the Road Transport Corporation, and shift the emphasis of its Road Transport Division away from construction and towards the supervision of outside contractors. For many activities, there now exists potential for contracting-out to NGOs and private agents. This has been successfully tried out in cases of non-formal education, water and sanitation and construction of health centers.

Over the medium term **Legislative Mechanisms to control future growth in government employment** also warrant serious consideration. Better managed developed countries and some NICs have been able to curtail the absolute growth in government by ***legislating an absolute cap on government***, which forces reduction in lesser priority

activities when new, higher priority activities emerge. ***Another mechanism is ‘Sunset laws’*** which slough off the obsolete by setting time limits on the operation of programs unless they are reauthorized by the parliament.

Enhancing the role of NGOs.

Bangladesh is extraordinarily rich in NGOs working in a wide range of development fields; many are internationally recognized. In order to fully utilize their potential and strengthen the effectiveness of their activities, the following measures should be considered:

- ***Streamlining the NGO registration and approval process***, and devolving many of these functions to ADAB -- the apex association of NGOs.
- ***Establishing a GOB-NGO Consultative Council*** to enable a more proactive consultation, enhance dissemination of successful NGO programs, and improve accountability.
- ***Establishing PKSF type institutions*** for providing budgetary funds to NGOs for implementing social sector programs, rural infrastructure schemes, etc.

Local Governments (LGs) — the untapped potential.

In Bangladesh, the existing administrative structure and elected local bodies do reach the grassroots level and provide the necessary building blocks for participatory decentralized administration and delivery of public services. But this structure has failed to perform efficiently for two main reasons: excessive centralization of decision-making; and ineffectual elected local bodies — characterized by weak administrative capacity, and a limited financial and human resource base.

Local representative institutions are in a better position to provide (directly or through NGOs/private providers), public goods and services whose supply is not scale dependent or

likely to result in externalities. Such a shift in function will, of course, depend on the success of efforts to develop a robust system of LGs. The GOB should consider initiating a program to enhance the role of LGs in provision of basic public services by:

- **Consolidating the legal framework for local government** through rationalizing the more than 20 Acts/Ordinances related to LGs.
- **Developing local government units of an appropriate size** which would need to be larger than the Upazila Parishad but smaller than districts to exploit economies of scale while ensuring that units are not so large as to preclude wide, direct participation.
- **Restructuring LG funding arrangements** through a system of formula based grants and greater authority to raise local taxes, together with mechanisms to ensure fiscal prudence.

Promoting The Private Sector.

Relations between the government and the private sector need to be much more collaborative than at present, and government agencies need to be more responsive and expeditious in resolving administrative bottlenecks faced by the private sector. In addition, greater coordination is needed among the dispersed agencies/ministries handling policy formulation and implementation related to private sector development. Private sector matters are spread over four ministries -- Industry, Commerce, Jute and Textiles, and three promotional agencies -- Board of Investment, Export Promotion Bureau, and Bangladesh Export Promotion Zone Authority. Unfortunately, they have not been as effective as their East Asian counterparts. Their working culture is not geared to private sector needs, and their predilection is regulation rather than promotion. There are many ways in which governments can facilitate or actively promote private enterprise. The East Asian countries, for example, have shown the value of strong government — business interaction and effective public agencies which can help

stimulate the private sector. The following reforms are overdue:

- **Establishing a Prime Ministers Private Sector Advisory Council** -- comprising key economic ministers/secretaries and leading businessmen -- which meets regularly, at least once a month.
- **Making the promotional agencies more accountable, efficient and responsive**, by involving private sector representation on their Oversight Boards, establishing service standards, hiring professional staff, phasing out redundant staff (almost two-thirds in case of Board of Investment), giving agencies greater autonomy, and removing their regulatory and control functions.
- **Improving Coordination and Decision Making within key Ministries.** One option that the National Commission should review is merging the Ministries of Commerce, Industry, Textiles and Jute into a single Ministry for Private Sector Promotion -- which would perform the policy making role of the four ministries including oversight of the above noted promotional agencies, and transferring out all SOEs under these ministries. This unbundling would have the added advantage of separating policy making from managing enterprises.

An important element of promoting private sector is **Privatizing/Commercializing State-Owned Enterprises (SOEs)**. The status quo of inefficiency, losses and poor quality service, which adversely affects consumers and private sector, has to be reversed. The following two options, which GOB is pursuing half-heartedly, needs to be accelerated. *First*, for enterprises which operate in competitive markets and where privately produced products are available, privatization or, where necessary, closure would benefit taxpayers and consumers. Pending privatization, which should be accelerated, the administrative and operational oversight of these SOEs should be taken out of line ministries, as recommended above; this role could be fully devolved to the respective holding corporations, with the AB Wing in the Finance Division providing

financial oversight. *Second*, in the case of enterprises which operate in monopolistic non-contestable markets, such as the Power Development Board or the Dhaka Electricity Supply Authority, experience from Bangladesh (e.g. PBSs, PKSf) and other countries suggests that efficiency and customer service can only be enhanced through: competition, hard budgets, independent boards, professional management, performance-based incentive systems, and changes in the institutional relationship between the enterprises and government. ***In Bangladesh, the PKSf offers a very good example of public enterprise governance structure. It is recommended that this be extended to all SOEs.***

II. ENHANCING ACCOUNTABILITY AND RESPONSIVENESS OF GOVERNMENT

A major problem throughout Bangladesh's public sector is not only lack of accountability, but also the nature of accountability. The chain of accountability stretching from the Parliament to the Class IV employee is weak and fuzzy; many of the links have been severed, resulting in the inability to enforce financial contracts, stop theft in public enterprises, or hold officials accountable for improper or delayed judgment. The budgetary review process and management is also weak and ineffective as a tool for enhancing efficiency and cost-effectiveness. In general, GOB agencies are subject to weak financial controls, are not seriously scrutinized during the budget process or by the legislature, and are not subject to the financial discipline of the market place. Above all, they are unresponsive to people's needs, and citizens lack any effective means of obtaining redress when officials abuse their power. Actions need to be taken on the following six fronts:

Accountability of Government to Parliament

Parliamentary accountability is the bedrock of good governance in a democratic system. However, parliamentary accountability has not worked well in Bangladesh. There are a number of problems. Some relate to the heavy weighting of power in favor of the Executive — a problem shared by the oldest parliamentary democracies — while others are caused by the non-observance of standard parliamentary norms and procedures and weak capacity. It is vital for good governance that Parliament become more prominent in national life, thereby increasing its effectiveness. It is recommended that a **bipartisan Parliamentary Task Force be established** to formulate a program for strengthening parliamentary accountability, which would need to include among others, the following measures:

Providing MPs with adequate office and research facilities. This would involve properly-equipped offices, paid research staff, and greatly improving the library and research facilities. This could also include establishing permanent Legislative support and oversight agencies like the Congressional Budget Office and the General Accounting Office, in the United States.

- *Establishing the time-tested parliamentary practice of questioning Ministers.*
- *Strengthening the system of Standing Committees.* The first priority should be to strengthen the Public Accounts Committee. In general, strengthening of committees would involve amending the Rules of Procedure of Parliament to provide due authority (and resources) to committees to effectively undertake their mandate and scrutinize all legislation before it is introduced in Parliament.
- *Establishing an Ombudsman's Office,* as called for in the Constitution.

The Comptroller and Auditor General (CAG)

Crucial to any system of accountability is a robust and timely mechanism to ensure transparent financial accountability. CAG does not perform satisfactorily for the following reasons: weak staff skills (CAG does not have a single chartered accountant); the use of outmoded concepts and procedures; dual responsibility of accounting and auditing; inadequate coverage of reports; and delays in issuing reports. When the relevant report is issued years later (delays of five to eight years are not uncommon), it is difficult to take action in cases of financial impropriety or administrative negligence. CAG's shortcomings have a serious effect on accountability, as Parliament and the Government must rely on its reports.

Government has started a capacity building program and the following actions need to be expedited:

- **Enhancing the capacity of CAG** through recruiting professionally qualified auditors, strengthening its training programs and enhancing office support facilities.
- **Allowing direct contracting of auditing firms** by the CAG, and government agencies, to enable it to undertake all statutory audits in a timely manner.
- **Initiating program to undertake comprehensive audits** to move from procedural accountability to consequential or output-oriented accountability. This would involve using measures of cost-effectiveness and value-for-money audits.
- **Separating the audit from the accounting function** to establish the independence and credibility of the audit.

Accountability Mechanisms within the Executive Branch

Accountability mechanisms within ministries, agencies and SOEs are weak, at best. A major source of this is the weak accountability/incentive framework in the budget system. In addition, a particularly disconcerting aspect is poor quality of SOE external audits, resulting from poorly defined scope of audit and the extremely low fees; for example, these are only about \$2,000 for the central bank and around \$1,000 for most SOEs. Operational and financial accountability needs to be greatly improved through the following measures:

Improving the Budgetary Process. The government budget is a central part of the incentive system in which public servants operate. Most reforming countries have used the budget as an important policy tool to keep the size of the government in check and to ensure public sector efficiency by demanding Value-for-Money. In Bangladesh, while the budget system works well for

aggregate controls, none of the essential ingredients of an efficient budget system exist; it primarily serves as an accounting tool depicting receipts and expenditure in a particular year, and does not clearly link individual spending programs to specific policy objectives. Under the present “rules of the game”, line ministries lack a strong incentive to prioritize their programs and micro-level incentives to spend efficiently and effectively are weak. The budget staff have very little or no special pre-service training or qualification in budget/public expenditure analysis, while the preparation is a manually intensive exercise. The budget lacks medium term framework, the revenue and development budgets are prepared separately and exogenously driven, and the revenue budget is prepared on an incremental basis; the artificial dichotomy between revenue and development budget makes it difficult to achieve the overall allocational efficiency of resources.

The GOB realizes the weaknesses of the budgetary process, and in 1993 initiated a technical assistance program -- Reforms in Budgeting and Expenditure Control (RIBEC). The RIBEC is expected to bring about some reforms in the areas of reporting and presentation of government accounts, computerization and development of a financial information system. However, long term structural reforms of the GOB’s budget system will have to be made to fully utilize the budget as a lever of change so that Bangladesh gets itself endowed with a good budget system. Fundamental reforms would require changes in the institutional arrangements (i.e., rules, norms, procedures) in the budget process that affect incentives governing allocation and use of resources. Bangladesh would benefit from reviewing the experience of New Zealand, Australia, Malawi, and South Africa in this regard. As practiced by these countries, a phased and evolutionary approach is proposed to limit new initiatives in order to avoid overloading the implementation capacity and to ensure that RIBEC reforms are implemented. Against this background, only a **few new initiatives are proposed for implementation, over the medium term, which are absolutely essential to reinforce the work of the National Commission and the Efficiency Unit**, and which would form part of any long term fundamental reforms.

- **Establishing a Budget Analysis Unit (BAU)** in the Budget Wing of the MOF to be staffed by a core group of professional economists and financial analysts. The BAU, by replacing the existing budget officers, would become the mainstream arm in government to regularly review/scrutinize incoming budget requests from the Ministries/Departments and undertake broader review of public expenditures to evaluate appropriateness of expenditures and make recommendations on allocations.
- **Revising Project Proforma Formats** used for the public investment review and approval process, to sensitize and force agencies to think about alternative ways of delivering services and conducting business. It is proposed that a standard set of questions be added to the Project Proforma format to ensure that alternatives are indeed seriously reviewed by both donors and government agencies. While this standardization of “market testing” the prevalent approach could degenerate into routine/standardized responses, putting agencies on the spot and raising awareness of these issues, is an important first step.
- **Improving “User Friendliness”** of the budget document by improving and enhancing presentation of economic data. This would enhance the quality of public debate.

Once these reforms take root and adequate institutional and informational capacity is in place, long term structural reforms, like those undertaken in New Zealand, should be initiated to closely link allocations to outcomes, strategic priorities, and medium-term framework. Reforms in this phase would comprise, among others, the following:

- **Establishing link between budget allocation and outputs/outcomes.** As a first step each ministry/agency should indicate its key objectives, performance targets and prior year achievements in the budget/ADP document. The Ministry of Finance already does it. Other Ministries and agencies should also be required to do so. Agencies, with the help of the Efficiency Unit, should be able to establish simple and measurable indicators of efficiency (e.g., cost per unit of output) and effectiveness

(e.g., project outcome) without the need for extensive studies.

- **Formulating and Presenting Budget in a Medium Term Revenue and Expenditure Framework.** This would strengthen and make more transparent the linkage between budget and macro-economic objectives, impose greater policy making discipline and highlight the resource availability for new programs/projects.

The Implementation Monitoring and Evaluation Division (IMED) needs to be strengthened to perform its current tasks better, and to increase its effectiveness in assessing overall policy implementation. Some of the more important measures include:

- **Relocating the strengthened IMED in the Prime Minister's Office.** Agencies of less systemic importance to the overall administration should be removed from the Prime Minister's Office. IMED would then become the Chief Executive's main watchdog for monitoring, and timely feedback on the performance of the entire range of the Government's development and recurrent expenditures and policy implementation.
- **Widening its mandate** to also include monitoring of major spending programs and policy implementation. Adequate resources would have to be provided to develop a multi-disciplinary team capable of offering timely reviews of major spending programs.
- **Improving its monitoring methods and reporting** formats. This should include regular monitoring of physical achievements, contract awards and the systematic evaluation of completed projects.

In addition, **existing mechanisms need to be strengthened** to enhance ministerial and agency accountability. These include:

- **Initiating a program to modernize Financial and Management Information Systems** within ministries and agencies to monitor financial and physical inputs/outputs, and outcomes.

- **Improving external audits of SOEs** through establishing audit guidelines and enhancing remuneration to external auditors.

Improving Responsiveness to Users.

Customer Service initiatives are long overdue in Bangladesh and would be very popular with voters. It would also help the agency to obtain feedback on its performance, thereby aiding its efforts to redress consumer complaints. An important element of the service standard should be refunds to consumers for poor quality and unreliable service (e.g., burnt out electrical appliances, excessive billing, dead phone lines, etc.).

Consumers in Bangladesh must be compensated for the poor quality of service provided by public enterprises, particularly when they cannot exercise consumer choice.

A good example to emulate is the Citizen Charter that is required for each agency in the UK. Thus, the Charter for the London Underground commits it to provide a safe, quick, reliable, and value-for-money service. It includes a refund scheme which *entitles customers to a refund voucher if they have to wait on the platform for 20 minutes longer than advertised*, or if the train in which they are traveling is delayed by more than 15 minutes. The Charter is advertised on posters at all stations. The Government should consider medium and long-term measures to improve responsiveness to citizens such as:

- **Establishing Customer service standards.** Each agency should be required to establish customer standards in a widely disseminated public document representing a contract with those it serves.
- **Regularly Surveying Customers of public agencies and utilities** as to the kind and quality of services they receive and want.

Enhancing customer service and responsiveness to the citizen should be made a high priority of the Efficiency Unit in the PM's office. As with Performance Objectives, it is well within the capacity of Bangladeshi

agencies to establish, with assistance of the Efficiency Unit, service standards (e.g., reduction in consumer complaints; on-time departures; and number of days for: clearance of goods by Customs, processing drawback refunds, recording land titles, correcting excessive bills, providing utility connections, etc.) without the need for extensive external assistance or lengthy studies. The important issue would be to ensure that monitoring is not purely on self-reporting basis and that an independent external agency (e.g., Ombudsman's Office) is involved in the oversight role and in enforcing standards.

Towards Open Government

One of the keys to empowering citizens and to a more effective government is openness and transparency. At present, public administration in Bangladesh is peculiarly opaque. Bureaucrats seem obsessed with secrecy and are unwilling to divulge to the public any information — however routine or innocuous. To some extent, bureaucrats can legitimately plead that they are hemmed in by official restrictions. The Official Secrets Act of 1923 and the Government Servants Conduct Rules (GSCR) of 1979 bind civil servants to an oath of secrecy, even forbidding them to pass some official information to other government departments. Many governments now have Freedom of Information Acts. ***It is recommended that serious consideration be given to amending the Official Secrets Act and the GSCR***, to encourage and legitimize the flow of information between the state and the citizen. Several other measures which are practiced in a number of countries are also recommended:

- **Announcing a public policy on transparency.**
- **Establishing a Task Force on Public Sector Transparency**, made up of independent members drawn from various professional and occupational groups to recommend specific measures for increasing transparency.

- ***Making, contract evaluation reports available to public*** irrespective of the size of contracts. All bidders should be legally entitled to obtain a copy of the Evaluation Committee's Report.
- ***Publishing the earnings and tax payments of all elected officials, as reported in tax returns.*** Such a measure would not only enhance the moral legitimacy of tax enforcement, but also increase the pressure on public officials to correctly report their incomes and comply with tax laws.

Enhancing dissemination of information and reports by regularly making available to the parliament and media the following: annual and external audit reports of public enterprises, IMED reports, macro-economic and project information made available to donors, amount of

tax exemptions/concessions provided to private and public sector, and public officials; amount of free services (e.g. utility services, air tickets, private transportation, etc.) provided to public officials.

Rooting Out Corruption

Corruption thrives where there is discretion and monopoly, accountability is weak, and public servants are poorly paid. These are also the main causes of public corruption in Bangladesh. Bangladesh does have an Anti-Corruption Bureau (ACB), but it is largely ineffective and is publicly perceived as being vindictive — as a vehicle for pursuing personal and political vendettas. The ACB, rather than offering solutions, seems to have created a fresh set of problems -- paralysis of decision making out of fear. Even where ACB investigates properly, it averages three years to investigate cases, of which only 15% actually get to the courts.

Reducing corruption requires measures to improve openness and transparency in government, deregulation, improvement in civil service

compensation, and stiff penalties/enforcement. As a first step, the following measures merit consideration:

- ***Establishing a high powered Task Force***, comprising government officials, parliamentarians and leading private citizens, to review the whole gamut of issues related to corruption and to propose a comprehensive eradication program.
- ***Establishing an autonomous Standing Committee***, protected by law, to oversee the ACB and to authorize investigation of senior staff in ministries, agencies and corporations, by a statutory appointed and protected public prosecutor. This should reduce harassment and fear of decision making and shield entrepreneurial and decisive public servants. The Standing Committee should comprise judges, both serving and retired, secretary-level officials and other respected leading citizens.

III. REGULATORY AND LEGAL REFORMS

The Regulatory Maze: Need For Fundamental Overhaul

The interface between the citizens and the state is nightmarish for the citizen. Whether it is getting a passport or registering land title, obtaining a building permit or a utility connection, getting a university certificate or a rickshaw license -- the citizens have to suffer delays, deal with discretionary rules and unresponsive officials, and above all, often make side payments. The environment for business firms is no different. Most businesses spend a large amount of their time negotiating a maze of regulations which are ambiguously drafted, inconsistently applied, and generally haphazard and contradictory (Box 4).

- ***Initiating a comprehensive deregulation program.*** This could be achieved by establishing a Deregulation Commission, comprising government officials, private sector interests and technical specialists. The Deregulation Commission would need to work closely with the National Commission, perhaps under its ambit, and the Efficiency Unit to ensure coordination and implementation of its findings. It would use a process of technical reviews, including cost-benefit analysis and an assessment of the costs of implementation and compliance. It should hold open public hearings to review, revise, or discard each and every regulation. Through such a process, Turkey consolidated 12,000 regulations into a mere 700, while Brazil revoked 112,000 decrees out of 127,000 decrees.

Bangladesh needs to review and consolidate regulations. Any such effort would need to comprise the following elements.

Box 4. The Regulatory Regime: An Intricate and Discretionary Web

The regulatory regime, policies and practices suffer from the following.

- *Vague and Discretionary.* A particularly worrisome feature, which grossly undermines good governance, is that many regulations are left open-ended and ambiguous. This represents a misplaced confidence in the quality and probity of the regulatory bureaucrats — and provides them with too large a degree of discretion. For example, the Factory Act (1965) states: If it *appears* to an Inspector that water for humidification is not *effectively* purified, or any part of building machinery is a *safety hazard*, he may serve notice. The italicized terms are undefined and highly discretionary — a circumstance undoubtedly exploited by the inspectors who are the sole judges.
- *Pervasive and Archaic.* Bangladesh has thousands of regulations that are archaic, conflicting and serve no perceivable public interest. For example: factories requiring spittoons, permission required from Civil Aviation Authority to sell aircraft/engines; passport photographs requiring attestation by Class I officers; gas company requiring original title deeds for connection; prohibition on adult worker working in more than one factory on any day; permission required from BTTB to install fax machines; and so on.
- *Flawed and Weak Enforcement.* In Bangladesh, regulations are exclusively administered by underpaid low-level officials. Anyone seeking to undertake private commercial activity is forced to obtain assistance from these numerous petty bureaucrats who use every opportunity to ostensibly monitor compliance; in fact, they take full advantage of the discretionary and opaque process to extract rents. Fortunately citizens and firms are spared compliance with the “letter of the law” regarding unnecessary regulations. At the same time, an important aspect of regulatory failure is the weak capacity to enforce safety, health, environment and public interest regulations which are necessary for the orderly conduct of a market economy.
- *Flawed Process for Making Regulations:* In Bangladesh, all regulations emanate from laws. The regulatory ministry/agency has the responsibility for developing and drafting supporting rules, regulations and guidelines. A major shortcoming of this drafting process is that it tends to be tilted in favor of the regulator and generally does not incorporate the views of those people likely to be affected by the regulations.
- *Absence of arms-length relationship:* Another regulatory problem is that there is absence of a clear arms length relationship between the regulator and the operator (i.e. between controlling ministries and public enterprises); often they are identical (e.g., regulatory role of Bangladesh Petroleum Corporation).

- ***Establishing a clearing house*** in the Ministry of Law, similar to the Office of the Federal Register in the USA, to keep track of all regulations. As a first step, this office should prepare comprehensive documentation which incorporates, in one place, all laws, regulations, Statutory Regulatory Orders, and administrative orders. This document should be updated once a month.
- ***Establishing transparency and accountability in the rule making*** process by mandating that, except for emergency situations and criminal matters, no rule can be promulgated without a consultative process and public hearing, including printing of draft rules in major newspapers well in advance of rules being finalized.
- ***Establishing pilot programs to minimize contact*** between regulator and regulatee. These could include: involvement of citizen groups, NGOs and reputable private firms, in enforcement; relying on pre-shipment inspection services for custom duty assessment; accepting income-tax assessments by reputable

chartered accountants; computerizing and “depersonalizing” tax processing.

- ***Establishing a regulatory system for the monopoly sectors*** which encourages private sector entry into these areas, heightens competition, and develops processes and rules which balance the interests of producers and consumers.

The Legal Impasse

The laws and judicial system of Bangladesh neither meet the needs of citizens nor create an environment conducive to transactional efficiency. Legislation is poorly designed and outdated, procedures are cumbersome, the superior judiciary does little monitoring, court facilities are inadequate, and there are too few well-trained judges and law officers. All of this causes inordinate delays in legal verdicts. Indeed, decades can pass in expensive and time-consuming litigation over minor and relatively simple cases. **Public faith in the courts is understandably low. Major**

reforms of the judicial system are necessary to meet the demands of a modern economy. The most critical elements of legal reform are:

- **Activating the Law Reform Commission.**
- **Enhancing the speed and capacity of the courts** by improving case management, introducing modern information management systems, upgrading court facilities, and setting up specialist courts with judges trained in that specialty.
- **Improving the judiciary.** Critical elements would include: procedures for selection of judges, training of judicial officials, and overhauling the compensation package for the judges by delinking it from the central

government salary system and restoring it to the levels prevailing in the 1950s.

- **Enhancing supervision and monitoring of lower courts** by establishing a permanent unit, to undertake this task. This unit should be headed full-time by a retired or in-service Supreme Court judge and report to the Chief Justice. In addition, the higher judiciary should be made responsible for promotions/transfers of lower court judges.
- **Enhancing the independence of the judiciary.** The Constitutional provision needs to be fully implemented, starting with full financial independence. The budget management for the judiciary should be fully delegated to the Chief Justice's office.

IV. IMPROVING POLICY FORMULATION AND IMPLEMENTATION

Improving Policy Formulation And Implementation.

Even a smoothly functioning bureaucracy can only be effective when it is carrying out well-formulated government policies. Although Bangladesh has, in recent years, established some outstanding new policies — the introduction of VAT, the situation remains far from satisfactory (Box 5).

Institutional foundation for effective policy formulation and implementation needs to be strengthened. There are a number of ways in which this could be achieved.

- **Enhancing GOB in-house capacity** — The policy planning and coordination cells in the ministries urgently need strengthening. A useful move in this direction would be to merge the Development Wings in each ministry with the policy planning units. The Government should also consider staffing these planning cells in the ministries, with people redeployed from the Planning Commission, and reducing the size and refocusing the role of the latter.
- **Strengthening mechanism for monitoring policy implementation** by bringing it under the ambit of IMED.

- **Co-opting and Promoting local think tanks and universities** in undertaking policy analysis and research, and through regular exchange of staff between government and these institutions.

Expediting Government's Decision Making Process.

Even if some aspects of government activity are eliminated, and others passed to the private sector, to NGOs or to local government, the workings of the central government must still be streamlined. At present, the overly bureaucratic system is ill-suited to the needs of a modern democratic state seeking rapid development. Enhancing the speed and quality of decision-making will involve radical changes in process and behavior. Process changes should be straight-forward, though in practice these will be difficult because of vested interests and turf battles. Behavioral changes are altogether more complex. They include the need to create appropriate systems of incentives and to encourage decision-makers to take more risks and demonstrate an entrepreneurial spirit. The following are some priority areas for action:

- **Significantly enhancing the financial and administrative powers** of heads of agencies, departments and project directors for day-to-

day expenditures as well as procurement of civil

Box 5. Public Policies: Need for Improvement

In general, public policies:

- *lack responsiveness* — policy change in Bangladesh is usually a matter of ‘too little, too late’.
- *are inconsistent* — the extensive inter-ministerial consultative process attempts to ensure consistency between different policies. However, there are still major concerns. In the garments sector, for example, the Government professes a wish to enhance value-added and establish backward linkages, yet it also places restrictions on both grey-cloth imports and on backward-linkage industries.
- *are unpredictable* — numerous policies suffer sudden reversals or changes of direction. These include reversals on private sector imports of petroleum, on private sector marketing of fertilizer, and on privatization.
- *lack credibility* — most Bangladeshis’ greet new policy announcements with considerable skepticism — viewing them more as a response to donor conditionality rather than as a genuine commitment to change. Credibility is also undermined when different ministers issue conflicting statements on the same issue.
- *are unimplementable* — the Government also creates major problems when it announces policies which are clearly unrealistic. The GOB has, for example, committed itself to providing non-formal education for 15-23 million learners by the year 2000. This is widely regarded as impossible to implement, as the country lacks the necessary resources — institutional, financial, or human.

works and goods and services. This will avoid delays incurred due to the necessity of seeking approval/authorization from ministries.

- **Reducing the number of decisions requiring the PM's approval** to those of systemic importance and essential to the functioning of the Government.
- **Eliminating the Cabinet Committee on Procurement** and establishing a permanent Inter-Ministerial Secretaries Committee

responsible for approving procurement which exceeds the authority of line Ministry Secretaries.

- **Imposing accountability** by fixing clear responsibility on relevant officials for avoidable delays and cost overruns. Cabinet-level officials need to focus their attention here, rather than on participating in the actual review and approval of contract awards.

V. IMPROVING HUMAN RESOURCES IN GOVERNMENT

Without improving the quality of people working for government, no amount of other reforms will succeed. Highly skilled and motivated staff are essential, which requires comprehensive reforms in the following areas: compensation, professional skills development, training, recruitment and promotion.

Compensation.

Officer level salaries in Bangladesh have declined dramatically over the last three decades. In the 1960s, when public institutions and public servants

were perceived as efficient and effective: it took an entry level officer the equivalent of six months salary to buy a car, while now it takes forty months; senior level (Secretary/Judges) salaries were close to private sector (and World Bank!) salaries and they could build a home in two years salary --now a similar home would cost twenty years of salary. At present, public sector salaries as percentage of private sector salaries, are about 20% in Bangladesh compared to 110% in Singapore and 70% in Korea; they are inadequate to support a middle class living. As much as policy makers in Bangladesh would like to believe that they can get East Asian style efficiency with low salaries -- there is regrettably no such success story.

People are willing to pay higher price for good quality; even poor people like borrowers of Grameen Bank who pay much higher interest rates than borrowers of government banks. If assured of better quality service, citizens would support better salaries, and tax increases to finance it. But they would not support substantial increases for the vast majority of today's public servants because of the poor service quality and their unresponsive and exploitative behavior. **A major change in the salary system should be implemented only when there is a satisfactory system in place which will ensure performance standards and accountability. Salary increases must be fully justified.** Moreover, fundamental salary reforms are complex, require much more in-depth study than undertaken as part of this report, and need to be closely tied to fiscal space and goals. Realistically, a major overhaul will take 5-7 years. In the interim, compensation needs to be increased selectively for the thousands of outstanding and highly skilled public servants, who are 'Agents of Change' and continue to uphold public service despite overwhelming countervailing forces. Several interim options, tried out in other countries (e.g. Malaysia), include:

- **Establishing financial awards for meritorious public service.** These awards should go to the "Agents of Change" -- top 1-2% of performers in each ministry or department, and should be based on performance-related factors such as: quality of service based on feedback from users, timely ADP implementation, achievements in revenue collection, or high quality policy analysis. The awards should have a substantial cash value, 12-18 months salary, to be meaningful and to enable financing of one-time essential capital expenditures such as car purchase, college education, children's wedding, etc., -- which otherwise have to be made up through rent seeking, for the most part. A committee in each department or ministry would select candidates who would be further short-listed by a PM's committee — comprising government servants, leading public figures, and professional experts.

A transparent process/criteria and selection by committee, with outsiders, would minimize abuse.

- **Introducing special qualification supplements.** These would go to officials who have obtained Masters degrees or PhDs from recognized universities in OECD countries. Again this should be substantial — for example, 100 percent of basic salary for a Masters degree and 200 percent for a PhD. This would give public servants an incentive to travel overseas for training, even at their own expense, and attract more highly qualified people into public service.
- **Establishing cost reduction awards** to reward those public servants whose proposals/ideas lead to elimination of waste and cost savings. A special program could be established to proactively encourage ideas.
- **Initiating a program to delink salaries of the Judiciary and Central Bank from government salaries.** Compensation in these institutions need to be established in line with market and commercial considerations.

Transparent performance and qualification-based methods of enhancing compensation selectively are widely practiced, would be politically justifiable and feasible, and would not lead to pressure for system-wide wage increases. Along with the above measures, a **Pay Research Unit should be established in the Ministry of Finance** to regularly undertake systematic and comprehensive reviews. **As its first task**, the unit should undertake an in-depth study to formulate a path of adjustment of civil service pay which is consistent with fiscal goals and which over five to seven years could bring about a paradigm shift in compensation through: attrition, early retirement, subdued pay increases at the bottom, and large pay increases at the top paid for by reduction of lower level staff.

Professional Skills Development.

Management of the economy in today's complex and inter-dependent world is a daunting task for any government. Combined with the immensely complex and huge development challenges facing Bangladesh, nothing short of Herculean management and technical skills are needed. **Measures are needed to enhance professional standards and skills in the civil service**, and to ensure that competent and well trained people staff the Ministries, Agencies and Departments. The following options could significantly enhance professional standards:

advancement step -- just as followed by the Bangladesh Defense Forces Academies/Staff Colleges -- rather than a punishment posting.

- ***Establishing specialized functional groups.*** One possible measure, which could address the skills mismatch issue and the inter-cadre rivalry, is the clustering of ministries/agencies into functional clusters and establishment of Specialized Senior Staffing Pool (SSSP) groups to manage the functional clusters. These functional clusters/groups might, for example, include a macro-economic group, a social sector group, an infrastructure group, an agriculture and natural resources group, etc.; management jobs in ministries/agencies performing these functions would be filled from the relevant SSSP group. Deputy-secretary rank officers from all cadres would be eligible to join any of the SSSP groups based on their interest, track record and the results of a competitive Masters-level tailor-made examination. Once a person is selected for any of the SSSP groups, they would stay within the relevant ministry/agency for the remainder of their career, becoming Agency Heads/Secretaries, in due course, if performance is satisfactory.

- ***Initiating a crash overseas training program*** to enable each ministry/agency to have, over the medium term, a critical mass of well trained senior and middle managers.

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- ***Strengthening the Training Institutes.*** An important measure would be to make postings to senior staff training institutes a career

VI. IMPLEMENTING REFORMS

While the need for reform of the public sector may be clear, one of the most difficult questions is when and how to start. Many countries have taken advantage of some massive upheaval — a war or an economic collapse — to seize the opportunity for reform. Bangladesh does not face any immediate or obvious upheavals. Rather, it faces a debilitating ongoing crisis which continues to sap the country's economic and social strength. While there is a good basis for assuming that the political leadership will embrace the broad principles of reform stated above, triggering the reform process in Bangladesh will, therefore, be much more difficult.

Thus, Bangladesh's political leadership may find it extremely difficult to embark on a radical reform program which is likely to destabilize its own power base. Similarly, it would not be easy to galvanize the civil servants in support of reforms meant to reduce their discretionary authority, privilege, and above all, rent-seeking opportunities. Last, but not least, the commitment to channel public resources through programs managed by NGOs and private sector is bound to cut into strong vested interests.

Despite the likely resistance from such "vested interests" the government is well advised to initiate the reforms resolutely. This is justified, if anything, by the political leaderships own "enlightened self-interest" since the reforms are bound to yield both a high political and economic pay-off to the government itself. The experience of the East Asian and other fast growth countries has amply demonstrated that an efficient public sector is key for accelerated economic growth as a means to alleviating poverty. In Bangladesh, following this path also makes ample political sense with the likely ground swell of public support -- and a increase in the vote bank-- if the government begins to earnestly attack public sector inefficiency, the poor quality and virtual absence of public services, the discretionary authority and lack of

accountability of public officials, and endemic corruption. In pursuing this agenda the government will not find itself without allies. The general public and the business community are becoming increasingly impatient; and the donor community is finding it more difficult to justify aid to countries which fail to set their own house in order. Above all there are also allies within government--a core group of farsighted and innovative officials who by initiating bold changes of their own volition, have proved their readiness to be "Agents of Change" for implementing the proposed program.

There is no denying that reforms will have political costs. However, **the cost of doing nothing will be lower growth, continued poverty and citizens continuing to receive less for more.**

Lessons of Successful Reforms

Reforming an organization as complex as a government is a long, painstaking and torturous task -**importantly it is a process and not an event.** Experience of countries which have successfully redefined the frontiers of state and reformed the machinery of government clearly highlights the importance of **unequivocal and sustained commitment of political leadership to a less intrusive and more efficient government.** The success or failure of public sector reform depends crucially upon vision and support from the political leadership. An overarching vision is needed to not only provide the institutions implementing reforms with the clout and framework to forcefully pursue their agenda, but also send a clear signal to the civil society and public institutions of the redefined role that the political policy makers see for the state.

In addition, within the framework of a political vision and mandate, lessons of success also highlight the critical role of the following two levers of change

- **High powered and professionally staffed institutional mechanisms** to conceive reforms, operationalize them and monitor implementation. While political vision is essential to accelerate the reform process, high quality institutions are a *sine quo non*. Experience of Bangladesh and other countries clearly highlight the importance of institutions to engender reforms, even in the absence of a strong political commitment.
- **Sound budget process** to discipline both the quality and direction of public expenditure policy. The budget, perhaps, is the most powerful tool to bringing about change.

Also, successful implementation strategy comprised the following essential ingredients:

- Initiating reforms with a few bold, perhaps unpopular, actions to send clear signal on vision, together with a large number of “win-win” actions to generate popular support for reforms; and gradually but steadfastly taking difficult and unpopular measures once “win-win” actions are producing results and adequate safety-net and compensation programs are in place, to reduce individual uncertainty. The reform needs to promote reasonable expectations and deliver tangible benefits early, but should avoid creating false expectations about early success.
- Proactive initiatives to encourage public knowledge and debate to harness broad-based public support.
- Following a more participatory process of reform formulation by mobilizing the support of the legislators, the private sector, academics, elected representatives at the local level, NGOs, unions and professional bodies.
- Initiating reforms sequentially and also applying them to pilot programs, while

ensuring that efforts are “connected” and focused on critical trigger points. These will not only help build up support for reforms by demonstrating their potential benefits, but also provide useful lessons for the future to those managing the process of change. Public sector reforms have mostly failed when governments have tried to implement a comprehensive and radical reform agenda.

- Ensuring appreciation and support of the civil servants, particularly “Agents of Change”, who are responsible for implementing the reforms which are likely to impact on them in more than one way. Experience has shown, however, that if their motivation and energy are to be sustained they need to be given wider recognition. Also, those likely to be adversely affected by reforms in the short term (the losers) need to be compensated satisfactorily as an incentive not to oppose reforms.

Proposed Implementation Strategy

Laying the Foundation -- The First 4-6 Months

The reforms identified in this implementation phase have been selected to serve three mutually reinforcing criteria, namely that the reforms should: (i) yield a positive “demonstration effect” of the government’s intention to tackle public sector reforms resolutely, (ii) address issues of highest public concern and thereby mobilize the support from the largest segments of society and/or on particularly important sectors; and (iii) be administratively and technically easy to implement-it should tend to be almost self-implementing. With the foregoing in mind, the following priority actions, organized around four key elements, have been identified for the newly elected government: *Political Vision; Enabling Institutions; broad based Win-Win Actions and highly selective Downsizing Actions*. For the most part, the basic thrust is on establishing self sustaining institutions and mechanisms, which would provide the springboard for embarking on fundamental reforms 6-12 months later.

Announcing a Policy Statement in Parliament on making Government work. The political vision and mandate could be provided in a Policy Statement, as done by several countries

(Malaysia 2020, United States: “Government that Works Better and Costs Less”), on government’s vision of itself in the 21st century, and the key elements of reforms to make government work better. It should be a bold statement publically declaring government’s commitment to ensure that the bureaucracy is responsive to the citizens need and it is accountable to the tax payer. It would be desirable to announce the Policy Statement in Parliament, and proactively encourage debate in the print/TV media, to harness support of parliamentarians and the people. It is envisaged that the Policy Statement would be prepared by a small group of key ministers/secretaries, taking into account the party’s political platform and recommendations contained in this and prior reports on public sector reforms.

Establishing “Driving” Institutions At the outset, key institutions should be established which will be the champions of reform, and which will sustain reforms. In this regard, the following measures are suggested:

- Establishing a National Commission on Reforming Government headed by a Deputy Prime Minister, and comprising officials, legislators, and representatives from private sector, NGOs, academic community . This participatory approach would broad base support for reform.
- Fully staffing the Efficiency Unit, recently established in the PM’s secretariat, to function as a staff unit to the above Commission, steer reform proposals emanating from task forces through cabinet, and serve as the focal point for guiding and monitoring overall reform, and individual changes, approved by the Government.
- Establishing the Budget Analysis Unit.
- Establishing a Steering Committee, headed by the Cabinet Secretary or Principal Secretary to the PM and comprising all key secretaries, which meets fortnightly, at least during the take-off stage, to closely monitor and guide implementation of reform decisions taken by Cabinet, and to ensure that establishment of new institutions does not get bogged down by the usual bureaucratic delays. Timely

implementation will ensure that momentum is not lost, and overcome doubts about commitment. Therefore, the role of this committee is also very crucial to immediate and long term success.

It is important that the staff of the Efficiency and the Budget Analysis Units are the best that is available inside, or outside, government. These institutions hold the key to reforms and, therefore, the quality of their staffing is crucial. This would also ensure that they can articulate effectively the costs of inaction. Also, it is recommended that the Efficiency Unit be headed by a person who is known to be an ‘Agent of Change’ and should have the status of Secretary, preferably a senior secretary, to provide the Unit with the necessary clout and prestige.

Win-Win Actions. These should include measures to harness quick support for reforms from the private sector, ordinary citizens and civil society/NGOs. The following are recommended.

- Establishing bipartisan Task Force on Parliamentary Accountability. This would confirm government’s firm commitment to a transparent and open government responsive to the legislature. At the same time, the government should express its commitment to provide logistic and analytic support for MPs to carry out their legislative and watchdog responsibilities in a more effective manner.
- Establishing a Deregulation Commission with the mandate to review and reform the regulatory regime guiding interface between the citizen/firms and the state -- this will be particularly popular with the ordinary citizen and business community.
- Declare commitment to the institution of “Citizen Charter” and identify a few selective public services to establish performance standards -- a Citizens Charter for a few services initially, like preparation of passports, driving license, gas connections, railway timetable , etc., would also be welcomed by citizens.

- Setting up the Ombudsman's Office in Dhaka (and a few regional offices) and a system for public complaints in each thana office.
- Establishing a GOB-NGO Consultative Council, which would send a strong signal to the NGO community on government's intention at building a stronger partnership. This should also enable government to elicit the support of NGOs for grass root support of reform.
- Establishing the Prime Minister's Private Sector Advisory Council. This measure would signal government's intent to initiate East Asian style government-private partnership, and would go well with the private sector.
- Establishing a Task Force for eradicating corruption and announcing draconian measures against corruption. Given the widespread concern about corruption, this action would be welcomed by civil society and signal government's intent on the serious view it takes about corruption.

Actions to redefine Frontiers of Government. It is also important that government initiates a few actions to send a clear signal of its vision of a "new" kind of government and its resolve to implement unpopular measures. As a minimum, it should:

- merge/close a few departments/agencies (e.g. Ministries of Textiles, Jute, etc.) which have clearly lost any rationale for existence. In this regard, Nurun Nabi Committee's recommendations should be used.
- accelerate on-going privatization program, and the deregulation of telecommunications, power, gas and shipping sectors. In all the foregoing, the Government should define key targets for reform under a time bound and monitorable program which is fully in the public knowledge.

Initiating the Less Popular -- The Next 12 Months

By the time the first phase is over, in 4-6 months, the key institutions and task forces would be fully operational and initial results of their work should start to emerge. Some of the "win-win" actions would also begin to yield results in terms of: making citizen's life a little less hassled, selective government agencies a bit more responsive, and private sector and NGOs becoming more involved in policy making. The "enabling environment" should become more favorable for initiating the more difficult reforms. During the next phase, the reforms should continue and expand the "win-win" actions, while initiating the more difficult measures. While the detailed menu of reforms would be determined by the institutions, the following should form the core:

- Initiate implementation of initial recommendations of the National Commission.
- Initiate recommendations emerging from the: Deregulation Commission; Task Forces on Parliamentary Accountability, and Corruption; and GOB-NGO and Private Sector Councils.
- Reduce the number of decisions needing Prime Ministerial, Ministerial and Cabinet Approvals.
- Relocate IMED to PM's office.
- Revise PP format to force agencies to think about alternative ways of delivering services.
- Activate the Law Reform Commission.
- Establish the Pay Research Unit.
- Initiate Personnel Management Reforms, and as a first step introduce special/merit pay scheme and "crash" overseas training program.

- Formulate program to enable Ministries/Agencies to identify performance targets and objectives in their budget submissions.
- Establish Fully Funded Safety Net Program for redundant workers.
- Issue guidelines on scope of external audits of SOEs.

Accelerating the Change - The Medium Term Agenda

Most of the agenda for this phase would obviously emerge from the recommendations of the various institutions and lessons of experience of the first 12-18 months. The preidentified actions slated for implementation during the later years are either those with low priority, or those which need in-depth technical and administrative refinements to ensure their soundness and sustainability. In this category, some of the structural reforms include:

- Converting selective Bureaus/Boards into fully autonomous Agencies with full financial and administrative autonomy, with the Head acting as Principal Accounting Officer and as such fully accountable to the Public Accounts Committee and the Auditor General.
- Providing legislative assistance for MP's, establish Parliamentary Watch-Dog Agencies and Economic Policy Analysis Unit in the Parliamentary Secretariat.
- Enacting the Local Government Legislation and transfer resources from Local Government Ministry for rural programs to the elected local governments.
- Reducing the size and scope of the Planning Commission, while strengthening the planning capacity of the Ministries.
- Initiate program, starting with a few Ministries/Agencies, which links their budgets to performance objectives and targets.

By the end of this phase, the budget process would start to exert influence in the shaping of public expenditure policy. In

addition, the fiscal space would have been sufficiently enlarged, through downsizing and contracting out, which would enable structural reforms of compensation to be initiated. **The matrix at the end of the Executive Summary provides in detail and sequential manner the recommended reform measures in each area.**

Role of donors

Besides providing institution building support, the donors could play a catalytic role in promoting change by:

- establishing in their own programs, accountability measures and performance standards (including penalty for non-compliance and refunds to consumers) which should be widely disseminated.
- ensuring user participation, undertaking customer surveys, and including responsiveness measures in their programs and in implementation agencies supported by them.
- enhancing flow of information of their operations, particularly implementation performance, to the civil society.
- incorporating "Lessons of Success" in their programs and critically scrutinizing and questioning prevalent way of doing business before finalizing program/project design.
- proactively identifying and encouraging "Agents of Change".
- supporting local think tanks and policy research in universities to internalize this debate and keep it alive.
- supporting local media in its role as watchdog and as a forum for debate on imperatives for and modalities of reforms.

Fiscal Cost of the Reforms

There will be three main types of costs: institutional development costs, salary related and redundancy costs.

- *Institutional Development* comprise the costs associated with strengthening existing institutions (e.g. CAG, IMED, etc.) and establishing new institutions (e.g. Parliamentary Watchdog Agencies and Committees, Ombudsmen Office, Efficiency and Budget Analysis Units, Deregulation and Reform Commissions, etc.). Rough estimated costs amount to about Tk 100 million per year.
- *Salary related and redundancy costs.* A well designed staff rationalization-cum-salary reform program could be largely financed from future salary savings of redundant workers. The main additional cost will be that related to the

merit/special pay program. This should cost no more than Tk 140 million annually.

Together these two costs are minuscule in relation to the budget resources and, importantly in

relation to the potentially huge long term potential benefits of an effective and accountable government. Many donors would be willing to finance these costs.

V. A FUTURE BANGLADESH: COMPLETING THE PARADIGM SHIFT

With the paradigm shift, the government will be discharging its responsibilities in very different ways. It will certainly not be following a fixed blueprint — as it will be entering an age when the only certainty is that of continuous change. But some general directions are predictable.

First, a successful administration will have redistributed many of the present functions to be fulfilled much more efficiently and effectively elsewhere. This might mean decentralizing them to local government, or contracting their delivery out to NGOs or to the private sector. The Government will continue to pay for many forms of health and education service, for example, but it will commission those services from the institutions best able to deliver them. And the Government will continuously monitor the results to ensure that citizen gets value for money.

In many other cases, the Government will have withdrawn entirely from functions it currently performs — either because these tasks are no longer needed, or because they can better be financed and delivered by the private sector. It will, for example, have privatized, or in some cases closed, many loss-making state-owned enterprises. This should leave a leaner and fitter central government free to concentrate on the tasks which only governments can shoulder. Rather than initiate most development projects, the central government will generally prefer to provide block grants to others — agencies, local authorities or private organizations — and then monitor their probity and effectiveness.

The new form of governance will also broaden and clear the territory in which the private sector — from the smallest street vendor to the largest corporation — can grow and prosper. It will have cut away at the thicket of regulations, sparing only those which

are essential for the protection of the public interest and the promotion of equitable and productive business activity. And it will have rejuvenated the judicial system so that both individual and corporate behavior is held to account and is judged quickly and fairly.

But above all, the next form of governance for Bangladesh will be based on a new relationship with its people. The days of a secretive and self-serving bureaucracy should be just an unpleasant memory. The people of Bangladesh will have free and open contact with their government. They will collaborate in its plans, measure its effectiveness, and hold it to account for its failures. Government personnel will be assessed and paid according to their skills, their performance, and their willingness to help ordinary citizens.

THE STATE -- THE GOOD AND THE UNSATISFACTORY

This introductory chapter looks at the all-pervasive role of the Bangladeshi state and its achievements. The chapter also highlights the findings of three surveys. The first asks ordinary citizens what they think of the services they receive — or do not receive. The other two ask entrepreneurs and exporters about the current business climate — and whether the Government is making it better or worse. Finally, the chapter highlights the weak spots and glaring inefficiencies in the public sector, and imperatives for reforms.

"The major concern of a government ought to be to teach the people to gradually do without it."
Alexis de Tocqueville, Carnets de voyage, (1831).

Economic Map of the Public Sector

0.1 The Public Sector is: a million people employed in 35 Ministries, 50 divisions, 221 Departments, 139 Directorates and Autonomous Bodies, and 153 State Owned Enterprises (SOEs) (Annex I). The government exercises its influence in a number of ways — through central government budgetary spending and public service employment, and the production of goods and services. But it also has considerable influence through its overall policy framework, including the various macroeconomic, tax, incentive and subsidy policies, as well as through the legal and regulatory environment. In the past, the State was seen as the main lever for economic and social development. As a result, it features prominently in the economic lives of its citizen. It is also involved in an extremely disparate range of activities, many of which it monopolizes and most of which are also concurrently undertaken by the private sector. The state has an over-arching presence in:

- *Natural resources* — gas fields and forests.
- *Transport* — an airline, the railways, ports, ferry services and road transport.
- *Utilities* — power, water, oil and gas
- *Basic services* — schools, hospitals, health clinics, agricultural research stations, farm and marketing extension, and family planning and immunization programs.
- *Public services* — security, law and order, and radio and television stations.
- *Social programs* — relief and rehabilitation, rural development and vulnerable group feeding schemes.
- *Commercial production* — of goods ranging from textiles, engineering products and fertilizer to sugar, matches and paper.
- *Trading* — the importation and distribution of key commodities such as foodgrains, rice, sugar, salt, chilies, petroleum products., tires, and tubes.
- *Other activities* — from management of hotels and movie studios to car rental company

0.2 The economic dominance of the government can also be gauged from the following:

- the public sector (including SOEs) account for almost 26% of total GDP and about 69% of GDP originating in the formal sector;

- public employment, amounting to almost one million, accounts for about 20% of formal sector employment; and
- government is almost as large a lender as the commercial banks due to direct loans to SOEs amounting to about US\$5.5 billion; most of these would be classified as non-performing if international classification were used. In comparison, loans by the banking system amount to about US\$6 billion.

Proud Achievements

0.3 Since independence in 1971, Bangladesh has made remarkable progress. It has shown great resilience in the face of exogenous shocks and natural adversity, and has transformed itself from an international 'basket case' to a country which is virtually self sufficient in food, with steadily increasing standards of literacy and health. It has also had extensive infrastructure development and an outstanding growth in non-traditional exports. Bangladesh has, over the past decade, also achieved a degree of economic stability. The Government has undertaken a broad program of macroeconomic adjustment and structural reforms designed to accelerate growth, diversify the economy, and make it more outward-looking. Between 1990 and 1994, the fiscal deficit was lowered from 7.7 to 5.9 percent of GDP; the inflation rate fell from 9.3 to 1.8 percent; the current account deficit narrowed from 7.0 to 1.4 percent of GDP; and foreign exchange reserves rose from 1.9 to 8.2 months of imports.

0.4 Real GDP growth has averaged four percent per year, and most socio-economic indicators have shown improvement, with notable progress in:

- *Food production* — The country has now achieved self-sufficiency in rice. Between 1972 and 1992, as a result of better access to irrigation and fertilizer, the winter crop expanded by 75 percent.
- *Balance of payments* — This has been transformed by the growth of workers' remittances and the expansion of non-

traditional exports. Bangladesh is now a major world exporter of garments.

- *Population* — The success of family planning programs has contributed to a fall in the fertility rate from over seven to just over four, leading to a fall in the population growth rate from almost 2.7 percent in the 1970s to 2 percent today.
- *Infant mortality* — Public health initiatives, such as the Expanded Program for Immunization, raised the proportion of fully immunized children from just two percent in 1985 to the current level of 50 percent. As a result, infant mortality has fallen about 40 percent.
- *Water supply* — The provision of 860,000 tubewells through the rural water supply program, and the installation of another one million tube-wells by the private sector, have dramatically improved access to clean water.
- *Educational enrollment* — Over the last fifteen years, primary school enrollment has increased from 34 to 86 percent with a virtual doubling of the female enrollment rate.

0.5 Bangladesh has reason to be proud and optimistic. But deep seated institutional problems remain unresolved. As a result, the government's performance in providing key public goods is not only unsatisfactory at the current levels of provision but not geared to meet the challenges of the future. To most informed observers, the overall standard of public services in Bangladesh is very poor. This is partly a reflection of the country's poverty and the correspondingly low per capita budgetary expenditures on key government services. Total state spending on the health sector, for example, is currently of the order of 1.5 percent of GDP, but this amounts only to about \$2 per capita. However, the fact that the GOB has very limited resources at its disposal — even when assistance from external donors is factored in — is not enough to account for the shortcomings in the provision of public services. The three client surveys, discussed in the following sections, clearly suggest that, in

absolute or relative terms, most government agencies provide poor value for money. These shortcomings are also borne out by comparisons with the NGOs and private sector in Bangladesh, and with many public agencies abroad.

Public Sector -- A View from Below

“The State is simultaneously omnipresent and virtually absent. Whatever the citizen wants to do is controlled by overbearing or indifferent officials. But when roads are broken, tyranny of minority (e.g., unionized labor) needs to be curbed, people are ill or need protection, the State is absent.”

“Citizens own their government, but private businesses they do not own work much harder to cater to their needs.”

0.6 The commonly held view among Bangladeshi citizens, public servants and politicians is that there are thousands of dedicated, talented and responsible public servants. However, the output and functioning of government, as shaped by political leadership, vested interests, laws and regulations, and collective behavior of public servants, is far from satisfactory. Government is seen as

- *Preoccupied with process.* It is more concerned with rules and processes, paying less attention to the outcome of its actions. This makes it difficult to meet the real needs of its citizens for better quality services.
- *Too pervasive.* It is still doing things that others could do better. The Government is admittedly taking steps to divest itself of some of these functions, but is doing so too slowly.
- *Too centralized.* Rural communities account for the bulk of the population, yet there is no effective local government with the capacity and resources to provide them with public services. Moreover, many centrally-provided services are selective in their coverage and do not reach the poor.

- *Overly bureaucratic.* The colonial legacy and the natural conservatism of the Civil Service have combined to produce an administrative culture that is inappropriate to the needs of a modern economy.
- *Too discretionary in governance.* The extensive structure of regulatory controls is vague and discretionary, promoting both corruption and rent-seeking. Also, the legal framework is archaic, while the judiciary is both overloaded and deficient -- adding to business transaction costs.
- *Unaccountable and Unresponsive.* Public servants are not held individually accountable for poor performance or delayed decisions. Government programs are inadequately scrutinized for overall efficiency, appropriateness, or cost effectiveness. Only a small number of public servants view responsiveness to citizens as a fundamental obligation. Governance is too personalized and decisions get taken only after personal intervention.
- *Wasteful,* with waste marbled throughout and embedded in the very way it does business. It is employees on idle, working at half-speed or barely working at all. It is people working hard at tasks that should not be done, following regulations that should never have been written, filling out forms that should never have been printed.
- *Institution to be avoided.* Most citizens perceive government institutions as coercive, and government functionaries as “rent-seekers” to be avoided.

0.7 ***The Citizen’s View:*** While the views of informed observers are well documented in many studies, it is important to document more systematically the extent to which public services actually meet the public’s needs. Consequently, in preparing this Report, a broad *Users’ Survey* was undertaken to gain a users’ perspective or ‘view from below’ of the state of public services — perhaps for the first time in Bangladesh. Its primary aims were to assess the level of user

satisfaction with important public services, the performance of alternative service delivery structures, and the problems encountered by citizens in obtaining GOB services. The survey (conducted in the fourth quarter of 1994), covered 1,560 households in a total of 20 *thanas* across the country. The sample frame was split between rural and urban respondents, broadly in

proportion to the population distribution with an equal number of male and female respondents.¹ The sample was drawn in such a manner that the estimates are representative at both national and rural-urban levels. The questionnaire consisted of general questions relating to the demographic profile of the respondent and 52 questions dealing with public services ranging from primary education to inland water transport.² The survey also collected information on alternative providers of services to get a comparative assessment. Before beginning the actual survey, a pilot survey was carried out on 50 respondents, and these results were used to structure the main questionnaire. The latter was based primarily on multiple-choice questions, but was not completely closed-ended. For example, it provided for acceptance of "other" reasons for dissatisfaction which were subsequently coded and analyzed.

¹ Centers were randomly selected from across the country, with a multi-stage stratified and systematic sampling technique used in selecting respondents.

² The other service areas covered were: primary health care/immunization; secondary education; water supply; animal husbandry/veterinary care; poultry rearing; pisciculture; banking; electricity; road transport and telephones.

0.8 The findings of the survey are represented in Box 1.1. In interpreting these findings one caveat is in order. The Bangladeshi public, particularly in the rural areas, knows little or nothing of the concept of a 'contract' existing between the Government and its citizens. This means they are less likely to assert their rights; the

'recipient' or 'beneficiary' tends to be shy of critically evaluating public services. They are also fearful of complaining (Para 1.14). Thus, their absolute level of satisfaction is likely to be overstated.

Box 1.1 Citizen's Views on Access and Quality

Health Care:

- Government-provided services play a minor role. Only 18% and 26% of the population in urban and rural areas, respectively, use these services. Almost half of the rural population visited quacks and village doctors.
- Satisfaction levels were highest for private care, followed by quacks and village doctors, and publicly-run facilities. On a scale of 1-5, the mean scores were 3.8, 3.4 and 3.1, respectively. The main reasons for dissatisfaction with government services were lack of responsiveness to the patient, absence of proper care, and extra-payment for service.

Education

- Government is the dominant provider of primary education. 50% and 72% of the school going children in urban and rural areas, respectively, attend government schools. User satisfaction level is highest for the NGO schools. On a scale of 1-5, the mean scores were 4.1 for NGO schools, 3.8 for private schools, and 3.5 for government schools.
- Private schools dominate secondary education, with 71% and 89% of urban and rural children, respectively, attending these schools. User satisfaction (on a scale of 1-5) was 3.8 and 3.6 for government and private schools, respectively.
- The main reasons for dissatisfaction with government schools were absence of responsibility to students, poor quality education, and teacher's absence. In case of private schools, the main reasons for dissatisfaction were poor quality teachers and little responsibility to pupils.

Off-Farm Extension Services

- Animal husbandry services are largely provided by the private sector (52%), and the government (43%). Over 35% of the users are dissatisfied with government services compared with 13% for the private sector.
- Poultry rearing. In the urban areas, 70% of the people received these services from the government and 34% from the private sector, as opposed to 33% and 45%, respectively, in the rural areas. Over one-third of the people getting government services were dissatisfied compared to 12% for the private sector.
- The main reason for dissatisfaction was extra-payment to receive service.

Banking

- Only 43% of the citizens were ever exposed to a bank. User satisfaction was lowest for the Krishi Bank (2.9), and highest for the Grameen Bank (4.2). Over 70% of Krishi Bank clients were dissatisfied on account of extra payments to receive loans.

Electricity

- 97% of urban and 9% of rural respondents have access to electricity. Mean satisfaction levels are low, although they are relatively higher in the rural areas. Dissatisfaction is widespread -- nearly 60% in the urban areas and nearly 40% in the rural areas. It is the result of intermittent and frequent power cuts, voltage fluctuations (urban areas), and excessive billing.

People's Needs and Expectations

- The survey also attempted to assess people's needs and expectations. Not surprisingly, the answers are straight-forward. Urbanites attach the highest priorities to: health services, safe water supply, electricity supply and primary schooling. The rural population seems to attach the highest priorities to health services, safe water and primary schooling. The survey results only restate the case for government budget expenditure priorities further shifting towards social sector development.

0.9 **Firm's View.** In addition to a survey of the common citizen, two surveys of business firms were conducted. The first was a *Business*

Environment Assessment Survey based on 219 responses from entrepreneurs of various industries including garments, textiles, food products, jute,

steel and engineering, consumer goods and trading. It assesses the impact of recent changes made to promote the private sector; in other words, it presents a relative assessment and should not be viewed as any measure of absolute performance. The second was an *Exporters' Survey* conducted through questionnaires

completed by 75 ready-made-garment manufacturers of various sizes. This survey looked at the delays faced by exporters at various stages of the production cycle. All the stages have high variations from the mean time — implying high risks and uncertainty. The major findings of these surveys are presented in Box 1.2.

Box 1.2 Bureaucratic Hassles of Doing Business in Bangladesh

The Business Environment Survey highlighted the following:

- *Responsiveness of officials* - 70 percent of the respondents did not think that government officials are more responsive to the problems and needs of the private sector now compared to five years ago. In fact, the majority believed that the services of tax authorities (Customs, Income Tax, Sales, Excise, VAT), PDB, DESA, Gas Companies, and WASA have definitely not improved during the last five years.
- *Business climate* - A majority of the respondents (57%), especially those engaged in exports, thought that the business climate was more favorable to the private sector now than five years back. However, only half of the respondents indicated that day-to-day constraints and bottlenecks facing business activities have decreased.
- *Industrial investment* - Among the reform measures, the deregulation of industrial investment does not appear to have been implemented fully. 53 percent of the respondents do not agree that it is easier to start a new business or expand an existing one now than previously.
- *Ease of Import and Exports* - Over 70 percent agreed that raw materials are now easier to import, and over two-thirds of the export-oriented firms think that it is now easier to export.

The Exporter's Survey highlighted the following:

- *Customs delays* - On average it took
 - 12 days (with a maximum of 30 days) for the exporters' imported inputs to be released through customs at the ports or airports.
 - 9 days (with a maximum of 75 days) to obtain customs clearance for exporting a shipment.
 - 7 days (with a maximum of 30 days) to complete all the documents required for exports.
- *Cost of Interaction* - A great deal of time - more than half a person-year - is needed to deal with Government agencies such as customs, port authority, tax department, EPB, and various ministries. Firms had to spend, on average, 7 percent of their sales revenue to overcome the import and export delays by government agencies. Most exporters (82 percent), employ a person specifically to deal with government agencies.
- *Duty drawback* - On average it takes 58 days with a maximum of 120 days, and 6 percent additional expenditure, to get a refund cheque from the Duty Exemption and Drawback Office.
- *Lost orders* - 73 percent of the exporters have lost export orders at some point.
- *Causes of delay* - The most important reasons cited for delays in meeting deadlines for shipment were hartals or labor strikes, customs clearance, power failures, delays by fabric suppliers, and delays at ports.
- *Bonded Warehouses* - Nearly half of the Special Bonded Warehouse users indicated that their experience with the customs authority was not satisfactory.
- *Export Institutions* - Although 52 percent of the exporters received direct assistance from the Export Promotion Bureau (EPB) during the preceding twelve months, 76 percent of them think that EPB would function better if it were managed by the private sector.

0.10 The customers' score card reveals poor coverage and low satisfaction with some of the most essential services. Beneficiaries would be surprised to find out the cost of these programs compared with their own evaluation of the benefits obtained. Also, contrary to common belief, in many of the 'core' service areas, the private sector and NGOs are the major providers of services; as expected, they also score higher in terms of customer satisfaction. By contrast, Government monopolies incur colossal losses, ostensibly in the 'public interest', and provide inadequate, unreliable and poor quality services. Despite the stated policy to promote private sector export-led growth, the costs of dealing with public institutions remain major stumbling-blocks. Even promotional agencies are hamstrung by bureaucratic procedures.

0.11 The inadequacies of GOB services reflect not only resource constraints, but also deep-seated organizational problems and procedural flaws. They suffer from poor management, a lack of transparency, weak monitoring and accountability, and generally operate free from the competitive pressures of the marketplace. Public service should be concerned with what the customer wants, rather than what the provider is prepared to give; regrettably, the GOB agencies do not view their activities from this perspective. The large majority of government agencies do not appear to have any commitment to, or even acknowledgement of, the principle of ultimate responsibility to the taxpayers and the users.

0.12 Ordinary citizens have no expectation of assistance or cooperation, or even polite behavior, from government officials. The vast majority of people in Bangladesh are severely handicapped in their dealings with the bureaucracy by their illiteracy and lack of knowledge of their rights as citizens. Women — particularly those who are poor and uneducated — are at an even greater disadvantage in gaining access to services controlled by a male-dominated bureaucracy. People in Bangladesh are acutely aware of their vulnerability to the whims and caprices of civil servants -- the penalty for complaint is a disconnected phone line, excessive billing, or harassment by local police officials. Indeed most

individuals are humbly appreciative, albeit somewhat bewildered, when GOB officials do not arbitrarily delay or obstruct. When taxpayers without special clout are fortunate enough to receive the state services to which they are entitled, they are given the impression they have received a favor from the civil servants involved. They know that there is little chance of redressing bureaucratic injustices through legal or administrative procedures.³ In short, ordinary taxpayers in Bangladesh have no sense of a right to services or, indeed, of ownership of the government for which they pay.

0.13 What is puzzling is the low level of public protest at the inefficiency of government. This is reflected in, among other things, the absence of any direct reference to this issue in the political platforms of the major parties. Anecdotal evidence certainly suggests that people are increasingly dissatisfied with public agencies in Bangladesh, with the utilities sector providing perhaps the most glaring and unquestioned example of poor performance. In general, the widespread exasperation with inefficient government has not been translated into public protest, as yet.

0.14 There are several possible explanations. First, and foremost is fear of the "raw" power of the state. Consumers and citizens are too scared to complain as there is little redress if the monopoly provider harasses. Second, many people have turned to alternative services, notably the private sector and NGOs, thereby lessening the pressures for public sector reform. The wealthiest and most articulate can to a large extent, by-pass the consequences of government failure in areas such as health, security and university education. The deterioration of universities, for example, may only be of limited personal concern to those who have the option of sending their children to educational institutions abroad. Thus, the people left dependent on government services are those least able to

³ Even routine administrative matters need to be facilitated through special payments ("speed money"), sometimes through middlemen called "*dalals*" (see CH 5), or "*tadbirs*" (specific requests for favorable treatment made through influential persons).

demand efficient service delivery. Third, many people seem to feel that even if there is waste, all that is being wasted is aid — which comes free. However an increasing proportion of state spending is now coming from domestic resources, so public outrage at waste and mismanagement in government may possibly increase. Fourth, there is a sense of fatalism and despondency about the prospects for improving the GOB's performance, reflecting the feeling of the majority of people that they cannot effect meaningful change.

Continuing Inefficiencies -- A Look from Above

0.15 The citizen's dismal view of the Government is corroborated by the evidence from the aggregate picture. A few examples of these are discussed below.

0.16 **The Government's performance continues to be woefully inadequate in terms of the level, quality and timeliness of its public investment program.** Despite the availability of concessional funds, public investment continues to be at extremely low levels of 8-9% of GDP, and several years delays in project completion are common; this is due to the weak implementation capacity of public institutions and the absence of an adequate accountability regime. Also, Government's capacity and ability to establish an effective enabling framework for private sector development is weak, undermining private sector investments -- which have remained at low levels of 6-7% of GDP -- and growth. Overall, the poor performance of the state in regards to needed public investment and enabling environment, has become a major constraint to growth.

0.17 In addition, the impact and effectiveness of public investments have, in many sectors, been less than satisfactory. In the **Social Sectors**, despite the increasing budgetary allocations and public commitment to high-quality basic services, the cost effectiveness and quality of government provided services are poor. In the **Education Sector**, only 4% of students entering grade one complete 12 years of general education. The adult literacy rate is still only 44 percent for males and a

dismal 26 percent for females. The quality of teaching is suspect, the facilities are woefully inadequate and classes are cramped; the teacher:pupil ratio is 1:70. The average pupil-teacher contact time is a minuscule two hours per day, and it takes the average Bangladeshi child seven years to complete the primary education cycle rather than the standard five years. The secondary school subvention system is wasteful due to drop out and failure, the quality of education is low, and the present system seems to benefit largely the 300,000 unionized teachers. Only 45% of the cohort which entered grade six in 1985 completed grade 10 in 1990. University education, most of which is public, and which costs about 20 times tertiary education, is heavily subsidized; nonetheless, its impact is poor and it is beset by a multitude of problems. Technical training is also deficient, and Bangladesh is a long way from educating an adaptable, creative workforce or teaching the kind of skills in demand in the modern work-place. In the **Health sector**, the quality of health services leaves much to be desired and access is extremely poor. The 365 Thana Health Complexes are grossly under-utilized due to the poor quality of service, the lack of medicines, and the frequent absence of doctors; occupancy rate of THC's is only 55%. A recent survey⁴ shows that, in the rural areas, only 16 percent of the sick population use government-provided services, 19 percent obtain herbal, ayurvedic or unani services, and another 41 percent used private-sector allopaths.

⁴ Baseline Disease Survey 1993: Ministry of Health and Family Welfare, Directorate General of Health Services (IEDCR).

0.18 The **State-Owned Enterprises (SOEs)**, which have a dominant, and in most cases monopoly, position in *the provision of utilities and many manufactured products, continue to remain mired in inefficiency and large scale*

thefts. SOEs which produce these goods leave much to be desired in most developing countries, but those in Bangladesh are among the worst performing (Box 1.3).

Box 1.3 The Opportunity Cost of Public Sector Losses

Each year, the state-owned enterprises incur staggering losses which divert resources from the country's unfulfilled economic development needs.

In FY 92/93 alone, the combined losses of 33 SOEs (excluding the Bangladesh Petroleum Corporation, the Bangladesh Telegraph and Telephone Board, Bangladesh Railway, and financial institutions), totaled US\$418 million. The biggest money losers were the Power Development Board and the Bangladesh Jute Mills Corporation. In FY 92/93, the combined losses of all SOEs were US\$500 million - these losses stem from high system losses in the utilities, excess staffing and wastage, and the huge overhang of non-performing loans. *In FY 93, the combined losses of all SOEs amounted to 26 percent of the Annual Development Plan, 45 percent of external aid disbursements, and 2 percent of the GDP.*

The delivery of government-provided public goods like health and education also results in substantial waste. For example, due to the high drop out and repetition rates in government primary schools, those who do manage to complete their five-year primary education actually take about 7 years. That represents a loss of US\$36 million each year. Again, ordering 15 percent more than the required amount of textbooks each year costs about US\$2 million (excluding the cost of paper, which is financed by aid).

These few items represent an annual loss of about US\$540 million per year.

It may be argued that these are not total losses since the SOEs keep people employed. But this is expensive and inequitable. Maintaining each job in the SOE costs about \$4,000 per year. This is 20 times the country's average per capita income and 12 times the annual wage of a rural off-farm laborer.

These losses create serious adverse consequences for the budget. The Tk. 10.7 billion loss in FY 93/94 will continue to increase the huge existing quasi-fiscal deficit. The SOE liabilities are equivalent to 90 percent of GDP and about 10 times the annual tax revenue. Most of these debts will ultimately have to be borne by the budget and by future generations.

Because SOEs monopolize key sectors and inputs, their inefficiencies adversely affect the entire economy. Importantly, wasted resources have a very high opportunity cost. For example

:

- The US\$500m of SOE losses could enable the Grameen Bank to provide loans to about seven million additional poor people (whose repayment rate is nearly 100 percent).
- The two million dollars wasted in excess text book production could pay to fully vaccinate more than 350,000 children per year.
- The US\$500m in SOE losses was equivalent to over twice the realized development expenditures on education, and seven times that spent on health programs, in FY 93. This amount could have increased the proportion of development expenditures on education from 0.9 to 3 percent of GDP, or that of health expenditures from 0.2 to 2.3 percent of GDP.
- *In fact, if SOE losses were eliminated, it would have been possible to construct a Jamuna Multi-Purpose Bridge every eighteen months entirely from the Government's own resources.*

Glaring examples of inefficient SOEs include, the Power Board -- which has losses of 40-45%; Chithagong Port -- whose inefficiency leads to container handling costs of about \$600 compared to \$150 in Singapore and \$250 in Colombo, and a container turnaround time of seven days compared to two in comparator ports; and Water Authorities with system losses of 50-60%. Most SOEs are overstaffed by 20-50%, with the average cost of maintaining a job amounting to about Tk54-167 thousand — about 6-20 times the per capita income. In some cases, it would be cheaper to suspend operations and pay workers to stay at home. Most SOEs do not earn any profit and are a continuous drain on the Government budget and/or the banking system, creating a huge contingent liability and a quasi-fiscal deficit. In 1993-94, 155 SOEs made total losses of Tk. 10.73 billion (12 percent of the Annual Development Program and 1.2 percent of GDP). These chronic losses have so much eroded the equities of SOEs that most now have a negative net worth. They can sustain their operations only by receiving direct budget transfers or by borrowing from the nationalized commercial banks (NCBs). This, in turn, has seriously affected the performance of the banks. At the end of 1993, about 50 percent of the NCBs' lending portfolio consisted of loans to SOEs. Since a high proportion of these loans are non-performing, NCBs themselves had to be re-capitalized; during 1990-93 they were provided a total of about Tk. 51.5 billion. These public sector losses entail significant opportunity costs since these are funds that could have been used for investment in roads and bridges, or in education and health services. They could also have been used for poverty alleviation programs. Equally worrisome, the inefficiencies of the SOEs are undermining Bangladesh's export competitiveness. Above all, there is no pressure to improve performance since customers are virtually 'captive' to the SOEs -- customers cannot "walk-away."

Imperatives for Reform

0.19 The stellar performance in reducing population growth, increasing rice production and exports of garments, and achievements on the

fiscal and foreign reserves front, would make Bangladesh the envy of the majority of low and middle income countries. But this is looking at Bangladesh from the wrong end of the telescope. Incomes in Bangladesh have been growing slowly and most people remain mired in poverty — annual per capita income is only US\$220 (1994). The population density is among the highest in the world at 800 persons per square kilometer, the adult literacy rate is only 35 percent (1993), and the morbidity rate remains high at over 11 per thousand. Malnutrition is rife, and the 'hard-core' poor — those consuming less than three-quarters of the minimum recommended 2,122 calories per day — account for one in five of the population. Even larger numbers live close to the edge of destitution, and are regularly pushed over it by natural disasters such as cyclones and floods. For these people, bypassed by much of the economic progress that has taken place, and often unable to gain access to the limited services provided by the State, current trends hold out little hope of a brighter future.

0.20 Most people have no access to basic public services. The coverage is woefully inadequate and of poor quality. *Electricity* is available to only 15 percent of the population; *telephone access* is two per thousand (one of the lowest rates in the world); the *primary education* completion rate is just 40 percent; access to *sanitary latrines* in rural areas is only 26 percent; and *health care services* are of poor quality and limited scale. This is reflected in a life expectancy of only 57 years and an infant mortality rate of 91 per thousand live births. Currently, 15 million children between ages six and ten are enrolled in primary schools. The challenge for the future is even more onerous, as over the next decade there will be some 17 million school-going children and 23 million out-of-school children, adolescents and adults. Despite the gains in immunization and fertility rates, infant mortality and morbidity rates are still unacceptably high, and the unfinished health agenda is gigantic.

0.21 The problems posed by the poor state of public services are accentuated by the rapid growth

in demand. Bangladesh has one of the fastest urbanization rates in the world — the urban population soared from six million in 1974 to 22 million in 1991. This places enormous strains on already hard-pressed urban systems, particularly on the electricity, water, sanitation, telephone, and education sectors. Improvement in the near-term has been clouded, not only by a relative lack of investment resources, but also by a perceptible deterioration in the public sector's capacity to manage such investment.

0.22 *Bangladesh is a country with considerable potential that is trapped in a low investment and a low growth cycle.* Growth has been modest and efficiency gains small. If performance remains static, avoiding an increase in the number of poor people will itself be difficult. But if the Government is to raise its sights still further and aim to reduce poverty in a significant way, it will require much greater public and private investment in the social, infrastructure and productive sectors. Much higher levels of economic growth are also necessary: over a period of 15 to 20 years, the country must have sustained growth rates of 7-8 percent.

0.23 There is now clear worldwide evidence on the significant and positive correlation between the quality of public institutions and economic growth. *Public institutions shape the economy as well as reverse it, and a sine qua non for achieving sustained and equitable growth is a highly efficient and effective government and governance.* In Bangladesh, it is also becoming increasingly clear that the inability to get out of the low growth trap is largely due to weak implementation capacity and quality of public institutions. Other contributing factors are the Government's inability to plan and manage key reforms, and its pervasive presence in managing economic activities at the micro-level. There is a broad consensus in Bangladesh that the present public sector, in terms of structures, incentives and mind-set, is becoming more and more incapable of shaping the future; it is too busy coping with immediate crises to take on the task of accelerating growth or anticipating the opportunities and challenges of the future.

Indeed, the machinery of the state appears to have deteriorated in efficiency and effectiveness.

0.24 The negative aspects of the Bangladesh public sector are: (i) a state apparatus which extends beyond the core functions of the state. A large part of the GOB is engaged in activities it should not be, and direct public sector interventions has created market distortions and crowded out private sector productive activity; (ii) a disabled economic environment with an intricate web of discretionary and disruptive regulations; (iii) a non-transparent system which is replete with unpredictable and surreptitious decision making on policy and operational aspects, and weak accountability; (iv) an oversized, complex and nearly unmanageable bureaucracy and institutional apparatus; (v) demotivated and underpaid public employees at the senior and mid-management levels; (vi) an adversarial relationship between the public and private sectors, contributing both to a loss of credibility of public sector institutions and to obstacles to private sector growth; and (vii) overmanned SOEs with powerful public sector labor unions which have stymied efforts to reduce the massive losses by public enterprises, improve the efficiency of their operations, or privatize them.

Making Government Work Better

0.25 Countries all over the world are engaged in a shift of priorities away from state control and towards programs directly supportive of private sector activity. And voters too are demanding greater efficiency in the delivery of public services. As a result, a number of industrial and reforming countries are engaged in extensive programs to 'reinvent government'; a recent comprehensive initiative is being undertaken in the US (Box 1.4). Malaysia has undertaken comprehensive reforms over the last decade (Box 1.5). New Zealand undertook a sequence of radical institutional reforms that sought to completely redefine the role and revamp the functioning of government (Box 1.6). These reforms are aimed at improving service delivery, increasing responsiveness to taxpayers, and placing greater reliance on private agents for delivering of public services.

Box 1.4 U.S. Federal Government: Making it Work Better

“...We can no longer afford to pay more for - and get less from - our Government. The answer for every problem cannot always be another program or more money. It is time to radically change the way Government operates - to shift from top-down bureaucracy to entrepreneurial Government that empowers citizens and communities to change our country from the bottom up. We must reward the people and ideas that work and get rid of those that don't”, President Clinton, Vice President Gore, Putting People First.

Soon after coming into office, President Clinton appointed Vice President Al Gore to head the National Performance Review, and instructed him to produce a report in six months. Within the deadline, a report, *From Red Tape to Results: Creating a Government That Works Better and Costs Less*, was submitted to the President.

1. The Report focused on “how” to make government work better and cost less. The report identified four major goals for a “reinvented government:”

Cutting red tape

- Streamlining the budget process
- Decentralizing personnel policy
- Streamlining procurement
- Reorienting the inspectors general
- Eliminating regulatory overkill
- Empowering state and local government

Putting customers first

- Giving customers a voice -- and a choice
- Making service organizations compete
- Creating market dynamics
- Using market mechanisms to solve problems

Empowering employees to get results

- Decentralizing decision-making power
- Hold all federal employees accountable for results
- Giving federal workers the tools they need to do their jobs
- Enhancing the quality of worklife
- Forming a labor-management partnership
- Exert leadership

Cutting back to basics

- Eliminate what we don't need
- Collecting more
- Investing in greater productivity
- Re-engineering programs to cut costs

2. The report made recommendations for each major agency and for government-wide systems, and task forces were established, on the following:

- Creating Quality Leadership and Management
- Streamlining Management Control
- Transforming Organizational Structures
- Improving Customer Service
- Mission-driven, Results-Oriented Budgeting
- Improving Financial Management
- Reinventing Human Resource Management
- Reinventing Federal Procurement
- Reinventing Support Services
- Re-engineering Through Information Technology
- Rethinking Program Design
- Strengthening the Partnership in Intergovernmental Service Delivery
- Reinventing Environmental Management
- Improving Regulatory Systems

Subsequently, each task force published a separate report on their agency or government-wide system.

Box 1.5 Malaysia: Improving the Public Service

One of the key elements which ensured Malaysia's economic progress has been its highly efficient, responsive and ethically motivated civil service. The country's political leadership recognized the critical development role of an efficient bureaucracy and took several initiatives over the last decade, to reform its civil service. In 1986, Malaysia set up a **Panel on Administrative Improvements to the Civil Service** (PANEL) made up of the highest level of civil servants, to act as a think tank for administrative reforms. In addition, it established the **Administrative Modernization and Management Planning Unit** (MAMPU) in the PM's office to operationalize reforms and monitor implementation. The establishment of the PANEL and MAMPU enabled a more systematic, coordinated and effective approach in identifying, implementing and monitoring administrative improvements. These include:

Institutional Restructuring:

The Key restructuring feature of the Malaysian Public Service Reform has been the Malaysia Incorporated concept; a framework where public and private sectors act in unison as business partners forging ahead in a competitive global market. This nexus is fostered by two consultative panels- **Malaysian Business Council** chaired by the Prime Minister and **Malaysia Incorporated Panel**, chaired by the Chief Secretary, comprising agencies like Ministry of Finance, Ministry of International Trade, which holds regular meetings with private sector to identify and discuss problems. Key agencies like Trade and Finance, Infrastructure Development are being developed as "frontier" organizations to be in the forefront of economic development and to undertake catalytic activities in expansion of market intelligence, global marketing, and similar other activities.

Personnel Management

Important changes included: new salary system which links salary system to performance; establishment of "Critical Services" group with its own incentive system to attract and retain highly qualified staff in short supply; allowing financially viable SOEs to determine their own remuneration system.

Productivity and Quality Management:

To make the civil service more customer-oriented, a Total Quality Management Program has been introduced, comprising: Prime Minister's Quality Award; Quality Suggestion System for civil servants to suggest improvement in quality of service; Quality Process System that requires an agency to identify the ways of providing an output; Quality Inspection System to ensure agency compliance with pre-set standards; Quality Slogans like 'customer comes first'; Quality Feedback System that develops mechanism to monitor customer satisfaction; Quality Day to celebrate success and set up new standards for the future; Quality Information System provides for customer information through issue of pamphlets. Specific guidelines have been developed and are vigorously enforced.

Improvement of Counter Services in Government Department.

Recognizing that Counter Services (such as licensing permits, passports, identity cards, citizenship certificates, marriage certificates and revenue collection) link Government agencies and citizens and that inefficiency and unresponsiveness in these project a bad image of the Government., a major improvement program was initiated comprising: proper selection of counter staff; recognition plaques for high performing staff; department mottos and slogans; better systems and procedures; queuing system; Computer On-line System; Directional signs and sign boards.

Internalizing Core Values:

In recognition of the positive impact a good civil service value system can have on the morale and functioning of the bureaucracy, the GOM published in 1991 a book entitled Values and Ethics of Public Service which elaborates the core values that civil servants must cultivate. Furthermore, to ensure accountability, a Work Action Form has been introduced which monitors file movement and easily identifies location of files and the officers involved in undue delay in action.

Accountability and Financial Management Improvement

Actions to improve accountability included: Better management of Government Assets, through new categorization and definition of government assets and new forms for record keeping; establishment of an Expenditure Control Unit/Public Accounts Committee; Improvements to the Financial Management Infrastructure; Modified Budgeting System (MBS).

Implementation Strategy

The five key elements of the implementation strategy were:

- **Consensus building** through open discussions proposed reforms at meetings of three major standing committees of Secretaries of Ministries, Heads of departments, Chief Executives of Statutory Authorities.
- **Dissemination** through, guidebooks, pamphlets, etc. of management concepts and innovations in public sector.
- **Training** programs to impart knowledge and skills required to implement improvement programs.
- **Monitoring** reforms by frequent field visits by top officials, and PM's Inspectorate Unit, and
- **Public recognition** of outstanding contributions by public servants through the introduction of national awards

Factors Contributing to Success

The key factors were:

- **Commitment of top political leadership.**
- **Institutional Mechanisms (PANEL, MAMPU) for Planning, Coordinating and Implementing Change.**

Box 1.6 New Zealand: Redefining Role of Government

Faced with a severe economic crisis and a heavily interventionist state not dissimilar from former Eastern Europe centrally-planned economies, the Government of New Zealand undertook a sequence of radical institutional reforms that sought to completely redefine the role and revamp the functioning of government. The reforms proceeded in four general stages as embodied in:

- **State Owned Enterprise Act (1986).** The SOE Act took the state out of production activities that the private sector could just as well provide competitively. The act formed the basis of the strategic focus of the reforms that followed.
- **State Sector Act (1988).** The State Sector Act abolished the permanent tenure of civil servants by putting agency heads on five year (renewable) performance contracts and granting them the authority to hire and fire employees within their jurisdiction. It also introduced the notion of splitting an agency into two or more focused business units, e.g., one as the funder/purchaser and another as the provider.
- **Public Finance Act (1989).** The Public Finance Act introduced two innovations: (i), it enhanced the transparency of public financial statements by requiring that all such statements be put on an accrual accounting basis, and (ii) it improved accountability by mandating that any given appropriation must be linked to one of seven categories, the main one being outputs. The first made individual agency statements comprehensible to other agencies as well as to the business community. The second created incentives for each agency to clearly specify the outputs that it planned to provide during the fiscal year for which it could then be held accountable for.
- **Fiscal Responsibility Act (1993).** The Fiscal Responsibility Act enhanced the transparency and accountability of the government for aggregate fiscal discipline through full and frequent disclosure of aggregate fiscal information and benchmarking actual performance vis-a-vis published aggregate fiscal objectives.

0.26 Past Reform Initiatives in Bangladesh.

The GOB and donors have also made numerous attempts to improve public administration, but the scope and impact has been limited (Annex II). There were two main reasons for this. First, there was no real political will to sustain the difficult and complicated process of adjustment. Too many vested interests were opposed to the recommended reforms and no one in a strong leadership position came forward to champion the reforms. Second, the reforms dealt with specific civil service procedural problems rather than tackling the structural issues underlying the growth of inefficiency. The Four Secretaries Report (FSR), which was more comprehensive than past efforts, has made many excellent recommendations on civil service personnel management, performance based accountability and improving the quality of services (Annex II).

0.27 This report recognizes the main recommendations of the previous work, particularly the FSR, but is very different from them. All previous reports not only took for granted the present role of the state, but also neglected to address the issues of regulatory pervasiveness in Bangladesh and the lessons of successful provision of public goods. By contrast,

this report takes a more heterodox approach by, first and foremost, challenging the “interventionist” role of government. It takes a wide-angle view of the state, and calls for a dramatic shift in the nature of governance which is intended to stimulate discussion on the possibilities for improvement. But this shift will only come about with the support of a broad coalition of groups, including political leaders, consumers, taxpayers, private business and civil servants. The public attitude towards economic governance — increasingly articulated in the media — is changing from resignation to the realization that things can be drastically improved. A willingness is now needed to translate this growing disaffection into a concrete program of change.

Analytical Framework and Structure of Report

0.28 Improving efficiency of any large organization is a daunting challenge. Reforming government is a long, painstaking and torturous task requiring changes in processes, institutional culture, incentive structures, and organizational re-engineering, all of which cannot be analyzed or covered in a single report. Six core areas are essential to making government work better.

- First and foremost, is redefinition of the level and nature of participation by state institutions in many of the activities they are currently engaged. An overstretched government cannot be efficient.
- Second, are the principal-agent relationships, institutional structures, and processes that shape the incentives and competitive pressures within the public agencies.
- Third, is enhancing government accountability and responsiveness to the public.
- Fourth, are the regulations, laws, and processes through which government interacts, and governs citizens and the private sector. Transparency, fairness and automaticity of the legal and regulatory institutions and policies have a major bearing on the efficiency of government.
- Fifth, are the rules and processes by which government conducts its policy and decision making functions. Sound policy formulation, effective implementation, and speedy and transparent decision making are hallmarks of an efficient government.
- Finally, an efficient, committed and professional public servant is necessary for improving economic governance.

0.29 The report focuses on the above six themes. It argues that phased, but comprehensive, initiatives are needed to bring about a paradigm shift in economic governance. The emphasis is on improving quality of government, which is inextricably linked with the issue of quantity. While the agenda is ambitious, the report is an overview report and not envisaged as the last and final word on improving economic governance in Bangladesh.

0.30 The Report is grounded on Bangladesh's own experience. Case studies were undertaken for eight successful public sector programs and projects, to learn about lessons of success and six major government activities to test the rationale behind continued public sector involvement. Last,

but not least, the findings of the Report were substantiated by specialized surveys: (i) a user's perspective of the state of public services; (ii) a content analysis of newspapers to ascertain the consistency of government policy pronouncements; (iii) a survey of businessmen to get their views on the impact of recent policy reforms; (iv) a questionnaire administered to 40 senior civil servants to obtain an 'insider's view' of the reasons behind the slow decision-making process. The Report comprises the following chapters:

- Chapter 2 looks at the rationale for government intervention, to help policy makers reduce the size of the state. It provides a conceptual framework and basic principles to enable government to make informed choices between the roles of markets and government, in general, and between imperfect markets and imperfect governments, in particular. Based on analysis of cases, the chapter derives lessons about the relevance of government intervention: is it necessary and justifiable, or are there areas where intervention is not supported by any overriding economic or social reasons.
- Chapter 3 identifies the best practices and examples -- organizational arrangements, incentives, consumer choice, competition, private provision of public goods -- where the government, directly or as funder of services, has done a good job. Several cases were reviewed, using principles of institutional economics and organizational management, to identify lessons and rules of governance which could, and should, be replicated in other parts of government to improve cost-effectiveness and quality of service delivery.
- Chapter 4 reviews the institutions and systems of public accountability in Bangladesh. It also addresses the absence of responsiveness to users.
- Chapter 5 reviews the nature and application of the regulatory regime, and the major weaknesses in the legal framework and institutions. It identifies the key areas of reform to improve the enabling environment

for private sector development, reduce the day-to-day hassles and costs faced by ordinary citizen on account of a vague and discretionary regulations through which citizens interface with the state.

- Chapter 6 analyzes the policy and decision making processes and rules, and highlights the key measures necessary to establish a sound and effective policy environment and to expedite decision making within government.
- Chapter 7 focuses on how the government manages its human resources. It analyzes the weakness in the key areas of personnel management -- compensation, recruitment, skill development, promotion, etc. -- which are undermining the ability of the government to work efficiently, or at all, in some cases. It underscores the importance, and appropriate reform measures, of attracting and retaining the best and the brightest to manage the business of government.
- Chapter 8, sums it all up, and attempts to identify what it would take to bring about a paradigm shift, to a new state, which would be a minimalist and responsive bureaucracy committed to providing citizen's better value for their taxes and geared to nurturing markets and facilitating private sector activities.

0.31 The agenda proposed in this report is based on principles already adopted by reforming governments of widely different political views. The changes required are practical ones, and should be acceptable to governments of any political complexion. **All democratic regimes should welcome reforms which strengthen public accountability and improve the quality of government services.**

MUSHROOMING GOVERNMENT --

This chapter explores the rationales commonly offered for public intervention in the economy. It then examines case studies of several government agencies to see how well these rationales fare. Finally it considers some of the options for change — from unbundling to complete privatization.

“... But our fundamental problem today is not too much government or too little government. Our fundamental problem is that we have the wrong kind of government ...”, Vice President Gore, Creating a Government that Works Better and Costs Less. (1992)

“... where selective interventions succeeded they did so because of three essential prerequisites. First, they addressed problems in the functioning of markets. Second, they took place within the context of good, fundamental policies. Third, their success depended on the ability of governments to establish and monitor appropriate economic-performance criteria related to the interventions ...”, Lewis T. Preston in the foreword to The East Asian Miracle, (1993)

The Growth in Government

0.1 Since independence, the Government has virtually doubled the numbers of ministries, departments and officials (tables 2.1 and 2.2). New ministries, divisions and departments have been created to meet emerging needs such as environmental concerns and women's issues. The state also spread its wings more and more into commercial economic activities. This growth has been stimulated, in part by political consideration. The increase in ministries accommodated more intra-party groups and offered more ministerial positions — and of course, also created more jobs to be dispensed by political leaders. The number of ministries in Bangladesh (35), is large in comparison to many other countries such as Malaysia (24), South Korea (25), Thailand (14), Japan (14), UK (16).

Table 2.1 Growth in Ministries

Year	No. of Ministries	No. of Divisions	No. of Auton. Bodies	No. of Departments & Directorates
1972	21	N/A	N/A	N/A
1975	20	N/A	N/A	N/A
1980	32	N/A	N/A	109/a
1982	18	44	109	181
1985	26	N/A	N/A	N/A
1994	35	49	139	221

Table 2.2 Employment Growth in the Civil Service

	1971	1982	1986	1992	Annual Compound Rate of Increase
Total	454,450	779,000	1,072,854	946,749	3.56%

0.2 As table 2.2 confirms, there has been a doubling in the overall numbers of civil servants. Employment in the public sector increased from 454,450 in 1971 to almost one million in 1992, i.e., at an annual compounded rate of 3.6 percent, compared to the population growth rate in the same period of over 2.5 percent. However, even this figure understates the real number since it does not include defense services, and officers and support staff engaged under the Annual Development Program. Nor does it include temporary workers employed under the revenue budget in contingency posts: for example those employed by the Public Works and Agriculture and Forestry Departments. Rough estimates indicate that all the above staff would add to about 200-250 thousand. In 1992, ministries and divisions accounted for only about 1 percent of total public sector employees. The remainder were employed by departments and directorates (69 percent), and autonomous bodies and corporations (30 percent)

0.3 Though all bureaucracies respond to changing priorities, in Bangladesh the changes have, regrettably, been unidirectional. The usual practice has been to create a new ministry, division or department due to changed circumstances. But a concomitant shedding of some lower priority responsibilities or any attempt to eliminate redundancy has been absent. Aside from its budgetary impact, this expansion has stretched implementation capacity, compounded coordination problems, and exacerbated regulatory intrusiveness. Above all, it has created vested interest groups which have blocked efforts at rationalization and reform. In many instances it is performing tasks that are not useful or could be more cost effectively provided by the private

sector. A poignant example is running unprofitable textile mills and also having a full fledged Ministry and Department of Textiles. Unfortunately, examples like this abound.

0.4 In fiscal terms, the cost of running the government is not far out of line with other comparator countries. Table 2.3 shows the wage and salaries bill and current expenditures (as % of GDP) over the last decade. While these expenditures have increased about 40% over the last decade, from about 3.0% of GDP in 1985/86 to about 4.2% in 1994/95, they are comparable to countries at similar economic development levels. This “reasonable” cost to the taxpayer of running the government should, however, not be taken as a source of comfort. What matters is the value the taxpayer gets in return and their perception of “big” government. Korean and Singaporean governments costs (as % of GDP) their citizens about as much as the Bangladesh government, however the efficiency and quality of the State in those two countries is far superior to Bangladesh. Similarly, while cost of the GOB is reasonable, most private citizens and many public officials and politicians believe that the Government is too large in the sense that it is over extended, possesses too many agencies and departments, and is charged with too broad a span of responsibilities. This bloated state is neither cost effective nor efficient. It is also too large in the narrow sense of employing redundant workers. Also, when the state becomes the primary source of wealth building, wealth seeking becomes a major preoccupation for some political and economic managers. Consequently, the debate about 'the right size of government' is now beginning to emerge as a major area of interest among the public.

Table 2.3 Trends in Compensation Costs for Government Employees
(Billion Takas)

	1985-86	1989-90	1993-94	1994-95
Pay and Allowances	13.36	26.5	40.5	41.9
Pension and Retirement	0.75	1.7	4.7	5.6
Total Compensation	14.11	28.2	45.2	47.5
Revenue Expenditure	34.21	67.4	92.0	103.0
GDP (Current Prices	486.00	738.0	1035.0	1138.0
Ratios				
Wage Bill/Rev. Expen. %	41.00	42.0	49.0	46.0
Wage Bill/GDP %	3.03	3.8	4.4	4.2
Revenue Expend./GDP %	7.34	9.14	8.89	9.05

Rationale for State Intervention: Public and Private Goods

"... What is common to many is least taken care of: for all men have greater regard for what is their own than for what they possess in common with others..." (Aristotle).

0.5 This section examines the rationale of direct government intervention in the economy, with special reference to case studies of a half-dozen GOB agencies. These agencies were selected because they represented the range of justifications used to support public intervention. They also have extensive contact with the public. The analysis below will highlight the urgency for a systematic review of the need for public intervention in its current form. It should also provide some general guidelines for evaluating of individual GOB agencies and programs.

0.6 Many of the traditionally accepted functions of government have rested on the

distinction between public and private goods⁵. Public goods are those where the activity and the benefits, by definition, cover the nation as a whole. These include, for example, maintaining national defense, protecting the natural environment, and establishing and enforcing the country's legislative framework. Public goods are generally the Government's prerogative and it takes responsibility for ensuring their delivery. At the other end of the scale are goods which are considered to be purely private — from clothing to cigarettes to housing — which are produced and consumed in response to individual choices, and where the benefits accrue to individual users. But the boundary between public and private is not clear. There is a large 'gray' area of goods such as education or health or railways, where investment bears dividends for the country as a whole, yet the benefits accrue, often unequally, to individuals. In most countries, the disputes over

⁵ See: *The Demand and Supply of Public Goods*, Buchanan, J.M., Rand-McNally, Chicago (1968).

public provision are generally fought in this gray area of 'quasi-public' goods. In Bangladesh, however, the Government has come to occupy, not just the public area, but also virtually all of the gray area. It also has encroached significantly into what might usually be considered purely private territory. Much of the growth of Government in Bangladesh, and elsewhere, has resulted from decisions to provide private services at public expense.

0.7 Overlaid on the distinction between public and private goods is a further distinction between finance and delivery. Because the Government takes responsibility for paying for something does not mean that it must also produce it. Thus if the public needs a new clinic, Government can contract a construction company to build it. By the same token, it can also contract a private agency or an NGO to work in that clinic to deliver health services. The degree to which a government itself provides services varies greatly from one country to another. But by international standards, the public sector in Bangladesh is very heavily engaged in the actual delivery of services. And one of the main arguments of this Report is that the delivery of public and quasi-public goods could be improved and made more responsive to consumers by separating funding from provision.

0.8 Many state activities are historical legacies which do not reflect current spending priorities. They actually remain in place, either as a result of oversight or a build-up of private interests for their retention (some within the executing agency). However, almost all agencies can produce some rationalization of which four are the most commonly used:

- *Market failure* — for reasons related to technical factors, scale, or imperfect information, the private sector is unable or unwilling to provide socially optimal quantities of a particular good or service.⁶ This includes failing to account for adverse environmental impacts.

⁶ The various aspects of market failure include: decreasing costs of production; imperfect market structure (restraining output below the socially optimum level); zero marginal cost (if resources are to be allocated in accordance with the socially-optimum pricing, the price must be zero, ruling out private commercial provision); joint consumption with non-exclusion; externalities; a lack of adequate market knowledge (which may

- *Social or equity considerations* — for reasons of social justice or social priorities, under certain circumstances, a society may wish to override the mechanisms of the competitive marketplace, and provide certain services to disadvantaged groups.

- *Strategic reasons* — these reflect national defense and security compulsions, and possibly, goals of national integration and harmony.

- *Public interest* — provision of 'pure' public goods such as health and safety regulations, and law and order.

0.9 Within the above four broad areas, some of the following are also used to justify public intervention:

- *Superior access to information* — This is based on the belief that the central government has better information and the capability to process this information;

- *Synergies from coordinated development* — This argument, popular in the era of planning for development, is still occasionally used to justify state-sponsored industrial development. It is argued that only the State can foresee the growth of the market and facilitate the lowering of costs that could result from a mutually reinforcing group of investments.

- *A broader and longer-term view* — Private agents, left to their own devices, may take myopic decisions in the interest of short-term profit — on issues such as the management of non-renewable natural resources — whereas a public interest-driven State can take a societal view.

- *Private sector support or facilitation* — this covers functions geared to promoting and facilitating private sector activity .

- *Cheaper access to finance* — Most states are less likely than private firms to default on borrowings, enjoying preferential access to financial markets, a benefit which they can pass

restrain collective risk-taking); immobility of resources; and inter-temporal allocation considerations (the conservation of natural resources).

on to SOEs through on-lending and providing loan guarantees.

The Case Studies

0.10 The following sections review the findings of seven case studies which tested GOB agencies and programs against the above rationales. Nine agencies were covered in these studies: the Bangladesh Road Transport Corporation, The Bangladesh Road Transport Authority, The Bangladesh Inland Water Transport Corporation, The Bangladesh Inland Water Transport Authority, Bangladesh Biman, the Bangladesh Petroleum Corporation, The National Curriculum and Text Book Board, the Bangladesh Rural Development Board, and the Vulnerable Group Development/Relief program.

0.11 *Road Transport.* This case study reviewed the public agency providing road transport services as well as the agency regulating this sector.

0.12 (i) *Bangladesh Road Transport Corporation (BRTC)*, currently operates about 150 buses in four major cities, and a similar number of trucks for carriage of GOB freight (allocated to the BRTC under a preferential quota system). BRTC's inter-district services were suspended in 1990 as this area now has an intensely competitive private sector. More efficient private operators have dramatically eroded BRTC's market share: in 1980, the BRTC had 10 percent of bus passengers and 7 percent of road-freight; now it has less than 2 percent of either. Although the Users' Survey (chapter 1), indicated that private services were not much better than BRTC, the standard of services of the latter is abysmal, and its cost structure high⁷ in relation to the private sector. The BRTC has run up massive losses resulting in current liabilities of about Tk 2.2 billion; over the past two years, as a result of retrenchment and leasing of buses to drivers, BRTC has started to breakeven but operating income fell well short of covering the

cost of capital.⁸ It has run down its capital stock through poor management, and suffers from inadequate maintenance and extensive pilferage: only 30 percent of its vehicles are road-worthy. Revenue collections are adversely affected by fare leakages as well as the impact of concessions provided to disadvantaged groups and students. The BRTC also provides services during national emergencies. However, no explicit budget subsidies are given to cover these fare concessions and special services.

0.13 The dominance of private road transport operators renders the rationale of market failure, used to justify the creation of the BRTC in 1961, irrelevant. The public service rationale is also untenable. Any social or equity functions could be achieved through targeted subsidies to disadvantaged groups — issuing individuals vouchers which they could use to purchase private services. Any efforts to justify further investment in the BRTC should be firmly resisted.

0.14 (ii) *The Bangladesh Road Transport Authority (BRTA)* was set up in 1987 to regulate road transport. It has a number of functions, including ensuring road safety and traffic discipline; issuing route permits to public service operators; licensing and registering vehicles; inspecting vehicles and controlling vehicle emissions; and approving passenger fares, freight tariffs and road user charges. BRTA earns over Tk 0.5 billion through the collection of registration, license and other fees. This agency has performed poorly in terms of ensuring road safety, maintenance of environmental safety standards in vehicle emissions, and checking the overloading of trucks and buses. In each of these areas, of course, much of the responsibility of enforcement lies with other agencies and there is a need for a clearer division of responsibilities with the police. Other areas of weakness are in procedures for vehicle registration (the subject of consumer complaints, despite recent improvements such as computerized print-outs of documents), and the failure to check the widespread use of fake driving licenses.

⁷ One estimate suggests that BRTC bus operation costs are 65 percent higher, and truck operation costs are 22 percent higher than the private sector. This reflects higher fuel, maintenance and personnel costs (3000 staff operate 300 vehicles). See: *Bangladesh Transport Sector Study*.

⁸ The recent improvement in performance partly reflects the retrenchment of 1500 staff and the introduction of a system under which vehicles have been leased to their drivers.

0.15 The BRTA has two intervention rationales: private sector facilitation (licensing), and public interest (road safety, pollution controls). The main issues here are whether it should remain involved in all its current activities, and whether there is scope for contracting-out some of its functions following 'unbundling' of its activities. There is a strong case for the BRTA withdrawing completely from the regulation of fares and charges. Other activities, such as vehicle emissions testing, could be left to certified private agencies (as in many parts of the United States), with a smaller streamlined BRTA retaining an oversight role. An innovative approach could be to involve citizen's groups and NGOs in enforcement of regulation on behalf of BRTA (Chapter 4).

0.16 *River Transport.* This case reviewed the public agency which operates a river fleet and the public agency which regulates river transport.

0.17 (i) *The Bangladesh Inland Water Transport Corporation (BIWTC)*, was established in 1972. It was an amalgamation of the East Pakistan Inland Water Transport Corporation and nine abandoned private enterprises which operated transport services on the country's 3,800 km network of inland waterways. The agency is supposed to operate commercially, but with 'due regard' to the public interest and in accordance with GOB guidance on matters of national interest. Many of its problems stem from the resultant blurring of the BIWTC's public service and commercial roles. Among its functions are the operation of passenger and cargo services on inland and coastal routes, ferry services, and dockyard and repair facilities. The fleet is old (resulting in high fuel costs), and in poor condition: only 283 vessels are operational, representing half the total fleet. The agency is overstaffed, with about 4,900 employees, as the decline in the number of operating vessels has not been matched by reductions in staff.⁹ In 1992/93 the BIWTC had net losses of Tk 100 million. Profits on ferry services -- a monopoly activity -- were offset by losses in other areas, of which a

⁹ These figures are for 1993. In 1987 there were 6127 staff operating 485 vessels: there has been no significant shift in the composition of the fleet since then.

deficit of Tk 38 million was accounted for by coastal operations.

0.18 The public interest rationale may have been applicable for a short time after independence when transport operations were in disarray. But in the past two decades, the argument has been weakened by the development of private sector operations which have pushed the state operator's market share below 5 percent. Only with regard to the southern and coastal districts, which remain heavily dependent on water transport, can it be argued that there is evidence of market failure. However, even on these routes, it may be more cost-effective to subsidize private operators. Other services, such as fuel tanker services and inland passenger and freight transportation, should either be privatized or commercialized.¹⁰ Finally, the public interest rationale for the agency's role in national emergencies is not applicable given the possibility of chartering private vessels.

0.19 (ii) *The Bangladesh Inland Water Transport Authority (BIWTA)* is expected to develop and control the inland waterways to facilitate the safe operation of vessels¹¹, numbering nearly one million. It performs a mix of functions, some relating to the maintenance of the waterways and others to regulation (e.g., setting maximum and minimum fares, and vessel design approval and certification). Some functions currently overlap with the Department of Shipping, particularly in the area of vessel safety, which is the primary responsibility of the latter.¹² The BIWTA earns substantial revenues (over Tk 0.2 billion), from fees and charges, but its operations are still subsidized by budgetary

¹⁰ The Shipping Minister informed Parliament that the GOB has no plans to privatize the BIWTC. See: *Daily Star*, June 27, 1995, p6.

¹¹ The forerunner of this agency, the Inland Water Transport Authority, was set up in 1958. The disparate range of BIWTA functions include: river conservancy; dredging; maintaining navigational aids; charting and pilotage surveys; operating inland port and terminal facilities; approving fares and timetables; research and training; and developing schemes for modernizing and mechanizing country boats.

¹² This overlap will be reduced with the transfer of regulatory functions to the proposed Inland Ship Safety Administration to be set up under the Department of Shipping.

transfers. The large numbers of ferry and launch accidents have created concerns about the effectiveness of the BIWTA as well as the other agencies responsible for ensuring the safety of inland water transport. Moreover, it has neglected maintenance of the navigation channels.

0.20 The public interest rationale applies to some functions of the BIWTA (e.g. river conservancy). In many areas, these waterways are the only links to the outside world and private provision of these services would be difficult to organize due to the 'free-rider' problem.¹³ However, some of its activities (e.g., operating ferries and terminals, and training) could be divested to the private sector or contracted-out under franchise arrangements.

0.21 *Bangladesh Biman*, the national airline, buoyed by strong growth in air travel demand has recently been earning profits on its operations. This appears to have led the GOB to take a sanguine view of the current condition of Biman, despite its failure to cover its capital costs. But its claims of competitive performance, particularly in view of the benefits it enjoys as the flag carrier, are certainly diminished by its receipt of large capital grants from the budget (equity transfers), and widespread customer dissatisfaction with both its domestic and external services. Biman is poorly managed, overstaffed, undercapitalized,¹⁴ and subject to excessive political interference in its day-to-day management. This becomes evident when Biman's performance is compared with a more efficient airline like Singapore Airline (SIA). Although Biman's earning ratios and load factors are comparable to the more efficient airlines, its manning and expense ratios are extremely poor in comparison. For example, Biman has more non-flying personnel, 5253, against 4047 of SIA, even though the latter's aircraft fleet is nearly ten times larger. It has 22 cockpit crew per aircraft compared to 15 for SIA. In terms of productivity, measured by

Ton:kilometer performed (TKP) per personnel, SIA is nearly ten times more productive than Biman.¹⁵ Also striking are Biman's operating expenses per TKP which are nearly 30% more than that of SIA; even though its wage cost per employee should be less than half that of the latter. Even when Biman's performance is compared to other Asian Airlines, it does poorly. Programs to strengthen management have had a palliative effect, but the major changes needed in personnel management have been avoided. Also, it has never been subject to competitive pressures in domestic air services, which partially accounts for their slow growth; it receives preferential treatment from the Civil Aviation Authority of Bangladesh (CAAB) on account of being the national carrier¹⁶. Recent measures by the CAAB to allow limited private sector operations do not go far enough. Biman remains protected on its international freight operations, also, through its "right of refusal" privileges. This has an adverse impact on the competitiveness of exports, because of poor quality (e.g. timeliness) and higher cost service.

0.22 The rationale for state participation in Biman can no longer be justified. Current strategic activities such as the transportation of civilians during the Gulf War or Bangladesh U.N. peacekeeping troops, could easily be undertaken on a commercial basis; also because of remoteness of any possible use of commercial passenger aircraft in wartime for military purpose, in a

¹⁵ Some of ratios for Biman, and other airlines are:

<u>Biman</u>	<u>SIA</u>	<u>PIA</u>	<u>Thai</u>	
<u>Industry Ave</u>				
				TKP per Personnel (000)
48	484	64	146	157
				TKP per Flying Personnel (000)
407	954	577	822	655
				Passenger per Personnel
176	681	274	443	677
				Aircraft Hours Flown/Personnel
4.37	17.45	6.24	8.57	16.89
				Operating Expenses per TKP
\$0.63	\$0.49	\$0.57	\$0.70	
\$0.91				

¹³ Until 1958, two private companies (River Steam Navigation and India General Navigation), carried out river conservancy work and developed terminal and ancillary facilities to ensure the smooth operation of their commercial services.

¹⁴ Biman has total loans outstanding of the order of Tk 8.3 billion. GOB loans to Biman are of the order of Tk 3.8 billion.

¹⁶ Under bilateral "Air Services Agreements" currently in place on many routes certain benefits (traffic/landing rights) accrue to the "designated" carrier with substantial national ownership. This type of barrier to entry is gradually being eroded. Moreover the rights to such benefits could be auctioned

country with limited airspace depth, the need for state ownership of Biman is unconvincing. Although the situation was quite different for at least a decade after independence — particularly for the domestic sector where limited demand and large scale of investment may have deterred private investment — in the current context, arguments about market failure do not apply. A large number of foreign airlines provide international services to the country and, in the domestic sector, one private airline has already entered the market and others are expected to follow. Public funds could be more purposefully used by the government in the more demanding social sectors, as against providing these to Biman or guaranteeing its loans.

0.23 The *Vulnerable Group Development/Relief Programs* (VGD). These are key elements of the GOB's efforts to ameliorate the impact of poverty by developing income-generating opportunities for the rural poor.¹⁷ The VGD program, targeted exclusively towards destitute rural women, now provides about 0.5 million women with monthly grants of wheat or rice and access to development packages (including skill-training and credit). The total cost of the VGD program is about Tk. 3.2 billion (FY 95). On the basis of available studies on the relative efficiency of GOB programs in delivering resources to the disadvantaged, the VGD program appears to be a preferable vehicle to Rural Rationing and most other programs; although the levels of “leakage” needs to be assessed in comparison with the performance¹⁸ of NGOs.

0.24 This program clearly meets the equity/social rationale test to justify GOB direct involvement in poverty alleviation efforts. Given the massive scale of the poverty problem, Government's direct support is necessary. Over time, as local government authorities and NGOs

expand their capabilities, Government's direct involvement could be reduced. What needs to be promoted in the near-term, however, is to strengthen the cost-effectiveness of GOB agencies working in this area through better monitoring, decentralization and transparency of beneficiary selection and distribution of food (Chapter 3).

0.25 The *Bangladesh Rural Development Board* (BRDB), is the largest public agency working for rural development and poverty alleviation.¹⁹ Using cooperatives and informal group networks the BRDB has sought to develop sustainable income-generating opportunities among landless and marginal farmers through credit, training and marketing programs. It has helped to form local farmers' associations called Krishi Samabay Samities (KSS), organizations of assetless individuals (Bittihin Samaby Samity), and poor women (Mahila Bittihin Samabay Samity, and Mahila Samabay Samity). These organizations have a total membership of about 3.5 million, with over three-quarters of the total represented by the KSS. While a few of BRDB's programs (e.g., RD-12 financed by CIDA), have performed as well as the successful Grameen Bank, its overall financial performance has been abysmal, and impact doubtful. At the end of 1992, total cumulative investment in the BRDB was of the order of Tk 13.3 billion, with loans outstanding of Tk 8.6 billion: loan recovery rates (1991/1992) were about 77 percent for crop loans and 20 percent for equipment loans.

0.26 The social/equity rationale for direct state intervention in BRDB is no longer applicable due to the dramatic growth over the past decade in the NGO sector, which provides similar services. In the absence of convincing evidence to the contrary, these activities should be left to the Grameen Bank, NGOs and the private sector. . Serious consideration should be given to moving all of BRDB's credit related activity to the Poverty Foundation (PKSF), and using the latter as the apex vehicle for channeling government funds to successful micro-credit institutions. A

¹⁷ The VGD program is the successor to the Vulnerable Group Feeding Program set up to meet the immediate consumption needs of the rural poor.

¹⁸ For a recent review of the cost-effectiveness of different GOB targeted poverty-alleviation programs, see: *Options for Targeting Food Interventions in Bangladesh*, USAID, Dhaka (1994). See also: *VGD Annual Report 1992/93*, WFP, Dhaka (1994)

¹⁹ The roots of the BRDB go back to the successful Comilla model of integrated rural development developed by Akhter Hamid Khan in the 1960s, which was the basis for the Integrated Rural Development Program (IRDP) of 1972. The IRDP was made permanent in the form of the BRDB in 1982.

much smaller BRDB (possibly integrated with a streamlined Department of Cooperatives — see box 2.1) could then be used to carry out auditing and monitoring functions of cooperatives.

0.27 *The Bangladesh Petroleum Corporation* (BPC), which enjoys a monopoly in the import and distribution of petroleum, is one of the few profitable SOEs, earning Tk 2.2 billion in 1994/95. However, profits result from the controlled pricing structure, rather than efficiency of operations. The BPC arranges imports, enlists coastal tankers for internal transportation, and sanctions retail dealerships. There is a widely held perception that enlistment of tankers and licensing of petrol pumps, by a monopoly supplier, has resulted in rent seeking. Prior to liberation, all these activities were in the private sector²⁰. In November 1993, the government opened up petroleum imports to the private sector, but this liberalization initiative proved short-lived and was reversed in March 1994.²¹ In this period, one private sector firm imported a tanker load of petroleum products. No convincing rationale was given for this sudden reversal; the only plausible reason could be a rearguard action by vested interests benefiting from the weakly accountable operations of the public monopoly. For example, government and public auditors have accepted, as norm, BPC's unaccounted ocean and inland shipping losses of 0.5-0.6 percent of volumetric quantity. As long as losses are below this level, BPC is not questioned. By comparison, the private importer sold a higher volumetric quantity (2.2%) than amount actually procured, on account of increase in volume due to temperature differentials between port of loading and discharge. BPC shipments most likely also

experience similar volumetric increases; and if they do, about \$10 million is unaccounted for.

0.28 The BPC's budgetary contributions are used to justify the retention of its monopoly, given the likelihood of evasion of taxes by the private sector. This argument appears spurious given the relative ease of monitoring the profitability of the small number of private operators likely to be involved in this sector, and the relatively straightforward nature of distribution operations. In any case, the inefficiency of the tax system should not be used to justify the adoption of inefficiencies in petroleum distribution. None of the common rationales for public sector intervention appear valid here. Indeed, the risks of market failure arising from price-fixing by a cartel of private firms could be easily addressed through monitoring of margins by the tax authorities or Energy Ministry, given the ease of availability of international prices of petroleum products. There appear to be private firms with the capability and interest to enter this sector and their entry would break BPC's monopoly and provide a valuable check on its relative efficiency.

0.29 *The National Curriculum and Text Book Board* (NCTB) was established as an autonomous body under the Ministry of Education in 1983 through the merger of the School Text Book Board (1954) and the National Curriculum Development Centre (1978). The NCTB is responsible for curriculum development and the annual printing and distribution of about 80 million primary text books. The production of text books is carried out by enlisted private sector presses and printers under the supervision of the NCTB. The NCTB arranges for transport and distribution of paper (provided free by external donors), for the text books and sells the printed books to the Ministry of Education (MOE), on a cost-plus basis, giving the NCTB a built-in incentive to print and distribute books in excess of requirements.²² The printing costs are negotiated each year with the Printers' Association. Initiatives to introduce an open tendering system from 1994, in conjunction with an IDA-funded project (General Education Project-1),

²⁰ Before the GOB nationalized the petroleum sector in 1972, there was one refinery at Chittagong and five marketing companies, all in the private sector. These companies had an organization called the Oil Companies Advisory Committee which determined the country's petroleum needs in consultation with the Government's Directorate of Oil Operations. The latter had responsibility for oversight of prices and the stock position to ensure that cartels did not operate to raise prices artificially.

²¹ Under the prevailing import policy (SRO number 96 - Law 94), "in case of import by the private sector, the permission is required from the Government or from an authority delegated by the Government on its behalf subject to the fulfilment of other legal conditions".

²² The NCTB earned a profit of about Tk 88 million in 1994, while the total GOB expenditure on text-book production and distribution was of the order of Tk 330 million.

encountered strenuous obstruction from vested interests.

0.30 The rationale for NCTB involvement is couched in terms of the public interest by ensuring that books, based on a common curriculum, reach the market on time. The delays experienced in 1995 suggest that the efficacy of NCTB operations should not be taken for granted. The current system lacks transparency (in rate fixation, enlistment of printers and distribution of orders) and masks inefficiencies through cost-plus pricing. The level of excess production is of the order of 16 percent, with excess books carried over from year to year leading to large storage costs. While curriculum development clearly falls in the category of “public goods”, the large number of private printers and bookstores all over the country would suggest that there does not appear to be a good reason for the NCTB or GOB to get directly involved in the production, storage and distribution of text books.

0.31 *State-owned enterprises* (SOEs). Although the report did not systematically examine the justification of each of the 155 SOEs, it can be confidently stated that few, if any, would qualify to remain in the public domain. The SOE sector is a glaring example of the cost of inefficient intervention. These public sector losses have enormous opportunity costs (Box 1.1). The money could have been much better used for roads and bridges, education and health, and programs for poverty alleviation.

0.32 The case studies were not meant to be a substitute for detailed examinations of individual sub-sectors or programs. While each program began with its own rationale, representing the intent of public officials to address a perceived need, none of the agencies should be retained in their present form. Some have become irrelevant to the original rationale, while for others the rationale seems to have changed. But, in all cases, the current forms of intervention are unjustified or inefficient.

Rightsizing Government: Promoting and Managing Change

0.33 It has been taken as axiomatic that the achievement of economic and development goals requires the state to arrange for provision of a

large variety of services. Yet, faith in the efficacy of big government and the promise of big government has not been fulfilled, either in Bangladesh or in most countries. The most common economic justification for state intervention has essentially been based upon a negative: the concept of market failure. Markets can and do fail, but it should be remembered that public sector delivery mechanisms have generally fallen short of their objectives. While markets do not work perfectly, public sector solutions to market failure have generally led to costs and risks outweighing benefits. One persuasive argument for relying on markets is that there is a reasonably good explanation of how markets work, but only a very incomplete understanding of how to manage the forces that drive public administration. Moreover, even with continuous close oversight and mechanisms to encourage good performance in public agencies, one must also consider the high risks of government failure — as well as the distorting effect that state intervention has on markets.

0.34 It is now increasingly accepted that government agencies are less likely to be efficient than their private counterparts. This is because the managers of government agencies need to satisfy a variety of sometimes conflicting goals and political pressures and may find it difficult to define efficient courses of action. They may also be less able to take major decisions quickly without reference to the controlling authority. Most importantly, managers have little incentive to perform well. This is partly because they are often protected from competitive pressures, but also because managers cannot share in the savings from increased efficiency. Moreover, the real beneficiaries - the ordinary citizens - can apply very little real pressure. Where losses are spread very thinly among citizens as individuals, they will have little incentive to spend time and resources on the formation of pressure groups to demand good performance.

0.35 At some point along the continuum between Foreign Affairs/Defense and running a car rental company (Bangladesh Parjatan Corporation), the costs of public provision starts to exceed the costs of private provision. At that point, acquiring the service from the market makes sense. Given the enormity of the tasks

involved in the social sectors, Government should retain a lead role. However, meeting the challenge would not only require a quantum leap in the quality and cost-effectiveness of government programs, but also very substantial support for delivery of services by the NGOs and the private sector. The NGOs are playing a positive role in developing innovative and cost-effective approaches and could over time be a major provider of social sector services. Even when markets fail, direct provision by public agencies may not be the best solution — it is usually better to try and resolve the market failure. In the case of capital for small-scale enterprises, for instance, markets may be absent, too few in number, or function poorly due to the lack of a proper institutional framework or to the relatively high transaction costs of assessing risk. But setting up a state agency to undertake lending of this nature, may not be cheaper than initiating longer-term solutions to the underlying problems. In other cases, as with market for clean air, the markets may be incomplete, having inadequately specified and demarcated property rights. Solutions may lie in adjusting the price and cost structure through taxes and subsidies to reflect the utilization or production of a valued commodity.

0.36 Clearly, there needs to be much more critical scrutiny of government departments and programs, re-evaluating their rationale and value for money (Box 2.1). Furthermore, efficiency enhancing elements of markets should be restored to the Public Sector. Markets do exist in the public sector, where they are misnomered for example, education system, health system, transportation system. Restructuring these markets, and the incentives that drive public institutions in these markets, should be one of the priority areas of work. This would primarily involve measures to introduce choice, and competition. Action on the latter front is particularly important as usually taxpayers pay more than they should for the quality of service, and monopolies receive funds without any direct input from their customers.

0.37 Based on experience of successful reforming countries, the following three levers of change have been key to reforms, and are recommended for Bangladesh:

- Unequivocal and sustained commitment of political leadership.
- High powered and professionally staffed institutional mechanisms to conceive reforms, operationalize them and monitor implementation;
- Sound budget process to discipline both the quality and direction of public expenditure policy.

Providing Political Vision and Mandate

0.38 Any fundamental reform needs to be backed by a clear political vision and mandate. This could be provided in a Policy Statement, as done by several countries (Malaysia 2020, Sri Lanka 2010, etc.), on government's vision of itself in the 21st century, the key elements of civil service reforms and specific measures to make government work better. The overarching vision would not only provide the institutions implementing reforms with the clout and framework to forcefully pursue their agenda, but also send a clear signal to the civil society and public institutions of the redefined role that the political policy makers see for the state.

Establishing Institutional Mechanisms

0.39 Different institutional arrangements have been used for promoting, conceptualizing and managing change, in countries undertaking fundamental reforms. In the US, the Gore Commission was established to formulate and spearhead reforms. In the UK, the Efficiency Unit in the PM's office, together with the Treasury, played a crucial role; while in Canada, a full fledged Cabinet Minister for Public Sector reforms provided the leadership. In New Zealand, the Treasury took the leadership role in defining the agenda and scope/pace of reforms, within the context of radical institutional and budgetary reforms. In Malaysia, a Panel on Administration Improvements to the Civil Service was established under the Chief Secretary, to act as a think tank for administrative reforms; in addition, an Administrative Modernization and Management Planning Unit was established in the PM's office

to operationalize reforms and monitor implementation.

0.40 The Government has already made a partial start in this direction. Recognizing the need to downsize government, it established the Nurun Nabi Reorganization Committee (NNRC), to review government departments and recommend their appropriate size. The Committee has so far reviewed 80 departments. While the Committee's terms of reference (TOR) and its establishment are positive steps, its impact has been negligible for several reasons:

- *Limited TOR* — the Committee's TOR have been confined to organizational structure and staff deployment. It has not focused on why an agency or program exists, and whether and how its functions could be done differently to enhance cost-effectiveness.
- *Limited capacity* — It lacks professional staff to analyze the *raison d'être* of agencies and undertake Value-for-Money (VFM) studies .
- *Lack of disinterested participants* — The Committee is part of the Executive branch and lacks independent outside professionals.
- *Lack of political commitment to reform.* — The slow pace of reform and the lack of a firm timetable raise serious questions about the Government's determination to face the difficult decisions which need to be taken.

0.41 In addition, GOB has also established an Efficiency Unit in the PM's office. Its success will depend on its staffing, mandate as well as the support it receives from the PM. Success also depends on building broad-based public support and developing suitable processes/mechanisms to generate awareness and support for change. Notwithstanding the Unit's placement in the PM's office or support from the PM, a bureaucratic unit in the present environment would fail to muster the broad-based support necessary for fundamental reforms. Therefore, it is recommended that a new Commission — **National Commission for Reforming Government (NCRG)** — be established for a time bound period (3-4 years) to carry on the

work of the above NNRC committee. To ensure effectiveness, the Commission must:

- *Be high-powered and largely independent of the executive* — comprising civil servants, parliamentarians, public officials and management specialists drawn from the private sector. It would be preferable to have it headed by person of high stature, such as the Deputy Prime Minister.
- *Operate in the public domain* — to generate public support for reform.
- *Have adequate technical capacity* — to undertake a fundamental review of rationale, including a VFM type analysis, (Box 2.1).

0.42 It is envisaged that the Commission would provide the analytical underpinnings for the paradigm shift, and formulate specific proposals and strategies. Importantly it would be the institutional agent for questioning prevalent ways of doing business, raising awareness on the need for change and harnessing public support. The Efficiency Unit would operationalize the Commission's work, and act to spearhead change within the Executive Branch. It would also be responsible for monitoring the implementation of the reform program. The Efficiency Unit could also act as the staff secretariat to the Commission,

providing it with analytical support, rather than building a separate analytical capacity within the Commission itself. It is important that both the Commission and the Unit be staffed by high

caliber professionals. While political vision is needed to jump start the process, high caliber institutions are necessary to engender and implement reforms.

Box 2.1: Value for Money — The Constitutional Right of Every Taxpayer and Consumer

Because few government departments or programs face the discipline of the market, their legitimacy needs to be established by other means. One possibility is Value For Money (VFM) analysis. This asks a number of hard questions. What value does the taxpayer get for supporting the department or program, and what value does the client get? Is its function needed at all? If not, it should be abolished. If the function must continue, does it need to remain a Government responsibility? If not, it should be privatized. If the Government needs to remain in charge, could the function nevertheless be undertaken better by a private sector firm? If so, it should be contracted out. If it cannot be contracted out, could it be done differently? Finally, can the service be provided in a less costly way? All government agencies and programs should be asked these questions every few years. Listed below are several GOB departments which offer poor value for money.

The Department of Cooperatives (DOC) — The DOC exists to promote, register, regulate and supervise cooperatives. The department has a staff of 4,700 and costs the taxpayer Tk. 270 million annually. With over 133,000 cooperatives, it might claim great success. Unfortunately, most of the cooperatives are in a dysfunctional state, reflecting both the failure of the department as a regulator and the failure of government sponsored cooperative movement worldwide. Hence the question of what this enormous staff accomplishes must be asked. Since NGOs have had immense success in group and social mobilization, the scope and size of continued government support for the cooperative movement needs to be fundamentally reassessed. Registration, for example, could be done by mail. Regulation could be supervised by a small and highly skilled group of 15-20 staff (MBAs or lawyers), who could contract work out to reputable firms of chartered accountants. The staff could review audit reports and, if necessary, initiate prosecutions by engaging outside lawyers. Much greater use could also be made of computers to help with registration, and to track both financial performance and compliance with reporting requirements. The redundant staff could be partly retrained as extension staff in the social sectors, or in agriculture or as teachers.

The Bureau of Manpower Employment and Training — The Bureau of Manpower Employment and Training employs about 2,000 people in 76 offices at an annual cost to the taxpayer of Tk 84 million. Its main goal is training manpower for export. However, there is no evidence that it has had any significant impact. Most workers have received training on their own. And it is by no means clear that manpower exports would have been fewer had the Department not existed. One could envisage such a department having a regulatory role, but past experience does not indicate that the department can control corruption sufficiently to justify the expenditure. One possibility would be to privatize training, with the help of a government subsidy and establish a small, professional, well-paid unit to monitor training institutes and perform other relevant functions.

The Department of Printing and Stationery — The Department of Printing and Stationery has about 2,000 employees and costs the taxpayer Tk. 350 million annually. While certain documents such as examination papers and budget require security and confidentiality, it is questionable that all government printing should be handled centrally — decentralization and privatization could ensure far greater efficiency. Option for creating self financing autonomous agencies should be explored.

The Registration Department — The Registration Department operates with 2,188 people in 495 offices and costs the taxpayer Tk. 150 million annually. Its main responsibilities include registration, sale, purchase, and transfer of movable and immovable property, as well as the registration of births, marriages and deaths. In this case, procedures which were more computerized and standardized would help trim costs to a minimum, as well as guarantee greater accuracy. Moreover, since birth and death registration is voluntary, people wanting to register could do so through the mail, using a standardized form.

Bangladesh Meteorology Department — With 1,000 people costing the taxpayer Tk. 70 million, this department seems too large. More information is now available from satellites and can be processed by computer analysis.

The Department of Soil Survey — With so many private surveyors available, does the GOB need to have such an office?

The Department of Supply and the Department of Prices and Market Intelligence — Both are legacies of the past, and there are no reasonable grounds for their continued existence.

All government departments and agencies should be subject to this kind of critical scrutiny regularly. The value for money offered by many other agencies such as the Department of Jute, the Department of Textiles, the Directorate of Seamen and Emigration Welfare, and the Directorate of Archives and Libraries is also questionable. Finally, after privatization, it is doubtful that there will be any role for the Ministries of Textiles and Jute.

0.43 The Commission would undertake a fundamental review of all major activities over a 2-3 year period to avoid overloading the system. It would present recommendations for decision-making as it proceeds, not waiting to complete the full cycle of review. In its review of each department or program, the commission should undertake the following kinds of analyses:

- *Rationale for public intervention.* Should government perform this function at all? What specific benefits is the taxpayer getting for supporting this intervention? How would citizens, particularly the poor, suffer if this function were eliminated.
- *Public Provision of Services.* The Commission would review alternatives for improving cost effectiveness and client responsiveness in those agencies, and for those services, which remain in the public domain. In particular, what mechanisms should be introduced to enhance competition, unbundle services and increase accountability to users?
- *Separation Between Policy and Operation.* How could these be separated to minimize the perverse effects that occur when government's primary source of advice on policy and resources comes from public institutions with a direct interest in service delivery?

0.44 The Commission should focus on the **following measures during the first four to six months:**

0.45 *Closing down and Streamlining agencies to cut duplication and waste.* There are a number of agencies and functions which have lost their relevance. Most of these persist due only to administrative inertia. These include, but are not limited to: the Ministry and Department of Textiles (reduced functions once the poorly-performing state-owned textile mills are divested); the Ministry of Jute (two of its major functions were lost with the State's gradual withdrawal from internal marketing and buffer-stocking of jute); the Controller of Imports (largely irrelevant in a

significantly liberalized import regime); and the Department of Prices and Market Intelligence, whose stated responsibility to fix prices is a throwback to an era of market controls and ineffectual attempts to constrain margins through 'fair price' regulations.

0.46 With the changing economic landscape and new priorities, the functions and roles of number of ministries/agencies need to be looked at afresh. Thus with deregulation and privatization, and the urgent need for an effective enabling environment for private sector development, there is a need to review the functions of ministries of Commerce, Industry, Textiles and Jute (Para 5.47).

0.47 In many cases, the State's retention of functions may be justified, but the current level of resources may not be commensurate with benefits. One example is the Department of Cooperatives (with a budget of Tk 270 million and 4,700 staff), whose effectiveness, judging from the state of the cooperatives sector, must be questioned.²³ Another example is the Department of Government Transport (with a budget of Tk. 181 million and 1,400 staff), which is responsible for running the transport pool vehicles. The general dissatisfaction with this agency's performance suggests it should be replaced by a small unit responsible for coordinating leasing arrangements with private firms.

0.48 *Unbundling activities.* Many GOB Ministries currently undertake an unjustifiably wide range of functions which could be left to the private sector. In addition, government policy advice often comes from parties with a direct interest in service delivery. Policy and operations should therefore be separated. Separation

²³ There is a need to assess performance in terms of measurable outputs such as number of audits and technical assistance projects completed. One could envisage a much smaller department consisting of teams responsible for the following: registering societies; providing technical and financial assistance to individual societies; monitoring compliance with audit/reporting requirements, using computers; and enforcing compliance through the use of outside lawyers to pursue cases against societies contravening set guidelines.

between funding and provision of service also creates arm's length yardsticks for service delivery and a potential sanction against poor performance. The issue here is whether it is possible to identify discrete, easily compartmentalized functions which could be divested or corporatized. The tremendous potential for such action is reflected in the successful use of this strategy in New Zealand. For example, from 1984 onwards, the Ministry of Transport which then employed about 7000 people, gradually divested itself of the Airways Corporation (air traffic control SOE); the Civil Aviation Authority (air safety); Transit NZ (road planning and funding); Traffic Safety Service (traffic enforcement, now with the police); and the Maritimes Safety Authority. The policy-oriented and supervisory ministry currently employs only 45 people. Examples of the possible applications of this approach in Bangladesh are:

- *Ministry of Shipping* — Policy functioning could be left to a shipping policy division in the Ministry of Communications, enabling shipping policies to be coordinated with overall transportation policies. This would be better than the alternative of an independent ministry which would be in danger of being 'captured' by shipping interests. Training functions could be undertaken by private agencies, with state certification of standards. Commercial shipping functions should be divested. The BIWTA and BIWTC should become self-financing autonomous bodies, once their ancillary functions such as training and regulation are removed. Both agencies should be reorganized as commercial corporations with clearly specified financial performance targets, set and monitored by the Ministry of Finance.

- *Ministry of Communications* — The emphasis of the Road Transport Division (RTD) should shift to supervision and monitoring. The actual construction of roads and bridges should be left to commercial agencies responsible for planning, design and implementation. Other commercial operations such as the BRTC should be divested, while the Jamuna Multi-purpose Bridge Authority could be converted to an independent bridge operation authority, with most of its functions contracted to the private sector. Instead, the JMB has recently been upgraded to a Division of MOC to obviate the need for its Chairman to send

administrative and financial references to the Ministry!

- *Ministry of Commerce* — This Ministry is responsible for the trade and business environment for the private sector. The commercially-oriented agencies under the Ministry -- the Trading Corporation of Bangladesh, the two state-owned general and life insurance companies, and the Tea Board -- should be privatized as soon as possible. The Export Promotion Bureau should operate as a stand-alone agency with private sector participation, e.g., on its Board and in its funding. With fewer line responsibilities, it could become one of the key agents of change in the removal of the constraints to private sector growth, as part of a unified Ministry of Private Sector Development (Para 5.48)..

- *Public Works Department* is a good candidate for unbundling. Its core functions — civil work designing, awarding and overseeing contracts, etc. — can be handled by a small core group, while the actual work of construction, maintenance, procurement and operation can easily be contracted out/privatized.

0.49 The role of the Commission should decline over the medium term, with the proposed establishment of countervailing oversight institutions (Chapter 4), enhanced ability of public to scrutinize effectiveness of government and the mainstreaming of Efficiency Unit. Over time it is envisaged that continuous re-evaluation would be forced through the budget process (Chapter 4) which would have to focus on cost-effectiveness and rationale issues, raised and brought out in public domain, by the above institutional changes.

Legislative and Budgetary Mechanisms

0.50 Some better managed developed countries and NICs have been able to curtail the absolute growth in government through legislative mechanisms. For instance, **Japan has legislated an absolute cap on the growth in its government.** More specifically, under its Administrative Reorganization Act, Japan requires the Executive to maintain absolute ceilings on the numbers of staff in its administrative division so that, in practice, whenever any minister proposes

the creation of a Directorate to service an emerging priority need, he or she is obliged (by Administrative Law) to propose an equivalent cut in another department. **Another mechanism is to introduce built-in systems to identify and slough off the obsolete — through, for example, 'sunset laws' which set a time limit for the operation of a program, unless it is reauthorized thus forcing a review.**

0.51 Use of budget as a tool for change is discussed in Chapter 4. Among several measures, it is recommended to introduce in the review and approval process of the public investment program, an obligation on the agency -- whether government or donor -- to justify why a new activity has to be undertaken, directly or indirectly, by the state and to confirm that lessons from successful service delivery initiatives from Bangladesh (and other countries) have been incorporated in the program.

Box 2.2: The Privatization of Fertilizer Marketing

This case study is a comparative analysis of the fertilizer trade before and after privatization. Until 1971, fertilizer marketing had been handled almost exclusively by a government department called the Directorate of Agriculture. This responsibility was later transferred to a parastatal, namely the Bangladesh Agricultural Development Corporation (BADC). BADC used to procure, transport and store fertilizer at the thana level. Retail marketing was left to private dealers who, in turn, were administered through a restrictive regulatory system. Under the first phase of fertilizer marketing deregulation — which took place between 1978 and 1988 — BADC started to limit its presence in the market by withdrawing from the thana level. It sold fertilizers to private dealers from 75 primary distribution points, while the dealers took care of downstream marketing. Further steps to liberalize the market were taken in subsequent years; for instance, entry restrictions on dealership were abolished, farm level prices were decontrolled and restrictions on spatial movements were eliminated. In the final phase, the Government eliminated subsidies on fertilizers and removed all marketing restrictions.

The private sector is currently managing all stages of marketing-procurement from domestic factories and abroad, and handles the distribution of fertilizers throughout the country. In just two years, the results have been impressive: fertilizer availability (and consumption) increased significantly from 1.5 million tons in 1988/89, to 2.1 million tons by 1990/91, leading to higher levels of food production. The market has become more efficient as indicated by the declining trend in gross margin. The farm-level price of Urea (produced domestically), has also declined from Tk 248 (per 50kg bag) in 1988/89, to Tk 236 by 1990/91; farmers have benefitted from efficiency gains. Above all, privatization has eliminated the budgetary drains caused by the subsidies and losses incurred by BADC, which amounted to Tk 1.3 billion in FY89.

The success of private sector fertilizer marketing offers important lessons for the future. In this case policy makers seem to have got it right. They decided to reduce the risk of disruption to supplies by deregulating gradually. As the Government withdrew from a particular segment of the market, it encouraged private traders to step in. It was, of course, essential to have sufficient willing entrepreneurs available. The Government undertook, therefore, technical assistance programs to train entrepreneurs and to engage a new pool of business people in the fertilizer trade. However, as markets opened up, the idea snowballed and eventually there was no shortage of entrepreneurs. This strategy also helped create a strong interest group in support of the reforms helping to neutralize opposition. The Government also lifted some of the barriers to the efficient operation of the market by removing price controls, as well as restrictions on movement and dealership. Concurrently, it took measures to open up and ensure credit availability to this trade; it even trained bankers to deal with this new business opportunity. The whole process was very closely monitored to ensure that sufficient technical assistance was always available.

The deregulation of fertilizer marketing has unleashed market forces and increased competition. It has increased the availability of fertilizer to farmers and enhanced efficiency and productivity — as can be seen from the decline in gross margins and farm-level Urea prices. Privatization, along with measures to increase competition, has clearly benefited users. Recently, because of domestic prices falling below cross border prices in combination with government intervention, fertilizer availability became scarce in a few areas. Rather than addressing the causes of scarcity, the government intervened.

Winning over the Losers

0.52 The shrinking role of government inevitably creates the problem of redundancies. This is a very sensitive issue, not just because of concern for those to be laid off, but because of the more general impact on unemployment. Governments have been worried that lay-offs would add to open urban unemployment, creating uncontrollable social pressures with extremely high political costs. Although these concerns are understandable, experience has shown that they were unduly pessimistic. Retrenchment, both voluntary and forced, has taken place in a number

of countries. Ghana, for example, has retrenched around 45,000 civil servants (12 percent of the total); Argentina has successfully retrenched 120,000 civil servants (20 percent); and Chile between 1973 and 1990 cut its civil service by 30,000 (50 percent). Bangladesh has also successfully retrenched about 23,000 SOE workers through well developed redundancy and retraining programs, e.g., the program for Jute and Railway workers. Building on its current program, **a transparent retrenchment program, supported by fully funded Safety Net programs**, would go a long way in winning over losers (Chapter 7).

REPLICATING THE LESSONS OF SUCCESS

IMPROVING EFFICIENCY --

This chapter examines a series of case studies of services provided by the Government and NGOs, drawing lessons from what has worked and what has not. The studies shed light on some key institutional and management features which have contributed to the success of programs. The chapter also looks, specifically, at how central Government services could be improved through decentralization, greater use of NGOs and local Government institutions in service provision, and adoption of the Agency concept becoming popular in many reforming countries.

"There is a great deal of evidence that almost all organizational structures tend to produce false images in the decision-maker, and that the larger and more authoritarian the organization, the better the chance that its top decision-makers will be operating in purely imaginary worlds."
Kenneth E. Boulding²⁴

The Success Stories

0.53 The Government, along with NGOs, the private sector and donors, has been seeking alternative, more cost-effective methods of providing public services. It has been testing several innovative approaches to find new ways of delivering public services but also to offer important lessons that can be replicated. The eight case studies were chosen to examine these alternative approaches to: (i) capture as many variations as possible; (ii) compare and contrast the performances of different programs to capture best practices; and (iii) identify the factors determining better performance. The case studies covered the following types of institutional/organizational arrangements: two different government agencies performing similar

functions (Box 3.1); a government-owned utility and a government-managed but consumer-owned utility (Box 3.2); a successful government program (Box 3.3); similar services provided by government and NGOs (Box 3.4); a successful government department (Box 3.5); and successful GOB-NGO initiatives (Box 3.6).

Lessons Learned from the Case Studies

0.54 The foregoing case studies revealed certain institutional elements which made several public delivery programs successful. The following key features changed the incentives motivating these public institutions: decentralized operations; high levels of accountability; demand for service; community participation; user's voice; private ownership; innovate process and organization; contracting-out; and effective Government-NGO partnership. These factors created competitive markets, put resources and information in hands of customers, exposed monopolies to competition. They had the overall effect of creating "public goods markets" that mimicked private markets.

0.55 **Decentralization.** A universally recognized development lesson is that most successful programs with a high degree of customer satisfaction are decentralized. This is particularly so for activities requiring constant supervision from the top and instant feedback from users. According to one survey, there are currently seven layers between customers and the Secretariat.

²⁴ Kenneth E. Boulding in Richard T. Ely Lecture, 78th Annual Meeting of the American Economic Association.

Box 3.1 Separating Funding from Provision -- A Role Model

The Ministry of Health and Family Welfare decided to establish its own Building and Planning Design Unit (BPDU) -- a small cell of only 34 employees -- for carrying out the liaison and supervisory roles for some of the construction of health and family planning infrastructures. As a rule, the tasks of design, construction, repair and maintenance of public civil works falls under the purview of the Ministry of Housing and Works (MHW). Under this Ministry, the Department of Architecture (DOA) is responsible for architectural design, while PWD uses force account and private contractors for the actual implementation. The PWD is a large centralized organization made up of 5,400 permanent employees with offices spread over the entire country. In the past, any government agency wishing to undertake construction was obliged to place the necessary funds with the PWD. For providing its services, the PWD charges a 15.5 percent fee on the total cost of the project. In terms of quality and timely performance the track record of the PWD has been far from satisfactory. Aside from the rather high execution fee, PWD is well known for delays and cost overruns, as well as poor quality construction. Though the delay of 19 years for completing thana health complexes may be an extreme case, five year delays are common place even when availability of funding is fully assured. If given the choice, most government departments would like to contract work to private contractors directly, rather than rely on PWD.

The BPDU contracted-out design and supervision functions to private consultant firms selected on the basis of competitive bidding. The outcome was very significant: construction was completed with only marginal cost and time overruns; the quality was superior; and above all the fee charged by the private consultant was much lower — in the range of 5-7 percent of the total cost of the project. The success of this experiment can be mainly attributed to the establishment of a clearly defined client — agent relationship, direct participation by the stakeholder in ensuring timely and quality output, and absence of bureaucratic delays.

This innovative approach has demonstrated that when a particular public activity is structured differently, it is possible to develop appropriate performance based accountability. It showed the value of contracting-out civil works through a specialized unit, and making a clear separation between the principal (the Ministry of Health) and the agents (private contractors). By contracting out to the private sector certain functions traditionally performed by another government agency, the terms of the contract became the binding instrument of accountability. Moreover, a Committee on Project Implementation, and another higher level body called the Steering Committee, also monitored implementation progress — thus putting effective pressure on the consultants and construction contractors — not only to deliver on time but also to maintain overall quality and cost effectiveness.

0.56 The benefits of a less centralized approach are evident from the success of the EPI programs, which was decentralized and included competition. In this case, the funds for promoting the programme were controlled by local governments (LG). Local level managers were also motivated to plan for their own geographic areas, resulting in keen competition between wards. Decentralization and participation from stakeholders are also strong features of the PBS program. Although the REB initially helps to establish a PBS, including the construction of lines, it gradually delegates most of the authority to the PBS each of which has its own corporate structure. The PBS General Manager is, for example, responsible for all recruitment except for the three top-ranking officials.

0.57 A word of caution about decentralization, however. Decentralization is not synonymous with abdication of responsibility. The central authority needs to establish sound monitoring systems to guard against any misuse of authority at lower echelons. The challenge is to give authority and influence to those whose concern it is to improve the quality of services, while holding them responsible for results and preventing domination by vested interests. A sound monitoring system can provide some protection. The most effective safeguard is ensuring an effective voice in the system for stakeholders: for education, the parents; for power systems, the consumers; and for THCs, the patients.

Box 3.2: The 'Power Game' — The Palli Biddut Samity (PBS) and the Dhaka Electric Supply Authority (DESA)

The marked differences in the performance of two public sector organizations -- the PBS and DESA highlight the importance of proper systems of management control. Both agencies are in the power distribution business, buying in bulk from the BPDB. Their areas of operations differ — DESA is an urban supplier of power, whereas the PBSs are confined to rural areas. But the more significant difference is in their methods of operation. The PBSs are cooperative non-profit power distribution units, overseen by the Rural Electrification Board (REB), while DESA, a descendant of the Bangladesh Power Development Board (BPDB), is run on more traditional lines. There are also striking differences in performance. The PBSs are now recognized as successful models, suitable for replication, while the DESA continues to be seen as one of the most glaring cases of state inefficiency.

Compared to DESA, the PBSs have achieved far greater efficiency in almost every area of operational performance: system loss, personnel expenses, overdue accounts receivable, repairs and maintenance cost, and consumer-employee ratio. During FY94, the system loss of DESA was 31 percent as against 15 percent for the PBSs, while collections as a percentage of billing, were 78 percent and 98 percent, respectively. In the same year, the collection-purchase ratio for DESA was 54 percent, while for PBSs it was 83 percent. Each DESA employee serves only 92 customers compared to 188 for PBS, despite the higher consumer density of DESA franchise area. Due to poor collection effort, DESA's accounts receivable was equivalent to 7.6 months of average billing at the end of FY94, while for PBS it was a mere 2.2 months.

The laudable success of the PBSs may be attributed to a number of institutional factors, particularly area-based decentralization. The REB allows the PBSs some freedom of operation, yet maintains an effective control system and ensures accountability. For instance, a rigorous monitoring of the billing procedure results in accurate and timely billing and collection. In contrast, a lack of adequate control in DESA generates irregularities and poor collection.

Another positive organizational feature of PBSs is the incorporation of performance-based accountability principles into management — covering hiring and firing by the General Manager, promotion and pay raises (including bonuses) based on performance, and incentives for improved performance. Besides, the system of multiple scales against each post provides PBS greater scope for pay raises, thus motivating better performance. PBS meter readers work on yearly contracts renewable on satisfactory performance, and face stiff penalties (including dismissal) for poor performance. In DESA, jobs are almost a life tenure and salary raises are automatic, regardless of whether employees carry out their tasks satisfactorily. Although DESA also has an incentive system with a few indicators, it is rarely applied; on the contrary, strong unionism protects jobs, ensures automatic pay increases and bonuses, and badly erodes the work ethics.

Finally, for the PBSs, the customer is the boss. The PBSs' outstanding success is a result of close attention to client satisfaction, a feeling of cooperative ownership, and a sense of collective responsibility. In addition to the Annual General Meeting which is attended by all consumers, each PBS holds a monthly meeting of the Board of Directors; PBS has customer service officers to attend to consumers' problems and to solicit their opinions. PBSs also maintain several complaint centers, and consumer demands are given immediate attention. DESA, by contrast, has no mechanism for ascertaining consumer opinion.

Box 3.3: Motivation, Mobilization and Monitoring — The Success of the Expanded Program for Immunization.

The EPI is a vivid example of a successful public-service delivery system. Jointly developed by the GOB, UNICEF, WHO and the World Bank, the EPI has, since its inception in 1985, significantly improved the coverage of its vaccination program. Starting with the full vaccination of only 2 percent of children against measles, the program has managed to raise this proportion to 50 percent in just six years. Moreover, survey findings revealed a dramatic fall in under-five mortality compared with non-vaccinated children. The rate was 40 percent lower in populations where measles vaccination coverage was 80 percent.

The outstanding performance of the EPI may be attributed to three major factors: staff motivation, social mobilization and program monitoring. Although the EPI falls under the Ministry of Health and Family Welfare, planning and implementation are considerably decentralized. The EPI effectively motivates local level managers to plan for their own wards or geographic areas, leading to keen competition between wards. Each Local Government (LG) control room has monthly targets, enabling the LG managers and related staff to review and improve their performance relative to that of other teams. This, in turn, motivates the field staff to maintain the delivery of services at convenient locations, i.e., at the beneficiaries' 'doorsteps', and to adhere to prescribed times and locations.

Another important factor has been an extensive mobilization campaign. The Government launched an effective program of public awareness, using the combined efforts of the media, the business community, renowned personalities and NGOs. Television and movie stars, and sportsmen were used to generate a wide response to the program. This social mobilization assured community participation.

Effective program monitoring by government and NGOs has ensured that there were no gaps in service. Performance reports are prepared regularly and analysis and feedback are duly conducted. Elected officials also make periodic visits to vaccination sites. The EPI program is a clear demonstration of the value of motivation, mobilization and monitoring.

Box 3.4: Alternative Systems of Primary Health and Primary Education Delivery

Primary Health Although Bangladesh can legitimately claim credit for creating a vast rural health infrastructure, the services are generally of poor quality. The public sector network comprises 360 Thana Health Complexes (THCs), and 3,400 Union Sub-Centers, theoretically providing primary health care facilities at the thana, union and village levels. These THCs are indeed staffed by a large number of doctors and other support staff, but very few patients seek treatment in the government clinics, and those who do receive a woefully inadequate service. On the other hand, the Bangladesh Rural Advancement Committee (BRAC), one of the largest NGOs extending promotive and preventive health care, has achieved considerable success. Starting in 1972, with primary health care as its main concern, BRAC has gradually extended its services and developed a comprehensive Health and Population Programme (HPP). It offers women and children an integrated package of health services — maternal care, family planning services, immunization, and health and nutrition education. These services are available in satellite clinics and BRAC's own ante-natal care centers, but primarily through community based health workers.

The lack of public confidence in government health facilities is evidenced by the fact that only 15 percent of people suffering from any illness visit these clinics. Public discontent with the government health services is encapsulated by the complaint that "one goes to government clinics to die, not for cure." BRAC's success is evident from the relatively high visitation rates at its clinics. For instance, the coverage for pregnancies is 73 percent in areas served by BRAC, compared to 32 percent for government health centers.

Why do government health services perform so poorly? First, there is a lack of staff motivation beginning at recruitment. Physicians are recruited through the Public Service Commission and posted to a destination not necessarily of their choice. As a result, these doctors have little knowledge of their area of operation, leading to poor morale and/or low commitment to assigned duties. BRAC's operations are very different. Its health workers are recruited for specific locations, and have clearly defined duties and responsibilities. They also receive training and promotion according to their performance rather than their length of service.

Secondly, BRAC has the necessary monitoring measures to maintain performance standards. BRAC's experience in providing door-to-door health services through village health workers has paved the way for public confidence in its delivery mechanisms. The organization has attained universal recognition for spreading the ORT (Oral Rehydration Therapy), message to every home in the country, and broke traditional gender barriers by using female extension workers for this purpose.

However, BRAC's HPP covers only 20 percent of Bangladesh's villages, and provides only selected services; it cannot yet be regarded as a perfect substitute for government-provided services. Even so, BRAC's success proves that health care can be successfully delivered through NGOs. There is similar positive evidence from other countries. In Thailand, for example, community-oriented primary care groups, known as Local Health Cooperatives, provide services, releasing the Government from this responsibility.

Primary Education. The Government is the major provider of primary education -- out of a total of about 75,000 primary schools, the Government runs about 50 percent. When it comes to non-formal education, however, NGOs are the major providers -- accounting for 76 percent of a total enrollment of 1.2 million. BRAC, alone has such schools spread over the entire country with an enrollment of over half a million. Impact studies show that most government primary schools offer poor quality education when measured either by what is provided (such as curriculum taught, textbooks, or teacher/student ratio) or by outcome (such as completion rates or learning achievement). In 1991, for example, the dropout rate from government primary schools was 60 percent while the repeaters rate was 23.4 percent of total students. A five-year cycle in a government primary school takes on average 7 years to complete. In contrast, the BRAC schools have performed appreciably better: their dropout rate for the three-year program is only around 2 percent, and though no firm data are available, the repeater rate is also believed to be significantly lower.

Compared with the government schools, the NGO schools tend to offer more flexible timings to suit learners; have smaller class sizes; and are located closer to homes. They also use methods and materials which are better suited to some of the needs and interest of the learners. There is much greater community involvement, creation of effective demand through social mobilization, and decentralized and flexible operating procedures and processes.

In contrast, government schools are excessively centralized. Many of the present problems of government-run primary schools can be traced back to the nationalization of primary schools in 1973 which brought 36,165 schools under the control of a monolithic centralized bureaucracy with a complex, multi-layered and inflexible system of management. The disconnect between the management of schools and the communities which they served resulted in sharp deterioration in service standards; in fact communities felt alienated. Some attempts are now being made to improve the system by delegating some powers and responsibilities, improving teacher training and allowing communities more opportunities for participation. But the ultimate solution would be to hand the responsibility over to local government -- which might then contract out appropriate activities to NGOs or the private sector.

Box 3.5 — The Local Government Engineering Department: A Government that Works

The Local Government Engineering Department, commonly known as LGED, started in the 1970s, as a small cell in the Local Government Division. Today, the LGED, which handles rural infrastructure, is one of the second largest implementors of the country's Annual Development Program; in FY95, its budget and programs totaled Tk. 12 billion (\$300 million). The LGED is rated by both service users and donors as one of the most efficient and effective government organizations. It is evidence that with sound organizational practices, a public sector organization can also perform efficiently and cost effectively. The institutional aspects contributing to the LGED's successful operation are:

- **Decentralization** — the bulk (90 percent), of LGED staff are at the thana level; in fact, this organization has the highest proportion of staff in the field level of any government field organization.
- **Professionalism** — The LGED is well-known for its highly qualified professionals and its emphasis on continuous upgrading of skills. It has a well-developed training program for the staff at thana, district and head-office levels. Every year its 15 District Centers implement 40 different courses with 30,000 trainee days. The LGED management has imbibed the private sector practice of recognizing its staff for outstanding achievement -- in its corporate magazine, in its citations, in identifying staff for overseas training, and in semi-annual functions. All of this has contributed to building staff morale.
- **Monitoring system** — The organization's Management Information System (MIS), dates back to 1987 when a computerized monitoring system was applied to the Rural Development Program in Kurigram. The LGED top management attaches the highest priority to MIS and, since 1993, efforts have been underway to set up a uniform system for monitoring and evaluating all LGED projects.
- **Informal decision Making** — LGED management has by-passed the time-consuming bureaucratic practice of processing decisions through various layers. Rather than using written communication based on the movement of files, it takes many actions on the basis of telephone and fax contact.
- **Leadership** — LGED's Chief Executive has been with the organization for almost a decade. GOB/donor officials knowledgeable about LGED credit him as the single most important source of continuity and motivation for the incoming staff.
- **Team-work** — The organization is a shining example of good team-work, with clearly defined work objectives and a keen sense of achievement. The senior managers have inculcated a strong work ethic through their personal example of putting in long working hours and maintaining high quality output. These factors have, more or less, offset the usual disincentives associated with low government salaries, lack of accountability and inadequately defined work objectives.
- **Sense of mission** — The LGED has vigorously pursued its overarching mission, namely 'serving the people at the grassroots'. This emphasis on people's participation has led to a high success rate for LGED projects. Engineers for the first time are being recognized, by the local communities, as important agents of change.

0.58 **Performance-based accountability.** Most government programs fail because of the lack of accountability. Much of this problem arises from the absence of outside checks and balances or departments' internal oversight. Several cases can be cited where the same person awards, executes, supervises a contract. Another area of weakness is the absence of a transparent reward and punishment system. Private-sector organizations maintain staff motivation by rewarding good performers against mutually accepted work objectives and firing those who consistently under-perform. While it is never possible to achieve the same degree of discipline in a public institution, some Government institutions have already begun to introduce performance based accountability.

0.59 Under the EPI program, for example, each LG center had a control room which showed monthly targets for each of the agents. LG managers quickly became aware of their own performance and, in many cases, took steps to improve it. Various levels of supervisory staff visited immunization sites and health centers using checklists to record their observations which were then followed up by the field staff. This performance-based accountability created healthy competition amongst peers and ensured that client services were regular and of a high quality. Intra-Upazila performance variations generated competitive pressure motivating employees to improve performance.

Box 3.6. Examples of Successful GOB-NGO Cooperation

Palli Karma Shahayak Foundation(PKSF)

The PKSF is an apex financial institution which channels budgetary funds to NGOs for their income generating credit programs for the poor. It was established in 1990 and so far has disbursed Tk. 45 crore to about 110 NGOs, which in turn have financed about 250,000 poor people. Of the over 900 NGOs that applied to the Foundation, only 110 were selected. Repayment rates by all parties are close to 100 percent. What has accounted for this success?

- *An independent and professional Board.* PKSF's Board is comprised of eminent and qualified professionals mainly from the private sector.
- *Sound recruitment practices.* The large majority of PKSF's professional staff have been recruited through competition and must have, at minimum, two First Classes and a Masters degree.
- *Autonomous character.* The PKSF Board has full autonomy on recruitment, operating policies and salaries. PKSF staff salaries are much higher than those in government, enhancing their ability to hire good staff.
- *Clear Mandate.* PKSF has a very clear mandate which has led to a strong sense of organizational commitment.

To date, one weakness has been that the CEO was a senior administration officer sent on deputation for only a short period. It had recently been agreed that the CEO should be selected and appointed by the Board (not Government).

The PKSF model could be replicated in two ways: (i) establishing PKSF-type institutions for other sectors, e.g., health, rural infrastructure, and education. These could channel funds to NGOs who would find it easier to deal with an efficient professional intermediary; (ii) as a corporate model for state-owned enterprises. If GOB allowed SOEs to work like PKSF, the staggering SOE losses would come down and the entire country would be better off. Having government servants on SOE Boards, constrains their autonomy on operating policies and compensation. This neither preserves the interests of the taxpayers, nor meets the needs of citizens; on the contrary, both get short-changed as a result of the current way of doing business.

Water and Sanitation (WATSAN)

GOB-NGO collaboration in this area is an example of how local and foreign NGOs have helped the poor improve their access to water and sanitation. In 1980-81 sanitation coverage was about two percent, and NGO intervention in the WATSAN sector was unsatisfactory. But motivated by the zeal of the International Decade for Water and Sanitation, NGOs were by 1990-91 able to increase the percentage to 16 percent, and presently it stands at 35 percent. Tubewell coverage has similarly increased over the past decade. Now, 96 percent of the population use tube-wells for drinking water. During the last decade the NGOs, under the aegis of an apex body, The NGO Forum, have made significant progress in extending safe water and sanitation to 8.5 million people in rural Bangladesh. They have installed as many as 100,000 tube-wells in remote rural and peri-urban areas, and set up two million latrines in rural areas and fringes of the country, largely without financial or institutional support from the Government. Recognizing their contribution, the Government has asked them to implement the Prime Minister's target for sanitation coverage of 50 percent by June 1996. GOB has provided them with Tk. 400 million for this purpose. This involves distributing and installing an additional two million latrines in six months, compared to the Department of Public Health and Engineering's capacity of about 100,000 a year. Not only did the NGOs agree to make this tremendous contribution, but they also brought about a policy change. Under the GOB's own program, beneficiaries are provided latrines at a subsidized rate of Tk. 400, involving a subsidy of about Tk. 250. The NGOs, however, charge a full price of about Tk. 600, refusing to charge the subsidized price. The NGOs viewed the subsidy as unnecessary.

0.60 The PBSs also have an effective incentive structure. They enforce a detailed performance appraisal system based on salary structure. Each post has a number of pay scales which, in the event of satisfactory annual performance, leaves scope for pay raises. The employee has the opportunity to either move vertically in the scale or jump to a higher scale. The PBS incentive system has detailed rules and regulations. For instance, the REB negotiates the performance targets with PBS on an annual basis, and the bonus includes a penalty for poor performance.

DESA, on the other hand, has a performance evaluation system which exists on paper only; in practice, annual pay increases are automatic and DESA's system has never been made effective. For instance, all DESA employees managed to extract (under union pressure), one month of pay as a special bonus, without achieving targets, on the plea that targets were too stringent, hence impossible to achieve. Another factor critical to the success of PBS operations is flexible hiring and firing. The REB can fire its General Manager, Assistant General Manager and District Manager;

the General Manager, in turn, can fire anyone below these three. The meter readers in PBS are also retained on a yearly contract, renewable only on satisfactory performance. In the DESA, on the other hand, employees enjoy the security afforded to public servants and are virtual immune from any disciplinary action.

0.61 **Employee motivation.** This has played an important role in many of the successful programs. This has been achieved through better recruitment, market based salaries and recognition of performance. An outstanding example is BRAC's health service program. Having motivated employees starts with recruitment. BRAC advertises the nature of the job in detail, including the place of posting, and the percentage of time the staff member will have to devote to field work. As a result, a BRAC doctor is prepared from the outset to undertake that specific task. The situation is very different for doctors in government programs. A centralized agency carries out recruitment, with no reference to the nature of the job or place of duty. After appointment, the doctors are then free to engage in protracted lobbying to get their preferred places of duty — generally not in remote areas where their services are needed most. BRAC also keeps staff on their toes by monitoring them against targets. Opportunities for professional advancement and promotion are unambiguously linked to performance. It also has a simple and effective procedure for termination. Government jobs, by contrast, are jobs for life. Last but not least, BRAC doctors are paid “market based” salaries, thereby balancing incentives with accountability.

0.62 **Creating demand for a service.** A number of socially oriented programs fail because they are badly designed. A common weakness is their failure to generate interest in, and demand from, the people they are supposed to serve. Programs need to create awareness among potential beneficiaries if they are to work effectively. Creating a demand for the product can be as important as how well it is delivered.

0.63 The EPI communication plan, for example, emphasized that a successful program would depend on the creation of demand for

vaccinations. Vaccinations have only 'perceived benefits', a concept not immediately appealing to the largely illiterate rural target populations. The EPI program recognized the need to stimulate awareness, interest and community involvement, at all levels, to ensure demand. It brought together potential participants by relying on all forms of media and help from the business community. Particularly effective was the use of film and TV stars to attract families and children. This is one of the few social programs in which the Government managed to involve almost all its agencies, and also succeeded in gaining the commitment of government functionaries.

0.64 BRAC's non-formal education and primary health care programs provide other examples where creating demand for service has been an ingredient of success. Its non-formal education program, for example, has succeeded in attracting hard-to-reach target children, by ensuring that the children are in a position to take advantage of its programs. This has been done by augmenting families incomes through different income generating programs making it possible for children freed to attend school. Conversely, it also created a kind of obligation, on the parents' part, to abide by BRAC's programs. To heighten demand still further, its health care program was redesigned in 1991 as a Women's Health Development Program. This included, among others, measures to sustain health efforts by providing female adolescent education. BRAC's popularization of oral rehydration salts is another example of successful demand creation.

0.65 **Community participation and social mobilization.** International consensus shows that successful project implementation requires widespread participation and social mobilization. Simply stated, participation is a process through which stakeholders influence, and share control over, development initiatives. The people who are being affected by a project or program must become its focal point and their views must be factored into the project design. Several well-intentioned projects and programs have failed for lack of support from the target beneficiaries. The case studies have consistently confirmed the importance of social awareness.

0.66 BRAC's community involvement has contributed significantly to the success of its primary education program. Each school has a five-member village committee consisting of teachers, community leaders and BRAC officials which meets regularly to address the problems of the school and its pupils. These meetings have clearly motivated the teachers to take greater interest in teaching, to take classes regularly, and to motivate their students. They have also encouraged guardians to send their wards to school regularly. Government schools, on the other hand, have suffered from the lack of community participation. One of the regrettable features of the 1973 school nationalization was the disappearance of support and involvement of local communities. Now history seems to have come full circle. After two decades, the Government is again wrestling with the idea of community participation; it recently introduced School Management Committees and Parent-Teacher Associations into government-run primary schools. The core problem, however, remains the lack of accountability: the government-appointed teacher has no financial interest in responding to the community since his or her salary is assured by the public coffers.

0.67 The EPI program also has strong community participation. It organizes union-level meetings with departmental heads, professionals and community leaders. Through these meetings — where details of the local plans such as vaccination sites and methods of transportation are decided — the communities get involved in the decision-making process. The support and enthusiasm of the clientele are reflected in the offers by the villagers to organize the vaccination sessions in their homes.

0.68 BRAC's primary health care program is also based on effective social mobilization. It starts with awareness creation. Disadvantaged women at village level are identified and formed into target groups of 25. These groups then disseminate health and nutrition information through periodic meetings. A village committee drawn from the target groups helps the community identify social and health problems and examine ways to overcome them. It also identifies the people to be trained as village health

workers and traditional birth attendants. These community-based efforts can be combined with the delivery of outside services leading to higher levels of efficiency. The remaining challenge to Government is to adopt similar approaches to achieve social mobilization.

0.69 *Users' voice and client satisfaction.* The ultimate test of any service is consumer satisfaction — a concept only recently gaining acceptance with public sector agencies. The PBS has had an instructive, if limited, experience with consumer participation. In addition to having an effective system for attending to daily complaints, every PBS also holds meetings of consumers two or three times a year. These meetings are attended by PBS officials, members of the Board of Directors and village advisors. Consumers also come in contact with PBS employees during its annual general meeting (AGM). The quorum for an AGM is 100 members. The level of enthusiasm for PBS affairs is evident from the seven to eight thousand consumer-members who attend each AGM where their demands get due attention from the management. DESA has no corresponding system of soliciting consumer responses; on the contrary, the vast majority of DESA consumers are hostages to the state monopoly and its powerful trade unions.

0.70 Government agencies in most developing countries have adopted a paternalistic attitude towards providing critical services. Government agencies in the industrial countries, however, have been making greater efforts to solicit the views of consumers. Making public organizations more customer driven should be given high priority. All experience clearly shows that customer-driven services are: more efficient and less wasteful, empower customers to make choices; stimulate more innovation and depoliticize the choice-of-provider decision; and create greater opportunities for equity.

0.71 *Ownership.* The experience of the past three decades has amply demonstrated the negative aspects arising from public ownership, particularly when the public sector organization is insulated from competition. Public sector ownership nurtures irresponsible workers, reduces competitive pressures, and weakens the incentive

to achieve profitability. On the other hand, if consumers are ensured a stake in the company's profit and a voice in its management, the results are usually much more positive. This is amply confirmed by the case studies. The PBSs, for example, are cooperatives owned by their consumers. They run on a break-even basis, sharing benefits with every consumer in the form of reduced tariffs. DESA, on the other hand, is shackled by all the handicaps of a state monopoly. An obvious reform would be to convert DESA into a PBS type organization.

0.72 *Innovative process and organization.* Public service should ideally reach out to diverse groups of customers spread over the whole country. It should be able to respond flexibly to specific local needs and problems. Unfortunately, government rules and regulations emphasize compliance, thus often inhibiting innovation and flexibility.

0.73 BRAC's primary education program allows a high degree of flexibility at the field level. This has been one of the keys to problem-solving in programs which have a wide range of beneficiaries dispersed over a large area. BRAC developed an innovative three-year curriculum involving a cadre of para-professional teachers, based in the community, using teaching materials suited to the needs and interests of rural children. These innovations have been particularly useful in attracting target-group children to school.

0.74 Local flexibility is also a feature of the Rural Electrification Board which adapted management practices based on lessons learnt elsewhere, specifically from successful rural electrification programs in the US and the Philippines. REB has developed into a modern, dynamic organization using rewards and penalties geared to performance. DESA on the other hand, is a typical example of a public-sector organizational structure with a bureaucratic reward system based on seniority. DESA remains burdened with the corporate culture (inefficiency, corruption and unionism), of its parent organization, the PDB.

0.75 *Contracting out.* A perennial governmental concern has been the control of

public expenditure. And in the past it was often believed that the best way to achieve this was for government itself to provide public services directly. Now, however, governments the world over are recognizing the importance of two distinct roles: paying for the service and delivering service. Considerable efficiency gains can be achieved by contracting out the provision of public service. This has the advantage of opening up otherwise monopolistic state operations to new forms of competition, with consequent savings of cost and gains in quality. Indeed, even payment may eventually be taken out of the Government's hands if many 'public' services no longer remain a public good and instead are privatized. The case studies confirm the benefits of this kind of change.

0.76 BPDU's recourse to the private sector construction industry to perform a task traditionally done by the public sector is a good example of a market niche where the private sector can deliver more efficiently. It also demonstrates that one should not think of government operations as an undifferentiated whole. By tendering for a consultancy service from the private sector, BPDU was able to reap the benefit of lower costs. Consultants' fees ranged from 5-7 percent of total cost compared to the standard PWD fee of 15.5 percent. Above all, the Thana Health Complexes were completed much more quickly. Corresponding PWD-executed projects experienced long time delays.

0.77 Under its Integrated Non-Format Education Program (INFEP), for instance, the Government funds NGOs to deliver non-formal education. This is an example where the provision of services has been successfully contracted out.

0.78 GOB or local government institutions, both of which are in principle accountable to the electorate, may wish to retain financing and monitoring functions. But wherever practicable they could, on the basis of competitive bidding, contract out actual production and delivery to NGOs and the private sector; they could also be contracted to manage state enterprises and facilities. One could also consider different forms of partnership such as the French system of *affermage*. These management and lease contracts

would, however, have to be carefully designed to ensure that they did not result in the depreciation of state assets. There is also the possibility of developing various concessional arrangements for private sector participation, usually involving foreign investors. Examples include build-operate-own (BOO), and build-operate-transfer (BOT) contracts used in various infrastructure projects in Malaysia, Pakistan, Philippines and Sri Lanka.²⁵ In order for such arrangements to be attractive to foreign investors, an appropriate policy and regulatory environment needs to be established.

0.79 **Government and NGO partnership.** The non-formal education case study is a good example of complementarity between the Government and NGOs. Although the Government attempts to reach all children of primary school age, it finds it particularly difficult to reach certain groups, notably the poorest children in the rural areas. BRAC's non-formal education program is designed primarily to bring this disadvantaged group into the educational system. After completion of Grade III, these children join the formal primary education system. INFEP, funded by the Government, is an impressive experiment in partnership between GOB and NGOs

0.80 NGOs and their local knowledge also proved invaluable in the rapid expansion of EPI coverage. GOB did not have the capacity to carry out the immunization program on its own. NGOs were contracted to provide training to vaccinators, managers and communicators, took special steps to expand coverage in hard-to-reach areas, and helped to mobilize local resources. A notable example is the Rajshahi Division where Universal Child Immunization was achieved with concerted support from BRAC and another NGO, the Rangpur Dinajpur Rural Society. Similarly, BRAC's own health services also mesh well with existing government services. Its program workers, supported by village cadres and

volunteers, work alongside Government functionaries to provide simultaneous services.

0.81 Water and sanitation is another area where NGOs have performed effectively. Similarly, the establishment of the Palli Karma Shahayak Foundation (PKSF), is an innovative way of meeting the Government's poverty alleviation objectives by channeling budgetary funds through NGOs. The Government might, therefore, consider making greater use of NGOs to meet its social policy goals.

Replicating Lessons of Success

0.82 The case studies indicate promising directions for improving the quality and cost-effectiveness of services. Existing good practices within the Government can be the starting point for reforms along the following lines.

- **Examining Alternative Service Delivery Modes.** Each government activity should be reassessed from two directions. First, should it remain the responsibility of the central government or is it left best in the hand of local government? Second, can funding and provision of services be separated or should they remain integrated? The GOB or local government institutions may finance and monitor services, but, wherever practicable, they should contract out actual production and delivery to NGOs or private firms based on competitive bidding,.
- **Focusing on customer satisfaction.** When the central government must be the provider of services, its primary consideration should be customer satisfaction. The organization of the Government, including its workings, incentive structure, use of human resources, and systems of accountability should all aim to increase customer access, use and satisfaction. There must be provision for the customers/clients to voice their views on the quality, accessibility and availability of services.

0.83 The proposed **National Commission on Reforming Government and the Efficiency Unit** (para. 2.41) together with the strengthened budget

²⁵ For a discussion of such arrangements and their possible applicability to the infrastructure sector in Bangladesh see: "Bangladesh; From Stabilization to Growth", Report No. 12724-BD, World Bank, March 17, 1994.

and expenditure scrutiny/monitoring system (Chapter 4) would be the mutually reinforcing vehicles for operationalizing these lessons.

0.84 The following sections discuss specific measures to enhance the role of NGOs and local government institutions for public services delivery and the use of a new approach -- establishing business-like agencies in central government.

Enhancing the Role of Non-Governmental Organizations (NGOs)

0.85 NGOs in Bangladesh have distinguished themselves by their innovation and skill in managing micro-projects. And some of them have gained international recognition, for example the Grameen Bank and BRAC. Health, water and sanitation (Box 3.6) has also been an NGO priority: the Gonoshasthya Kendra has done pioneering work in the area of broad-based public health programs and in promoting socially responsible national pharmaceutical policies. Another example of NGO innovation is the program developed by the NGO Forum to make use of Imams in mosques to promote community hygiene.

0.86 In most countries, NGOs and governments tend to distrust each other, even when they share the same goals.²⁶ Over the past decade, the GOB has become increasingly supportive of NGOs. Accepting them as partners in achieving national goals, but not, however, adopting a broader collaborative strategy. There are several militating factors: (i) the Government's NGO Affairs Bureau, established in 1990 regulates NGOs, particularly those which are externally funded. This provides the Bureau absolute authority to approve programs, projects and disbursements of foreign funded NGOs. Consequently, the partnership between the GOB and NGO remains an uneasy one. (ii) The Government is concerned about the accountability of certain NGOs, but it also has broader concerns

²⁶ Even where representative governments are in place, the relationship with NGOs is an uneasy one. Government is concerned about NGOs potential grass-roots political power, and NGOs are distrustful of the government's motives.

about the risks of creating parallel services and turning previously integrated systems into an inefficient patchwork. It is currently trying to tighten NGOs' financial accountability by requiring all NGOs to have their books externally audited and presenting their annual accounts to the GOB. (iii) There is also a risk that, over time, NGOs will turn into businesses or bureaucracies, losing their grassroots character and their original social orientation. However, if NGOs do not perform well, government's financial support for their operations can be quickly withdrawn. (iv) At present, the GOB works through only a few NGOs; many remain wary of too direct an involvement with government programs due to the accompanying bureaucratic constraints, and (v) many NGOs are funded from abroad. This encourages efficiency since they are must compete for funds. However, it also means that NGOs may be driven by foreign donors' agendas. But the introduction of interesting new approaches or innovations should be welcomed. NGOs are, of course, subject to the law, and should not otherwise be restrained.

0.87 Despite some concerns about the accountability and institutional framework of NGO funding and policy formulation, there is little disagreement about their importance in the provision of public services in Bangladesh. Their growth, over the past two decades, reflects both their reputation for efficiency and relevance in service delivery, and disillusionment with the GOB's capacity and ability to provide basic services. To fully utilize their potential and strengthen the effectiveness of their activities. A major study has recently been completed on ways to enhance NGO-State relations²⁷. Based on this study the following measures should be considered:

- ***Streamlining the registration and approval process.*** The GOB should take immediate measures to revise the registration procedures to make it simple and transparent. More specifically, the time limit for completing registration formalities should be reduced

²⁷ Pursuing Common Goals: A Study on Government-NGO relations - April 1996.

from 90 to 30 days. All queries on the application should be communicated to the NGO within one week of receiving the application. Above all, if the NGO is denied registration, the reasons for non-approval should be communicated in clear terms.

- **Reform regulatory aspects.** Currently, the rules for registration and monitoring contain several vague aspects, such as the terms “anti social” and “anti state” activities, which are used to debar certain NGOs. This loose definition creates discretionary opportunities leading to rent seeking and procrastination. Moreover, once an NGO has been registered there should be no need for renewal -- currently five years -- unless specific misdemeanor charges are substantiated. As far as practicable, the regulatory role for NGOs should be assigned to the apex body ADAB, thereby taking this responsibility away from the NGO Bureau. Also, as a first step, ADAB should be given the sole responsibility for reviewing the foreign funded projects to be undertaken by NGOs. This function is currently performed by the NGO Bureau.
- **Dissemination of good practice performance.** To encourage the GOB to engage NGOs as agents of development implementation, the Bureau should bi-annually collect and disseminate information on good practice to relevant government departments, including at the thana and union levels. This process will sensitize the GOB development ministries and its field units to the possibilities of NGO/GOB cooperation.
- **Proactive involvement in Participatory development.** In addition, it is recommended that a Government-NGO Consultative Council be established to enhance GOB/NGO interaction, and to encourage greater NGO participation and inputs into Participatory planning.
- **Strengthen Monitoring and Evaluation capacity.** The monitoring mechanisms and auditing practices within NGOs is quite uneven. There is a need to strengthen this

aspect of the NGO operation. However, where no taxpayers funds are involved, the GOB's excessive concern with accountability is unwarranted.

Local Government (LGs): the Untapped Potential

0.88 In Bangladesh, the existing administrative structure and elected local bodies do reach the grassroots level and have all the features necessary for participatory decentralized administration and delivery of public services. But, this structure has failed to perform efficiently for two main reasons:

- **Excessive centralization of decision-making.** Despite the strong support for local government enshrined in the Constitution, the central government has compromised these advantages by exercising excessive control over local government and starving these agencies of resources.²⁸ Most administrative decisions are still taken centrally. Frequently they involve a director or a DG, and depending on the subject, may even include a minister in the Secretariat. Several abortive attempts have been made at decentralization, but the system remains highly centralized.
- **Ineffectual elected local bodies.** These are characterized by weak administrative capacity, a limited financial and human resource base, and little public participation.

0.89 Although the **Constitution provides that "local government in every administrative unit of the Republic shall be entrusted to bodies, composed of persons elected in accordance with law" (Articles 59-60), local government reform has remained in limbo; a bill has been pending in Parliament since 1992.** One key constraint on decentralization has been the unwillingness of governing parties to devolve authority to the grassroots for fear of losing their political grip on the countryside. Central governments assume that LGs must inevitably

²⁸ "The state shall encourage local Government institutions composed of the representatives of the area concerned..." *Constitution of the People's Republic of Bangladesh*, Art. 9.

become centers of opposition to the national government. But this may not be the case. Indeed, there can be political advantage for the central government in transferring responsibility (and accountability), for any shortcomings in the provision of public goods and services to LGs. Local government can thus act as a political safety-valve, absorbing public dissatisfaction with central government. A further political argument against delegation is the risk of domination by local elites. However it can also be argued that this is already the case — bureaucrats from the center tend to be 'captured' by the local elite, and the only reliable assurance that community interests can be protected is regular and fair local elections backed by voter education and awareness raising by NGOs and other citizen groups. Another related problem is the demonstrated unwillingness of LGs to raise local taxes. Since the majority of people are poor, only the rural elites are in a position to pay taxes, and they have usually colluded with local authorities to ensure that revenue collection rates have remained low.

0.90 Over time, the GOB should transfer to local representative institutions responsibility for delivering all public goods and services whose supply is not scale dependent and which do not have major spill-over effects or other forms of externality.²⁹ These would include services such as primary/secondary education, primary health facilities, local infrastructure, etc. Such a shift in function will, of course, depend on the success of efforts to develop a robust system of LGs. The GOB should consider:

- **Consolidating the legal framework for local government.** The 22 Acts and Ordinances enacted since 1972 need to be rationalized.
- **Developing local government units of an appropriate size.** This would involve exploiting scale economies while ensuring that units are not so large as to preclude wide direct participation, good access to office

²⁹ Each type of public good should be provided by a level of government which enjoys a comparative advantage in responding to the diversity of preferences in its service delivery.

holders, and a real local community of interest. There is a critical size in government which is conducive to efficiency. The principal unit of local government in Bangladesh is the Upazila Parishad (UP). Along with the village, it provides a great deal of scope for participation at the grassroots. It must, therefore, continue to play an important role in a rejuvenated local government system. However, the UP has an average population of only about 26,000; it is too small to employ professional and technical staff and exploit economies of scale in public services. It may be possible to make cooperative arrangements between UPs, but the UPs may not be the right vehicle for the provision of public goods. A minimum size unit needs to be determined which can command sufficient resources to undertake minor infrastructure projects and provide the level of salaries and civic amenities necessary. However, there will be disparities between such units which will need to be taken into account in developing the optimal structure.³⁰

- **Transferring basic public services to LG management.** Initial candidates for such an exercise could include: primary education; family planning services; water supply; secondary roads. The LGs need not be the actual deliverers of services, which can be contracted to NGOs or the private sector, or even GOB agencies, but they should retain responsibility for overall design, monitoring and supervision.³¹
- **Developing flexible procedures for recruitment of LG staff.** LGs must have sufficient access to trained technical staff. In some cases they will be able to recruit these directly. But there could also be secondments of GOB staff, providing the latter were offered sufficient incentives.

³⁰ There are also a whole set of issues relating to the demarcation and administrative organization of urban municipalities and rural districts.

³¹ For details see: *Good Government in Bangladesh: A Practical Agenda for Change*, op. cit., pp. 29-47.

- **Restructuring LG funding arrangements.**
An essential step in strengthening the system will be to enhance resources available to LGs. There are a number of funding possibilities. *First*, GOB grants could be made available, using a formula which took into account such factors as population and level of development. *Second*, there could be a system of matching grants through which local governments received funds on a sliding scale depending on how they allocated money within their budgets. For instance, money spent on primary education could be matched by the central government/donors on a ratio of, 3:1. *Third*, the GOB could transfer resources for local development projects to the relevant LGs through the Annual Development Plan. *Fourth*, LGs could be given the authority to mobilize local resources for projects, through cost-based user charges, as well as through local taxation on land or property. LGs could, in addition, take responsibility for, and receipts from, a reformed land tax. Even if it is felt that the center should retain the taxation function, it could still earmark a certain proportion of receipts for the area where they were collected. At the same time, it is important to ensure that the grant mechanism is not used to compensate for weaknesses in local revenue collections.

The Agency Alternative

0.91 One mechanism for improved delivery of *non commercial public services*, which has been adopted in the United Kingdom and New Zealand, is the Agency approach (Annex III). An Agency is a discrete management unit within government charged with delivering specific performance targets. It is headed by a Chief Executive responsible directly to a minister. *In return for accepting personal responsibility for achieving stringent cost, efficiency and quality targets (Box 3.7), the Chief Executive is largely free to manage the Agency as he or she thinks fit.* The Agency concept is based on the belief that efficient and effective service delivery is best achieved on a customer-supplier basis: the 'customer' in this case is the minister, and the 'supplier' is the Agency. The responsible minister, advised as appropriate by the secretary and other policy-makers, allocates resources to the Agency, sets its targets and assesses its performance. The UK and New Zealand have been fore runners in pursuing the Agency approach. In the UK, around 100 agencies have been set up since 1988. Some two-thirds of the Civil Service is now operating on Agency lines. New Zealand Ministries are now headed by Chief Executives who are appointed by the Cabinet on a five-year renewable contract; these posts are advertised internationally.

Box 3.7: Setting Agency Objectives — HM Prison Service, United Kingdom

The Prison Service has the following goals:

- To keep prisoners in custody.
- To maintain order, control, discipline and a safe environment.
- To provide decent conditions for prisoners and to meet their needs, including health care.
- To provide positive regimes which help prisoners address their offending behavior and allow them the most full and responsible life possible.
- To help prisoners prepare for their return to the community.
- To deliver prison services using the resources provided by Parliament with maximum efficiency.

The Key Performance Indicators of the Prison Service are:

- The number of escapes from prison establishments and from escorts.
- The number of assaults on staff, prisoners and others.
- The proportion of prisoners held in units of accommodation intended for fewer numbers.
- The number of prisoners with 24 hour access to sanitation.
- The average number of hours a week prisoners spend in purposeful activity.
- The proportions of prisoners held in establishments where prisoners are unlocked for at least 12 hours on weekdays.
- The proportion of prisoners held in establishments where they have the opportunity to exceed the minimum visiting entitlement.

0.92 The Report believes that **this concept is transferable to non-commercial public service agencies in Bangladesh.** Not only are Bangladesh administrative systems derived from the British Civil Service, but there is, undoubtedly, both the enthusiasm and the skill within the Bangladesh Civil Service to make the change. Moreover, the basic statutory and institutional structure is there to convert certain agencies (e.g. Water Board, Export Promotion Bureau, Board of Investment, etc.) into efficient and client responsive institutions. **It is recommended that GOB take the leap of faith and convert two to three of the existing Boards/Bureaus into fully autonomous/accountable agencies following the PKSF model and incorporating accountability features from the UK model. There are no downside risks, only upside rewards for citizens.**

0.93 In addition, there are a number of different functions within public services where it would be useful to pilot test the Agency approach:

- Areas where there is a major government/public interface and where there is an urgent need to improve standards of service.
- Areas where the function is sufficiently discrete and the output sufficiently measurable to allow significant delegation of management responsibility to the operational level.
- Areas where efficiency gains can be made simply by streamlining and improving bureaucratic processes.

0.94 One objection to expanding this new initiative in Bangladesh is that it would require larger numbers of well-trained civil servants than are currently available. In the initial stage, therefore, there should be no more than two or three candidates in each category. The selection ground-rules should be that:

- The head of the organization should be enthusiastic for, and competent to manage change.

- The proposed changes should not initially require any change in the organization's statutory functions, as this would slow the process down. It is conceivable, however, that the need for legislative change might emerge from the pilot.
- The organization's functions should be capable of being ring-fenced and should not be heavily reliant on the services of another government organization.
- There should be the potential for tangible results.

0.95 On this basis, and following discussions with officials, the following pool of candidates is recommended. Selections for the initial pilot program can be drawn from these.

- (i) Candidates with a high level of interface with the public.

Education — Around five - ten primary and secondary schools in one or two districts.

Health — Around five - ten hospitals covering metropolitan, district and local areas.

Transport — The Motor Vehicle Licensing Authority, Airport Management

Public works — Local Government Engineering Department.

- (i) Candidates which already have a discrete function.

Industry — Office of Companies Registration.

Revenue — Customs Collectorate (Dhaka airport).

Law and order — Dhaka Metropolitan Police Force,

Establishment — O & M Wing.

Finance — Expenditure and budget control section of the Ministry of Finance.

Social sector — The NGO Bureau.

RESPONSIVENESS

ENHANCING ACCOUNTABILITY AND

This chapter assesses the means available to the people of Bangladesh for holding their Government and public services to account. It starts with the Parliament and the main statutory monitoring bodies. Then it looks at the need for greater direct participation from citizens, at the potential for more open government in general, and finally at the need to root out corruption. The answer to this essentially lies in the ineffectiveness of the constitutional and political structures that regulate accountability and transparency.

“... one rule for the cities, recorded by Kautilyad, will interest you. Whoever threw dirt in the street was punished with a fine. If anyone allowed mud or water to collect in the street, he was also fined. If these rules were enforced, Pataliputra and the other cities must have been fine and clean and sanitary. I wish some such rules could be introduced by our municipalities!” Jawaharlal Nehru, Glimpses of World History (1934)

0.1 In any study of Economic Governance, one of the most important questions is to ask why the people are not asserting their right to good economic governance and why the traditional and constitutional ways of enduring good governance are not working. The answer lies in the ineffectiveness of the constitutional and political structures that regulate accountability and transparency.

0.2 A major problem throughout Bangladesh's public sector is not only lack of accountability, but also the nature of accountability. The chain of accountability stretching from the parliament to the peon is weak and fuzzy; many of the links have been severed, e.g., inability to enforce financial contracts or stop theft in SOEs. In a recent survey of 40 senior officials, absence of accountability was highlighted as the most significant reason for delayed decisions (para.

6.13). In general, GOB agencies are subject to weak accounting controls, do not face serious scrutiny by the legislature or legal institutions, and are not subject to the financial discipline of the market place. There is an absence of performance standards to inform public servants about their responsibilities. Above all, agencies are unresponsive to people's needs; citizens have little access to information about government processes and decisions, and lack any effective means of obtaining redress when officials abuse their power. This lack of accountability applies to every level of government, ranging from the relatively low-ranking bureaucrats who deal with the general public, up to those in the central Secretariat or field offices who ponder policies and decisions. Finally, it reaches upwards to their political masters who establish policies and programs. Accountability is a very large subject. The following discussion covers the most important elements for enhancing accountability: i) increased capacity and ability of constitutional and statutory oversight bodies to enforce accountability; ii) establish mechanisms to enhance the accountability of executive agencies; iii) improve responsiveness to users; iv) enhance transparency; and v) combat corruption.

Strengthening Constitutional and Statutory Oversight Bodies

Parliamentary Accountability of Government

0.3 Parliamentary accountability is the bedrock of good governance in a democratic system. Members of Parliament have a responsibility to keep a continuous watch on government — ensuring that it is responsive to the needs of the general public it serves, accountable for tax payers' money, and addresses the real concerns of the electorate. In practice, however, parliamentary accountability has not worked well in Bangladesh. There are a number of problems. Some relate to the heavy weighting of power in favor of the Executive — a problem shared by the oldest parliamentary democracies³², while others are caused by the non-observance of standard parliamentary norms and procedures.

0.4 But MPs are also hampered by more practical problems. Most have very poor facilities — they do not have individual offices, paid staff, or access to research services — severely constraining their ability to participate knowledgeably in debates and committee discussions. They also find it difficult to service local constituents' requests — either to provide information, or to intervene on their behalf with GOB agencies.

0.5 A major cause of failed parliamentary oversight of the Executive is the incomplete adjustment from a Presidential to a Parliamentary system. This is partly a reflection of Constitutional provisions. Under the Bangladesh constitution the Prime Minister is in an extremely powerful position. After 1990, the levels of control enjoyed previously by the President were simply transferred, without significant

modification, to the Prime Minister.³³ But the system is also strongly influenced by the prevailing political culture which continues to carry the presidential ethos. All cabinet-based parliamentary systems suffer to some extent from a concentration of executive powers.

0.6 There is, generally, inadequate debate on policy and legislation in parliament. Indeed many matters are not discussed in Parliament at all. Most policy is formulated in secret and not even announced in Parliament, so it is not surprising that such policies have little public understanding and are often implemented half-heartedly. The experience of other countries shows the advantage of parliamentary involvement in mobilizing support for contentious issues. Privatization is a clear case. In Argentina, for example, the Menem Government subjected its privatization strategy, and specific programs, to detailed legislative debate. In Bangladesh, by contrast, the Privatization Board was created by Executive Order, and enterprises to be privatized were identified either at donor insistence or under fiscal compulsion. While there is no guarantee that a parliamentary debate would have reduced resistance to privatization -- some in government argue it would have further slowed the process -- on balance wider public debate enhances the legitimacy of, and support for, reforms.

0.7 Another example of public misinformation, stemming from lack of public debate on issues, is the Financial Sector Reform program. The key elements of this program were developed by the Government's own Money and Banking Commission, while donors like the Bank and USAID provided financial and technical support to implement the reforms. The lack of public debate on the "Government's own reform program" resulted in the public perception that the reform agenda was externally driven.

0.8 Many of the important parliamentary oversight and legislative functions should be performed by Standing Committees. But these are largely ineffective. Under the Rules of

³² The Procedure Committee (1978) set up to review the activities of the UK Parliament noted that, "The essence of the problem...is that the balance of advantage between Parliament and Government in the day to day working of the Constitution is now weighted in favor of the Government to a degree which arouses widespread anxiety and is inimical to the proper working of our parliamentary democracy." *Making Parliament Effective*, Siddiqi, L.K. et al, Dhaka,(1994).

³³ One of the key examples is the replacement of the large President's Secretariat by a very similar Prime Minister's Secretariat which continues to act as a final arbiter in all significant GOB decisions.

Procedures, these committees have very limited functions, and they are further weakened by a fundamental conflict of interest — each is chaired by the minister whose ministry is being overseen. Opposition MPs or ruling party backbenchers thus have very little opportunity to act as watchdogs.

0.9 MPs do not have many other opportunities to interrogate Ministers in question-and-answer sessions. Unlike the UK and many other parliamentary democracies, Bangladesh has no Prime Minister's Question Time to allow MPs to place questions directly to the Prime Minister. And even when a question relates to the responsibilities of the Prime Minister, another designated minister routinely stands-in for the PM. In fact, in Bangladesh, the Prime Minister never gets exposed to questioning from the floor of the House.³⁴

0.10 Accountability and openness are fundamental issues, and Bangladesh needs to arrive at a broad consensus for achieving them. It is vital for good governance that all concerned should make a very special effort to increase the effectiveness and raise the status of Parliament in national life. The initiative for this effort needs to come from the leadership of the party in power, which must clearly demonstrate its willingness to submit to Parliamentary scrutiny and oversight. As a first step, it is recommended that a **bipartisan Parliamentary Task Force be established, and provided resources for research and cross-country exposure, to formulate a concrete Action Plan** for strengthening parliamentary oversight along the following lines.

- **Providing MPs with adequate office and research facilities.** This would involve properly-equipped offices, paid research staff, greatly improving the library and research facilities, and, if necessary, providing funding for investigative work.

³⁴ Political analysts have noted that in the UK, "...the person who does best out of the twice weekly exchanges is the one who speaks the most - the Prime Minister." *Making Parliament Effective*, Siddiqi, L.K. et al, Dhaka (1994).

- **Establish the time-tested parliamentary practice of questioning Ministers.** Establishing a weekly Prime Minister's Question Time, and requiring ministers to answer questions on a regular basis on the floor and in committee, could go a long way in strengthening the parliamentary oversight. This would also supplement another form of parliamentary supervision -- MPs writing letters to ministers, since in cases of unsatisfactory reply the issue could be raised in Parliament;
- **Strengthen the system of Standing Committees.** The first priority should be to strengthen the Public Account Committee. In general, strengthening of committees involves amending the Rules of Procedure of Parliament to provide due authority (and resources) to committees to implement their mandate and scrutinize all legislation before it is introduced in Parliament. To eliminate potential conflicts of interest, ministers should be prohibited from chairing these committees.
- **Subject key appointments to Parliamentary approval.** As in the US, it would be a good practice to subject prospective candidates for key judicial and executive positions to approval by parliamentary committees through an open hearing. While there are drawbacks to this approach, on balance it would lead to subjecting key positions to higher professional and ethical standards.
- **Establishing permanent Parliamentary Support and Oversight Agencies,** along lines of the US Congressional Budget Office and the General Accounting Office. The first provides Congress with an independent assessment of budget/economic policy issues, while the latter evaluates cost-effectiveness and relevance of on-going programs. These kinds of countervailing institutions, along with greater availability of information from IMED and the Ministries/Agencies, could be powerful "Forces of Change".
- **Establishing an Ombudsman's Office, as called for in the Constitution.** It would be invaluable to have an independent authority in the form of an Ombudsman's Office to

monitor the functioning of executive agencies and adjudicate disputes and grievances.

The Comptroller and Auditor General

0.11 Crucial to any system of democratic government is a robust mechanism to ensure transparent financial accountability. In Bangladesh, the chief responsibility for financial monitoring of government lies with the office of the Comptroller and Auditor General (CAG). This office is responsible for verifying ex-post that all public expenditures — including aid-financed development spending — conform to administrative, legal and legislative requirements. The CAG currently carries out regulatory and certification audits of all GOB agencies, SOEs, and Project Implementation Units (PIUs). These conventional audits are meant to detect deviations from rules or any losses of public moneys through negligence or fraud. To a lesser degree, these audits are also used to detect the misuse and waste of public resources. Although the CAG is appointed by the Government, the Constitution provides for its independence.

0.12 The reports of the CAG do not offer satisfactory ex-post checks over spending agencies. There are a number of reasons for this:

- *Weak staff skills* — The CAG does not have a single professionally accredited chartered accountant.
- *The use of outmoded concepts and procedures* — The CAG auditors still rely largely on a slightly modified version of the 1938 Audit Manual. The audit function is viewed as means of detecting fraud and irregularities rather than as a management control function. The focus is to verify transactions regardless of their value. And though performance or “value for money” audit is mentioned in the Audit Manual, resource constraints make this task impossible to perform.
- *Dual responsibility of accounting and auditing* compromises the integrity of the audit function. This is compounded by the fact that staff performing this function belong to the same cadre.

- *Inadequate coverage of reports* — which deal solely with conventional audits, rather than the effectiveness of spending programs in achieving policy objectives. Audits tend to focus on the 'compliance' aspects of financial management rather than on the pursuit of cost-effectiveness.

- *Delays in issuing reports* — due to shortages in qualified staff and other resources. The Audit Department lacks English letter typewriters, trained steno-typists and supporting office machines. In 1994-95 alone, the Directorate of Foreign Aided Projects had to conduct about 650 audits, with 40 teams made up of three officials. When the relevant report is issued years later (delays of 5-8 years are not uncommon), it is difficult to take action in cases of financial impropriety or administrative negligence, particularly given the frequent transfers of managers.

- *Lack of comprehensiveness and poor quality of reports* — reflecting inadequacies in the qualifications and training of staff at the CAG, and in the agencies such as the Project Implementation Units (PIUs) which provide audit information. PIUs experience difficulties in obtaining qualified accountants given the prevailing disincentives to secondments from the CAG’s office, and the restriction on hiring private firms.

- *Inadequate attention to follow-up action* — When implementing agencies deviate from audit rules, they are not subject to speedy and effective sanction. Also, the current practice of permitting an implementing agency to respond to the preliminary audit observations within 45 days is rarely enforced.

0.13 Since Parliament and its Public Accounts Committee (PAC) have to rely on the reports of the CAG, its shortcomings have a serious effect on government accountability. But they also affect aid utilization. Most donor agencies require annual audited project accounts and financial statements to be submitted in a timely manner, but few of these are actually submitted on time. The following institutional reforms relating to CAG, addressed under the ODA-assisted CORBEC and

its follow-up RIBEC project, need to be expedited:

- **Improve the availability of resources** to the CAG. The numbers of professionally-qualified staff need to be increased, through lateral recruitment and the introduction of greater flexibility in remuneration, while gradually phasing out thousands of clerical staff. Support facilities also need to be modernized.
- **Allow direct recruitment of auditing firms** by the CAG, PIUs and implementing agencies, as a substitute for audit by the CAG. Recruitment would need to be made on the basis of market rates of remuneration. Until recently this was ruled out by the narrow interpretation of the Constitutional provision that the CAG, as the supreme audit institution, had to have exclusive authority³⁵.
- **Introduce quick preliminary audits.** The CAG prescribed “long form” audit is, required by the parliamentary Public Accounts Committee. It should be supplemented by a more concise “short-form” audit.
- **Strengthen the training programs**, both domestic (in conjunction with professional bodies), and foreign.
- **Initiate comprehensive audits to move from procedural accountability to consequential or output-oriented accountability.** This would involve using measures of cost-effectiveness and value for money audits. These have become statutory requirements in the UK for most public sector agencies, and are also used widely in Canada³⁶ and other

³⁵ In recognition of the problems caused by audit delays for foreign-aided projects, the Directorate of Audit for Foreign Aided Projects (DOAFAP) was established under the CAG in 1990. However, the DOAFAP has fallen behind with audit requirements (600 projects/sub-projects in this year alone) and its 47 three-member teams have only completed 160 audits so far. The GOB has recently agreed to permit project entities (such as the LGED under the Rural Roads Project) to engage external auditors.

³⁶ See: *Effectiveness: Reporting and Auditing in the Public Sector*, Canadian Comprehensive Auditing Foundation, (1987).

OECD countries. Comprehensive audits would require that decision-makers be explicit about the goals of public policies and activities, set performance standards, and monitor achievement of these standards. A comprehensive audit would include: (a) performance measurement of individual services against standard criteria, (b) comparative performance measurement against a cluster of agencies having similar characteristics, and (c) tests of efficiency (e.g., cost per mile of road constructed), and effectiveness (e.g., reduction in travel cost), to ensure that programs are not uneconomic and inefficient white elephants. This type of audit will require technical knowledge of the functional areas and the use of multi-disciplinary audit teams.

- **Separation of the audit from the accounting function** is needed to establish the independence and credibility of the audit.

0.14 Another urgently needed step that CAG should undertake is to improve the quality of external audits of commercial SOEs such as BB, NCBs, BIWTC, BSEC, etc. These suffer from poor definition of scope and totally inadequate audit fees. For example external auditors of most NCBs -- with thousands of branches, and number of loans in hundreds of thousands -- are paid only \$5 - 6 thousand. The central bank pays its auditors only \$2,000, while many SOEs pay less than \$1,000. It is no wonder that external auditors are unable to perform the critical role expected of them. With billions of takas of public assets and funds at stake, it is imperative that external audits be comprehensive and timely. On an urgent basis, **CAG, with the help of the apex body of auditors, should prepare a model audit scope/TORs, (using guidelines developed by the International Auditing Standards Board) and likely person-month requirements, which should be used by each SOE for engaging auditors and negotiating audit fees.**

Enhancing the Accountability Within the Executive Branch

The Centrality of the Government Budget

0.15 *The budget is a central part of the incentive system in which public servants operate.* Therefore, budget reforms in most reforming countries (Box 4.1) have been at the heart of performance management, and as an important policy tool to keep the size of the government in check and to ensure public sector efficiency by demanding “Value for Money”. In fact the budget is the only government-wide mechanism which can be used to control both the quality and direction of public sector spending. When ministries and departments are made to face the real consequences of their expenditure /personnel/investment decisions -- both in terms of operational constraints and financial incentives/penalties -- managers’ decision-making is likely to be more sharply focused. Underlying the smooth operation of the budget system, there has to be a strong political commitment backed up by professionally competent staff to take considered decisions. However, for a budget system to be an effective policy tool it must : (i) put emphasis on results and performance so that decisions about resource allocations achieve optimal outputs; (ii) be linked to a planing process providing medium term framework of policy objectives; (iii) have sound monitoring and control of the implementation of budget decisions; (iv) have sound mechanisms for feedback and reporting to management and; (v) a supporting structure of sound administrative procedures and practices, which ensure that spending programs are focused on actual results rather than mere compliance of audit rules, and that within the hard budget constraint, efficient resource allocation decisions are made. If the latter condition is not satisfied, there is a danger that the use of the budget in an attempt to impose administrative discipline may achieve broader macroeconomics objectives in terms of fiscal tightening, but in doing so many create serious distortions in resource allocation.

0.16 The Constitution of Bangladesh provides the basic legal framework for the Budgeting process. Articles 81 to 92 of the Constitution outlines the requirements of budgetary procedures. The budget is presented in two parts, the revenue budget and the development budget. The Finance Division of the MOF has the overall responsibility of preparation of the Revenue and Development Budgets. While the Secretary of the

Finance Division is in overall charge of preparing the budget, he is assisted by an Additional Secretary who has under him the two wings of Revenue and Development Budgets, headed respectively by two Joint Secretaries. The Revenue Budget Wing has responsibility for every stage, from collation and examination of the Ministerial Budget submissions, summarization and passage through the Parliament to final publication of it. On the other hand the Development Budget Wing converts the ADP, prepared by the Planning Commission, into the Development Budget. The Budget Calendars for the Revenue and Development Budgets, (Annex IV) gives an idea of the time-frame and process undergone in the preparation of the budget.

0.17 In Bangladesh, very few of the essential ingredients of an efficient budget system exist. The main weaknesses are:

- The rules and regulations detailing budget preparation procedures are not easily accessible, and are contained in numerous documents.
- On one hand, the existing budget calendars are too long. They commence soon after the start of the current fiscal year thus preventing proper analysis of expenditure trends and it continues right up to the end of the financial year. On the other hand, the time for analysis by MOF is too short.
- The budget lacks a medium-term expenditure and revenue framework.
- The budget staff has very little or no special pre-service training or qualification in budget or public expenditure analysis, while the budget preparation is a manually intensive exercise.
- The lack of a resource envelope early in the budget process precludes the issue of budget ceilings in advance of the budget preparation process. With the exception of manpower costs , which are seldom reduced, there is no certainty of funding within which the line ministries can plan.

- The revenue budget is prepared on an incremental basis and the lack of accurate financial statements for previous years means that the incremental increases are predicted on a flawed base. Incremental budgeting doesn't encourage economy and provides a base for expenditure growth and inflation.
- The basic thrust of the budgetary process is the maintenance of existing manpower and services by different ministries and departments. As a result any new activity is an addition to the expenditure and not treated as an alternative, thus providing a built-in momentum for a mushrooming government. The predetermination of establishment numbers and payroll costs on an incremental basis commits 60-70% of the budget and allows little room for reallocation or growth within the service provisions.
- The revenue and development budgets, prepared separately, are exogenously driven; for instance the revenue budget representing government's recurrent expenditure is largely driven by historical factors, based on previous year's expenditures and covering one year at a time. The development budget, on the other hand, is influenced by the availability of donor funding and increasingly by likely savings after meeting the recurrent expenditure under the revenue budget. The residual nature of this budget adds to the unpredictability of funds and the difficulty of holding spending managers to account in a planning sense. Moreover, the somewhat artificial dichotomy between revenue and development budget makes it difficult to achieve the overall allocational efficiency of resources, since the budget primarily serves as an accounting tool depicting receipts and expenditure in a particular year.
- In practice, neither the Secretary of the Line Ministry, who is also the Principal Accounting Officer, nor the concerned Minister are involved fully in the preparatory stages of the budget with the result that top level control and monitoring of the process is lacking.
- Directorates within Line Ministries submit their budgets direct to the Finance Division of the MOF. The Line Ministries are therefore not always informed of all budget submissions under their overall control until the budget exercise is well advanced and when amendments to the submissions either cause delays to the total exercise or are too late to accommodate changes.
- There is little attempt made to identify ministerial objectives and to provide funds on that basis. Programs are rarely viewed as a whole but seen as a collection of projects quite distinct from ongoing revenue expenditure related to the program. The lack of involvement of the Secretary or Minister of the Line Ministries in budget formulation, the lack of defined objectives and adherence to the principles of incremental budgeting deny the Ministry the opportunity to develop a budget based on the priorities or service requirements or to measure their physical and financial performance.

0.18 The GOB realizes the weaknesses of the budgetary process, and has embarked upon a technical assistance project -- Reforms in Budgeting and Expenditure Control (RIBEC). The project is expected to bring in some long term structural reforms in the areas of reporting and presentation of government accounts, computerization and development of a financial management information system. However, of recent, the project seems to have slowed down and some of the major objectives may remain unattained. A Policy Analysis Cell has also been set up in the Finance Division; this Cell, using economic models, will be expected to advise on fiscal policy matters.

0.19 While the RIBEC project is expected to improve the budget system, further reforms will have to be made to fully realize the potential of the budget as a tool for enforcing financial discipline and raising issues of performance and alternatives. Developing far reaching reforms would first require a detailed review of how the institutional arrangements (i.e., rules, norms, procedures) in the budget process affect incentives governing the allocation and use of resources. Based on this review, a budget system should be

developed that helps aggregate fiscal discipline, ensures that composition of expenditures are in line with strategic priorities, and promotes efficiency in the use of budgetary resources. In developing a reform program, it is recommended that Bangladesh review the experience of countries like New Zealand, Australia, Malawi, South Africa, etc. A phased and evolutionary

approach to this fundamental reform is proposed, as has been the practice in most countries, (other than New Zealand); this would limit new initiatives in order to avoid overloading the implementation capacity and to ensure that RIBEC reforms are implemented.

Box 4.1: Budgetary Reforms in Selected Countries

New Zealand

As highlighted in Box 1.6, New Zealand undertook a sequence of radical financial/budgetary reforms. Transparency pervades all key aspects of the New Zealand reforms -- e.g., explicit delineation of outputs the contracts of chief executives, budgetary appropriations explicitly based upon outputs purchased, publication of balance sheets showing net worth of government, and legislatively mandated full and frequent disclosure.

Australia

It has instituted a medium-term expenditure framework (MTEF), which focuses the budget process on changes in strategic priorities within aggregate fiscal parameter. It has introduced measures that grant considerable flexibility to line agencies and provides them with incentives to identify savings options. At the same time, reforms have sought to focus on outcomes and introduce accountability. In Australia also, transparency is accorded high priority. It is best exemplified in the requirement to publish a reconciliation table for the forward estimates, explicitly indicating how much particular outlays were changed in the annual budget vis-a-vis the forward estimates, the reasons behind these changes, and their outyear implications.

South Africa

It has introduced flexibility into the annual cycle to mitigate “spend it or lose it” psychology of closing months of fiscal year, presented budgets in program formats, and strengthened scope and format of departmental annual reports.

Malawi

It has initiated a comprehensive program to institute a strategic approach for expenditure planning through a MTEF.

0.20 In the first phase, over the ensuing 12-18 months, only a few new initiatives are proposed, which are absolutely essential to support the work of the NCRG/Efficiency Unit, and which would form part of any fundamental budget reforms. These are:

- **Establishing a Budget Analysis Unit (BAU)** in the Budget Wing of the MOF to be staffed by a core group of highly qualified (PhD/MBAs) professional economists and financial analysts. The BAU, by replacing the existing budget officers will be the mainstream arm in MOF to regularly review/scrutinize incoming budget requests from the Ministries/Departments and undertake broader review of public expenditures, to evaluate appropriateness of expenditures and make recommendations on allocations. Over the medium to long-term, the unit would build capacity to undertake substantive analytical approach to questions like --- Are services being properly delivered by a particular agency to the public? Is the state still required to intervene in particular sectors? Are there market failure symptoms to justify the particular public expenditure? Can the functions of a particular agency be fully or partly be contracted out to the Private Sector or NGOs to achieve desired service level?
- **Improving “User Friendliness** of the budget document. This would enhance the quality of public debate.
- **Revise Project Performance formats** so that the Public Investment program review and approval process (i.e., the PP review) is used to sensitize and force agencies to think about alternative ways of delivering services before accepting the present way of conducting business. It is proposed that a standard set of questions be added to the PP format to ensure that alternatives are indeed seriously reviewed by both donors and government agencies. While this standardization of “market testing” the prevalent approach could degenerate to routine/standardized responses, nevertheless by putting agencies on the spot and raising

awareness of ECNEC members would gradually move the system in the desired direction.

0.21 Once RIBEC reforms and the above changes have taken roots, it is suggested that a governmental working group, together with the help of RIBEC consultants, review cross-country experience (Box 4.1) and formulate a phased program for fundamental reforms. Such reforms would include, among others, the following:

- Establishing link between budget allocation and outputs/outcomes. As a first step each ministry (and its agencies) should indicate its key objectives, performance targets and prior year achievements in the budget/ADP documents. (Box 4.2) Interestingly, except for the Finance Ministry whose achievements and goals are clearly spelt out in budget/public documents -- which leads to greater accountability and public debate -- no other ministry/agency establishes, or regularly publishes, any information on its achievements and goals. It is very much within the capacity of ministries and agencies to establish simple objectives (e.g., loss reduction, kms. of roads to be constructed, number of schools to be established, teachers to be recruited, immunization to be undertaken, ADP to be implemented, etc.) without need for extensive outside assistance or lengthy studies. A simple system, initially comprising 3 - 4 objectives for each agency/ministry, could be established fairly quickly in 6 - 12 months by the agencies with assistance of the Efficiency Unit. Over time this could be refined and expanded as institutional capacity to generate and monitor information is enhanced, and parliament/public's appetite is increased for performance related information.

Box 4.2: Setting Agency Objectives: Fairfax County Government, Virginia, USA

The General District Court

The goal of the General District Court is to administer justice in matters before the court. It has the following objectives:

- To continue to ensure that all individuals having matters before the court have timely hearings at all stages of the proceedings by effective scheduling of the use of personnel, facilities, and equipment resources.
- To maintain the implementation and preservation of a record storage system of all criminal and civil cases.
- To maintain the facilitation of the pre-trial release of accused persons by non-monetary means.

In order to monitor performance in line with the objectives, management indicators are used, including the number of new cases. For criminal misdemeanors, preliminary hearings, traffic violations, civil cases, and small claims, the measure is the total number of hearings. For pre-trial services, personal recognizance interviews, court-appointed counsel assignments, and hearings for mental commitment and mental retardation, the indicator is certification; while the indicators used for the Magistrate system are the number of warrants issued and other transactions.

The Police Department

The Police Department has a goal to attend to all requests for police service 24 hours a day, and to engage in various proactive and reactive programs for safeguarding people and property against crime and accidents.

The objectives of the department are:

- To maintain response time for calls for police service at calendar year (CY) 1992 levels.
- To limit the burglary rate per 10,000 population to 30.8 incidents.
- To limit the vandalism rate per 10,000 population to 59.7 incidents.
- To maintain a clearance rate for the target crimes of burglary, larceny and vandalism to the actual rate for CY 1992, which are 41.6, 21.9 and 14.7 percent respectively.
- To maintain or increase the number of traffic arrests for driving while intoxicated and reckless driving to a five-year average level.
- To achieve zero growth in the number of traffic accidents recorded in CY 1992, which were 4,678 for fatal/personal injury, and 11,637 for property damage.

The management indicators that help the Police Department ensure adherence to the objectives are: the average response time to calls for police service, and the burglary, larceny and vandalism rates per 10,000 population.

- Formulating and Presenting Budget in a Medium Term Revenue and Expenditure Framework. This would strengthen and make more transparent the linkage between budget and macro-economic objectives, impose greater policy making discipline and reveal the resource availability for new programs/projects.
- Introduce 'multiple constraints' targets for the wage bill increase --- i.e., not greater than x% of GDP at the same time not greater than y% of total expenditure including debt service.
- Consolidating the linkages between revenue and capital budget items, to permit a comprehensive view of expenditures (recurrent and capital) on each discrete project/activity.
- Strengthening budget cells in the Line Ministries.
- Making budget constraints more effective by ending the current system of allowing supplementary estimates requests at the end of the financial year which in effect currently merely validate unapproved spending. All supplementary estimate requests should be submitted well before the end of the financial year.

The Implementation, Monitoring and Evaluation Division

0.22 The GOB has already established a fairly elaborate system of monitoring and evaluating development projects under the Ministry of Planning through the Implementation Monitoring and Evaluation Division (IMED). This agency is responsible for all routine monitoring of projects, and for preparing quarterly and annual overviews of expenditures and the attainment of physical benchmarks. The IMED also carries out inspections to verify information provided by implementing agencies. The IMED does provide a central, independent view of implementation, but the secondary nature of its information, which comes mainly from spending agencies, necessarily detracts from this role. It also emphasizes monitoring rather than evaluation.

0.23 Several aspects of IMED's operations raise concern:

- There is the narrowness of its mandate. Since it covers projects rather than spending programs, it is not in a position to monitor the overall effectiveness of public spending. A monitoring agency should serve as an early-warning system so that action can be taken to correct any misdirection of resources — a vital supplement to the 'after-the-event' accountability of agencies such as the CAG.
- IMED is often ineffective in performing even the limited functions it has been assigned. This aspect needs to be examined closely as problems of a similar nature are likely to be encountered in operating a revamped and broader- focused monitoring and evaluation agency.
- There has been a tendency for managers in charge of implementation to completely pass on the critical function of monitoring, to the IMED losing their ability to take early and effective remedial action.
- There is an excessive emphasis on achieving expenditure targets, without due consideration to physical achievements and to problems which may call for a change in the implementation schedule or the design of projects.

- IMED does not systematically evaluate completed projects, thus offers no guidance for improvements and modifications in project design and implementation.

0.24 IMED needs to be strengthened to better perform its current tasks and to increase its usefulness in assessing overall policy implementation. **Some of the most important measures** include:

- ***Relocating the strengthened IMED in the Prime Minister's Office.*** Agencies of less systemic importance to the overall administration should be removed from the Prime Minister's Office. IMED would then become the Chief Executive's main watchdog for monitoring of, and timely feedback on, the performance of entire range of government's activities--development, recurrent, policy, regulatory, etc. Having the IMED, and the Efficiency Unit (Chapter 2), in one place would ensure that each reinforces and supplements the others work. Thus, the findings of IMED's evaluation work could be used by the Efficiency Unit for dissemination of lessons and best practices.
- ***Widening its mandate.*** Adequate resources are necessary to develop a multi-disciplinary team capable of offering timely reviews of major spending programs. Initially, IMED should concentrate on larger programs of national significance, and supervise the development of internal monitoring mechanisms within each agency. It would be useful to review the experience of countries (e.g., Colombia, Korea) that have invested in centralized evaluation machinery, creating at the center a technical evaluation body and giving it a powerful mandate to review the performance of line departments and agencies with regard to outputs and outcomes.
- ***Improving its monitoring methods and reporting formats.*** IMED should, for example, develop manuals to be used by monitoring units in the ministries. It should also set up systems to contract out monitoring and evaluation. Importantly, it should publish a semi-annual report which should be made

public. Making information readily available to the public would augment accountability.

Other Measures

0.25 Establishing Accountability within Ministries and Agencies is also hampered by deficiencies in the GOB Rules of Business (Chapter 6) and confusion regarding the structures of authority. One of the major problems is disagreement as to who is the Chief Accounting Officer in the ministry. Another problem is the absence of any performance objectives. A third problem is that senior managers lack access to timely and adequate information: most ministries lack good management information systems for finance and operations, and those with large field offices face particular difficulties in relaying instructions and in monitoring compliance. Two sets of measures are needed to further enhance accountability within ministries and agencies.

- ***Changing the Rules of Business*** (Chapter 6) to clarify authority and decision making structures.
- ***Initiating a Program to Strengthen MIS Systems*** within ministries and agencies. This would establish a database to monitor and evaluate government activity and performance and provide more timely economic and social statistics.

Improving Responsiveness to Users

"All powers in the Republic belong to the people...", (Article 7 of the Constitution of the Peoples' Republic of Bangladesh)

0.26 Few developing countries assess the delivery of public services according to their impact and usefulness to the target population. Unlike the private sector where the customer is king, public service is generally driven more by inputs and compliance with rules. People are seen, at best, as recipients and more generally as beneficiaries, with public servants taking the role of benefactors. There is no concept of obtaining feedback from consumers. Even those SOEs ostensibly managed on commercial lines do not feel the need to undertake consumer surveys. The management of state agencies can be expected to

be averse to surveys which they rightly regard as a source of pressure to improve performance. The Civil Service is still wedded to the authoritarian norms, procedural formalism and secretive deliberations of the colonial period, and offers little convincing evidence of the development of any ethos of public service. Bangladeshi public sector management has been particularly wedded to the traditional approach of "closed files" and minimum interaction with the public. For instance, it is a rarity for a member of the public to promptly receive a written response to a query, complaint or request. Any special bureaucratic initiatives usually represent responses to immediate pressures from organized groups — such as trade unions and external donors — or from influential individuals. There is little sign of any continuous effort to align government activities with the demands and aspirations of the ordinary citizen.

0.27 In not too distant future, voter apathy may be a thing of the past as democracy and the information age takes hold and expectations increase. Against this backdrop, the Government should consider medium and long-term measures to improve responsiveness. Box 4.3 highlights several measures which OECD countries have taken to improve responsiveness and transparency. In the UK, for example, the value for money concept is being pursued in the form of a Citizen's Charter, while in the US most agencies are required to make public their performance standards for services. The US Department of Motor Vehicles, for example, has a commitment to its clients to provide certain services within a prescribed time; any violation of this standard entitles the consumer to lodge a complaint or receive a ticket to Disney World! As part of the initiative to Reinvent Government, the US President mandated the following principles governing the provision of federally provided services. Each service provider should:

- survey their customers frequently to find out what kind and quality of services they want;
- post standards and results measured against them;
- benchmark performance against "the best in the business";

- provide choices in both source of service and delivery means;
- make information, services, and complaint systems easily accessible;
- handle inquiries and deliver services with courtesy;
- provide pleasant surroundings for customers; and
- provide redress for poor services.
- 0.28 Initiative along the above lines are long overdue in Bangladesh, and would be very well popular with voters; needless to say, it would be

Box 4.3: Initiatives to Enhance Responsiveness to Citizens

In recent times, OECD governments have tilted their priorities towards the development and improvement of the relationship between the citizen and the administration. In order to achieve this end, several governments have introduced measures to promote increased responsiveness to the public.

1. Procedural Measures: Various measures -- procedural, legislative, language improvement, form redesign, cutting red tape, speeding up procedures, staff training and improving access -- have been taken to make administrative procedures more responsive to citizens' needs. These have included, for example: establishment of a Special Directorate, comprising staff from key economic ministries and representatives of the private sector, to improve communication with citizens, simplify procedures and forms, etc. (France, Norway); establishment of a Special Commission to edit and codify existing texts of the extensive and unwieldy administrative code with a view to simplify access for all users (France); undertaking of a seven-year review of almost the entire body of laws to eliminate obsolete and dispensable laws (Austria); establishment of "Management Guidelines" which include specific standards for forms design and control not only to keep the number of forms to a minimum, and also to ensure simplicity and efficiency of communication (UK); passage of a law emphasizing service-mindedness in administration (Sweden).

2. Information Measures: These seek to make administrations more responsive to citizen's needs and feelings by disseminating more and better information. Wide ranging policies and actions include establishment of appropriate institutions, adoption of promotional devices, availability of communication services and publication of documents. For example: Freedom of Information Acts have been enacted which make all public documents freely available to the citizen unless specifically barred by law (Australia, Netherlands, Norway); Interministerial Administrative Information Centers have been established to provide the citizen information regarding laws, rules and administrative procedures by telephone (France); a directory has been published which provides information on departments, all manuals and codes of policies, rules and procedures of their decision making, availability of these documents and address and phone number of contact officers (New Zealand).

3. Consultative measures: These are devices to obtain feed-back from citizens on administrative matters affecting the public. For example: a Red Tape Commission has been set up to survey public's difficulties in making contact with administration and to suggest ways for improvement (Sweden); a special Directorate has been established to conduct media content analysis and opinion polls (France).

4. Institutional measures: These measures seek to ensure support and protection to citizens against discrimination and interference with their rights by setting up special institutions, appeal courts and tribunals, commissions and advisory agencies. Typical measures have been: Establishment of an Ombudsman to allow citizens to lodge appeals against administrative decisions (Austria, Finland and Norway); Legal Requirement that public officials must furnish to citizens, factual findings on decisions, including reasons for the decisions, within 28 days of written requests (Australia); Enactment of a Public Administration Act to strengthen the legal protection of citizens by ensuring impartiality of administrators in decision making (Norway); Establishment of a Surveillance agency within the government for checking the activities of units and services of the Administration, and enforcing rules regarding economic rights of citizens and conflicts of interest (Spain).

opposed by those who would lose from greater accountability. **The report recommends that:**

- *enhancing customer service and responsiveness to the citizen should be made a high priority of the newly established*

Efficiency Unit in PMs office. A close parallel would be the Service Improvement Unit (SIU), which was established in 1991 in Singapore. The SIU is overseen by a political oversight body and a management committee

headed by the Secretary to the PM. To assist the SIU, almost one hundred superscale officers from all over the government were appointed as Quality Service Managers in each agency. They guaranteed the public direct and immediate access to decision makers, who in turn, could deal

effectively with the complaint. The public response to the SIU has been very good. Donors could also play a critical role by supporting the institutionalization of customer surveys for the projects and programs they support.

Box 4.4: A Citizen's Charter: The UK Example

The Citizen's Charter was launched by the Prime Minister in July 1991 with the aim of raising the standard of public services by making them more responsive to the wishes and needs of users. The Charter is based on the recognition that all public services are paid for by individual citizens, either directly or through their taxes. Citizens are entitled to expect high-quality services, responsive to their needs, provided efficiently and at a reasonable cost. Where the State is engaged in regulating, taxing or administering justice, these functions too must be carried out fairly, effectively and courteously. The Citizen's Charter aims to give more power to the citizen. It is not a recipe for more state action, but a statement of the Government's belief in the right of citizens to be informed and to choose for themselves.

The Charter sets out a number of key principles all designed to treat the consumer of public services as a "customer", and making these principles an integral part of the day-to-day management and operation of those services. Every citizen is entitled to expect:

- *Explicit standards* — These have to be set, monitored and published. The actual performance of agencies against these standards must also be published.
- *Information and openness* — Including full, accurate information readily available, in plain language, about how public services are run, what they cost, how well they perform, and who is in charge.
- *Choice and consultation* — The public sector should provide choice where practicable. There should be regular and systematic consultation with those who use services. Users' views about services, and their priorities for improving them, are to be taken into account in final decisions on standards.
- *Courtesy and helpfulness* — Public servants, who will normally wear name badges, will provide courteous and helpful service. Services are to be available equally to all who are entitled to them and are run to suit their convenience.
- *Putting things right*. Well publicized and easy to use complaints procedures are to be available, with independent review wherever possible. If things go wrong, there should be an apology, a full explanation and a swift and effective remedy.
- *Value for money* — Efficient and economical delivery of public services within the resources the nation can afford. And independent validation of performance against standards.

British Rail, Passengers' Charter

The Charter sets targets for the reliability and punctuality of each line, and contains a clear commitment to improving the quality of service, outlines provisions for **compensation for inconvenience**, stipulates the wearing of name badges and establishes performance related pay.

London Underground Customer Charter

The Charter commits the London Underground to providing a safe, quick, reliable, and value for money service. It includes a **new refund scheme which entitles customers to a refund voucher if they have to wait on the platform for 20 minutes longer than advertised**, or if the train in which they are traveling is delayed by more than 15 minutes. The scheme is advertised on posters at all stations.

The Utility Companies

Some public services like gas, telecoms, electricity, and water are now in the private sector and, because full competition will take time to develop or will always be limited, regulatory bodies have been set up to look after consumers' interests and encourage competition. The Government's new Competition and Service (Utilities) Act of 1992 provided new statutory powers for regulators to: (i) set and monitor standards; (ii) help make customers aware of standards; (iii) provide for compensation where guaranteed standards are not met; and (iv) improve complaints procedures.

- **Requiring agencies to define customer service standards clearly.** Each agency should set out its customer standards (Box 4.4), at the beginning of each year in a public document representing a contract with those it is meant to be serving. This would define agency customer standards. An important element of the service standard should be refunds to

consumers for poor quality and unreliable service (e.g., burnt out electrical appliances, excessive billing, dead phone lines, etc.). *Consumers in Bangladesh must be compensated for having to suffer the poor quality of service provided by SOEs, particularly when they cannot exercise consumer choice.*

0.29 *Service standards* have been introduced in many countries. In the UK, Citizen's Charter were introduced in 1991. France has enthusiastically pursued its own 'Project de Service', Canada has initiated 'Public Service 2000, and Malaysia has Vision 2020. To be successful, these initiatives should contain the following elements:

- *Clearly Defined Standards* — Each public service should be required to publish the service standard that the customer can expect. This would be publicly announced and available at the point of delivery in hospitals, schools, railway stations, police stations, customs offices, ports, etc. Actual performance should be measured against the standard, and the results should be published.
- *Widely disseminated information* — Special efforts will have to be undertaken to make users aware of what services they should expect. Comparison and publication of performance between service centers can also itself encourage competition and increase pressure for improvements. In some cases, however, as with immunization, use of safe water, and primary education, the citizens themselves would have to be made aware of the need to make full use of the available services.
- *Effective means of redress* — Citizens need effective channels to air their complaints and get redress. The most important measure should be refund to consumers, and possibly penalty on the SOE for providing poor service, and effective mechanisms for handling complaints. The latter would need to start with a change of attitude by service providers. Rather than simply reacting defensively, they should treat complaints as valuable information on ways to improve customer satisfaction. But eventually, there should also be consumer protection legislation to ensure that providers accept their liabilities.
- *Better value for money* — Continuous efforts should be made to increase value for money by improving efficiency and productivity and eliminating waste. Every public service should have targets for such improvements

and should be recognized and rewarded for its accomplishments.

0.30 An important benefit of requiring goals/achievement statements from Ministries and establishing service standards is that it would enable citizens groups to monitor and evaluate what the Government intends to do, what is actually to be achieved, and whether the results are delivered cost-effectively and in line with announced objectives. Citizens groups could then put pressure on all levels of Government to deliver what has been promised. As with performance objectives, it is well within the capacity of Bangladeshi agencies, with the assistance of the Efficiency Unit, to establish service standards (e.g., number of days for: Custom clearance of goods, giving drawback refunds, recording land titles, correcting excessive bills, providing utility connections; reduction in consumer complaints; on-time departures, etc.) without the need for extensive external assistance or lengthy studies. ***The important issue would be to ensure that monitoring is not purely on self-reporting basis and that an independent external agency (e.g., Ombudsman's Office) is involved in the oversight role and in enforcing standards.***

Enhancing Transparency

0.31 The foundations of accountability in government are transparency and openness -- to be accountable, the activities of government agencies need to be visible. On all but a handful of issues related to the security of the State, the public should have uninhibited access to information. The wide dissemination of information on government policies provides for informed public debate; it also helps to improve policy design, facilitates acceptance and ensures efficient implementation. Unfortunately in Bangladesh, an extraordinary number of activities remain outside the public purview, a phenomenon which is at least partly a carryover from colonial times when official interests were divergent from those of the public.

0.32 Bureaucrats typically are obsessed with secrecy and have deep misgivings about freely providing any information — however innocuous — to members of the public. The phenomenon is aptly captured in the *Yes Minister's* fictional

Cabinet Secretary's statement that "Open Government is a contradiction in terms. You can be open — or you can have government". This is, of course, nonsense. However, it is worth noting that there are three major reasons for this attitude.

0.33 First, many civil servants lack professional knowledge, and thus have little confidence in their own decision-making abilities. As a result, wary bureaucrats follow the 'maximum safety rule' — classifying virtually everything as confidential or secret. They are always nervous that they may inadvertently divulge something that could be used against them, or that they might cause embarrassment to higher officials and policy-makers. They are also unwilling to part with discretionary authority and arbitrary powers that would wilt under the glare of public scrutiny. As a result they are over-enthusiastic users of the 'secret', 'restricted', and 'confidential' labels. *For example, the memorandum for the aid group meeting is classified as restricted, though it contains nothing that should be withheld from the public* — and there are excellent reasons for using it to develop public awareness and build a consensus on issues facing the economy.

0.34 Second, there are specific laws and rules which explicitly make it a criminal offense for civil servants to disclose various kinds of information without authorization. For instance, the Official Secrets Act of 1923 and the Government Servants Conduct Rules (GSCR) of 1979 bind the civil servant to an oath of secrecy, at all times. Paragraph 19 of the GSCR, for example, even forbids government servants, unless empowered by the Government, "to disclose directly or indirectly to *government servants belonging to sister organizations* or to non-official persons or to the Press, the contents of any official document, or communicate any information which has come into his possession in the course of his official duties — whether from official sources, or otherwise" (italics added).

0.35 Third, bureaucrats believe that revealing too much information undermines the trust and confidence between civil servants and their political masters, although, as in other countries, this has hardly been a deterrent to leaking information. Yet, despite the explicit secrecy rules

and prohibitive laws, "peddling secret and confidential government papers" has become quite a lucrative vocation amongst Bangladesh's civil servants.

0.36 Many countries now recognize that secrecy reduces efficiency and the quality of decision making, but most importantly, it compromises democracy. Decisions taken in full view of the public are more likely to be economically rational. As a result, several countries have changed their legislation to ensure a more open government. *In New Zealand, for instance, the Official Secrets Act says that everything is available unless designated as secret.* Under the new legislation, it is the originator of the information who is responsible for its release, not the minister. In fact, even if the minister decides that something is secret, he can be overruled in the public interest by the Official Information Commissioner, usually the person who is also the Ombudsman. The US also has a wide-ranging Freedom of Information Act, and the Congress is asking for it to be further extended. ***It is recommended that serious consideration be given to amending the Official Secrets Act and the GSCR,*** to encourage and legitimize the flow of information between the state and the citizen.

0.37 The report recommends several other measures, which are practiced in a number of countries and worth emulating in Bangladesh:

- ***Announce a public policy on transparency.***
- ***Establish a Task Force on Public Sector Transparency,*** made up of independent members drawn from various professional and occupational groups to recommend specific measures for increasing transparency.
- ***Publish the earnings and tax payments of all elected officials, as reported in tax returns.*** Such a measure would not only enhance the moral legitimacy of tax enforcement, but also increase the pressure on public officials to correctly report their incomes and comply with tax laws.
- ***Regularly publish a list of bank defaulters,*** unlike the ad-hoc action in the past.

- **Enhance dissemination of information and reports** by regularly making available to the parliament and media, annual reports of SOEs, IMED reports, macro-economic and project information made available to donors, amount of tax concessions to public/private sector, free services (e.g. airline tickets, vehicles, etc.) to public officials, etc.

0.38 Greater openness would, above all, improve the interface between the Government and the private sector. The principle guiding public and private sector interaction must be that *tax-payers deserve to know what the Government does and, even more important, what it fails to do.*

Combating corruption

"We are men of power you say, and take advantage. Why man, what is the use of station if we are not to benefit from it?" Henry Vansittart, Governor of Fort William, Bengal (1761).

0.39 All societies face the problem of official corruption, but its scale and the intensity of social opprobrium which attaches to it, vary considerably across countries, and over time. Most citizens of Bangladesh believe there is corruption at almost all levels of government. It taints every section of society and stretches right across the political spectrum. This environment of graft and venality: undermines the public confidence in government; engenders wrong economic choices and constrains its (government's) ability to implement policies; makes the poor pay the price; and threatens its strategy of private-sector-oriented growth. Even more ominously, social condemnation of official corruption appears to have waned. Public cynicism has reached a state where an official who shuns illegal money-making is likely to be regarded with mild contempt — as lacking in courage and initiative. In short, there is a widespread sense of resignation, coupled with a belief that attempts to fight corruption are doomed to fail.

0.40 Many of the country's corruption problems stem from earlier periods of non-democratic rule, which further undermined already weak systems of checks and balances. Presidents, for example, arrogated the authority to

make many appointments by ensuring that promotions or inter-cadre movements were screened by a ministerial committee for approval by the President — rendering irrelevant any review by the Senior Services Selection Board or the Public Service Commission. Ministers also tended to subvert the organizational structure of the civil service, by making illegal requests for favors directly to junior officials — encouraging them to believe that promotions would go to those members of the Civil Service who 'cooperated'.³⁷ However, even with the restoration of a freely-elected government in 1991, it has been difficult to realign distorted patterns and procedures of governance with the needs of a democratic state.

0.41 One view of corruption is that it represents a disguised form of taxation. Instead of paying for high public sector wages through general taxation, people end up paying for public services by bribing officials.³⁸ When bureaucratic and regulatory controls are pervasive, corruption may be seen as the way of overcoming them — paying officials not to enforce pointless rules and restrictions. While this may seem rational, the risks and uncertainties attached to corruption make it much less efficient than a more transparent system of raising revenue. The "going rate" may not be widely known, for example, and even after payment is made there is no guarantee that a task will be carried out. By extracting 'rents', bureaucrats evidently raise the cost of doing business.

³⁷ Fairly operated investigation and enforcement procedures for dismissal of corrupt officers may be useful in combating malpractices. " In Singapore, large or small corruption is penalized by expulsion from the civil service and withdrawal of one's pension. In addition, dismissed public employees are unwelcome in the private sector." *The East Asian Miracle*, World Bank (1993), p 180.

³⁸ Some economists suggest that this sort of bribe represents a hypothecated or earmarked tax, as only the actual users of services need to pay for them through bribes. Also, the costs of corruption can be expected to be higher with concentrated decision making. Giving many officials the authority to provide a particular service keeps costs down. The worse scenario is one in which doing business involves buying off dozens of individual "monopolists" in the bureaucracy. See: "Corruption", Shliefer, A and Vishny, R, *Quarterly Journal of Economics*, 1993.

0.42 The reasons offered for the extensiveness of official corruption are numerous. Many of these are cultural or sociological, but the focus here is on organizational and economic policy-related causes. Such explanations are based on the 'private interest' view of government which applies the individualist assumptions of neo-classical economic theory to those who run the State. Those in public office are assumed to pursue their own narrow private interests, restricted primarily by mechanisms of accountability to the electorate.

0.43 The following simple framework provides a useful tool to both identify causes of corruption as well as combat corruption.

$$C = M + D - A - S^{39}$$

Where **C** stands for corruption, **M** for monopoly, **D** for discretion, **A** for accountability and **S** for public sector salaries. Corruption thrives where there is discretion and monopoly, accountability is weak and public servants are poorly paid. The main causes of public corruption in Bangladesh include these factors and a few others:

- *The nature of the regulatory environment.* The extensive and opaque regulatory structure provides a fertile environment for rent-seeking. And the absence of any effective means of obtaining redress through legal or administrative procedures ensures that abuses of bureaucratic power go unpunished.
- *The lack of transparency in government.* Due to poor public access to information on GOB decisions, dubious decisions go unquestioned.
- *The influence of powerful business interests.* Businesses, both domestic and foreign, are not averse to bribing officials.⁴⁰ Many foreign

³⁹ This equation is an expanded form of the corruption equation (C = M+D-A) first enunciated by Robert Klitgard (University of Natal, South Africa).

⁴⁰ External donors recognize the role of foreign aid in sustaining corruption, and have sought to improve competition and transparency in procurement under aid projects. This is reflected in documents such as "Good Procurement Practice for Official Development Assistance" (OECD-1986) and the efforts of the OECD/DAC Working

companies regard bribery as just one of the costs of doing business, and in some countries are allowed to write off these 'commissions' as legitimate business expenses.⁴¹

- *Low salaries for public servants.* The erosion of compensation packages (Chapter 7) of policy-makers and bureaucrats, particularly in the post-independence period, has increased temptations for them to supplement their incomes illegally.⁴²
- *Weaknesses in the legal framework.* Even when malfeasance is detected, punishment is unlikely.
- *The self-sustaining cycle of corruption.* The decline in the reputation of the Civil Service along with the growth in the ease and acceptance of graft, have created conditions of 'adverse selection' — it is generally believed that many who have been applying for public services jobs in recent years seem to be motivated less by considerations of public service, professional pride, or prestige, and more by calculations of the possibilities for rent-earning. It is perhaps, no coincidence that recent recruits to the Civil Service seem to prefer the revenue services over the

Party on Financial Aspects of Development Assistance to ensure competitive bidding processes are used in aid-financed projects.

⁴¹ Organizations such as Transparency International are supporting efforts to develop a policy framework designed to combat corruption in developing countries. Foreign companies will be required to sign agreements to abide by certain rules of conduct in their dealings with the governments of these countries, which would include desisting from illegal efforts to influence bureaucratic decisions.

⁴² The comparability of the civil service compensation package to the private sector appears to have been an important determinant of overall civil service quality in East Asia. One study observes that, "Not surprisingly, Singapore, which is widely perceived to have the region's most competent and upright bureaucracy, pays its bureaucrats best." Of course the richer economies can afford to pay their bureaucrats better, but, "The challenge for developing economies is to concentrate available resources where they can most effectively replicate the advantages of the developing countries." *The East Asian Miracle*, World Bank (1993), p 178.

traditionally more prestigious administrative and foreign services.

0.44 But it should be emphasized that bureaucratic corruption cannot exist in isolation; it is a reflection of prevailing behavioral patterns and cultural mores in society. Corruption in government is sustained only by the willing participation of many people in the private sector and the business community. And political leaders must also take much of the blame. One of the most important factors in the spread of corruption is arguably the growth in political graft. It is not uncommon for political leaders, having 'invested' relatively large sums in their election campaigns (in flagrant violation of the legal limits on campaign expenditures) to take advantage of rent-seeking opportunities once they gain office, often in collusion with domestic or foreign business interests. As a result they tend to favor the centralization of decision-making and opt for such functions as sitting on the boards of state-owned banks which offer opportunities for patronage and graft. Political corruption is also the source of funding for the political parties, which have failed to develop broad-based systems of eliciting contributions. The corruption of politicians has a strong demonstration effect throughout the public service: as the saying goes, "the fish always rots from the head".

0.45 **The Costs of Corruption.** It is difficult to fully quantify the economic cost of corruption, but there are identifiable transaction costs and delays to particular business activities (Box 5.3). From the perspective of the private sector, corruption introduces a potentially large and uncertain cost element, and diverts resources towards non-productive policy-induced rents.⁴³ Corruption also causes considerable inefficiency in public administration: it leads to higher costs and delays in public projects (Box 6.1); it leads to biases in the formulation of policies to create opportunities for rent (such as the introduction of

import quotas or grants of monopoly licenses), and distortions in the implementation of policies to benefit particular groups. Some people suggest that corruption will not do serious damage to economic growth. Several East Asian countries live with considerable levels of corruption so, after all, one could **take a more relaxed view of graft in Bangladesh.**⁴⁴ **This is untenable — and irresponsible — an excuse for perpetrating the rot.** Leaving aside considerations of morality or equity, it should be remembered that the East Asian countries are doing well not because of corruption, but despite it. More recently, these countries (e.g. Korea) are coming down hard on corrupt officials.

0.46 **Combating Corruption.** Successive governments have condemned corruption and taken isolated punitive actions, but they have failed to tackle the underlying structural issues. Most programs to eliminate corruption have concentrated on better enforcement of the rules and procedures — an approach intrinsically flawed by its dependence on the incorruptibility of the enforcing agents and hampered by the weak legal system. The tendency to view corruption as a 'personal misdeed' has led to an excessive reliance on punishment. This may have had some deterrent effect, but has not addressed the root of the problem as defined by the corruption equation: $M + D - A - S$ (para. 4.36).

0.47 In Bangladesh powerful politicians and bureaucrats are never prosecuted while in office — a clear indication of the extent to which parliamentary enforcement mechanisms are failing. There is an Anti-Corruption Bureau (ACB), but it is largely ineffective. It takes an average three years to investigate cases, of which only 15 percent actually get to the courts. In 1994, the ACB got almost ten thousand complaints, and on the basis of these filed 1,584 cases. However, during the period 1991 to 1994, only 365 persons

⁴³ Policy-induced rents are often justified on the grounds of efficiency or overcoming market failure, such as those provided under the patent system. An evaluation of such policy-induced rents depends on estimating static welfare losses from, e.g., the reduced supply of a monopolist, as well as the dynamic effects on growth and investment, such as the tendency to promote inefficiencies.

⁴⁴ A recent report by a Hong Kong firm, Political and Economic Risk Consultancy (PERC) notes that expatriate managers (mainly from Europe and America) felt that most countries in Asia were more corrupt than their own. Rather than corruption itself, these managers were bothered by inefficiencies in government and the legal system, and the tendency to use "anti-corruption" drives as an weapon in party politics. *The Economist*, May 27, 1995, p 71.

were convicted from ACB cases and only 95 of these persons were officers. Due to its arbitrary procedures for selecting cases for investigation, the ACB is now widely viewed as a vehicle for pursuing personal or political vendettas. In fact, the unpredictable nature of the ACB's activities, and the lack of legal sanctions against unjustified harassment by its officials, has made the agency yet another source of delay and inefficiency in government. Importantly it has created a fear and paralysis of action.

0.48 A systematic effort to attack the sources of corruption is urgently needed. This means rooting out the opportunities and incentives for graft embedded in the extensive and opaque structure of regulation and administrative control. Even if the Civil Service were to be strengthened along the lines recommended in this report, it would still be difficult to properly monitor the vast regulatory structure with all its in-built discretionary powers. A more practical approach would be to expose administrative processes to public scrutiny by cutting away the regulatory thickets in which corruption thrives. This would leave a smaller number of rules and thus simplify administration. The design of regulations must take into account the limitations of the bureaucracy. Reducing the scope for graft can then be combined with efforts to induce higher ethical standards — through better training, developing an *esprit de corps* based on service prestige and increasing compensation. Financial incentives with bonuses linked to performance or consumer-satisfaction and meritorious awards⁴⁵, should also be introduced.

⁴⁵ The importance of prestige in fostering an *esprit de corps* can be seen from the use of royal decorations in Thailand to reward service to the kingdom. The willingness of private individuals to donate large sums to receive similar awards is a reflection of the substantial, if unrealizable monetary value of these awards. See: "The Value of Prestige: Thai Royal Decorations", *The East Asian Miracle*, World Bank (1993), p 178.

Box 4.5 Combating Corruption

Several countries, both developed and developing, have faced the problem of corruption. The following are some of the innovative measures that countries like Chile, Singapore and Australia have taken to combat corruption.

1. The Chilean Case: Forty-one Recommendations for National Measures to Fight Corruption

The significant recommendations of the Chilean Commission on Public Ethics can be summarized as follows:

- Draft and implement a national policy of public ethics.
- Raise the status of public servants and their pay. Improve the merit system.
- Establish a public sector code of honesty.
- Review procedures to determine administrative accountability.
- Prohibit trafficking influences and the misuse of privileged information.
- Improve regulations governing conflicts of interest among public duties.
- Improve the regulations that govern conflicts of interest between public duties and private activities.
- Require the declaration of assets and personal interests for people entering or leaving public service.
- Remove local and national legislators from office when they influence public decisions for their own benefit.
- Extend the legislation on conflict of interest to cover higher officials, including the President.
- Have private accounting firms carry out selective audits supervised by high-level federal officials.
- Eliminate secret government accounts and discretionary executive spending unless fully justified.
- Create an office of anti-Corruption Prosecutor.
- Enact a Freedom of Information Law.
- Require government agencies to release regularly to the public their balance sheets and reports of activities.

2. The Singapore Case

Singapore has succeeded in minimizing the problem of corruption because its anti-corruption strategy is characterized by:

- Commitment by political leaders, especially Prime Minister Lee Kuan Yew, towards the elimination of corruption both within and outside the public bureaucracy
- Adoption of comprehensive anti-corruption measures designed to reduce both the opportunities and need for corruption.
- Creation and maintenance of an uncorrupted anti-corruption agency which has honest and competent personnel to investigate corruption cases and to enforce the anti-corruption laws.
- One of the Government's approaches to combating corruption is to reduce the incentive for corruption by raising the remuneration package of its officials in line with private sector salaries.

3. The Australian Case: Independent Commission Against Corruption

The Commission created as a statutory corporation by the Independent Commission Against corruption Act 1988, is independent from the Government, but accountable to Parliament through reports about its investigations and through the Joint Parliamentary Committee. The Commission aims to minimize corruption through: Investigation, Corruption Prevention and Public Education.

Investigation

- *Public Complaints.* The commission relies upon and in fact encourages members of the public to come forward and provide information about corrupt conduct.
- *Reports from Public Authorities.* The principal officers of the public authorities, including government departments, local and municipal government and other public sector instrumentalities, have an obligation to report suspected incidents of corrupt conduct.
- *Parliamentary References.* Both Houses of Parliament may refer a matter to the Commission for investigation.
- *Through Co-operative Investigation.* Commission investigators sometimes work closely with the investigative staff of other authorities.

Prevention:

- Advise the public sector about change in laws, procedures and work systems.
- A Corruption Prevention Strategy has been in place since 1990, which includes the following principles: Prevention is better than cure; Corruption prevention is a management function; and Accountability makes for committed management.

Public Education:

The Education Unit aims at:

- Informing people about the functions of the commission and showing how individuals can assist the Commission in its work.
- Raising Community awareness of the ethical standards they should expect from public sector employees and elected representatives.
- Challenging community attitudes which allow corruption.

The Media Unit's objectives are:

- To show that corruption does matter to all citizens in New South Wales because of its detrimental effects.
- To persuade people that something can and must be done about corruption; and
- To motivate individuals to play a part in fighting corruption.

0.49 Reducing corruption will also require measures to improve openness in government as well as transparency in its operations. A few examples of how other countries have tackled this issue are given in Box 4.5. These provide several options and ideas for consideration by the Bangladeshi Parliament, Government and citizen. As a first step, it is suggested a **Task Force for Eradicating Corruption be established for reviewing the whole gamut of issues relating to corruption.** The Task Force should comprise government officials, parliamentarians and leading private citizens. Some specific actions for consideration of this Task Force are noted below:

ACB

- Establishing an autonomous Standing Committee, protected by law, to oversee the ACB, and to authorize investigation of senior staff in ministries, agencies and corporations by a statutorily appointed and protected public prosecutor. The Standing Committee should comprise judges both serving and retired, secretary-level people and other leading public figures.
- Developing a medium term program to strengthen ACB.

General

- Formulating a medium term program to combat corruption.
- Initiating a public awareness campaign.
- Increasing citizens' access to information about government policies and decisions as proposed earlier, and making this information more accessible — in simple language free of bureaucratic and legal jargon. This must not, of course, preclude the provision of detailed technical information to more informed members of the public.
- Replacing the Official Secrets Act.
- Providing easy access to information on public contracts. For a start, summary

information should be provided on all major contracts, indicating competing bids and the reasons for the final choice.

- Reducing the density of regulation and improving its design.
- Strengthening civil service compensation packages.
- Introducing judicial reviews and an Ombudsman's office.
- Creating credible sanctions against corruption, and rationalizing disciplinary mechanisms.⁴⁶
- Developing innovative incentive mechanisms to induce high standards of public service.⁴⁷
- Actively cooperating with the agencies such as Transparency International in developing institutional procedures to check corruption.

⁴⁶ The credibility of any disciplinary body is only as good as that of its members. Those heading the civil service must be chosen on the basis of their quality and integrity. The breakdown of the current system reflects the lack of moral authority at the top that is a vital supplement to the coercive powers used to ensure compliance with clearly-defined standards of public service.

⁴⁷ The value of public awards and decorations for services to the nation should not be underestimated. Currently in Bangladesh, the only decorations for public service are those for military valor.

AND PRIVATE SECTOR ACTIVITY

PUBLIC GOVERNANCE OF CITIZEN

This chapter discusses ways in which Government policies affect the private sector. First, it looks at the intricate maze of regulations through which citizens, entrepreneurs and firms have to navigate. Then it considers the weakness of the legal system. And finally it assesses the performance of three government agencies which aim to promote private sector activity.

0.1 As well as ensuring the provision of certain public services, the Government also has a crucial role in ensuring an enabling environment for the private sector and establishing a sound system for economic governance. The three basic ingredients of such a system are:

- A sound system of regulations which provides a sensible framework for encouraging private initiative and maximizes economic growth while minimizing health and safety risks and environmental degradation.
- A reliable legal framework and efficient court system which permits equal access to economic opportunities and ensures the contestability of markets.
- Effective support institutions to aid private sector activities.

Regulatory Interface Between Citizens, Firms and the State

"The cord was made from the bark of the cornel tree, and so cunningly was it tied that no one could see where it began or where it ended. For Alexander, then, how to undo it was indeed a puzzle... some say that Alexander cut the knot with a stroke of his sword and exclaimed, 'I have done it!'..." (Arrian).⁴⁸

⁴⁸ *The Campaigns of Alexander*, Arrian, Penguin (1971), p 105.

"Ill made legal shoes pinches the citizen's foot"
(Chinese Proverb).

0.2 The term 'regulation', as commonly used in political economy connotes "a sustained and focused control exercised by a public agency over activities that are valued by the community".⁴⁹ This concept of regulation excludes traditional areas of criminal justice system. It covers instead a huge variety of industrial and non-industrial activities and involves a number of different legal forms. The report considers two broad areas of regulation, namely, social regulation, and economic regulation. *Social regulation* deals with matters such as health and safety, environment, and consumer protection, and becomes necessary where either the unregulated market fails to meet the consumer's preferences, or where market transactions have spill-over effects (or externalities) such as pollution which damage the interests of people not directly involved. *Economic regulation*, on the other hand, covers a much narrower area and is primarily concerned with the control of monopolies.⁵⁰

⁴⁹ Selznick, P., 'Focusing Organizational Research on Regulation', in Noll, R., *Regulatory Policy and the Social Sciences*, (1985), p 363.

⁵⁰ Regulation-types vary greatly in their intrusiveness, impact on market forces and ease of monitoring and enforcement. Under command-and-control regulation, a form commonly used in Bangladesh, the permissible actions are very rigidly defined, with specific clearances necessary before an activity commences. Second, there is potential regulation involving the use of guidelines, violations of which result in legal penalties. A third possibility is a reactive regulation policy (pharmaceuticals), under which regulators decide ex-post whether to approve a new product. A fourth variety is informing regulation, where firms are required to provide information to consumers about their product or services which effectively sets standards for the industry. A fifth type is decentralized regulation, under which local authorities or firms themselves are primarily responsible for monitoring and enforcement.

0.3 There are many explanations for the prevalence of regulation, but the debate is commonly structured around 'public interest theory'.⁵¹ In Bangladesh the regulatory framework is replete with examples of legislation apparently motivated by paternalistic impulses in the public interest. The commonest justifications for intervention in the public interest are:

- *Guarding against the emergence of non-competitive markets.* Technical or other factors may prevent the development of competitive markets and lead towards natural monopolies — as in the provision of water or electricity services. In this case the State must intervene to protect consumers and encourage efficiency.
- *Correcting the balance between private and social costs.* In some cases economic transactions may cause spill-over effects or 'externalities', such as pollution, whose implications spread beyond those directly involved. In order to correct for the resultant wedge between private and social costs, the State can intervene to impose taxes or provide subsidies.
- *Improving market information.* Well functioning markets require good flows of comprehensible information. But in some cases consumers will find it difficult to acquire sufficient information or understand it even when they get it. This tends to introduce forms of uncertainty and reduce market efficiency. The State may therefore intervene to protect consumers by mandating minimum standards for goods and services which cannot be chosen on the basis of price alone — such as financial services, medicines, medical services, or university education.
- *Social or equity considerations.* The State may have social goals which it wishes to promote, and social standards which it would like to see applied to economic activity. This

could include wider concerns about the distribution of resources as well as specific concerns for certain disadvantaged groups. Thus it may introduce regulations concerning, for example, gender discrimination in the workplace.

0.4 All of these forms of intervention were designed to promote the public interest. Over time, however, such interventions have often been distorted to serve interests which are rather more private. These might be those of public officials who take advantage of their knowledge and control of regulations and use these to their own ends. Or it might involve richer and more influential people who succeed in gaining control over the application of the rules — what is called 'regulatory capture'.⁵²

The Bangladesh Experience — not Regulation but Strangulation

0.5 In many ways, compared to other developing countries and its own history, Bangladesh has undertaken a remarkable program of deregulation -- most domestic and foreign private sector is free of state control. However, much of the gains continue to be defeated by the thicket of "administrative underbrush" and the coercive powers exercised by officials in government monopolies. At the same time, Bangladesh is over-regulated in many areas and a large number of regulations would be unable to withstand the scrutiny of common sense. But the problems extend far beyond the volume of regulations, or their cost. Some of the worst effects arise from their often haphazard nature — with a disturbing lack of proportion and consistency. The Government too often seems to be simultaneously battling risks at all levels — major and minor, widespread and narrow, real and negligible — yet treating all with equal zeal. This is largely because the underlying statutes are not a coherent body of law but more a kind of 'archaeological pile', each layer a reflection of the contemporary headlines and political impulses of

⁵¹ For a concise and up-to-date review of the literature in this area see: Ogus, A., *Regulation: Legal Form and Economic Theory*, Clarendon Press, Oxford, 1994.

⁵² For a review of the literature in this area, see: Wilson, G., "Social Regulation and Explanations of Regulatory Failure," *Journal of Political Studies*, Vol 32, (1984).

the party in power. As a result, too little attention is paid to the cost of the whole and the relation of cost to benefit. For the most part, unnecessary regulations *impose huge hassles on the ordinary citizen's life and at the same time have maximized cost to firms while minimizing benefits to the public.*

0.6 Regulations are equally overbearing in many other sectors. Thus, the large state role in education has necessitated establishment of an extensive educational bureaucracy, and a regulatory system which is stifling. Senior officials spend much of their time not on policies or programs but on such routine administrative matters as the appointment and transfer of individual teachers — with all the attendant opportunities for patronage and rent-seeking. A good example is the process of applying for secondary school recognition/subvention which is lengthy and laborious and the applicant is required to fulfill as many as 31 conditions. Almost 40% of the schools applying for renewal of recognition have to wait as long as two years.

0.7 There is an urgent need to unfetter the economy from this stranglehold, to put regulations on a sound economic footing, and to assure the public an effective voice in their formulation. The regulatory regime in Bangladesh has the following adverse features: first, the regulations are pervasive and unnecessary; second, they are often vague and discretionary; third enforcement is weak and extortionary; fourth, processes for making regulations is flawed; and fifth, regulators and operators are same, in many instances.

0.8 ***Pervasive, Archaic and Unnecessary.*** Like any modern state, Bangladesh has thousands of regulations. What distinguishes those in Bangladesh, however, is that many are archaic, conflicting, and serve no perceivable public interest. Illustrative examples are:

(i) Personal and household goods brought in suitcases in "excess of allotted two suitcases" are subject to Customs Duty/VAT; a third suitcase is allowed duty-free if it contains books (Custom Declaration Form). As one local citizen commented, "The tax authorities have a

preference for the way people pack their bags — two tightly stuffed bags are preferred to three lightly packed bags, and believe that books must be injurious to one's mind and the public interest, and therefore more than one suitcase-full should be taxed".

(ii) Inspectors in the Anti-Corruption Bureau must have a chest size of at least 30 inches and a height of at least 5 feet 4 inches (Anti Corruption Act). The correlation between height and chest size and ability to be a competent anti-corruption officer is not clear.

(iii) Every factory must provide spittoons and toilets must be 30 yards from the workplace (Factory Act of 1923). The regulation regarding toilets made sense when WCs were primitive but is now outdated. Yet the itinerant factory inspector can penalize the factory owner for infringement of rules (or extract a bribe).

(iv) An airline company needs permission from the Chairman of the Civil Aviation Authority of Bangladesh if it wishes to sell aircraft or engines, even overseas (CAAB Act). While setting safety standards for engines to be operated within the country is understandable, requiring permission to sell them overseas defies any logic. Permissions are also required for setting tariffs, a vestige of the days when airlines all over the world were regulated. With airline deregulation, such clauses have lost their relevance. In any case the rates are actually set by the market — between the travel agent and the traveler — so this rule is superfluous.

(v) Installing fax requires not only a separate fax line, but also permission from BTTB. This regulation is archaic and out of line with the information technology revolution.

(vi) Any time a government official needs to go overseas, he or she needs to show

- immigration officials a 'no-objection certificate'. This regulation also lacks any public interest rationale and needlessly generates large amounts of paperwork as well as wasting the time of senior civil servants.
- (vii) Currency over \$5,000 must be declared (Foreign Exchange Act). The basis for the amount and the need for this requirement is questionable. While some countries (e.g. USA) have similar rules to track money laundering, this does not appear to be a problem for Bangladesh. Such a regulation is unnecessary and a problem particularly for overseas migrants who, to get a better exchange rate, prefer to bring savings back as cash, rather than use hundi or banking channels. However if they do so they risk intervention from customs officers who are generally unregulated.
- (viii) Job-lot or stocklot goods cannot be imported. (Import Policy Order). This has little, if any, public interest rationale. On the contrary, it hurts consumers who could benefit from getting access to acceptable quality goods at deeply discounted prices.
- (ix) Stark cases of anti-competitive regulations include: CAAB's recourse to Biman's "right of first refusal" before permitting cargo planes to land in Bangladesh; the 60% surcharge imposed by BTV on advertisement of imported products.
- (x) GOB Labor Attaches in embassies in the Middle-East are required to attest work visas issued by host government, even though the local embassy in Dhaka gets copies of the visa directly from its government.
- (xi) Permission is required to import goods, paid for from overseas foreign exchange holdings (Import Policy Order, 1995).
- (xii) The issuance of passports, requires attestation of photographs by a Class-1 gazetted officer and certification by the police. While the reason — to avoid abuse — is understandable, this requirement is of doubtful value. It hurts the vast majority of law-abiding citizens who suffer unnecessary inconvenience while not deterring those who are likely to indulge in fraud.
- (xiii) Immigration staff check the passports and visas not just of those entering the country but also of those exiting. There does not appear to be any public interest rationale for this. All it does is create unnecessary harassment and offer immigration staff employment, and rent-seeking opportunities.
- (xiv) Before connecting a gas line, the gas company requires the original title deed. This defies logic. All the gas company should require, as in many countries, is the name and address of the applicant security and a deposit.
- (xv) A public servant shall not marry or promise to marry a foreign national except with the permission of the President (Public Servants Marriage Ordinance, 1986). Except perhaps for officers in sensitive positions, there seems no need for the Government to intrude into personal decisions.
- (xvi) Even for firms, the ceiling on land holdings is 60 bighas (Land Reform Act, 1984). This effectively excludes plantation-type agriculture in Bangladesh.
- (xvii) Scrap, maps and charts, or imported goods cannot be exported in their original form (Export Policy Order). This lacks any public interest rationale and in the case of imports also means that Bangladeshis cannot undertake transshipment enterprises — a major business of Gulf States.

- (xviii) Whenever a new factory manager is appointed, the Chief Inspector of Factories has to be notified, or no adult worker shall be allowed to work in more than one factory on any day without permission of the Chief Inspector who will establish the terms and conditions (Factory Act of 1965).
- (xix) Cow milk and buffalo milk is considered adulterated if fat content is less than 3.5% and 5%, respectively (Pure Food Ordinance 1959). Interestingly, such high fat content is considered injurious in many OECD countries.
- (xx) Any airline which wishes to introduce its own ground handling including computerized departure system at the airport must obtain permission of Biman. Biman is currently dragging its feet on an airline request to install its globally linked computerized check-in system at the airport and is instead forcing them to either accept Biman's own system or continue manual check-ins.
- (xxi) There is a ban on the import of South Asian films, when in fact they are widely available in video stores everywhere in Bangladesh, and can be watched on satellite television channels over which the Government has no control. With change in information technology, such restriction has become obsolete.
- 0.9 ***Vague and Discretionary.*** A particularly worrisome feature, which grossly undermines good governance, is that many regulations are left open-ended and ambiguous. This represents a misplaced confidence in the quality and probity of the regulatory bureaucrats — and provides them with too large a degree of discretion. Illustrative examples are:
- (i) All items brought as baggage but not falling in category of "*personal and household effects*" [*italics undefined*] are subject to Customs duty/VAT (Customs Declaration Form).
 - (ii) A micro-computer can be imported on a returnable basis by a Bangladeshi citizen provided he or she submits a "*personal undertaking*" [*italics undefined*] (Customs Declaration Form). Is a *personal undertaking* an oath, bank guarantee, signed statement, or what? The weary traveler must settle this with the friendly inspector.
 - (iii) Stainless steel scrap can be exported on a *case-by-case* permission by Ministry of Commerce (MOC) (Export Policy, 1994). The economic rationale for this is dubious, but worse still, the policy does not lay down any criteria by which the MOC is to decide.
 - (iv) The Import Policy Order (1993-95) bans "old, job-lot, stock-lot" goods, and "prime quality" billets. But it offers no definition for these words, or criteria by which the assessor can classify the goods.
 - (v) Radioactivity tests are required for "*other*" [*italics undefined*] imported food items (Import Policy Order, 1993-95). This nondescript but vague rule is frequently used by customs authorities to harass food importers and manufacturing enterprises such as textile weavers who import corn starch.

Box 5.1. How Good Laws Can Go Sour

The effects of the Chernobyl nuclear disaster are still being felt in Bangladesh. Following the detection of contaminated milk imported from Poland in 1993, the Ministry of Commerce included in the Import Policy Order (1993-95), a stipulation that *all* imported food items, *from any country*, have to be tested for radioactivity levels. This test has to be carried out both at the point of export, and in Bangladesh.

Even the perfectly reasonable requirement that food should not be contaminated, can, however, become a dangerous weapon in the hands of a petty bureaucrat. Most Collectorates actually ignore this requirement since most foods from most countries offer negligible risk. But particular officers can still choose to impose this regulation on whim as a means of rent seeking. When the law is applied, the importer has to apply to the Atomic Energy Commission in Dhaka for certification — a process which takes two months with costs of the order of Tk. 25,000 per inspection per product. Meanwhile, wharfage is incurred on melting chocolates, rotting apples, or decaying rice.

The problem came to a head recently with the emergency import of rice by the private sector. The National Board of Revenue asked the Ministry of Commerce to waive this ridiculous condition but the MOC would not budge about the general regulation: they only gave a special exemption.

Overzealous custom officials have even applied the same law to industrial items like maize starch which is used for sizing in the textile industry.

- (vi) The Government can take a broad series of sanctions against trade organizations — revoking their licenses, annulling their elections, superseding their Executive Committees, or even directing them to amend their by-laws. (Trade Organizations Order). Not only is this heavy-handed law totally contrary to the spirit of private sector development, it fails to specify under what specific conditions the Government can take these measures.
- (vii) The Government may require that permission in writing be obtained from the Chief Inspector of Factories for the extension of any factory, and establish rules on foodstuffs to be served in canteens (Factory Act, 1965).
- (viii) If it *appears* to an Inspector that water for humidification is not *effectively* purified, or any part of building, machinery is a *safety hazard*, he may serve notice (Factory Act, 1965). The italicized terms are undefined and highly discretionary — a circumstance undoubtedly exploited by the inspectors who are the sole judges.
- (ix) Private sector petroleum imports are allowed only with authorization from "*government*" upon fulfillment of "*other*" legal rules and regulations (SRO). The Statutory Regulation Order does not, however, provide any guidance as to who is government or what these "*other*" rules and regulations are (Box. 5.2).

Box 5.2: A Lubricant Becomes Snake Oil

In January, 1995 a Bangladesh firm imported knitting machinery worth Tk.240 million (US\$6 million) for its 100 percent export-oriented production. At the time of commissioning, it was found out that a specialized lubricant, which is supposed to be put into the machine before commissioning, was inadvertently not sent by the manufacturer. The machinery supplier made it clear that the warranty would be void if the machine was not lubricated with this lubricant which only they supplied. The firm opened a letter of credit worth Tk.80,000 (US\$2,000) and the saga began. The lubricant consignment was held up at customs in early March, 1995 since the import of petroleum products is guided by the following rule: "private sector petroleum imports are allowed only with authorization from Government [undefined] upon fulfillment of other [undefined] legal rules and regulations (SRO)". The firm protested to the Ministry of Energy & Mineral Resources (MEMR) that the imports were not for commercial purposes but specifically for use by the importer in his factory. Meanwhile, the correspondence between the Bangladesh Petroleum Corporation (the sole regulator for such imports) and the MEMR ensued, taking three months to come to a conclusion. The decision to release the consignment was taken in May 1995 by which time there had been a delay of almost three months in commissioning the plant — and export sales losses amounting to Tk.40 million (US\$1 million). Perhaps a dalal could have been a more timely option!

The case not only illustrates the irrationality of the regulations but the time it takes to get a bureaucratic decision. All of this at a huge cost to the entrepreneur and the economy — without any accountability or compensation.

- (x) Air tickets may be issued to foreigners working in Bangladesh with approval of *Government* if their salaries are drawn in Bangladesh or if the cost of ticket is borne

by the employer (BB Foreign Exchange Rules (1995). The need for *government [italics undefined]* interference in issuance of tickets defies economic logic and is another example of the bureaucracy's deeply held bias to interfere even in the minutae.

- (xi) For exporting rice/wheat bran, permission is needed from Ministry of Commerce which gives it *case-by-case* basis if the Ministry of Fisheries and Livestock/Livestock Directorate fails to arrange marketing/lift the items within a *fixed time-limit* and at a *reasonable price*. (*the italicized words are undefined.*)

0.10 **Flawed and Weak Enforcement.**

Fortunately citizens and firms are spared compliance with the "letter of the law." But this does not mean that these private agents are not subject to hassles, extortion and costs. In Bangladesh, regulations are exclusively administered by underpaid low-level officials. Anyone seeking to undertake private commercial activity is thus forced to come to terms with the need to obtain the assistance of these numerous petty bureaucrats who use every opportunity to ostensibly monitor compliance, but in fact take advantage of the discretionary and opaque nature to extract rents. Also the fact that more often rules and regulations are known only to those who administer, corrodes ethical standards and gives a major competitive edge to the businessmen who are most adept at obtaining official favors and "bending the rules". It is a system which corrupts both the regulators and those who are subject to regulation, who view regulations as troublesome, but rarely binding, constraints. Citizens nowadays feel no moral obligation to abide by state-imposed rules, since enforcement is selective and only occurs when people are unable or unwilling to make unofficial side-payments.

0.11 An important aspect of regulatory failure is the weak capacity to enforce safety, health, environment and public interest regulations which are necessary for orderly conduct of a market economy. In part, this is because the regulators understanding of the objectives of such regulations and commitment to their achievement

is at best extremely shallow. In many instances it is absence of political wil to take on vested interest. Failed enforcement has enormous economic costs. In addition to the delays and higher transaction costs, there can also be large direct losses. In the banking sector, for instance, poor supervision can result in the collapse of institutions which eventually have to be bailed out with taxpayers' money. In the US, for example, the collapse of the Savings and Loan Associations cost tax payers a staggering \$200 billion. The Bangladesh banking situation has been sliding in a similar direction. Mitigating steps have been taken over the last two years, nevertheless there has been considerable damage.⁵³ The weak capacity of the principal regulatory wing, the Bangladesh Bank (BB) Inspection and Supervision Department, has meant that on- and off-site inspections of banks are at best perfunctory. This has led to 'insider lending',⁵⁴ misclassification of overdue loans, inadequate provisioning for classified loans, and most seriously, the failure by both public and private commercial banks to fulfill their capital adequacy requirements.⁵⁵

0.12 The regulatory situation in the nascent securities market, under the authority of the Securities and Exchange Commission (SEC), is also causing concern. First, the SEC is not an autonomous body; it operates under the Ministry of Finance which not only increases bureaucratic layers but provides confusing signals "on authority" to the investment community.

⁵³ GOB budgetary outlays for recapitalizing the NCBs were Tk. 17.3 billion in 1992 and Tk. 14.6 billion in 1993, which represents the equivalent of 4 percent of GDP in total. This may be just the tip of the iceberg, with large components of the NCBs portfolios (such as bad jute loans) not yet covered by recapitalizations.

⁵⁴ This issue was raised at press conference attended by the Bangladesh Bank Governor following the 1995/96 Budget. The Governor observed that difficulties in addressing the problems of defaults and insider lending reflected deficiencies in the legal system. *Daily Star*, June 18, 1995, p1.

⁵⁵ On the difficulties of improving corporate governance in privatized banks see: "Controlling Insider Control: Issues of Corporate Governance in Transition Economies", Aoki, M., in *Corporate Governance in Transitional Economies*, Aoki, M. and Kim, H.K. (eds), EDI, World Bank, Washington, D.C., (1995).

Secondly, the laws relating to investment banking are as yet inconsistent or unclear to the investors. For example, while the SEC is nearing the stage of issuing a law on Investment Banking, the Bangladesh Bank considers investment banks to fall within the ambit of its Non-Banking Financial Institutions Act (1993). Not only are the capital requirements under the two laws different, foreign investors are reluctant to make firm commitments in a confused regulatory situation. Last but not least, the SEC lacks adequately trained staff — currently it has one Chartered Accountant Member and a Legal Officer from the private sector — there is a need to provide training and exposure to the operations of capital market regulation in other countries.

0.13 *Flawed Process for Making Regulations.*

In Bangladesh, all regulations arise from laws. Lawmakers embody their general intent through enabling legislation, but the responsibility for developing supporting rules, regulations and guidelines is left to the Executive Branch. It is this follow-up function which gives rise to the proliferation of supporting regulations, often contained in thick manuals — everything from the Rajuk Building Codes, to the Anti-Corruption Manual, as well as an array of Statutory Regulatory Order (SROs).

0.14 The primary responsibility for framing regulations typically lies with the relevant ministry/agency. However, ministries/agencies generally lack the expertise or experience in the substantive technical field. Nor do they usually have an in-house legal drafting capacity. In many cases (e.g. environmental laws) consultants are engaged, but for the most part, the task of framing regulations is often assigned to non-specialists and junior bureaucrats. It is, thus, not surprising that the detailed supporting regulations are often deficient, vague, and conflicting — sometimes deliberately so. There are theoretically some checks on the work, in that the draft rules are vetted by inter-ministerial committees, including representatives of the Ministry of Law, but these committees themselves tend to lack technical expertise and drafting capacity.

0.15 A major shortcoming of the drafting process is that it does not incorporate the views of

those people likely to be affected by the regulations. Except for regulations related to criminal matters which does not require a participatory approach, it is useful to consult users when drafting most economic regulations. In the tradition of government secrecy in Bangladesh, regulations are framed outside the public view. Most developing countries attempting reform have tried to be more participatory — holding public hearings, for example, on the soundness and acceptability of the proposed regulations. This is, of course, standard practice in most OECD Countries. Some similar efforts have also been made in Bangladesh. The National Board of Revenue, for example, has made an heroic effort over the past two years to share drafts of 'selected, insensitive' SROs with Chambers of Commerce. Similarly, the Ministry of Forestry has sought to consult NGOs, expert groups and donors about the Environment Protection Bill.

0.16 *Absence of arms-length relationship.*

The other critical regulatory problem is that the regulator and the operator are often one and the same. This is not only antithetical to notions of competition but seriously undermines the concept of accountability. A case in point is the telecommunication sector where the regulatory aspects were separated only recently from the main public sector operator BTTB. Even so, the Ministry of Posts and Telecommunications retains administrative control over BTTB and seems inclined to favor BTTB vis-à-vis competitors. The lines are blurred -- a good example is the ongoing bidding for Cellular service. The MOPT requires all foreign calls to be routed through BTTB's system. Also the inter district communications must be through BTTB even when BTTB cannot even cope with its own. Also the MOPT requires that the interconnection testing "acceptance" will be based on BTTB testing reports. Another important anomaly is the regulatory role of the Bangladesh Petroleum Corporation (BPC). The monopoly of this corporation is in stark contrast to the GOB's commitment to privatizing the trade sector — to the detriment of private sector petroleum companies. Under the rules, a private importer of petroleum and petroleum products has to seek the prior approval of BPC to import. It is no wonder that to date no private sector company has

succeeded in entering the trade (box 5.2). A similar conflict of interests arises in the airlines industry as a result of the blurred distinction between the Civil Aviation Authority of Bangladesh and the national flag carrier, Biman. This has severely limited the development of private airlines. It has, for example, taken two years for private sector short take-off and landing services to be introduced. Even more disturbing is the prevailing view at the CAAB that one of its functions is to promote the interests of the national airline — thus compromising its ability to operate a fair and transparent regulatory regime. The UK model of independent regulatory bodies (OFGAS, OFTEL, OFWAT, etc.) encourage competition and at the same time protect consumer interest in the utilities they regulate.

0.17 *Perverse Effects of Regulation.* The current regime has severe adverse implications for private sector initiative. It adds to business uncertainty and risk, and imposes additional costs through delays and expensive approval procedures. This cost has come to be even more unbearable as profit margins are being squeezed as a result of liberalization (Box 6.3). The licenses required to set up garments manufacturing enterprises are a case in point. This industry, whose phenomenal growth over the past decade is partly ascribed to an initial policy of benign neglect on the part of the GOB, is now being subjected to a whole gamut of regulations and controls. A new investor is now required to obtain over a dozen major licenses or clearances (including those for trade, import trade control, export trade control, textiles registration, and factory construction). Some of these must be renewed each year, by different regulatory agencies. The slowness and arbitrary nature of clearance procedures adds to business risks and costs. Some approvals are contingent on others and hence must be applied for in a particular sequence, further adding to delays. For virtually every one of these items, unofficial payments are demanded far in excess of the prescribed official fees, and payments must be made to the staff of the regulatory agencies. Once all necessary permissions have been obtained and commercial operations commenced, the enterprise then faces a whole new set of regulatory problems, a large

number of them revolving around the customs and taxation departments.⁵⁶

0.18 What is perhaps most striking is that the problems reviewed above, which are generally shared by entrepreneurs in other areas, persist after a decade of widely-promised deregulation initiatives. At the other end of the economic scale similar problems are faced by rickshaw pullers. A UNDP/GOB study (1992) estimated that, on the basis of current levels of illegal extractions by regulators, the license fee receipts by officials could be ten times the official level of Tk 10 million. But even in the unlikely event of the rickshaw regulations being applied honestly, they are still poorly formulated -- neglecting obvious safety measures such as load restrictions, while retaining various strange provisions such as requiring curved hoods and banning rear-view mirrors.

⁵⁶ In the garments industry, for example, two controls are seen as inimical to efficient operations: the requirement that manufacturers are only permitted to import on a back-to-back LC (Letter of Credit) basis, not being allowed to meet any part of their import requirements by drawing even on the 5 percent of foreign exchange earnings they are allowed to retain under current Bangladesh Bank rules; and the restriction on the import of grey (unfinished) fabrics unless they have their own dyeing and finishing facilities. The former restriction reflects earlier years' foreign exchange scarcities, and hinders exporters from competitive sourcing and market diversification. The latter restriction is out of line with the overall policy of import liberalization.

Box 5.3: The Hidden Costs of Doing Business in Bangladesh

Bribes and payments of 'speed money' are facts of business life in Bangladesh, and if one wishes to play the game at all, one has to play by the unwritten rules.

Obtaining utility connections. This can be a frustrating and expensive ordeal. Most utilities are unable to keep up with applications for connections, and long waiting periods are common, unless one is willing to pay the going price for jumping the queue. The initial 'speed money' indicated below must be followed by periodic payments to ensure uninterrupted supply and prompt attention to repairs, particularly for utilities subject to frequent breakdowns. Bribes must also be paid to ensure that subscribers do not get saddled with false bills, which are difficult to appeal against.

- *Electricity* — If the entrepreneur wants a speedy (within a week) connection, payoffs are Tk.100,000-Tk.150,000 (\$2,500-\$3,750) for a high-tension wire and Tk.10,000-Tk.15,000 (\$250-\$375) for a low-tension wire.
- *Gas* — The average waiting period is 3 months and the official fee is Tk.3000 (\$75). To get a gas line connected in a week costs Tk.40,000 (\$1,000).
- *Water* — The average time required for getting the connection is 3 to 4 months. Payoffs come to Tk.14,000-Tk.20,000 (\$350-\$500) to be connected within a week.
- *Telephone* — The average wait here is 10 to 12 years. Kickbacks amount to Tk.50,000-Tk.70,000 (\$1,250-\$1,750) for getting the connection in one week.

Setting up a Garments Factory. Over a dozen licenses and approvals or permits are needed, some of them renewable annually. These include:

- *Trade licence.* It takes almost a year to go through the numerous steps required to get a Municipal Corporation Trade License and BOI registration. Businessmen end up resorting to side payments of Tk.5000-Tk.8000 (\$125- \$200) to get the whole thing done in a week.
- *Factory construction licence.* Although this process is supposed to take a month, it takes much longer in practice, and side-payments are necessary to the tune of \$500 for local authority approval, Tk.5000-Tk.8000 (\$125-\$200) for clearance by the Chief Inspector of Factories, and Tk.5000 (\$125) for the factory licence.

For a garments exporter then, the costs of bureaucracy and corruption (Tk.310,520 or \$7,763) come to 340 percent of the estimated official initial costs (Tk.91,640 or \$2,291) of setting up a business. The ratio of illegal payments increases to 712% when yearly renewal costs are added.

0.19 The regulatory problems are exacerbated by the absence of any speedy means of redressing cases of wrong-doing or of administrative excess. Given the general deficiency in mechanisms to ensure the accountability to the electorate, the general public, when faced with bureaucratic harassment, feel understandably helpless. Ordinary private citizens often find it difficult to obtain reliable and up-to-date information on the regulations, let alone ways of getting around

them. To find their way through the regulatory maze people turn instead to facilitators known as "dalals". For a fee which includes the costs incurred in obtaining official cooperation, these dalals will arrange necessary approvals (box 5.4). The net result is a regulatory system which not only fails the critical test of achieving its goals, but also represents a major drag on the private sector.

Box 5.4 -- Getting Through the Regulatory and Bureaucratic Maze

In Bangladesh, an investor often has to find ingenious and resourceful ways of getting around the dense set of regulations and bureaucratic entanglements. The only effective solution is to employ a 'dalal', a professional payer of bribes. The dalal surfaces whenever official procedure is to be undertaken — for a fee he purchases and completes the multiplicity of legal forms, delivers them to the proper persons, and eventually extracts the needed permission or document. The simplest transactions, such as obtaining a marriage license or a passport, may take hours or days or an age, depending on whether one has used a dalal and how much he has been paid.

The facilitating business, however, operates on specialized lines: some dalals handle only customs matters; others specialize in police work, rickshaw and auto licenses, manpower export, marriages, or opening up a business. In most cases, securing the necessary documents can be so difficult that it is not unheard of for one governmental agency to employ a dalal to extract something from another.

The dalal is effective because he knows his way through the bureaucratic maze, and above all because he has cultivated friends in the bureaucracy. Influence pedlars, protocol specialists, or dalals could thus well be retired government officials. If one is fortunate enough to have a friend, or a friend of a friend, in the right government office, the services of the dalal can be forgone. But a dalal is often quicker and more cost effective than the friendship route.

The dalal normally operates hand-in-glove with another Bangladeshi institution, the 'mastan' (roughly, a forceful expediter). If the dalal needs to apply coercion, he sub-contracts the services of a *mastan*. Mastans have a violent mafia-type reputation. They get things done, but at an unacceptable cost, because it threatens law and order and is fundamentally antithetical to good governance.

The Characteristics of Good Regulatory Design

0.20 To date, there have been no systematic efforts to consolidate or rationalize regulations. As a result, ordinary citizens face innumerable hassles everyday while entrepreneurs frequently find they have to obtain multiple clearances or validations of decisions from different levels or sections of the same agency — a problem which can be accentuated by regulatory turf battles. Nor is there any systematic assessment of economic costs and benefits.⁵⁷ Well-formulated regulations in pursuit of clearly defined objectives should aim to maximize benefits and minimize any adverse

impact on competitive market forces or allocational efficiency (Box 5.5). Proper design should also represent a rational balance between the need to discourage regulatory avoidance while minimizing the administrative costs of effective enforcement and monitoring.

0.21 In terms of models of government intervention there appear to be two extremes. The first is one of fairly dense regulation, typified by some nations of the European Union. This appears to be based on confidence that a properly-designed structure of regulation operated by skilled and diligent regulators can efficiently achieve a wide range of economic and social objectives. Under this model, when the regulations fail, a common response is to require more information from those being regulated and issue more detailed guidelines for monitoring and control. At the other extreme is the much more diffident approach to regulation taken by New Zealand, a model which is perhaps more relevant to a country like Bangladesh with a

⁵⁷ An executive order was issued in 1995 which required all U.S. Government agencies under the President's control to conduct cost-benefit analyses before issuing any major new regulations, wherever they were not prohibited from doing so by law. This directive was in line with similar orders issued over the past two decades. However the difficulty of making such directives effective was reflected in a recent one-year study by the Office of Management and Budget which could find only a few minor examples of how more rigorous analysis had led to more cost-efficient regulation.

Box 5.5: The Fundamentals of Effective Regulatory Reform

The key elements of the new approach are:

- *Using the least intrusive forms of regulation.*
- *Encourage competition* — in preference to regulation.
- *Use simple rules* — which can be effectively monitored.
- *Apply structural regulations* — which need to be enforced only occasionally, in preference to conduct regulation, which is administratively more difficult and requires detailed information and continuous monitoring.
- *Decentralize regulation* — this not only makes regulation more accountable, it also enables the Government to make comparisons between different options.
- *Contract out regulation* — to minimize contact between regulator and regulatee.
- *Minimize and simplify rules* — Regulations should be transparent and easy to understand and monitor. All regulations must contain specific and unambiguous criteria on the basis of which the regulating authority can take consistent decisions. These criteria should be well displayed at every office where citizens come to meet the regulator.
- *Use reactive or incentive regulation* — instead of rigid and distortionary control mechanisms.
- *Requiring cost-benefit analysis* — When making new regulatory proposals, Government agencies should be required to identify and, when possible, quantify all the costs and benefits. Costs to the State and to private entities, as well as the costs of implementation and compliance, should be weighed against the benefits. This should include risk reduction (based on a scientific assessment of risks). Existing regulations should be subjected to a similar, phased review.
- *Guaranteeing due process and public consultation* — To ensure accountability there should be a judicial review of new legislation as well as open hearings to provide information and obtain public views. There must also be provision for appeals to the courts against regulatory agencies' decisions.

limited institutional capacity to enforce regulations and, more importantly, a propensity to abuse the attendant powers. The New Zealand case of minimizing regulation is based on a conviction that efficient, non-distortional regulation involves impractically large informational requirements, and is likely to subject businesses to undue delays and transaction costs. The non-intervention approach does away with the need to appoint large numbers of regulators and to make heroic assumptions about their probity; it also avoids the risks of agencies being 'captured' by regulated interests.

0.22 The report recommends that rather than attempting to untangle the regulatory knot by minor adjustments to the existing system, it would be more sensible to cut away boldly at obstructive yet ineffective regulations, retaining only those which address important policy objectives at reasonable cost. Once this is done, the remaining regulations would still need an effective monitoring mechanism — backed by stiff penalties as well as legal provisions for appeal. Given the long lead-time required to develop a high-quality and well-administered regulatory framework, this would appear to be the best course of action for Bangladesh — although it will need to be supported by improvements in the

legal system. There is also, however, a compelling need to 'regulate the regulators' through a constant process of review, and a regular evaluation of regulations and the agencies which enforce them.

0.23 Regulatory reform involves improving the process by which bureaucrats develop and issue regulations and effect compliance. This will require the use of sound risk assessments and economic analysis, and, most of all, a clear comprehension of the practicality of regulations and their operational implications. The current approach — with its emphasis on control and administrative discretion — must be replaced by one based on economic rationale. In particular it should ensure that private agents are permitted sufficient flexibility to adapt efficiently to changing market conditions. The Government should also try to guarantee public access to information about the regulatory process, and develop ways of encouraging inputs from the public, as well as from professionals and independent researchers.

0.24 Given the difficulty of reducing the extortion-corruption nexus, it is important to minimize contact between the regulators and regulatees. This could be achieved by delegating regulatory responsibilities to reputable private

agents.. An example of this which GOB is pursuing is the PSI for customs clearance. In the same vein, it could also contract with well-qualified and certified private firms for example, to: enforce adherence to factory construction standards, inspect motor vehicle pollution levels; monitor industrial environmental standards; issue licenses for businesses.⁵⁸ These contracts would incorporate penalty clauses for failures to apply specified standards. Another area for contracting out is in income tax assessment. The Income Tax department could accept in virtual totality corporate tax returns certified by reputable auditors — backed up by random audits of, say, one-third of returns initially. Contracting out does itself pose problems of supervision, but would at least require smaller numbers of regulators who could be better trained and better paid. Another possibility could be to involve citizen groups and issue-oriented NGOs in enforcement e.g., in checking of vehicle emissions, over-speeding, unauthorized construction, etc.

0.25 One difficult issue in designing regulations is the balance between rule bounded regulations versus discretionary system. While both have their advantages and problems, given the horrendous experience of discretionary regulations in Bangladesh and the long time it would take to develop the high caliber uncorruptable people that are needed for a discretionary system, it is preferable to have a rule bound system; however, at the same time, speedy redressal mechanism should be put in place to allow citizens to seek waivers from rules.

0.26 Bangladesh **needs a comprehensive program to review, and consolidate regulations.** Any such effort would need to comprise the following elements.

- ***Initiate a comprehensive Deregulation Program.*** This could be achieved by establishing a Deregulation Commission,

⁵⁸ In Bangladesh, a major debate ensued when the Federation of Chambers of Commerce and Industry suggested taking over the responsibility for issuing and renewing trade licenses. Obtaining these are a major business irritant, particularly for micro-businesses such as the thousands of kiosks which operate in urban centers.

comprising government officials, private sector interests, and technical specialists. Cross-country examples of such efforts are given in Box 5.6 and Box 5.7. To ensure implementation of deregulation initiatives and coordination with work of the Efficiency Unit and the Commission on Refocusing Government (CRRG), it may be desirable to bring the deregulation work under the ambit of the CRGG, by making the Deregulation Commission a sub-commission under the CRRG. The Deregulation Commission (or sub-commission) would use a process of technical reviews, including cost-benefit analysis, assessment of costs of implementation and compliance, and open public hearings to review, revise, or discard existing regulation. *The first priority should be review of regulations that affect day-to-day lives of ordinary citizens.*

- ***Establish a clearing house*** in the Ministry of Law, like the office of the Federal Register in the USA, to keep track of all regulations. As a first step, this office should prepare comprehensive documentation which incorporates in one place all the laws, regulations, Statutory Regulatory Orders, and administrative orders through which public institutions interact with economic agents. This document should subsequently be updated once a month.
- ***Establish transparency and accountability in the rule making*** process by mandating that, with few exceptions for emergency situations and criminal matters, no rule can be promulgated without a public hearing, including printing of draft rules in major newspapers well in advance of rules being finalized.
- ***Establish pilot programs to minimize contact*** between regulator and regulatee, through involvement of citizen groups, NGOs, and reputable private firms.

Box 5.6: Deregulation Around the World

Faced by the crushing economic effect of regulations and the strong public demand for 'less government' a number of industrial and developing countries are undertaking major regulatory reforms.

- *Brazil* — has set up a Federal Deregulation Commission which has managed to revoke 112,000 of the 127,000 decrees written since the beginning of the republic. It also monitors and co-ordinates the deregulation activities of individual ministries, which include measures to: ease control on broadcasting; remove restrictions on the domestic and foreign use of credit cards; and eliminate the country's single retail price structure. More recently (June 1995), the Government took the bold step of deregulating its telecommunication and petroleum sectors.
- *Turkey* - recently completed a condensation program that eliminated 1,600 laws and consolidated 12,000 others into a mere 700.
- *Japan* — in April 1995, unveiled its five year Deregulation Action Program that targets hundreds of government regulations for dismantling or review by the year 2000. The aim is to change numerous business and trade regulations, so that rules on such matters as shipping containers and warning labels conform to international standards. An example of such a rule is to require people to prove they have a parking place near home before registering a camper or a mobile home. In the words of an official of Keidanren, Japan's biggest business federation "deregulation is an ongoing process.... our goal has been to get as many regulations listed as possible, and then keep up the pressure to see them realized.
- *India* — has set up a number of expert committees, made up of knowledgeable members of the public and academics, to prepare proposals for selected areas. Over the last four years, these have included the banking sector, sick industries, disinvestment and infrastructure. All these committees actively solicit public opinion.
- *The United Kingdom* — under the Deregulation and Contracting Out Bill, has set up a task force on Regulatory Relief whose aim is to reduce or simplify administrative and legislative burdens on business — particularly small businesses where the effects are disproportionately large. The Task Force, with the help of business people, is reviewing 3,500 regulations directly affecting companies.
- *United States* — The following legislative actions have been taken (or are being taken) to deregulate.
 - **Regulatory Transition Act:** Would impose a one-year moratorium on all new regulations.
 - **Regulatory Review Act:** Gives Congress the authority to veto any new regulations.
 - **Regulatory Reform:** Would require all regulations with an economic impact of more than \$100 million be re-approved every seven years.
 - **Paperwork Reduction Act revisions:** Requires budget office to weigh burdens of new regulations and allows experiments to reduce paperwork.
 - **Regulatory Flexibility Act revisions:** Eases regulatory burden on small businesses
 - **OSHA overhaul:** Requires Occupational Safety and Health Administration rules to be based on scientific data and prohibits penalties in areas with no standards. House bill requires cost-benefit analyses.

- **Strengthen the legal system** and institute other means of redress, such as the Office of the Ombudsman,
- **Establish a regulatory system for the utilities and monopoly sectors** which encourages

private sector entry into these areas, heightens competition, and develops processes and rules which balance the interests of producers and consumers. The government is working with selective donors in this area and needs to expedite the work.

The Legal Impasse

"I was never ruined but twice: once when I lost a lawsuit and once when I won one." (Voltaire)

0.27 The laws and judicial system of Bangladesh neither meet the needs of citizens nor create an environment conducive to transactional efficiency. Legislation is badly designed and outdated, procedures are cumbersome, the superior judiciary does very little monitoring, court facilities are inadequate, and there are too few well-trained judges and law officers. The legal education system also leaves much to be desired, in terms of both quality and content, and judicial training facilities are similarly poor. All of this causes inordinate delays in legal verdicts — decades can pass in expensive and time-consuming litigation over even minor and relatively simple cases (Box 5.7). Public faith in the courts is understandably low, and the cost of using courts so high, that parties often forego legitimate claims and shoulder substantial losses rather than submit disputes to judicial adjudication. This has led to increased recourse to informal channels for seeking justice, a system which favors those with money and influence.⁵⁹

0.28 Delays in administering justice result not only from overloaded courts, but also because the higher judiciary does a poor job of supervising the lower courts. One thing it should be doing is ensuring that the lower courts impose costs on lawyers who engage in delaying tactics by seeking a succession of adjournments — a grave temptation for lawyers who get paid according to their number of court appearances. The Civil Procedures Code (1908) enables judges to clamp down on this but they rarely do so. Another time-wasting practice is the indiscriminate issuing of court injunctions — courts pay little attention to whether or not the party seeking the injunction

⁵⁹ This is manifested in the emergence of "mastans", who operate protection and extortion rackets and are sometimes hired to perform policing functions by the business community. Landlords, for example, must commonly rely on such hired muscle to enforce their property rights: it is notoriously difficult to use legal action to remove tenants (protected by the Rent Act of 1905) paying rents at levels set decades ago.

has a prima facie case, apparently taking the view that, when in doubt, an activity should be held up.

0.29 This kind of judicial inefficiency makes it much more difficult to carry out commercial transactions, to secure property and other assets, and to collect overdue payments.⁶⁰ Both foreign and domestic firms are particularly discouraged by the slowness and lack of predictability of the courts in enforcing contracts.^{61 62}

0.30 **The Judicial System and Constraints.** The Bangladesh judicial system comprises four judicial institutions: the Supreme Court, the Subordinate Courts, the Magistracy, and the Administrative Tribunals (mainly dealing with civil service matters). The Supreme Court of Bangladesh, which consists of the 38 judges of the Appellate and High Court Divisions, is both the court of last resort and the administrative supervisor of the entire judicial system (except the Magistracy).⁶³ Every District has one court with a District and Sessions Judge, and one or more courts with Additional District and Sessions Judges. On the lowest rung of the system are the

⁶⁰ In some sectors inadequacies in the legal framework are major factors in the inefficient operations of markets. In the financial sector, for example, the weaknesses in legal system result in: difficulties in debt recovery; inequitable access to credit; and limitations to the scope for collateral-based lending.

⁶¹ See: 'Policy, Regulatory and Incentive Regimes Affecting Private Foreign and Domestic Investment in Bangladesh', Foreign Investment Advisory Service (FIAS), IFC/World Bank, Washington DC, November 1992.

⁶² The foreign investor community's wariness of the judicial system was heightened by the legal complications arising from GOB decisions taken with regard to contracts for several high profile joint-venture projects with foreign firms including: Scimitar (oil exploration); KAFCO (fertilizer); and Saipem (gas pipeline).

⁶³ In contrast to the rest of the judiciary the Supreme Court remains generally well-regarded as the last bastion of professionalism and honesty, reflected in the tendency to entrust Supreme Court judges with the Presidency at times of constitutional crisis.

Box 5.7: The 17-Year Legal Battle Over the Stock-Lot

The Bangladesh Import Policy Order bans the import of "old, second hand and reconditioned goods, factory rejects and goods of job-lot, stock-lot of secondary/substandard quality". This particular clause permits the customs officials almost unlimited regulatory power because of the vagueness of terms like "stock-lot". Apparently, there is no standard definition of this pernicious term. What follows is the saga of a legal battle, and heavy losses which arose from the vagueness and discretionary nature of this regulation.

1. *Early 1978* — Seven owners of steel re-rolling mills got together and imported 2,900 metric tons (worth about Tk. 8 million) of mild-steel billets manufactured by the British Steel Corporation (BSC).
2. *Late 1978* — The Collector, ignoring scientific reports to the contrary, charged the importers with contravening the provisions of sections 16 and 32 of the Customs Act, 1969, alleging that, among other things, the consignment of billets was of 'stock-lot quality', its surface was rusted and pitted, and thus, according to the Collector, it could not be imported.
3. *Early-Mid 1979* — It became evident, during the hearings at the Customs House, that the rusting had occurred because the steel had been stored out in the open. Scientific tests confirmed the inherent quality of the material. Nevertheless the Collector found the importers guilty of violating several Acts and not only confiscated the goods but also imposed a personal penalty of over Tk 13.6 million in addition to duties and taxes.
4. *Early 1980* — The importers appealed to the National Board of Revenue (NBR) and requested that the consignment be released against a bank guarantee to avoid a build up of wharf rent. Both appeals were dismissed.
5. *During 1980-85* — The importers filed a revision application under Section 196 of the Customs Act, and repeated their request for release of the cargo to avoid wharf rents which by now amounted to millions of taka. The NBR remained mute on the issue. However, when all the evidence was examined, including test reports from BSC and several other institutions, it was confirmed that the steel was in fact of prime quality, importable and not 'stock-lot'. Consequently, NBR canceled the confiscation order and reduced the penalties from Tk. 13.8 million to a notional Tk. 4,300. The importers realized, however, that accepting the token penalty would be tantamount to admitting guilt and expose them to huge concomitant liabilities on wharf rent and demurrage.
6. *By 1986* — Having exhausted all administrative remedies, the importers filed a writ petition with the High Court Division of the Supreme Court. The hearing took nine years. Meanwhile, in 1992, the importers had cleared the goods after paying the token penalty 'under protest', and over Tk. 10 million for wharf rent.
7. *Late 1994* — The Supreme Court struck down the administrative action of the Collectorate and the NBR and held that ".....orders have not been passed bona fide in the exercise of powers by the statute but have been passed for some collateral purpose, we therefore strike down the orders.....declared to be of no legal affect". The Court only awarded Tk 5,000 costs to the importer — as against the legal cost of Tk 2 million, wharfage of Tk. 10 million, pilferage losses of Tk. 4 million and accumulated interest expenses (14 years) of Tk. 64 million.
8. If the importers claim damages, the legal struggles could continue ad infinitum.

numerous Subordinate and Assistant Judges, whose courts also have special jurisdiction both as commercial courts and as Artha Rin Adalat (Financial loan courts) which have special procedures for dealing with suits filed by banks and other financial institutions to recover outstanding debts.

0.31 Some of the major problems with the judiciary include the lack of any strict separation between the Judiciary and the Executive⁶⁴, and the doubtful neutrality of judicial appointments. But there are also concerns about the degree of control

exercised by the Ministry of Law and Justice (MOL).⁶⁵ The promotion and transfer of lower court judges is overseen by the ministry, rather than the high court judges. The MOL prepares the budget for the entire judiciary, and also has the

⁶⁴ A strict separation of the judiciary from the Executive does not exist, and there is widespread concern about the neutrality of judicial appointments and the degree of control exercised by the Ministry of Law and Justice (MOL), which prepares and monitors the budget for the entire judiciary.

⁶⁵ While the Chief Justice and other judges are appointed by the President under Article 95 of the Constitution, the practice requires that the Chief Justice be consulted.

Box 5.8: How Legislation can be Frustrated by Weaknesses in the Courts

In the past, it has been relatively easy for borrowers to default on loans. Weaknesses in the legal framework, combined with overburdened courts have made it difficult to enforce the law and encouraged a culture of loan default. Worried about the huge debt overhang in the banking sector, the Government in 1990 introduced the Financial Loan Courts (FLC) Act. This Act established loan courts in 21 district headquarters under the authority of subordinate judges. The courts are supposed to dispose of the suits within six months from the date of filing — the Act permits not more than three adjournments, and not more than two appeals to higher courts.

In the event, the Act has been largely ineffectual. This is partly because of the old problem of an overloaded judicial system — the loan court judges are overwhelmed with work since they are also responsible for handling civil and commercial matters. These problems are compounded by administrative weaknesses: judges take evidence by hand, there is no effective system for listing cases, and the court assistants who fix the date arrangements have a poor appreciation of priorities.

But one of the most serious problems with the FLC Act is that the execution of decrees is covered under the normal Civil Code procedures which means that a separate application then has to be filed, and the process starts anew. The Code of Civil Procedure does cater for passing a summary judgment on the basis of bills of exchange, promissory notes, unofficial I.O.U's (hundies), collateral documents, or other negotiable instruments. But summary procedures are uncommon in Bangladesh; all it takes is for the borrower to raise contentious issues and the court is generally inclined to take cognizance.

Two other factors contribute to the delay in the resolution of loan recovery cases. The first is that the judges appointed to the loan courts do not have experience in commercial and financial matters. They are, therefore, apt to accept for consideration issues that would not be entertained by well-trained judges. They might, for example, take notice of the argument that borrowers have suffered a loss due to the bank's failure to extend further credit — even though this is not germane to the main issue. It can, and should, be dealt with separately without holding up the loan recovery suit. The other delaying factor stems from the banks' practice of paying lawyers according to the number of appearances, so their lawyers readily consent to repeated requests for adjournments, and to other delaying tactics employed by the loan defaultees' lawyers.

power to oversee the activities of subordinate courts and judicial officials and their training, as well as to take disciplinary action against court personnel at the lower levels.

0.32 The Government has tried to introduce some reforms. In 1994 it established a Law Reform Commission. But this has yet to become operational and, even when it does, its terms of reference will still exclude the priority area of commercial law. Most of Bangladesh's commercial laws still date back to the pre-Independence period and are often irrelevant to current commercial practices.⁶⁶ ⁶⁷The Insolvency Act, for example applies only to cases of bankruptcy, and does not cater to the Chapter 11

⁶⁶ Major changes have taken place in the fields of company law and laws governing the operations of banks and non-banking financial institutions. These changes have been geared to updating the laws and increasing their transparency. The new Company Act (1994) which is based on the Companies Act of 1993, reflects the needs of the changed business and corporate environment.

⁶⁷ A new draft bankruptcy law has recently been prepared under the auspices of the Financial Sector Reform Project of the World Bank.

type of financial restructuring available in the US for rescuing otherwise profitable businesses. Similarly the Bangladesh Post and Telegraph Act, based on legislation of 1873, has not kept pace with technological change — it has no provision, naturally, for interfacing with cellular phones. But even law which is more recent still needs revising: the Securities and Exchange Commission Act, though of recent origin, has permitted the State to assume vast regulatory powers and opened the doors to widespread abuse. Other deficient business laws include those relating to patents, intellectual property, land registration, and customs and tariffs. Flawed legislation is extremely costly. About three-quarters of all cases before the courts consist of land-related litigation whose proliferation is often the result of flaws in the legislation dealing with real property (the Land Transfer Act of 1882, the Stamp Act of 1882 and the Registration Act of 1908).⁶⁸

⁶⁸ False title documents are common, and there is widespread avoidance of registrations of mortgages, liens and encumbrances due to high registration costs. Most land disputes stem from the poor administration of land records.

0.33 Little attention is paid to dealing with the overload in the courts. The judicial sector has a budget allocation of \$12 million (1992/93) and is one of the most neglected in the entire GOB apparatus. The financial and human resources are totally inadequate to cope with the increasing volume of cases. The large number of cases pending reflects not only the slow rate of disposal, but also a tendency for litigants to go to the courts on issues which in other countries would be handled by alternative dispute resolution (ADR) mechanisms. The magnitude of the problem can be assessed from the fact that there are currently almost 500,000 cases pending in the entire Judiciary (excluding the magistracy and the tribunals) 40,000 of which are in the High Court. These cases have to be handled by the 35 Judges of the Supreme Court, and 677 judges in the subordinate judiciary. Overburdened judges, unable to review cases properly, often have to postpone hearings, resulting in inordinate delays. Overburdening of the high court judges has also resulted in dilution of their oversight function of the lower courts -- where most of the justice is dispensed. Partly as a result of this weak oversight and partly as a result of poor quality of staff at the lower courts, the quality and timeliness of justice available to the vast majority of citizens is very poor.

0.34 Inadequate physical facilities in the courts, including space and office equipment shortages, and a poor work environment, are very serious constraints to their proper functioning.⁶⁹ Almost two-thirds of the courts are located in urban areas and in some cases in poorly-kept

⁶⁹ The inadequacies of the existing facilities are varied. The outgoing Chief Justice noted in his farewell address (April 1995) that the District Courts in Rajshahi were located next to a major bus terminal and that the constant hooting made it almost impossible for the officers of the court to conduct their business. In a separate report he observed the following, "We have got one electric typewriter in the Appellate Division which remains inoperative most of the year for the vendor's failures to give maintenance facilities. The Annual Administrative Report of Civil Justice for 1971 was printed in 1980. The Administrative Report of Criminal Justice for 1969 was printed in 1980. The report for 1970 is under preparation. Even the use of G.B. Cards have fallen into desuetude, as the records of the case of the High Court Division are scattered at seven different places at Dhaka and six other places where sessions are being held intermittently'.

rented premises. In numerous district courts, the courtroom is shared by judges who occupy the room on a three-hour shift basis. The responsibility for maintaining court buildings and its facilities rests with the Public Works Department, which performs this function with its customary inefficiency. Another problem is the lack of vehicles to transport the accused from jail to court. This has resulted in numerous instances of the accused being unable to be presented before courts for over a year. The courts also operate without any modern facilities — evidence is recorded by hand, judgments are typed on second-World War vintage typewriters, and the prevalent way of copying information is still cyclostyling. The introduction of modern information management technologies is essential to cope with the vast volumes of court records and documents. Because the government printing press has stopped printing evidence forms in English, there have been no such forms for the last 15 years and court personnel spend an inordinate time preparing such forms by hand.

0.35 Given the existing case overload in the judiciary, a natural option would be to make more use of ADR mechanisms.⁷⁰ Such mechanisms do exist — including special tribunals for matters relating to taxes and duties, as well as labor and industrial disputes — but they are under-utilized. In other areas there are also arbitration councils, governed by the Arbitration Act of 1940, but the legislation does not currently cover foreign arbitrations or awards.⁷¹ Another potential form of dispute resolution would be through the office of an Ombudsman. (Chapter 4).

0.36 The quality of judges and law officers has declined in recent decades. There are concerns that new judges, more than a few of whom are

⁷⁰ While arbitration is available under the rules of the Dhaka and Metropolitan Chambers of Commerce the process has several lacuna which need to be plugged to avoid contentious processes; one suggestion is to adopt the arbitration standards set by the International Chamber of Commerce.

⁷¹ The Convention on Enforcement of Foreign Arbitration Awards has not yet been given effect. Acceptance of this convention would be important in terms of gaining the confidence of foreign companies investing in or trading with companies in Bangladesh.

appointed on considerations other than merit, are not well qualified at entry level and subsequently are not groomed for the job. An important factor in the decline in the quality of the judiciary has been that their compensation packages, like those of other civil servants have been badly eroded over time. Judges salaries have traditionally been very low compared to the earnings at the bar or in the private sector. This has not only encouraged various abuses, it has also discouraged quality lawyers from joining the judiciary. Judges have little or no opportunities for training to enhance their skills, so many have difficulty in understanding complex issues of law, particularly in rapidly developing fields such as trade and investment. The Government has, however, recently passed the Judicial Training Institute Act, enabling the establishment of an Institute which could help judicial officers upgrade their skills.

0.37 The Ministry of Law itself is also a major bottleneck. This is particularly pronounced in the case of administrative decisions impinging on commercial transactions. The delays in the MOL are due to the lack of professional legal experts and draftsmen, particularly those who are bilingual so that they can produce English and Bengali version of the Acts and other legislation required by Parliament. It often takes three or more years before a suitable translation can be made into English — the predominant language for business — which adversely affects business transactions.

0.38 **Reform Priorities.** Major reforms of the judicial system will be needed to enable it to meet the demands of a modern economy. The most critical elements of legal reform are:

- ***Activating the Law Reform Commission.*** While in Bangladesh there is a provision for setting up a Law Reform Commission, difficulties are being experienced in appointing a suitable candidate. The Constitution of Bangladesh, for instance, stipulates that a retired judge cannot hold a paid public office of a non-judicial nature. The Chairman of the Law Commission is considered a non-judicial function. Both Indian and Pakistan Constitution are more liberal in this respect and their Law Reform

Commissions are headed by retired Chief Justices. Unless the constitutional provision is interpreted favorably by the courts, it would be extremely difficult, next to impossible, to appoint a qualified and experienced candidate.

- ***Enhancing the speed and capacity of the courts.*** The Government should explore ways of improving case management and introducing modern information management systems. It should also consider revising the organic law and procedural codes to enhance the efficient processing of cases — particularly to reduce the opportunities for delaying proceedings and harassing people by filing frivolous actions. In addition, full time specialist judges should be appointed to Specialized Courts.
- ***Revising and rationalizing legislation.*** This would entail efforts at two levels: setting up several specialist sub-groups to suggest revisions; introducing features of modern commercial and technical practice, and strengthening the capacity of the MOL in drafting and steering legislation through the Cabinet and Legislature.
- ***Raising the standards for professional responsibility and conduct for lawyers.*** This could be promoted through the strengthening of Bar Councils and improving lawyer discipline procedures.
- ***Improving the judiciary.*** This should include measures to attract the best and the brightest, as well as strengthening the procedures for selection of judges. A judicial ethics code and a disciplinary system for judges need to be developed. Also, the compensation package for the judiciary needs to be reviewed with judicial compensation delinked from the central government salary system and restored to the levels prevailing in the 1950s.
- ***Making legal remedies more accessible.*** This could begin with efforts to restructure the system of public defenders and to create strong legal aid bodies.

- **Expanding alternative dispute resolution mechanisms.** Also, reviewing the operations of the small claims courts to make them more efficient.
- **Introducing in-service legal training.** Presently, Bangladesh does not have a reliable system for training its judicial officers; only recently a Judicial Training Act (1995) was passed requiring that a training institute be set up for serving magistrates and judges. But the proposal is languishing on account of bureaucratic delays involved in getting funding and hiring staff.
- **Reforming legal education.** Necessary steps include: instituting rigorous admission and certification procedures, redesigning curricula with the inclusion of subjects such as economics, accounting, commerce and corporate finance. There should be training in aspects of international practices relating to foreign trade, finance, banking and labor laws, while a specialized library of international and municipal commercial statutes and documents should be developed.
- **Enhancing supervision and monitoring of lower courts.** Supervision of the lower judiciary needs to be better. Perhaps a permanent unit, headed full-time by a retired or in-service supreme court judge, should be established under the office of the Chief Justice (CJ). In addition the higher judiciary should be made responsible for promotions/transfers of lower court judges.
- **Enhancing the independence of the judiciary.** The Constitutional provision should be fully implemented, starting with full financial independence. The budget management for the judiciary should be fully delegated to the CJ's office.

Promoting the Private Sector

“When markets and governments have worked in harness, the results have been spectacular, but when they have worked in opposition, the results have been disastrous.” World Development Report, (1991)

0.39 Broadly-based and sustainable private sector growth depends on an effective partnership between the State and the private sector, and good coordination and high “user responsiveness” among the various institutions handling private sector development. The East Asian economies, in particular, have shown the importance of these factors. Bangladesh has had much less success at state intervention in the economy. And those agencies specifically concerned with promotion and facilitation of private enterprise have been some of the weakest links.

0.40 One critical area of difference with the East Asian economies is in the quality of interaction between the Government and the business community. All the East Asian economies have industrial and investment promotion agencies to ensure extensive and continuous consultations between the Government and private investors — both domestic and foreign — even to the extent of coordinating investment strategies. Government control of markets always risks promoting inefficiencies, but the East Asian countries have addressed this by developing a system based on contests between the private sector players, in which the State plays the role of referee.⁷² A further danger is that the business community and political parties will use their closer links as a means of pressurizing the economic bureaucracy to introduce policy distortions in their favor. The East Asian countries seem, however, to have largely insulated the bureaucracy from such pressures. In contrast, Bangladesh, has the worst of both worlds: no systematic efforts at GOB consultations with the private sector, yet considerable private sector influence over policy formulation and implementation.

0.41 An effective interface between the Government and the private sector has been a key feature of several East Asian countries, including the Republic of Korea, Malaysia, Thailand and Singapore; all have set up Business Councils. These Councils have created a seamless interaction between government policy makers

⁷² See: *The East Asian Miracle*, World Bank, Oxford University Press, New York (1993).

and business leaders. All encourage greater interchange of staff between public and private sector jobs. For instance, Singapore and some other East Asian countries have introduced specific schemes to periodically borrow experienced managers from private industry to work in government - “ in the interest of promoting Private Sector Development”. Bangladesh must also accept that the time-worn practice of government and business working separately, and often at loggerheads with each other, is no longer valid.

0.42 In addition, there is urgent need to strengthen the effectiveness of the following three GOB agencies set up with the objective of promoting industrial growth and exports: the Board of Investment (BOI), the Export Promotion Bureau (EPB), and the Bangladesh Export Processing Zone Authority (BEPZA). The Government had hoped that these three agencies would emulate the East Asian investment promotion agencies which had served to underpin those countries' aggressive export-oriented strategies, and had been particularly successful in attracting foreign investment and technology transfer.⁷³ Although it is difficult to make objective assessments, the agencies in Bangladesh have had only a modest impact on investment and export promotion. Indeed until recently they had largely confined their activities to regulation or monitoring. Every time their control or resource distribution activities have been removed to refocus their attention on promotion, the civil servants working in these institutions have ensured that those activities are replaced quickly by very similar functions.

0.43 *The Board of Investment* was set up in 1989 to offer prospective domestic and foreign investors a package of facilitation services to potential investors. The BOI was meant to act as a 'one-stop shop' to help minimize transaction costs and reduce some of the risks and extra expenses associated with the regulatory system. This has not happened because it has adopted the normal bureaucratic channels in obtaining support from key ministries e.g., Land, Energy, Industry —

needless to say this has been time consuming. The other problem is the poor quality of the 700 plus staff transferred to BOI from the highly restrictive and regulatory Department of Industries (DOI). So long as the BOI continues to be staffed by control minded civil servants — who are unable to undertake aggressive promotional, publicity and implementation programs — it will essentially continue to be reactive, slow and ineffective agency.⁷⁴ Indeed in 1991 when the Government announced its Industrial Policy it felt the need to explicitly direct the BOI to move on from regulating to facilitating private investment. In line with this policy, the Government in March 1994 declared that the registration of firms with the BOI would henceforth be voluntary. However, firms still need to register with the BOI to be eligible for tax incentives and facilitation services thereby reducing somewhat the significance of this change. The agency's regulatory functions may have been cut back, but it is still responsible for such things as: reviewing proposals for foreign borrowings; certifying firms' eligibility to import restricted items; issuing employment contracts; and issuing special passbooks to foreign investors for remittances relating to royalties, etc. Recently, government made management changes at BOI, to improve its performance.

0.44 *The Export Promotion Bureau* (BB) is another institution which has been diverted from promotion to a much more restrictive role — monitoring exports and issuing export licenses. The EPB has also been responsible for organizing Bangladesh's participation in international trade fairs. However, there have been complaints about the agency's non-transparent system of selecting participants to trade fairs, and also about its inefficiency and lack of professional skills in arranging presentations and product displays.⁷⁵

⁷⁴ A 1993 plan to restructure the BOI's operations (developed with the assistance of the joint UNDP/FIAS Chief Technical Advisor) has not yet been implemented largely due to resistance by BOI staff.

⁷⁵ The EPB recently withdrew from the annual Frankfurt Fair, which accounts for 70 percent of Bangladesh's handicraft export orders, selling the rights to display to four large firms. This move which effectively blocked an important opportunity for new handicraft exporters to gain a foothold in the world market.

⁷³ See; *The East Asian Miracle*, op. cit. (1993).

The ineffectiveness of EPB in removing exporter's problems and constraints and promoting exports is once again largely due to the civil servants staffing the agency together with large numbers of unskilled support staff, which virtually makes it an extension of the Ministry of Commerce. Like the BOI, the EPB also faces administrative constraints in obtaining clearances from its parent ministry (MOC).⁷⁶ Steps need to be taken to delegate the implementation aspects of EPB's promotional role to Chambers/Trade bodies, as far as practicable.

0.45 *The Bangladesh Export Processing Zone Authority.* Given the overall poor state of infrastructure and bureaucratic regulations, the Export Processing Zones are attractive to foreign investors because of their superior infrastructure and their liberal import and exchange control regimes. The Bangladesh Export Processing Zone Authority (BEPZA) is probably the most successful of the investment promotion agencies. Investment in the two EPZs it currently operates at Chittagong and in Savar (near Dhaka) have picked up in recent years. The Chittagong EPZ already accounts for investment of over \$150 million, with export earnings of \$127 million in 1993/94, and value added ranging from 30 to 40 percent. The Savar EPZ which opened relatively recently to accommodate high technology industries has also attracted investment of over \$17 million and employment of around 8,000. The BEPZA's relative success is, however, more a reflection of its special privileged status rather than its cost effectiveness, compared to similar zones operated in other countries by the private sector. Since it would take some time before the infrastructure facilities and processing regulations are eased, outside the zone, there is good rationale for operating them, though serious consideration needs to be given to privatizing these operations. A variant could be for GOB to provide the basic infrastructure and contract-out zone management

to a joint-venture between a foreign and domestic partner.

0.46 These three agencies must continue to help investors with information on regulations and in processing official applications at jetset speeds. But they must also solicit foreign investment much more actively. A major handicap to this in all three agencies is that personnel are largely drawn (sometimes on secondment) from a bureaucracy more geared to functions of regulation and control which present rich opportunities for rent-seeking. The corresponding institutions in Korea or Thailand have the dual advantages of being able to draw upon the services of a better-trained Civil Service and also the freedom to recruit qualified people from the private sector. GOB agencies, in contrast, have been unable or unwilling to recruit professional staff with experience of private business. Given the shortcomings of the Civil Service in Bangladesh, it may be more sensible to involve the private sector in managing these agencies rather than waiting for GOB civil servants to achieve the levels of efficiency of their East Asian counterparts.

⁷⁶ Participation in trade fairs, for example, is sometimes prevented by the requirement that its officials must still go through the usual lengthy process of obtaining ministry clearance to travel abroad, even though the minister whose approval is being sought personally attended (or was represented by a senior aide) the EPB meeting where the decision to participate was taken.

Box 5.9: Can Bangladesh be more Sensitive to Foreign Investors' Needs?

The Government is trying to encourage International Oil Companies (IOCs) to come to Bangladesh for oil and gas exploration. The intention is to use Production Sharing Contracts (PSCs). The World Bank has been supporting this effort — helping create a technical database for potential investors, designing a PSC for agreement between Bangladesh and the IOCs. And between 1986 and 1991 it organized two promotional meetings in London and Dhaka under the Petroleum Exploration and Promotion Project (PEPP). In October, 1993 the World Bank also sponsored a roundtable Conference in Houston which included representatives from IOCs, and during which five Memorandums of Understanding (MOUs) were signed. However, Bangladesh failed to translate the companies' interest into actual investment. The Government proved somewhat insensitive to the competitive market of petroleum exploration, and officials proved very inflexible in negotiating the set terms and conditions. All of this led to inordinate delays in processing the contracts. for example:

Off-shore Block. It took almost 18 months to sign a PSC for the off-shore block between Petrobangla, Cairn Energy Plc., & Holland Sea Search Bangladesh B.V. The proposal for the PSC was submitted on December 22, 1992 but the final signing of the contract was not until May 5, 1994. It took about seven months to complete detailed negotiations on the contract with the IOCs at Petrobangla. This was followed by a review of the contract by the Ministry of Energy and Mineral Resources (MEMR), clearance from the National Board of Revenue (NBR), and legal clearance from the Ministry of Law (MOL). It took about four months for the MEMR to send the cleared contract to the Council Committee for Financial and Economic Affairs (CCFEA) which is responsible for approving the PSC. It took CCFEA about 2.5 months to approve the contract. The next stage was the actual signing of the contract. This could have been accomplished in a week but actually took about 3 months. This long process has been very costly and causes other companies to think twice about investing in Bangladesh.

On-shore Block: It took about 12 months for Petrobangla to sign a PSC with the Occidental International Exploration & Production Company. The proposal was submitted on November 13, 1993 but the contract was not signed until January 11, 1995. Petrobangla took eight months to evaluate and negotiate the contract, while the Energy Ministry took five months to conduct its own evaluation, and obtain clearance from NBR and MOL. The CCFEA, took about three weeks to approve the PSC, though it took only four days for Petrobangla to sign the contract.

One of the main problem is that Petrobangla is not a disinterested party. New entrants pose a major threat to its monopoly and could expose its inefficiencies. Another major problem is that Petrobangla has very little authority to exercise any flexibility in negotiations. One stipulation of the PSC was that the gas must be marketed domestically and cannot be exported unless in liquid form and that Petrobangla will have the first option on buying the gas. Inflexibility on this condition resulted in the French company Total withdrawing its MOU after nine months of negotiations.

A third problem is poor planning. Cairn Energy Plc, for example, was planning to conduct a seismic survey in a 1,500 square kilometer area. Such a survey requires the area to be cleared of fish nets. Petrobangla knew about the survey but failed to coordinate with the Ministry of Fisheries to have the area cleared in time. As a result, the survey had to be rescheduled, at considerable expense.

In Pakistan, the negotiation of PSCs takes only three months. The development of this industry is unlikely to proceed unless negotiations are conducted by an independent agency (e.g. BOI), with Petrobangla providing technical backstopping. If the present, less preferred, practice has to continue. Petrobangla needs to become much better organized. Petrobangla should have sufficient autonomy to negotiate the PSC and should bring in the MEMR and the Ministry of Law as negotiating team members. This could reduce the processing time by more than half. The negotiating teams will also have to be trained to much higher standards.

Box 5.10: Sometimes You Just Have to be Lucky to Export

An exporter, engaged in food processing in Chittagong, received an export order for canned mangoes. As this was the company's first export order, the producer was unprepared for his first ride on the bureaucratic roller-coaster. The number of approvals needed and the regulatory standards to be met are unbelievable. An important regulation was that he should obtain a certificate from the Food Ministry's Laboratory certifying that the canned fruits to be exported were 'safe and edible'. This seems easy at first sight, but since the Laboratory had previously been providing such certification only for vegetables, it was reluctant to extend its activities to canned fruits. The Food Ministry's Laboratory suggested that the exporter talk to the Export Promotion Bureau (EPB), which could help in obtaining a 'Quality Certificate'. The exporter visited the EPB in Dhaka, to find out how he could obtain the required certification. EPB officials were, however, unsure about the procedures. Instead of taking up the issue on the exporter's behalf, finding out where he should go, and ensuring the cooperation of the involved agency, EPB simply referred the exporter back to the Food Ministry's Laboratory.

The high point in the roller-coaster ride was that in the EPB official's room, there was a 'man of status' who knew the Food Secretary quite well. This person visualized the national benefit/loss and volunteered to help. He called the Food Secretary, narrated to him the exporter's ordeal and requested him whether he could do anything to save the exporter's letter of credit which was to expire in three days time. The Secretary asked the person to send the exporter to him and assured the person that he would do his best to resolve the matter.

The secretary assigned his joint secretary to attend to the matter and asked that the matter be resolved in the next few days. It worked. The joint secretary tried different institutions and finally convinced the Bangladesh Standards Institution (BSI) to issue the certificate. The exporter was finally able to export the canned mangoes within the validity date of this letter of credit. Subsequently the authority to issue a Quality Certificate for exportable canned fruit was given to the laboratory of Public Health Engineering.

The Government and particularly promotional institutions are evidently not always sensitive to the requirements for promoting exports. The EPB should at least maintain a directory of procedures involved in exports of all products and should guide exporters as well as government agencies about the procedures and responsibilities.

0.47 The post-GATT international trade environment presents important opportunities for the more dynamic low-wage export-oriented economies. Significant improvements will be needed in the GOB's private sector promotion agencies to meet the challenges posed by the integration of global markets and the heightened competition for trade and investment from countries with similar labor-cost advantages. **The following actions should be taken to improve the effectiveness of GOB's private sector development efforts:**

- ***Establishing a Prime Minister's Private Sector Advisory Council*** -- comprising key economic ministers/secretaries and leading businessmen representing different sectors and regions -- which meets regularly at least once a month. To ensure its effectiveness and credibility, it is important that the council should meet regularly and be proactive in resolving issues.

- ***Enhancing Accountability of the BOI, EPB and BEPZA to Clients*** -- In addition to requiring agencies to have service standards (Box 5.1) and objectives, membership of their Boards/Oversight bodies should comprise their clients, i.e private sector executives, exporters. Together, these two measures should lead to greater accountability and responsiveness to users' needs and complaints. These oversight bodies should also have the authority to hire and fire the agency head.
- ***Making BOI more efficient and cost-effective***, by expediting its pending re-organization; hiring professional staff and phasing out redundant staff (almost two-thirds).
- ***Introducing Professional management*** -- Greater flexibility in recruitment will be necessary, and pay scales must be separated from those of the Civil Service to enable them to draw on private sector talent.

- **Giving Agencies greater autonomy** -- While remaining accountable for performance, agency heads must be allowed to operate with fewer bureaucratic controls and allowed to use their initiative.
- **Removing remaining regulation and control functions** -- Many of these (such as the EPB's issuing of export licenses) are quite superfluous, being vestiges of an earlier, more restrictive, trade regime, which can now be handed over to the Chambers.
- **Merger of BOI with BEPZA** -- Given the similarity of functions, it would appear to make sense and reduce overhead costs by bringing overall management of BEPZA under the fold of BOI, while totally decentralizing day-to-day administration (including land allotment) to individual estates.
- **Improve Coordination and Decision Making Within Key Ministries** -- The present arrangements are compartmentalized, which needs to be corrected to effectively and proactively promote private sector development. As suggested in para 2.46, the functions of Ministries of Commerce, Industry, Textile and Jute need to be looked at afresh. **Perhaps one option is to transfer all SOEs out of these ministries, and consolidate all policy making and remaining functions (including oversight of EPB, BOI, BEPZA) in a single Ministry of Commerce and Industry;** a more appropriate name could be Ministry for Private Sector Promotion to establish a clear "raison d'être" and to send an unequivocal message to the private sector on the importance government attaches to it.

0.48 Finally, a critical private sector development measure is reducing the overbearing presence of the SOEs whose inefficiencies and non-market behaviour is undermining the competitiveness of Bangladesh.

State-owned Enterprises

"Commercial activity on the part of the ruler is harmful to his subjects and ruinous to the tax revenue... crowds out competitors; dictates prices for materials and products which could lead to the financial ruin of many businesses." Ibne Khaldun (14th century).

0.49 Given the colossal losses of SOEs borne by the taxpayer, and the failure of several attempts to improve their efficiency, the Government should withdraw from these businesses, soonest possible. Failure to do so will undermine growth. Also, unless the Government tackles the SOEs' inability to meet their financial obligations, they will continue to finance the gap from the government budget and domestic banks; thereby crowding out other forms of public spending, crowding out private sector credit, exacerbation of fiscal and current account deficits or combinations of any of the above. Not reducing the SOE deficit will exacerbate fiscal imbalances, thereby raising inflation and undermining the economic stability necessary for rapid and sustainable growth.

0.50 The Government has initiated some privatization programs but these have been severely restricted in scope and are proceeding at a snail's pace, given the Government's long association with public enterprises. The weakest part of Bangladesh's reform program has been the slow implementation of the privatization program. It is hoped that the post-election Government will have the courage to tackle head-on the 400,000 employees of SOEs. By the time Bangladesh enters the 21st century, this "achilles heel" which is stifling growth and jeopardizing livelihood of future generations, should be eliminated by:

- **Complete privatization**, (or closure where necessary), of all SOEs involved in manufacturing, import/distribution of commercial goods (e.g., fertilizer, seeds, vegetables etc.). All these SOEs are now operating in markets which are competitive and contestable and there is no longer any rationale for public participation;⁷⁷ they

⁷⁷ These include enterprises in the following areas: commercial banking and investment, hotels, transportation, petroleum import/refining/distribution, gas distribution, and manufacturing.

should be privatized now. Box 2.2 offers an example of the benefits of privatization of fertilizer which had traditionally been perceived as a “sensitive” public good. Pending privatization which should be accelerated, the administrative and operational oversight of these SOEs should be taken out of line ministries, as recommended above; this role could be fully devolved to the respective holding corporations, with the AB Wing in the Finance Division providing financial oversight.

- **Full commercialization**, and substantial privatization, of the remaining SOEs operating in non-contestable monopolistic markets — the Power Development Board, the Water Supply and Sewerage Authority, the Dhaka Electricity Supply Company, Titas Gas, and land based line services of the Bangladesh Telegraph and Telephone Board. The GOB would have to ensure full autonomy in day-to-day management by establishing accountability through clear terms of reference, performance targets and agreed hard budget constraints. Cross-country experience suggests the following key elements of reform: divestiture,

competition, hard budgets, independent Boards, professional management, performance-based incentive systems, and changes in the institutional relationship between SOEs and Government. Bangladesh has a **successful governance model -- the Poverty Foundation (PKSF) governance structure -- which should be emulated elsewhere to other SOEs**. The PKSF has an independent Board, salaries de-linked from GOB, competitively recruited staff; all of these have enabled it to be a successful financial intermediary in stark comparison to other public financial institutions.

0.51 Although the commercialization of SOEs in non-contestable markets could be an interim measure to increase efficiency and reduce losses and budget subsidies, the ultimate objective should be private sector participation in these markets. This will reduce budget costs and offer consumer benefits by producing commercial goods more competitively and efficiently. **Along with establishing consumer protection safeguards, which are necessary whether services are publically or privately provided, the Government should foster an enabling environment to increase private sector participation in these activities and services.**

MAKING POLICY AND MAKING DECISIONS

THE BUSINESS OF GOVERNMENT --

This chapter tries to come to grips with the Government's administrative systems. First it looks at the Government's policy making processes, and suggest ways in which they might be improved. Then it turns to the rules which bureaucrats follow and the quality of the decisions they take.

Policy Formulation and Implementation

0.52 Every government has a fundamental responsibility to establish a framework of sound policies within which economic agents can function efficiently.⁷⁸ There are five key attributes of good policies. They should be:

- *Responsive* to emerging needs.
- *Consistent* with other existing policies.
- *Predictable*, avoiding flip-flop policy reversals.
- *Credible*, so that private agents take them seriously.
- *Implementable* and followed through with actions which ensure their implementation.

0.53 Although Bangladesh has in recent years established some outstanding new policies, such as the introduction of VAT, which would score highly on the above five criteria, by and large the situation is far from satisfactory.

- *Responsiveness*. There is a strong consensus, among the private sector and the public generally, that policy change in Bangladesh is

usually a matter of 'to little, too late'. Privatization is among the most obvious recent examples: even countries with much more difficult socio-political circumstances have been forging ahead with rapid privatization while Bangladesh still seems stuck in the 'gradualist' track. But in many of its development activities the Government has also been very slow to set out a broad and comprehensive policy framework. Education, energy, private sector development — all lack an overarching statement, either to present economic agents and citizens with the 'big picture', or to provide government functionaries with guidance for developing specific policies and programs.

- *Consistency*. The extensive inter-ministerial consultative process should ensure consistency, nevertheless this still remains a major deficiency. For example: (i) in the ready-made garments sector the Government wishes to enhance value-added and establish backward linkages, on the other hand it places restrictions on both gray-cloth imports and on backward-linkage industries; (ii) the Government gives great importance to exports of manpower yet it imposes burdensome regulatory hassles and costs; (iii) the Government wants to promote private sector entry into what were public sector monopolies, yet it gives the responsibility for promoting or negotiating private sector entry to SOEs like Petrobangla, BTTB, and Biman — raising serious conflicts of interest; (iv) in 1994, in order to ease trade transactions, the Government introduced a voluntary Pre-shipment Inspection for all imports but invalidated this otherwise sound policy by paying inadequate attention to amending tariff values.

- *Predictability*. Numerous policies suffer from discontinuity. Examples include the flip-flop

⁷⁸ Policy as used here refers to a set of coherent goals and strategies for medium and long term actions in a well defined area of governmental responsibilities designed to achieve goals of overall economic development.

on private sector imports of petroleum, on the private sector marketing of fertilizer, as well as on SOE privatization.

- *Credibility.* The announcement of any new policy is usually greeted with considerable skepticism. Most people perceive government policy announcements as a response to donor conditionality rather than a genuine commitment to change. The effect is even worse when the message is inconsistent. A media content analysis (Box 6.2) of statements by policy makers on reforms clearly shows that policy makers give inconsistent and conflicting signals. Although the analysis shows that the majority of signals are supportive of reforms, even a slight inconsistency causes an adverse reaction from investors, particularly in an environment where government's credibility is at question.
- *Implementability.* The Government also creates major problems when it announces policies which are clearly unrealistic. The GOB has, for example, committed itself to providing non-formal education for 15-23 million learners (largely adults) by the year 2000. While the policy commitment is

laudable, it is widely regarded as non-serious and rhetorical, impossible to implement in the seven-year time-frame, and not based on a proper assessment of the resources available — institutional, financial, or human. Similarly, in 1992 the GOB embarked on a tariff reform, but did so without thoroughly analyzing the implications, including potential tax anomalies — assuming that the Bangladesh Tariff Commission (BTC) would deal with this as an implementation issue. However, there were no specific proposals to increase the BTC's capacity. The Bank provided assistance but its implementation lagged. The disconnection between policy announcement and actual implementation often frustrates the private sector (Box 6.3). Thus in May, 1994 the Minister for Energy announced a policy of providing natural gas for private-sector power generators at the same rate as for the Power Development Board. But this policy has yet to be made operational — the result of obstruction by vested-interest groups within both the bureaucracy and the affected private sector, as well as a lack of follow-up from policy makers.

Box 6.1: Content Analysis of Newspapers

In order to obtain information on the consistency and content of GOB policy statements on six key aspects of the reform program, a content analysis of four daily newspapers (two English and two Bengali) was undertaken. The quoted policy statements from the Prime Minister (PM), the Finance Minister (FM) and all other ministers and senior officials (other) were analyzed for the period July 1993-June 1994. These statements were placed into three categories (subjective judgments were unavoidable here) :

- A. *Affirmative* — implementation as planned.
- B. *Strongly negative* — reversing earlier reforms or postponing indefinitely.
- C. *Negative* — further review needed, major obstacles noted, or implementation to be slowed down.

The statements were also analyzed by where the announcement was made: in Parliament; in a major policy statement to the media (e.g., television speech by PM); in interviews or a local conference or at an overseas conference or donors' meeting. There were some discrepancies between the newspapers: the two Bengali papers had a tendency to focus on negative statements on workers retrenchment and privatization, and showed less interest in reporting pro-reform statements; while the two non-government papers showed higher proportions of negative statements. Overall however, the proportion of positive statements was very high — about 80 percent for the Bengali papers and 90 percent for the English papers — partly reflecting a tendency of GOB officials to take anti-reform measures without fanfare. Changes in import regulations or the introduction of an SRO would be announced by a ministry or agency spokesman rather than in a media statement by the minister concerned. This leads to an in-built bias in any media survey towards 'positive' statements.

Despite the above shortcomings, the survey provided some interesting insights into the nature of policy positions and the coherence of GOB reform strategies:

- Some reform areas (tariff policy, import controls and the financial sector) were marked by few divergences in the direction of statements.
- For the other three areas (deregulation, privatization and workers' retrenchment) the PM, and particularly the FM made statements supportive of reforms, but other GOB policy-makers expressed dissenting views.
- The proportion of negative statements was highest for worker retrenchment, privatization, and import policy.
- The FM made just over one-third of these policy statements in Parliament. The PM did not make any of these statements in Parliament.
- The most popular subject for media statements appeared to be deregulation -- an indication perhaps of the favorable popular response to such measures.

A summary table of the survey is shown below.

Media Survey Summary Table (July 1993 - June 1994)

Newspapers	A	B	C	Total
	Affirmative	Strongly Negative	Negative	
Number of Statements				
Dainik Bangla	104	11	14	129
Sangbad	103	10	21	134
Daily Star	177	7	16	200
Bangladesh Times	166	7	14	187

0.54 Policy formulation and implementation are inadequate for two main reasons:

- *Weak policy formulation capacity.* Policies are likely to fail since they are not underpinned by sufficient analytical evaluation. Those engaged in formulating policy often lack the technical skill, and fail to carry out the painstaking research needed to

explore the potential impact of alternative policy directions. However, there are also significant systemic impediments. Policy making is often slowed by the demands for consensus building and consultation between different ministries who may not be directly involved in the issue. The institutional arrangements for policy formulation are also unclear: while the preponderance of macro-

economic policies are formulated by the economic ministries, the sectoral policies are the responsibility of the line ministries.

- *Weak implementation and monitoring capacity.* This may arise from weak commitment at the bureaucratic level which often happens when policies have been initiated at donor insistence. But public servants may also lack the technical capacity to carry the policy through, either because of limited competence, or because the real constraints were not identified when the policy was formulated.

- participation of multiple and countervailing groups. But in any case, competent government professionals should be able to discriminate between policy advice benefiting a particularly vocal group as against that which serves the public interest in general.

0.55 There are a number of ways in which policy formulation and implementation could be improved.

- ***Strengthening monitoring capacity for policy implementation.*** This could be achieved by expanding the role of IMED in monitoring policy implementation.

Box 6.2: “Agreed in principle” but What Happens in Practice?

In Bangladesh the road of policy reforms is paved with good intentions but implementation falls well short of expectations. The principle reasons for the disconnect between policy pronouncements and poor implementation are the vague nature of the policy directions, the lack of bureaucratic commitment, the inability to foresee the practical constraints — including a host of related rules and regulations which need to be amended to put the policy into effect — and above all, a weak monitoring system. The following are some glaring examples of policies which were announced with great fanfare but which have failed to materialize into action.

- *Private sector power supply* — In 1992 the Industrial Policy, 1991 was revised to deregulate power and telecommunications -- removing them from the Reserved List, and throwing them open to private sector participation. After a lapse of two years, the Cabinet then approved the power sector reform "in principle". It took another one year before the concrete implementation decision, including the creation of the Power Cell was taken. The net result is that three years later not a single private sector investment has been made in the power sector.
- *Private sector telecommunications* — In mid-1993 the Cabinet approved the Telecommunication Reform paper committing itself to a reform of the Bangladesh Telegraph and Telephone Board Ordinance 1989 so that the Board's regulatory functions could be separated from the its operational responsibilities. To date, the legislation is still pending -- a major impediment to greater private sector participation.
- *Privatization Board* — In early 1994 the Government set up the Privatization Board under an Executive Order to accelerate the process of divesting the 153 State Owned Enterprises. However, neither the broad policy commitment nor the creation of the Board have yet yielded any tangible results.
- *Airline deregulation* — In late 1994, the Cabinet took the decision to introduce private sector participation in the aviation sector — although limiting the deregulation to domestic routes where Biman does not operate. However, as a result of the web of rules and regulations imposed on short take-off and landing services, not a single airline has started operations.
- *Forestry* — Recently, the Forestry Policy was approved by the Cabinet but implementation has stalled for lack of the supporting rules and procedures. A year ago the Ministry of Environment and Forestry set up three committees to frame the relevant rules and regulations but these are still far from complete.
- *Matching Grant Fund for Exporters.* In 1993 the GOB announced that it would establish a Matching Grant for exporters. It is now two years, neither has the Fund been established nor any actions taken to establish it.
- *Current account transactions* — Bangladesh has signed Article XI of the IMF, thereby liberalizing all transactions on the current account. But the Foreign Exchange Regulations Act 1947 (amended 1978) and the Exchange Control Manual which contains numerous regulations are still in force thereby frustrating the intent of the policy.

- ***Co-opting and promoting local think tanks and universities.*** — The Government is

already taking steps to upgrade the skills of its officials and redeploy qualified staff in key

policy-making positions. But it should also take more advantage of outside professionals such as those in the Bangladesh Institute of Development Studies. BIDS may have lost some of its professional edge but is still one of the country's premier research institutions. The members of the academic community can also offer independent professional criticism and advice. The Bangladesh Economic Association, for example, has traditionally discussed key economic policies and issues, particularly those related to the budget and the five-year plan. The Bangladesh University of Engineering and Technology (BUET) can also be a rich source of expertise -- its technical committee already works closely with the Bangladesh Bureau of Statistics on various statistical enterprises. Last but not least, Bangladesh has recently seen the growth of 'policy think-tanks' like the Center for Policy Dialogue, and the Center for Development Research. These policy-oriented forums could provide both analytical input at the design stage and offer critiques of draft policies.

- **Enhancing GOB in-house capacity** — The policy planning and coordination cells in the ministries urgently need strengthening. A useful move in this direction would be to merge the Development Wings in each ministry with the policy planning units. These strengthened policy units would prepare medium-term policies and programs, as well as long-term and strategic policies, and also monitor the performance of the sectors. However, since policy making is a multi-disciplinary activity, the units need to be staffed by officials with diverse and relevant skills — including those of economic planning, financial analysis, and social science. In the case of specialized macro-economic policy making, the recently established Cell in the Ministry of Finance should be further strengthened. Another priority is to strengthen the technical and professional competence of the Bangladesh Bank (BB). The setting up of the Monetary Management Committee in the BB is a step in the right direction but its policy formulation role should be expanded. Strengthening of

line ministry capacities should be done as part of an overall review of planning capacity within government and the Role of Planning Commission. It should be possible to strengthen line Ministry capacity, without new recruitment, though redeployment/retraining of existing professional staff of the Planning Commission.⁷⁹

- **Encouraging a participatory approach** — A fundamental principle of good governance is to solicit the opinion of those whom policies are likely to affect. Most industrial and developing countries now regularly consult concerned citizen groups. In the UK, for example, the Government informs the people of proposed policies through series of official 'white' or 'green' papers. In the US, before Congress starts formal consideration of the budget, the proposals are made public several months ahead of the fiscal year -- *in Bangladesh, the process is a very secretive affair, except for the well connected.* In Bangladesh, this process is being increasingly adopted for proposed regulations by the National Board of Revenue, and some other ministries, but the process needs to be formalized. Of course there are risks in inviting participation — in particular that of having policy making in certain areas hijacked by particular interest groups. The

⁷⁹ There is an urgent need to rethink the role of the Planning Commission. It was established at the height of dirigiste role of the government and it continues to carry that legacy and culture. The widely held view amongst senior policy makers, other than those in the Commission, which the report also shares, is that the following measures should be given serious consideration. (1) Refocussing its role from counting cars and bicycles to perspective planning and intersectoral issues. (2) Removing all PCP, PP and TAPP approval authority from the Planning Commission and delegating it to the Ministries. The Planning Commission would continue to be the advisory body to ECNEC, but all proposals would go directly to ECNEC from the Ministry without requiring vetting by Planning Commission. If the Planning Commission's views are overruled by the Ministry while approving a PCP or TAPP, the issue can be referred to the ECNEC level. (3) Reduce the Planning Commission to a small unit (35-40 technical staff) of highly skilled and experienced economists and other professionals and redeploy excess staff (over 600) to strengthen policy/project formulation units in line ministries.

best way to minimize this is to encourage the participation of multiple and countervailing groups. But in any case, competent government professionals should be able to discriminate between policy advice benefiting a particularly vocal group as against that which serves the public interest in general.

Administrative Rules and Decision Making

"All the incentives in government are in the direction of not making mistakes. There are a large number of dedicated, honest and motivated people who work for government. They are not the problem; the systems in which they work are the problem. The government is filled with many good people trapped in bad systems and environment."

0.56 Government officials are guided by various rules, the most important of which are the Rules of Business and the Secretariat Instructions.⁸⁰ These rules allocate powers, delineate responsibilities, set out the structures of authority within the bureaucracy, and provide procedural guidelines. While the rules have many good features, overall they have been ineffective in fostering expeditious, predictable and well-considered decision-making. And though their failure has led to proposals to overhaul and rationalize the existing framework of bureaucratic activities, these ideas have yet to be acted upon.⁸¹ The current dissatisfaction has two distinct aspects: first, that the system, particularly in terms of efficiency and openness, is ill-suited to a modern democratic state seeking rapid development; and second, that the level of knowledge of, and compliance with, rules is low,

⁸⁰ Other administrative rules and legislation include: The Official Secrets Act (1923); the Government Servants (Conduct) Rules (1979); the Government Servants (Special Provisions) Ordinance (1979); the Bangladesh Public Service Commission (Consultation) Regulations (1979); the Administrative Tribunals Act (1982); the Public Servants (Dismissal on Conviction) Ordinance (1985); the Delegation of Administrative Powers; the Delegation of Financial Powers; the Treasury Rules; the Bangladesh Service Rules; the General Financial Rules; and the Bangladesh Financial Rules.

⁸¹ See, "Key Constraints in the Secretariat System and Work Procedures", in *Public Administration Efficiency Study*, vol 2, prepared for the Ministry of Establishment, GOB (1989).

reflecting both a secular deterioration in the performance of the Civil Service and a breakdown of the mechanisms for accountability and monitoring.

0.57 The result of these procedural weaknesses is a bureaucratic system which is secretive and slow. Its processes are non-transparent and thus susceptible to manipulation, and its controls are unnecessarily rigid and hierarchical. Much of the problem is due to excessive reliance on controls which are rule- rather than performance-based. Bureaucrats typically try to justify their decisions on the basis of rules and precedents and fail to focus on the quality of outcomes. They take decisions through a tortuous process of consulting case documents contained in dusty files, with desultory 'noting' and recommendations by various officials. Though the Secretariat Instructions are quite explicit on files and their 'movement register', files are subject to numerous bottlenecks and stand a good chance of getting lost. In short, there is no modern monitoring system to track the status of a case. Delays also reflect inadequate logistical support and, at some levels, a work overload — exacerbated by the absence of clear job descriptions.

0.58 The efficiency of the administrative system is further impaired by the deterioration in the quality of the Civil Service. Staff, at the lower levels in particular, lack sufficient confidence -- the result of a lack of knowledge and understanding of rules and policies, as well as deficiencies in training.⁸² These have engendered practices such as:

- A ritualistic reaffirmation of decisions so as to spread risks and responsibilities (layered and collegial decision-making)
- A culture of fear and resignation and the perception that common sense is risky and

⁸² On the basis of interviews and a survey one study noted that "... the knowledge of Rules and Instructions among at least half the officers at the level of the Assistant Secretaries is less than satisfactory." Officers believed that this deficiency reflected inadequate post-entry and in-service training. See: *Public Administration Efficiency Study*, vol 2, pp16-17.

creativity is dangerous. Employees have learned that the goal is not to produce results, please customers or save taxpayer money, but to avoid mistakes.

- An excessive reliance on precedents, and the misapplication of earlier decisions to apparently similar current issues, without proper regard to changes of context.
- A tendency to pass files to a higher level for final approval, even on routine matters, and often all the way to the Minister or Prime Minister. This may be time-consuming but rarely meets with disapproval, and stems from an unsure grasp of rules, and uncertainty about the specific interest of policy makers in a particular case.
- A refusal to act without specific written instructions from superiors. This is symptomatic of a generally low level of mutual trust and an environment in which every action is second guessed, every initiative viewed by suspicion and every controversial decision perceived as malfeasance.
- A tendency to delay decisions in awkward or difficult cases, in the vague hope that the issue will fade away or be overtaken by events.

0.59 This may be inefficient but it represents a rational response to the current political environment and framework of decision-making. While bureaucrats may be penalized for taking initiatives and making quick decisions, they are rarely punished for delays. It comes as no surprise, therefore, that the GOB machine operates slowly and inefficiently. What is surprising is that it works at all.

Rules of Business

0.60 The current Rules of Business (1975) and its supporting Secretariat Instructions (1976), are in large part the product of the British colonial period.⁸³ These and other rules are often

⁸³ "The problem in the Rules and Instructions had been pointed out as early as in 1945 by Sir Richard Tottenham who

annoyingly complicated, confusingly written, contain archaic provisions, and are crammed with minutiae which obscure overriding guidelines and broad principles. As a result, they tend to discourage flexibility, innovation, and common-sense solutions.⁸⁴ The documentation systems were set up in the nineteenth century and it is almost impossible for an official to obtain a complete set of all the relevant regulations. Worst of all, the relevant rules represent a bewildering agglomeration of former provincial rules (the Bengal Service Rules, renamed the East Pakistan Service Rules, and now the Bangladesh Service Rules) and central government rules (such as the General Financial Rules). Amendments and additions are compiled in the Establishment Manuals, but there is considerable confusion about the applicability and precedence of different rules. The situation is further complicated by the tendency of different GOB agencies to issue regulations on similar subjects. Financial limits for procurement, for example, are the subject of circulars issued by the Economic Resources Division (1992), the Ministry of Finance (1994) and the Cabinet Division .

0.61 The historical predilection for detailed rules and formal procedures results from the colonial administration's concentration on its two

commented that the disadvantages of the system could be summed up in two phrases -- excessive noting and file shifting, the combined effect of which is delay and inefficiency." *Public Administration Efficiency Study*, vol 2, Ministry of Establishment, GOB (1989), fn. 6, p 62.

⁸⁴ An example of unnecessarily complicated drafting is seen in the following paragraph from rule 54 of the Bangladesh Service Rules (Part I), which is based on the Bengal Service Rules of 1937:" Subject to the provisions of Chapter VII, a Government servant who is appointed to officiate in a post shall not draw pay higher than his substantive pay in respect of a permanent post, other than a tenure post, unless the officiating appointment involves the assumption of duties and responsibilities of greater importance than those attaching to the post, other than a tenure post, on which he holds a lien, or would hold alien had it not been suspended. For the purpose of this rule, the officiating appointment shall not be deemed to involve the assumption of duties and responsibilities of greater importance if the post to which it is made is on the same scale of pay as the permanent post, other than a tenure post, on a scale of pay identical therewith". *Public Administration Efficiency Study*, (1989), p 63.

most important tasks, namely, revenue collection, and the maintenance of law and order, along with the provision of a limited set of basic services. The British administrators also wanted to avoid giving too much discretion to the lower tiers of government. Three post-colonial developments warrant a radical reform of the system. First, government has changed markedly in character; not only has its functions expanded enormously, the scope and nature of public services have altered. Secondly, democratization now demands greater responsiveness. And, thirdly, the widespread misuse of official discretionary authority has led to the development of protective layers of decision-making and a series of elaborate cross-checks. As a result, many people spend their time checking the work done by others. Most bureaucrats therefore adopt strategies of risk avoidance — creating an oppressive atmosphere of unease and distrust.

0.62 Some of the problems arise because the rules have not changed to match the change from a presidential to a parliamentary form of government. They do not reflect, for example, the principle that ministers have a direct collective responsibility to Parliament; instead ministers merely serve to aid and advise the Prime Minister. This centralization of power is accentuated by the placement of a number of ministries and agencies directly under the Prime Minister. The Prime Minister's Office has thus been overloaded with many routine administrative tasks.

0.63 A major issue of contention between ministers and secretaries emanating from the Rules of Business is who should be the Principal Accounting Officer. In a hierarchical bureaucracy this title determines who has the ultimate authority not only for expenditures incurred but virtually for all matters. Ministers in general try to centralize financial decision-making at their level. The resultant tug-of-war between ministers and secretaries continues to undermine the smooth functioning of government.

0.64 The Secretariat Instructions, while outmoded, do at least offer guidelines for decision-making. Unfortunately, even these are not followed in practice. For instance, although

they indicate that not more than two officers, excluding the secretary, should comment or act on a file, many files actually travel through up to six intermediary levels, before reaching the minister through his private secretary.⁸⁵ Then they will return back down the line with the orders — only perhaps to go up again for approval and signature. The Secretariat Instructions also include explicit guidelines for avoiding delays: except for cases of policy or special importance which must be referred to the secretary, matters are to be disposed of according to instructions on delegated authority. In this regard, the additional secretary and joint secretary have been permitted specific areas of authority where they can take full responsibility for decisions and submit these directly to the minister. There are also set time-limits for action on cases by assistant secretaries (72 hours), deputy secretaries (48 hours), and joint secretaries and above (24 hours).

0.65 There are a number of other general deficiencies. First, there is no system of monitoring the speed of file disposal within an agency, nor are there any pressures for the quick disposal of cases. Second, office hours are from 8 am to 2:30 p.m., with a 1-1:30 p.m. break. The working day is thus at least two hours shorter than that in most private sector enterprises.⁸⁶ Third, public access to information on decisions is poor owing to the bureaucratic practice of maintaining confidentiality in dealing with public. Fourth, there is no effective mechanism for appealing against arbitrary bureaucratic decisions. Fifth, while the use of English has increased, the proportion of officials with a good command of the language has fallen.⁸⁷

⁸⁵ In a ministry these levels are usually : section assistant; assistant secretary/senior assistant secretary; deputy secretary; joint secretary; additional secretary; and secretary.

⁸⁶ The break is for prayer. It is common for officials to leave earlier and return later. An initiative in the early 1980's to extend the office hours to 4 pm foundered in the face of opposition from lower-paid officials, many of whom are engaged in other employment or businesses.

⁸⁷ There are good reasons to extend the use of Bengali in official business, including: equity, as it is the language of instruction in most schools; assuring the accessibility of

Centralized and Delayed Decision-Making

0.66 Decision-making in Bangladesh today fails on all three counts. As observed earlier, the fault does not lie entirely within the Rules, since they should promote expeditious decision-making. The Secretariat Rules do cater, for example, for processing URGENT files, for inter-ministerial coordination, deadlines for processing Technical Assistance Project Proformas, and PCs. And the Rules of Business explicitly require that no more than two officers should process a decision. In practice, however, for the reasons discussed earlier, there is an in-built resistance to act with a sense of urgency on pending matters.

0.67 To obtain some understanding of the causes behind the near stasis in the bureaucratic decision-making process, this study administered a questionnaire to 40 senior GOB officials.⁸⁸ The responses reveal that the main reasons for delayed decision-making are, in descending order of importance: (i) the absence of accountability for delaying decisions; (ii) the need to seek excessive approvals; and (iii) an inadequate remuneration package. It is not surprising that a "lack of accountability" has been revealed as the major cause of delayed decision making. Indeed there is no known penalty for delays, nor even an effective monitoring system in government offices to track the movement of files. The absence of an appropriate system basically means that success offers few rewards, and failure few penalties

0.68 Bureaucrats in Bangladesh prefer to push decisions to ever higher levels, even when rules allow decisions at lower levels. The most extreme example is the practice of sending relatively trivial matters for the Prime Minister's approval. These include the permission needed by second-ranking civil servants to travel to seminars or workshops; the approval for hiring foreign

information and services to the public; and allowing broad-based recruitment. The dominance of the native knowledge -- to the virtual exclusion of English -- does not appear to have held back the development of countries such as Korea and Thailand.

⁸⁸ At the level of Secretaries/Additional Secretaries and Joint Secretaries.

consultants whether on short-term contracts or large Technical Assistance contracts; and Prime Ministerial approval of postings and transfers of even junior officers. The centralization syndrome is pervasive. Ministers may want to approve, for example, postings and transfers of teachers in remote areas. Secretaries will usurp the authority of their directors in awarding contracts. Department heads may demand the right to take even routine decisions. In short, 'arrogating authority' is a way of life.

0.69 Decision-making, whether individual or collective is generally plagued by the following weaknesses. First, most officials are either unaware of the appropriate government policies, or are unwilling to express a clear opinion in case this is misconstrued as second-guessing a superior officer. Second, the system appears to be based on the belief that passing a file through five (partially competent) layers, greatly enhances the probability of detecting a problem. Third, civil servants increasingly prefer group decision-making over group-aided decision-making: they prefer to make decisions in committee in order to diffuse the responsibility. More often than not, ministerial representatives at the inter-ministerial coordination meetings are not sufficiently senior to deliver conclusive advice, so the meetings become information-gathering rather than decision-making exercises. The round of consultations then continues until the secretary of the ministry has provided a 'definite ministerial position' on the matter — or the deadline imposed either by the political process or the aid negotiating process arrives.

0.70 The poor quality of decision-making has serious implications: it delays the implementation of development projects, introduces extra anxieties for citizens, and adds to transaction costs for the private sector. The GOB has gradually been taking some steps to minimize process-related delays in the implementation of development projects. But it has still a long way to go, particularly, in areas which affects the private sector.

0.71 In order to expedite project implementation, the GOB has been enhancing the

financial and administrative authority of project implementors, especially the Project Directors (PDs). However, the highly centralized systems of control and the ineffective use of authority continue to impede the proper implementation of projects. Apart from the problem of limited procurement authority, the PDs enjoy only limited power to incur recurrent expenditures. To take just one example, a PD can authorize car maintenance expenditure only up to Tk. 10,000. A point which needs to be underscored, however, is that even when expenditures or procurement fall within the PD's authority, and investments have already been approved in the Project Proforma, the PD still has to seek 'prior administrative clearance' to initiate action on the procurement. The need to obtain such authorization is time consuming, distracts project staff from concentrating on their tasks, and gives ministerial officials undue influence and power over project implementation. The PD's administrative authority is also very limited. For instance, according to the Rules, the power to transfer and post even mid-level project officials lies with the 'appointing authority' — a person one or two steps above the PD. PDs can only appoint the junior level (Class II and below) officers. This seriously undermines two key elements of successful project implementation: accountability and flexibility. In this instance, the rules have actually regressed since the days when departmental heads enjoyed full authority to appoint and transfer senior staff.

0.72 The Perils of Procurement. The problems of public administration in Bangladesh probably arise most starkly in the area of government procurement. Procurement is invariably delayed, fraught with accusations of corruption, slowed by late payment or non-payment, and hampered by the circumvention of legally-specified procurement rules. This not only erodes private sector confidence in the Government's fairness and efficiency but also stifles market-based competition. Rent-seeking and onerous bureaucratic procedures absorb scarce entrepreneurial resources and, by delaying implementation, directly contribute to the cost of

development projects.⁸⁹ Delays in procurement cause almost all government contracts to suffer from long lead times and associated price increases. As a result, prudent bidders for contracts have to build in the additional costs that arise from delays in opening letters of credit, and from the slow release of payments — not to mention a wait of up to two years for the release of the final payment and performance bonds.⁹⁰ Procurement problems arise not so much from the procedures themselves, which are sound and conform to international standards, but from their application by officials who lack appropriate training and are rigidly bound by other bureaucratic procedures. Unlike in the private sector, where the basis of all procurement is cost effectiveness, in government procurement this is not the most important factor; government officials will adhere strictly to rules and regulations regardless of cost. Some of the more important administrative reasons for poor procurement procedures are: (i) *layers of approval*; both the specifications and the evaluation committee's report, for example, must move from the agency or department to the ministry and back again; (ii) *stringent financial limits*; the limits of financial authority are inappropriate, given time demands and the escalating costs of goods and services. The financial limits for procurement generally tend towards centralization, there being a wide gap between the procurement authority of the

⁸⁹ A study conducted by the World Bank which reviewed a sample of 90 projects experiencing implementation difficulties found that around 34 of the projects (38%) were delayed at least partly due to problems relating to procurement of goods and services or in the appointment of consultants. A detailed review of the average time taken between floating of tender and issuance of work order was 13 months for BTTB, 21 months for BPDB, 19 months for Petrobangla, 36 months for BPC, and 20 months for BWDB (Box 6.1).

⁹⁰ Experience in most developing countries has shown that procurement is one of the major contributing factors in making countries "high cost economies" like Nigeria, Indonesia, and most of South Asia. It is quite natural that local and international contractors, aware of the inordinate delays and costs involved in procurement, pad-in this cost in their bids. A cross country comparison of similar contracts in developing countries has shown that the additional "cost of government inefficiency" in procurement could be as high as 30% of the base value.

departmental head or project director and the oversight ministry. For example, the financial limit for civil works for the ministry is US\$6.2 million whereas for a head of department it is US\$500,000 and for the PD it is only US\$200,000; (iii) *lack of accountability* for delays in procurement and absence of contract monitoring system; (iv) *lack of advance procurement planning*, which, can give suppliers enormous negotiating power, create rent-seeking opportunities and above all cause delays in project implementation. Delays can be critical. In Bangladesh, the 'construction season' is short (5 months). If a cycle is missed, virtually a whole year may be lost; this highlights the need for advance planning, a practice which is usually missing in government work; and (v) *lack of knowledge and expertise of government officials*. This results in delays in preparing and reviewing bidding documents. A related problem is the officials' unfamiliarity with procurement rules and procedures.

0.73 There are a number of other problems with procurement. First, there is the Government's 'unlimited authority' to cancel procurement without stating any specific cause. While a force majeure clause is a recognized international practice, in countries like Bangladesh a repeated and costless cancellation of tenders provides the tenderer a virtual license to scrap any tender. There is an urgent need to guard this provision against misuse. Second, there is the extreme secrecy surrounding this activity, even though the system 'leaks' and most procurement information is invariably available in the market 'at a cost'. The final evaluation of the Procurement Committee is kept a closely guarded secret causing delays due to the necessity of investigating bidders' complaints. The third problem area relates to the delays in finalizing tender awards. Procurement guidelines allow in exceptional cases for an extension of bid validity. In practice this happens routinely, encouraging a generally lax attitude. When such extension leads to cost escalation, donors should refuse to finance this portion unless the extension was necessitated by donor's procedures. Fourthly, delays result from re-bidding on grounds of minor deviations or

arbitrary changes made by the Evaluation Committee.

0.74 Enhancing the speed, efficiency and transparency of decision-making in the GOB bureaucracy will require coordinated efforts in many areas. These include civil service reform, decentralization, strengthening parliamentary accountability and investment in modern office technologies. These efforts must underpin a **program to review and rationalize the current Rules of Business and decision-making processes, aimed at minimizing the costs of decision-making in the GOB, removing opportunities for abuse of official powers, and maintaining an adequate level of checks and balances. It will involve a sea change in process and behavior.** Process changes should be straight-forward, though in practice difficult because of vested interests and turf battles. Behavioral changes are altogether more complex. They include the need to create appropriate systems of incentives and to encourage decision-makers to take more risks and demonstrate an entrepreneurial spirit. **The following are some priority areas for action:**

Process

- **Update and streamline administrative rules**, beginning with the Rules of Business and Secretariat Instructions; the current structures of inherited provincial and central government rules needs to be integrated.
- **Establish documentation centers** in each agency to provide access to all relevant printed regulations, and where possible, access to updated computerized information.

Box 6.3: Delayed Procurement

Some recent examples of GOB delay and mismanagement in procurement include:

- *The Ashuganj re-fractionation plan* — This was originally to be tendered in 1991 under the World Bank's Second Gas Development Project. After a protracted international bidding process, the GOB suddenly decided to scrap the tender and re-tender it. The plant was re-tendered in 1992 but the cost was \$44 million against the earlier quote of \$30 million. The re-tender did not materialize into actual procurement since it did not follow IDA procurement guidelines. It was then decided to finance the procurement of the plant from the GOB's own resources but this plan fell through. The Government is likely to go for a new bid, with, possibly, another escalation in costs.
- *The Female Secondary School Assistance Project* — The tender for computers and auxiliary equipment was scrapped twice for failing to meet specifications, and on one occasion the tender boxes were broken and removed from the office by interested parties. The entire procurement was eventually shelved.
- *Digital Multi-Exchange Equipment* — The work order for the procurement of this was issued six months after approval by the ministry.
- *The Sylhet Combined Cycle Power Plant* — A large contract relating to the 90 MW plant was approved by the Council Committee 21 months after clearance by the Ministry.
- *Jamuna Multi-Purpose Bridge* — The time between tender call and acceptance was 150 days. Tender evaluation took 303 days, while the time between the placing of the work order and the opening of the letter of credit was 485 days.
- *An aerial photography project* — As of October 13, 1994, about two years after the bid invitation, GOB has neither signed the contract nor returned the bid security of the winning firm.
- *A horticulture consultancy* — The donor sent a sample letter of intent (LOI) in December 1993, and then sent two reminders — once on March 3, 1994, and then again on June 19, 1994 — to the Ministry of Agriculture to send a shortlist and a final draft LOI. Ten months after the start of this procedure the Ministry responded with an incomplete LOI.
- *16 Towns Power Development Project* — The total time between bid receipt and the opening of letters of credit for procurement of cables and other items ranged between 17 and 45 months.

- **Strengthen systems to monitor the speed of decision-making.** This aspect should be a major are of work for the proposed Efficiency Unit which should help ensure that effective monitoring systems are set up.⁹¹
- **Set guidelines on the use of English and Bengali in official work.** A clear position on this issue is needed to reduce confusion.
- **Significantly enhance the financial and administrative powers** of PDs and heads of agencies and departments for day-to-day expenditures as well as procurement of civil works, goods and services. This will avoid delays incurred due to the necessity of seeking approval/authorization from ministries.
- **Improve the advance procurement planning process** and enforce adherence to these plans.
- **Reduce the number of decisions requiring the PM's approval** to only those of systemic importance and essential to the functioning of the Government.
- **Increase the financial limits of authority** in line with international and domestic cost escalations and enforce these at various levels of decision making.
- **Eliminate the Cabinet Committee on Procurement** and instead establish a permanent Secretary-level Inter-Ministerial Committee to take responsibility for procurement which exceeds the authority of line Ministry Secretaries.
- **Encourage expeditious decisionmaking** by enhancing the weight assigned to it in performance reviews.
- **Establish Protective Mechanisms** to shield entrepreneurial and decisive public servants from unwarranted harassment by Anti-Corruption Bureau and/or government inquiry initiated upon baseless allegations. Establishment of the proposed standing committee for ACB (Para. 4.42) would be one option for addressing this problem.
- **Establish standing Evaluation Committees in each ministry** with appropriate technical expertise so that quick decisions are taken on minor deviations from specifications, and fewer cases are sent back for re-bidding.
- **Process, at least 25% of first two years' procurement, before project approval** to ensure timely procurement of goods, services and civil works.

Behavior

- **Train staff** in each Ministry dealing with development programs in the area of procurement so that they can become more proficient in preparing bidding documents and more conversant with the rules and procedures.

⁹¹ Monthly statements are already provided for according to Secretariat Instruction No. 194, but weekly lists may be more appropriate.

MANAGEMENT

CIVIL SERVICE PERSONNEL

This chapter looks at the people who run the machinery of government -- at how civil servants are recruited, how they perform, and how they are rewarded. It examines the major personnel issues, including professionalism, salary, gender imbalance, and training -- and suggest ways to make the Civil Service more efficient and responsive.

"India was ruled from above by a picked aristocracy whose ideal was a light but benevolent administration. It was strangely like the most celebrated of all ideal systems. Plato had entrusted his Republic to a class of guardians specially trained and chosen. They were to be persuaded that the god who had created them had mixed gold in their composition to distinguish them from the common people...". Philip Mason, The Men Who Ruled India, (1985).

The Civil Service⁹²

0.1 Many of the mysteries and apparent incongruities of almost all traditional bureaucracies stem from the stubborn resilience of old forms and bureaucratic practices. Bangladesh is no different. Indeed the system in vogue today ultimately dates back to the sixteenth century. During the Moghul period the Emperor Akbar refined the civil administration and imbued it with the spirit of an imperial service executing the royal command and dispensing justice on his behalf. But it was in the nineteenth century with the imposition of the British colonial administration that today's Civil Service had much of its character shaped. The colonial administration was based on a belief in liberal education, and extolled the merits of the generalist — who was either an 'all rounder', or an 'amateur', according to taste. The Bangladesh Civil Service (BCS) of today is largely based on the structure

which evolved during the British colonial times — though its spirit, performance and quality have been modified in many respects in responses to changes in the socio-economic environment.

0.2 Critics of the Civil Service today argue that most civil servants are impervious to public sensitivities; highly bureaucratic and self-serving; and increasingly incapable of managing a modern government within a pluralist democracy. Nevertheless, even these critics recognize that there are many individuals in the Civil Service who are highly competent but cannot render their best because of the Government's compensation policies, working environment, restrictive cadre practices and its practice of deploying the available personnel randomly without trying to match their skills to the requirements of the job. The pay is too flat, with severe below market salaries at top and above market salaries at the bottom, scarcity of skills at the top and redundant staff at the bottom. Any reform of the Civil Service has to address all these anomalies. As with most complex subjects, discussion of the Bangladesh civil service requires a good understanding of some terms and phrases or 'bureaucratese' (Box 7.1).

0.3 The most widely understood definition of a civil servant is that she or he is a servant of the state employed in a civil capacity whose remuneration is paid wholly and directly out of moneys voted by the Parliament. Excluded from this definition are a number of other groups who are also paid by the State but are not considered to be civil servants. This applies, for example, to ministers and MPs, as well as to members of the armed forces not serving in a civil capacity. Local government employees are also not considered to be civil servants, even though much of their pay actually comes from central government grants. Further excluded are public corporation workers whose salaries may be subsidized by the Government but who are not considered to be civil servants.

⁹² The Bureaucracy in India : A Historical Analysis of Development up to 1947, Misra, B., Bombay, 1977.

0.4 **Structure.** Though a unified salary grade system was officially introduced in July 1977, all government employees are, for statistical purposes, grouped into four classes. Class I employees are officers; Class II employees are

mainly the supervisory staff, while Class III and IV employees are clerical and sub-clerical staff. Class I civil servants are usually recruited through open competitive examinations.

0.5 **Size.** Due to a lack of effective control and monitoring of recruitment, it is difficult to say precisely how many civil servants there are. Nevertheless, available evidence from the official payroll under the recurrent budget, and the Ministry of Establishment (MOE) Personnel Management Information System, (which includes the Class I officers in autonomous bodies), shows that Bangladesh has around one million civil servants.

Box 7.1: A Bureaucratic Lexicon

As with most complex subjects, discussion of the Bangladesh Civil Service requires a good understanding of some technical words and phrases, or 'bureaucratese'.

- *Grades* — These are the titles and ranks attached to a particular job within a given group or class. In 1977, the Government abolished the class system and replaced it with a Unified Grade System (UGS) and a National Pay Scale (NPS), which applies to all functional groups of officers.
- *Classes* — Strictly speaking the word 'class' disappeared with the introduction of the UGS but the concept of class and the structure it represents, continue to be widely used. It helps distinguish officials by rank. Thus the low-ranking support staff, such as cleaners, messengers, and tea boys, are classified as Class IV.
- *Cadres* — The cadre distinguishes the particular occupational group to which a civil servant may belong, either at the time of recruitment or subsequently through lateral mobility. Cadres include BCS (administration), education service, trade, and economic services. As mentioned above, the UGS and NPS apply equally to all civil servants, irrespective of the cadre to which they belong.
- *Ex-CSP* — These are officials who were recruited prior to liberation through the erstwhile Civil Service of Pakistan (CSP). Almost all of these are now in policy-making positions, and are perceived as very cliquish by the other cadres.
- *Generalists/Specialists* — These terms, and the distinctions they imply, are well recognized within the Civil Service, though they are not strictly part of the official vocabulary. Nevertheless, the intense rivalry between the generalist administrative services and the technocrats (Prokrichi) is at the center of the demand for civil service reform. The center of gravity of the Bangladesh Civil Service has traditionally been the general administrator, with specialists (engineers, doctors, and educationalists) playing only a supportive and subordinate role.
- *Senior Selection Pool* — The SSP comprises the top seven civil service grades, which are filled by the most suitable persons, regardless of previous service in a generalist or specialist stream. The SSP was created in 1987 to permit 'the best and the brightest' from all occupational groups to rise to the top of the civil service. The SSP was abolished a few years ago but has recently been reinstated.
- *Gazetted/Non-Gazetted Staff* — A Gazetted Officer is one whose appointment is published in the Official Gazette. This gives the official certain privileges, such as being mentioned in the Order of Priority, the authority to authenticate signatures and to recommend persons for obtaining official documents like passports.

0.6 The expansion in government employment in Bangladesh has taken place mainly at the level of support staff (Table 7.1). Although the ratio of Class I/II staff, as percentage of total staff, has increased from 5%

7.2 shows the distribution of staff within the ministries. In line with increasing attention to social sectors, agencies handling these sectors account for bulk of the staff, and most of the

Table 7.1 Employment Growth in the Civil Service

Class	1971	1982	1986	1992
BCS	11,130	56,100	60,106	78,685
I	12,320	187,700	32,042	36,858
II	245,500	308,700	594,300	579,842
III	185,500	226,500	386,406	251,364
Total	454,450	770,000	1,072,854	946,749

in 1971 to 12% in 1992; *in absolute terms about 80% of the increase in staff over the last two decades has been on account of Class III/IV employees, who have little substantive contribution to handling of state functions.* Table

increase in staff was also on account of these sectors; it is expected that refocusing of government would increase the officer level employment in these agencies.

Table 7.2 Ministries with Highest No. of Employees

Ministry	Percent of Officers	Percent of Staff	Total No. of Officers + Staff	Share of ADP
Education	21.86	28.74	184326	8.9
Home Affairs	5.98	16.09	100349	n.a
Health and Welfare	21.87	11.52	79863	7.5
Communications	3.69	10.38	64651	12.2
Post and Telecom	1.68	5.37	33315	2.6
Finance	7.93	3.25	23328	0.67
Agriculture	5.1	2.65	18377	7.3
Others	31.89	22.00	148023	60.8
Total	100.00	100.00	652232	100.00

0.7 As highlighted above, and in common with other developing countries, Bangladesh has a large imbalance in its officer:staff ratio — 1:7 compared to the norm of 1:3 recommended for most agencies by the 1982 Enam Reorganization Committee. *The large numbers of civil servants at the clerical and messenger level not only has a negative effect on efficiency, and the size of the wage bill, but has also contributed to the problem of salary compression.* Another significant feature of the officer:staff ratio is that it differs widely between different organizational levels (Table 7.3). For instance: in ministries and divisions, the ratio is 1:3; in departments and directorates, it is 1:14; and in autonomous bodies and corporations, it is 1:7.

0.8 Table 7.4 compares the size of civil service in various South and East Asian Countries. Bangladesh had roughly nine civil servants per thousand population in 1994, which is well below

the ratio for many other countries. Although on the basis of land area, Bangladesh has four times as many civil servants as Indonesia/Thailand and twice as many as Philippines. International comparisons of size provide an interesting context for discussion, but cannot be used as a basis of policy, mainly because it tells very little about civil service efficiency. Nobody would argue that Singapore and the Philippines, for example, which have similar numbers of civil servants per thousand population, are equally efficient in terms of performance. Many other factors come into play, including: revenue capacity, the public-private mix, the productivity of employees, the complexities of the respective bureaucratic systems, the volume of economic and social activities, and the extent of use of technology. Despite its relatively small size, the Civil Service in Bangladesh still exercises a large influence over the economy and the society at large through a dense structure of regulatory and administrative controls and extensive involvement in key sectors of the economy.

Table 7.3 Ministries with High Officer: Staff Ratios

Ministry	Ratio
Post & Telecom	1.42
Environment	1:38
Communications	1:38
Home Affairs	1:36
LGRD & Cooperatives	1:19
Establishment	1:19
Education	1:18
Health and Welfare	1:14
Land	1:13
Defense	1:13
Cultural Affairs	1:11

Table 7.4 Size of Civil Service in South and East Asia

Country	Civil Servants per Thousand	Civil Servants per Sq. mile	Wage bill as % of Government Expenditure
Bangladesh (1994)	9.5	6.6	41% *
Pakistan	22	2.8	N/A
India	N/A	N/A	9.14%
Sri Lanka	50	12.9	N/A
Philippines (1979)	23	3.5	28.50%
Malaysia (1984)	45	2.0	26.20%
Indonesia(1983)	15	1.2	N/A
Thailand (1984)	19	1.6	N/A
Singapore (1984)	29	118.7	29.80%

* percent of recurrent budget.

0.9 **Wage Bill:** Over the last decade, the cost of salaries and allowances for civil servants has increased more than three times in nominal terms (Table 7.5), and as percentage of GDP it has increased from about 3% to 4.2%. The growth of wage bill resulted from both unwarranted increase in staff as well as salary revisions ; the latter however were not an outcome of a systematic salary compensation policy, but the result of ad hoc revisions. The result of the increasing wage bill and unplanned salary hikes has been to:

- Put significant, and at times unplanned, pressures on the budget. The recent salary increase for Class III and IV (support level) employees has cost the Government an additional Tk. 10 billion in a single year.

- Crowd out funding for other important expenditures such as operations and maintenance (O&M). In Bangladesh, O&M expenditures represent 45 percent of total recurrent expenditures (1993/94) — a proportion already too low to maintain the value of available assets.
- Push up private sector wages in the modern sector where unions argue that their wages should follow public sector wage adjustments. This in turn has a detrimental effect on enterprise viability and competitiveness.

Table 7.5 Trends in Compensation Costs for Government Employees (Billion Takas)

	1985-86	1989-90	1993-94	1994-95
Pay and Allowances	13.36	26.5	40.5	41.9
Pension and Retirement	0.75	1.7	4.7	5.6
Total Compensation	14.11	28.2	45.2	47.5
Revenue Expenditure	34.21	67.4	92.0	103.0
GDP (Current Prices)	486.00	738.0	1035.0	1138.0
Ratios				
Wage Bill/Rev. Expen. %	41.00	42.0	49.0	46.0
Wage Bill/GDP %	3.03	3.8	4.4	4.2
Revenue Expend./GDP %	7.34	9.14	8.89	9.05

0.10 Table 7.6 compares GOB expenditures on wages and salaries in comparison to Singapore and the Republic of Korea — two countries with very efficient public administrations and where productivity of the economies is much higher. Thus Bangladeshi taxpayers spend proportionately about as much on civil service wages as Korean or Singaporean citizens, yet they get much worse standards of service.

The Heart of the Matter — Compensation

0.11 *“Any traveler knows that because from the moment you hit the airport to the time you get into the taxi, you travel on the road, you know the difference, whether a place works on rules or it bends rules. Every member knows that there is no easy money on the take. That’s the way we are. Nobody believes that we spent money to get into this House. I’m one of the best paid and probably one of the poorest of the Third World prime ministers. There are ways and ways of doing things. And I’m suggesting our way, moving with the market, is an honest, open, defensible and workable system. You abandon this for hypocrisy, you’ll end up with duplicity and corruption. Take your choice”.* Prime Minister Lee’s speech to Parliament while introducing bill on raising Singaporean public sector wages to market levels.

0.12 Many of the problems of Bangladesh's dysfunctional bureaucracy can be linked with poor pay — the result of a persistent erosion and compression of salaries. From time to time, the

Government has adjusted compensation — by setting up National Pay Service Commissions at four to eight year intervals. In 1985, for instance, a Pay Commission doubled the basic pay, and in 1991 it increased it by about 1.7 times, and there have also been a number of increases in 'dearness' allowances. But it is clear that government salaries, at management and policy levels, have fallen far out of line with those in the private sector. The Pay Commission Reports are not officially published, so the basis of their adjustments and revisions is unknown, but it does not appear to have taken into account the effect that low officer salaries have on civil service morale and competence. Most pay revisions have tended to be biased towards lower level staff rather than officers and this has contributed to the problem of salary compression. The present salary structure has 20 distinct grades (table 7.7) and has some major deficiencies.

0.13 **Equal Pay for Unequal Tasks.** The salary compensation structure does not allow for differences in professional skills, educational level, or the nature of the job. So doctors, engineers, or revenue officers entering Class I positions will all receive the same salary.

0.14 **Salary Compression.** An efficient salary structure should offer pay rates that are competitive both internally and externally, and maintain internal equity in grading and compensation. A good indicator of the efficacy of the salary structure is the salary compression ratio

Table 7.6 Cross Country Comparison

Countries	Wages as % of GDP	Wages as % of Recurrent Expenditures (excl. interest payments)
Bangladesh	4	45
Singapore	6	41
Korea	5	27
Chile	5	21

— the ratio of the highest salary to the lowest. As table 7.8 indicates, the salary compression declined from 46:1 in 1962 to 10:1 in 1991, and in 1994 the gap narrowed further. An even more disconcerting aspect of salary and benefits is that even though the compression ratio between officers (Class 1 and II) and staff (Class III and IV) is around 1:5 based on salary grade structure, it drops to 1:2 when actual payments are taken into account. *Thus the average annual cost of officers, in 1993 was about Tk. 8,300 per month, compared to Tk. 4,000 per month for staff. This is because Class III and IV staff enjoy a large number of additional allowances .*

0.15 Decline in Absolute and Relative Level of Salaries. The current salary position is a reflection of the Government's long-standing policy of expanding employment while eroding salaries. Those at the top of the scale have suffered most. In 1962 terms, the basic pay of a secretary has declined by 87 percent while that of a peon declined by only 43 percent. Between 1962 and 1994, secretaries, joint secretaries and deputy secretaries suffered a sharp decline in real

**Table 7.7 Salary Grades in the Civil Service
(1991)**

Class	No. of Grades	Salary Range
Class I	9	Tk. 2,850 - Tk. 10,000
Class II	2	Tk. 1,725 - Tk. 2,300
Class III	7	Tk. 1,125 - Tk. 1,725
Class IV	3	Tk. 900 - Tk. 1,050

**Table 7.8 Trends in Compression Ratios
(Tk/month)**

Year	1962	1973	1977	1985	1991	1994
Secretary (Nominal)	3000	3000	3000	6000	10000	10000
Peon (Nominal)	65	130	240	550	975	975
Compression Ratio	1 : 46	1 : 23	1 : 12	1 : 11	1 : 10	1 : 10

**Table 7.9 Nominal and Real Salaries
for Top Secretariat Officials
(Tk/month)**

Year	CPI 1969/70=100	Secretary		Joint Secretary		Deputy Secretary	
		Nominal	Real	Nominal	Real	Nominal	Real
1962	71	3000 (\$667)	3000	2300 (\$511)	2300	1525 (\$339)	1525
1977	441	3000 (\$199)	483	2350 (\$156)	378	1850 (\$123)	298
1985	1014	6000 (\$201)	420	4750 (\$159)	333	3700 (\$124)	259
1991	1671	10000 (\$262)	425	7800 (\$204)	331	6300 (\$165)	268
1994	1853	10000 (Tk. 260,000) * (\$250)	383	7800 (\$195)	299	6300 (\$158)	241

* What nominal salary in 1994 would be if purchasing power of 1962 salary was maintained by increasing salary on the basis of CPI.

incomes (Table 7.9)⁹³. Looked at another way, if the purchasing power of the secretary's salary of Tk. 3,000 in 1962 was maintained, by increasing it at the same rate as CPI, it should be at least Tk. 260,000 now--it is only Tk. 10,000. In current dollar terms, a secretary's salary, has dropped from \$667 in 1962 to \$250. Judges have also suffered a decline (Table 7.10). *The salary decline of the last three decades is a major cause of the low levels of efficiency, low morale, absenteeism, rent seeking and the deteriorating quality of new entrants.*

0.16 Although the provision of salary supplements, government housing and transportation mitigates somewhat the impact of salary erosion, take-home pay is still too low to provide a decent middle class living, to send children to good private schools, or to pay for private medical costs; with quality of government provided education and health services abysmally

low now, people have little choice but to turn to the private sector. A Secretary with two children in private secondary school or university, would need a minimum take home pay of Tk 20,000 per month., compared to present take-home pay of Tk 13,000; thus present take-home pay not only is inadequate to meet day-to-day expenses, it does not provide for large one-off expenses such as children's marriages, or buying a car or a house for retirement to substitute for those previously provided by the Government. While those at the top may have suffered most, there has also been an erosion of salaries across the board in terms of purchasing power.

- Until the mid-sixties, an entry level civil servant could buy a small car with six months' salary; now it would take 40 months to buy the same car.
- About 50 years back, a judge's monthly salary was equivalent to 100 tolas of gold; now it only buys two tolas (Table 7.10).

⁹³ The base year was selected since pre-independence salary statistics were readily available for that year.

Table 7.10 Purchasing Power of Salary of Judges

	Monthly Salary of High Court Judge	Purchasing Power	Monthly Salary Equivalent Price of Prime Residential Land (per 14,400 sq.ft.)
		<u>Gold (Tola)*</u>	
1947	Rs.4,000/-	100	2 days
1960	Rs.4,000/-	66	5 months
1970	Rs.4,000/-	30	8 months
1972	Tk.4,000/-	26	12 months
1994	Tk.11,900/-	2	1000 months

* 1 Tola = 11.6 gms.

- In 1969, one days salary of a secretary was equivalent to 100 kgs of rice, 25 kgs of beef and 40 kgs of fish. Today one days salary is equivalent to 15 kgs of rice, 6 kgs of beef and 4 kgs of fish.

0.17 The take-home pay of Secretary in the Civil Service in 1969 was about Rs 3,000, compared to salaries of corporate chief executives in the private sector which averaged Rs 4,000. Based on a survey in 1968, top management salaries were on average higher in the public sector (Table 7.11). During the last quarter century, while private sector salaries have increased dramatically (perhaps 30-50 times after taking into account benefits) and have kept pace with inflation, those in the public sector have dropped dramatically in real terms. Today, comparable private sector salaries are 5-7 times those of public sector, at the management level. As a comparison, public sector salaries (as % of private sector salaries) are: 110% (Singapore), 70% (Korea), 47% (Thailand), 40% (Malaysia). In addition to this huge differential, salaries in the private sector also differ in two important aspects. First, compensation in private companies rises progressively with increasing responsibility, and rather than being tilted towards support staff it is

tilted towards management, technical and professional personnel. Second, the compression ratio is also very different; while top management in the private sector may earn six times as much as senior civil servants, a peon in the private sector only gets twice as much as his counterpart in the public sector. Civil servants' salaries cannot be the same as those of their private sector counterparts because they have more secure jobs; but they should bear a reasonably uniform relationship to them, and should not get too far out of line. Such a policy would have two important advantages. First it would reflect the reality that governments have to compete for talent on the national labor market. Second, it would provide a simple, objective, basis for setting salary differentials within the public sector. Japan and Singapore, for instance, have a rule not to permit civil service salaries to fall below two-thirds of those in the private sector. With the acceleration in private sector growth, opportunities in the private sector will increase, so the Government in Bangladesh will have to raise public sector salaries to attract the brightest and the best.

**Table 7.11 Civil Service and Private Sector Salaries
(Tk/month)**

Post	Normal Take Home Pay without Govt. Perks	Pay with Monetized Value of Perk (approx)	Compar- able Private Sector (Inclusive of Benefits)	Ratio of Private Sector to Civil Service Pay
1	2	3	4	4/3
Secretary	13,080	<u>1995</u> 27,000	176,000	6.5
Jt. Secretary	11,000	22,000	107,000	4.9
Dy. Secretary	8,952	12,000	72,000	5.9
Central Government*	2,633	<u>1968</u> (exc. benefits) n.a.	2235	

* Salary survey for top management, 1968.

0.18 **Lack of Transparency.** Most government servants also receive non-monetary benefits — such as housing, servants, transportation, telephones, and subsidized residential land. In the last three decades these have been used more and more to compensate officers for loss of purchasing power. However, this can be very inefficient. Not only does it impose a heavy administrative burden, it also diverts public servants' energies towards the pursuit of goods in short supply, and masks the real costs of public sector employment. Bangladesh is not unique in this respect. Most developing countries have pursued similar policies. But there is growing recognition worldwide that a fully monetized salary system is preferable and some countries, such as Indonesia have embarked on a monetization program. Monetization would certainly be complex in Bangladesh. If, for example, instead of occupying a publicly owned houses, public servants received a housing allowance they are likely to move out of public housing and opt for cash — thus increasing the budgetary costs unless public housing is sold. The budgetary strain operates on a static basis in the short or medium term — that is, when the government has those facilities and yet pays out

allowances in cash. Over a longer period and on a dynamic basis, the gains are certain and perhaps substantial, the government does not have to own and construct houses; the savings on capital expenditure and subsequent expenditure on maintenance can pay towards housing allowance; and the administrative staff can be substantially reduced. A study would need to be carried out to determine the pros and cons of, as well as modalities for, a monetization program. Independent of a study, GOB can also start implementing this, on an experimental basis, beginning with the disposing off abandoned houses.

0.19 **Automatic Salary Increases:** The Bangladesh Civil Service follows the traditional, rigid system of a unified pay scale, with automatic, fixed-step annual increments based on seniority. This has a number of disadvantages. For one thing, managers, who know their staff best, have little influence in determining compensation levels. And this system also encourages 'grade creep'. But more generally it reduces the scope for creativity and initiative. Therefore, while most reforming countries have retained the basic elements of the traditional system, they have also

begun to build in greater flexibility. One such initiative, now used extensively in Australia, New Zealand, and Sweden, is 'broad banding'. This means that recruits enter the service in a salary range rather than at a fixed point. More importantly, subsequent increments are not automatic but are linked to performance.

0.20 Inadequate SOE Salaries: There is urgent need to reform salary structures in the state-owned enterprises which have no relation to performance, ability of enterprise to pay and salaries in similar private sector owned firms. Bangladesh is one of the few countries where SOE Salaries are not differentiated from regular government salaries. The perverse effects this unsatisfactory salary policy is having on SOE performance, quality of service, corruption, declining quality of managers are too well known. ***Delinking of SOE salaries from GOB salaries is long overdue.*** In Pakistan, for example, the Central Bank, financial institutions, and manufacturing SOEs all have their own specific salary scales. There is no uniform SOE salary scale and the salaries of larger firms are usually much higher than that of smaller firms. SOEs are free to set their salary increments based on profitability and ability to pay. Numerous other East Asian and low income developing countries follow this practice.

0.21 A Paradigm Shift. It is important to underline the rationale for Bangladesh to introduce fundamental changes in the salary practices. First, it is absolutely plain that a government gets the service for what it pays for -- low pay has a positive correlation with low quality output, notwithstanding the prestige of a government job. Prestige goes only so far. Secondly, the equity issue i.e., preferring salary compression is really counterproductive from the point of view of the citizen and/or tax payers of Bangladesh. They are undoubtedly more concerned about the quality of service provided rather than what the secretary or head of agency makes. Thirdly, there was good justification for the colonial administration to keep a keen eye on the adequacy of salary levels since low salaries can debase the concept of "public service" into "self service"; if the focus is on serving the consumer, he would rather prefer Singapore style

efficiency with public sector managers getting salaries approximating the private sector, than poor services and lower salaries for civil servants. Fourthly, the argument that a poor country cannot afford to pay high salaries or that salaries should have some linkage to per capital incomes, is equally fallacious. To expect that a senior manager in public sector would eschew the essential elements of a decent living -- quality education for children, car, personal house and other reasonable amenities of life -- is to ask the impossible. As much as policy makers in Bangladesh would like to believe that they can get Singapore style efficiency and work ethic⁹⁴ with low salaries -- there is regrettably no such success story. Finally, one of the main goals of the macroeconomic reforms and attempts at economic liberalization that are taking place around the world is getting the prices right. These reforms aim at setting an exchange rate to reflect market realities, getting the prices right for goods and services, and getting the interest rate right. But there is one price that people pay little attention to -- the price paid to those in charge of getting the rest of the prices right. In answering the question, "What would the country have -- fewer but highly paid and motivated civil servants which holds the promise of quantum jump in quality of government services and output leading to higher growth or low paid and de-motivated civil servants with little change of quantum change, as history clearly points out" -- it is hoped that the policy makers will be bold enough to break out of the present perverse situation and pick the first choice.

0.22 The table 7.12 below illustrates several scenarios how salary reforms can be easily financed through *budget neutral* rationalization of employment and ministeries. Thus (see shaded line in Table) over a five year period:

- **Case A: Savings from retrenchment (Tk. 31.5 billion) would cover both costs of 100%**

⁹⁴ Singapore, in 1989 gross monthly salary of the highest civil servant was a staggering US\$26,000/month compared to the highest civil service salary in U.S. of \$7,200/month. On public sector salary, PM Lee made the following statement, "Paying civil servants adequately is absolutely essential to maintain the quality of public administration...".

increase in officer salaries (Tk. 27.2 billion) and staff retrenchment costs of Tk. 6.3 billion (one year salary), if the following was done (i) officer:staff ratio was reduced to 1:3 for all ministries as recommended by Enam Committee (para 7.7), excluding agriculture, education, police, etc., which need to have higher staff-to-officer ratio given the nature of their work; (ii) about 10% of the staff of these excluded ministries was reduced, which should be possible given the excessive overstaffing; and (iii) certain ministries (e.g., Industry, Commerce, Jute, Textiles, etc) were reduction in existing manpower of these ministries.

- **Case D: Savings from retrenchment (Tk. 24.9 billion) would cover both costs of 75% increase in officer salaries (Tk. 20.4 billion) and staff retrenchment costs of Tk. 4.99 billion (one year salary), if the following was done (i) officer:staff ratio was reduced to 1:4 for all ministries as recommended by Enam Committee (para 7.7), excluding agriculture, education, police, etc., which need to have higher staff to officer ratio and (ii) about 10% of the staff of these excluded ministries was reduced, which should be possible given the excessive overstaffing.**

Table 7.12 Financing Salary Increases and Retrenchment

Officer:Staff Ratio	No.of Officers	No.of Staff	Excess Staff	5 Years Gross Savings Tk. billion	5 yr Pay Incr. of Officers Tk. billion	5 yr Pay incr of staff Tk. billion	Retrn. Cost of Staff Tk. billion	5 years Net Saving Tk. billion
Case A								
Assumption: Officers Salary up by 100%/Ministries reduced/rationalized.								
1:03 & -10%	52018	576635	137947	33.33	25.90	0.00	6.67	0.77
1:04 & -10%	52018	600862	113720	27.48	25.90	0.00	5.50	-3.92
1:05 & -10%	52018	625461	89121	21.53	25.90	0.00	4.31	-8.67
1:06 & -10%	52018	650059	64523	15.59	25.90	0.00	3.12	-13.43
Case B								
Assumption: Officers Salary up by 75%/Ministries reduced/rationalized.								
1:03 & -10%	52018	576635	137947	33.33	19.42	0.00	6.67	7.24
1:04 & -10%	52018	600862	113720	27.48	19.42	0.00	5.50	2.56
1:05 & -10%	52018	625461	89121	21.53	19.42	0.00	4.31	-2.20
1:06 & -10%	52018	650059	64523	15.59	19.42	0.00	3.12	-6.95
Case C								
Assumption: Officers Salary up by 100%/Ministries remain intact.								
1:03 & -10%	54677	584240	130342	31.49	27.22	0.00	6.30	-2.03
1:04 & -10%	54677	611406	103176	24.93	27.22	0.00	4.99	-7.28
1:05 & -10%	54677	638754	75828	18.32	27.22	0.00	3.66	-12.57
1:06 & -10%	54677	666011	48571	11.74	27.22	0.00	2.35	-17.83
Case D								
Assumption: Officers Salary up by 75%/Ministries remain intact.								
1:03 & -10%	54677	584240	130342	31.49	20.42	0.00	6.30	4.78
1:04 & -10%	54677	611406	103176	24.93	20.42	0.00	4.99	-0.47
1:05 & -10%	54677	638754	75828	18.32	20.42	0.00	3.66	-5.76
1:06 & -10%	54677	666011	48571	11.74	20.42	0.00	2.35	-11.03

0.23 As highlighted above, it is possible to undertake major reforms -- which at least provide some hope that quality of human resource would improve dramatically -- without significantly increasing the wage bill. Although, even if the Bangladesh taxpayer has to spend an additional 1-2% of GDP to get a high quality of service -- a la East Asian style -- there is every reason to believe that they would be more than happy to agree to higher taxation that may be required to finance the salary reforms. There is ample evidence all over Bangladesh that people, even very poor (e.g., Grameen's borrowers) are willing to pay higher prices for better quality product and service. *While salary reforms are urgently needed, citizens would be loathe to support substantial increases for the vast majority of today's public servants because of the poor quality of service and their unresponsive and exploitative behavior. A major change in the salary system could only be implemented once there is a satisfactory system in place to ensure performance standards and accountability, so that salary increases are fully justified.* Moreover, fundamental reforms are complex, require much more indepth study than undertaken as part of this report, and need to be closely tied to fiscal space and goals. Pending this indepth study, the following options merit consideration, in the interim, to compensate the thousands of outstanding and highly skilled public servants, who are "Agents of Change" and continue to uphold public service despite overwhelming counterrailing forces (Box 8.1).

- ***Make meritorious public service awards.*** These awards should go to the top 1-2 percent of performers in each ministry or department and should be based on performance-related factors such as timely ADP implementation, achievements in revenue collection, expeditious custom clearance, or high quality policy analysis. The awards should have a substantial cash value, say 12-18 months salary to be meaningful and to pay for one-time essential capital expenditures such as car purchase, college education, children's wedding, etc., -- which otherwise have to be made up through rent seeking, for the most part. A committee in each department or ministry would select candidates who would be further shortlisted by a PM's committee —

comprising government servants and leading public figures, and professional experts. A committee, with outsiders, and transparent process would minimize abuse.

- ***Introduce special qualification supplements.*** These would go to officials who have obtained Masters degrees or PhDs from recognized universities in OECD countries. Again this should be substantial — say 100 percent of basic salary for a Masters degree and 200 percent for a PhD. This would give public servants an incentive to travel overseas for training, even at their own expense, and attract more highly qualified people into public service.
- ***Establishing Cost Reduction Awards*** to reward those public servants whose proposals/ideas lead to elimination of waste and cost savings. A special program could be established to proactively encourage Agents of Change to propose ideas.

0.24 **The government needs to recognize that if it is not rewarding success, it is rewarding failure.** The benefits of these schemes are likely to outweigh potential costs. Assuming 1000 (1% of total employment) meritorious awards of Tk. 1 lakh each, 100 PhD supplements at Tk. 2 lakhs each, and 200 Masters degree supplements at Tk. 1 lakh each, the annual costs would amount to no more than Tk. 14 crore.

0.25 In addition, the following measures are recommended:

- ***Establish a professionally staffed Pay Research Unit in the Ministry of Finance.*** Working in close collaboration with the Establishment Ministry, it would regularly undertake systematic and comprehensive reviews of salary levels and recommend annual increases rather than leaving these to ad hoc Pay Commissions. ***As its first task,*** the Unit should undertake an indepth study of the various options and the path of adjustment of civil service pay which is consistent with fiscal goals and which over 5-7 years, could bring about a paradigm shift in compensation through: attrition, early retirement, subdued

pay increases at the bottom, and big pay increases at the top paid for by reduction of lower level staff. This study should also review monetization of Allowance and Perks to recommend options for monetizing non-monetary benefits, such as free housing, with a view to establish a transparent and largely consolidated pay structure. Prior to the study, explicit and specific targets for the wage-bill would need to be established, so that the Unit can analyze the various implications of the budget constraints in terms of the trade-off which may emerge over issues like compression ratios, relationship to private sector salaries, levels and profile of staff, etc.

- ***Delink judiciary and public enterprise salaries from Government salaries***— As a first step, salaries of higher judiciary and central bank should be revised taking into account market realities. Over the medium term, all other SOEs which remain in public domain, should be allowed autonomy for pay adjustments in line with commercial considerations and ability-to-pay.

Skills Mismatch -- Doctors as District Managers

0.26 After compensation, the absence of a coherent policy on matching jobs with skills is a major reason for the declining professionalism and the managerial crisis. Developing a coherent policy would require reforms of the cadre system, recruitment, training and promotion policies.

0.27 **Recruitment.** Bangladesh largely follows a “closed entry” system where Class 1 level officers are recruited at entry level, through open competitive exams into 29 cadres, comprising functional and professional streams. At the mid- and upper-management levels, and in case of specialized positions, 10% of the positions can be filled through contractual appointments or on deputation from other public sector organizations; however this injection of “fresh” human capital is used sparingly, thereby reducing competitive pressures within the system. In addition to the above recruitment rigidities, the current system is centralized and very time consuming. Before a department can make any

new appointment, it must draft detailed recruitment rules. These must then be vetted by a series of Ministries — the MOE, the MOF, and the MOL. Finally, the PSC must express an ‘opinion’, though in fact this is binding. It is not surprising, therefore, that even an ordinary recruitment process can take a long time.⁹⁵ The centralized system is also frequently overloaded, somewhat insensitive to the particular requirements of the individual job, and is often quite arbitrary. This becomes particularly noticeable for any appointment requiring unusual skills.

0.28 **Cadre System.** Though all the cadres are recruited at the same level, they do not have the same chances for career mobility and job enrichment. College teachers, for example, will continue to teach the same subject and only a few can get higher positions in educational administration. Even though government has opened to all civil service cadres the possibility of promotion to secretariat positions -- including the post of Secretary, which is by far the most important administrative responsibility a career civil servant may hold -- in fact, most of these positions still go to the administrative cadre officers, followed by other ‘generalist officers’ (such as finance services, customs, and education). This leaves the professional and technical cadres (such as doctors, engineers, teachers, agriculture scientists and specialists) feeling aggrieved. Many officers are not members of any of the 29 cadres, and some cadres such as BCS (Statistics) have extremely limited career prospects. Moreover, postings between departments often take place on doubtful criteria — bearing little relation to competence or seniority. Much of the debate on reforming the Civil Service is bound up with the cadre system, and the relative status of different cadres, rather than fundamental reforms.

0.29 The establishment of the cadre system in 1977, abolishment of the CSP cadre and allowing mobility at senior levels, was meant to correct the

⁹⁵ In a bureaucratic environment where enthusiasm can be misconstrued as being driven by an "Ulterior Motive", many consider it the better part of discretion not to be in "hot pursuit" of a file.

discrimination among the various service cadres, to allocate people and skills more effectively by equalizing incentives, and to broaden the recruitment base for the highest executive or policy-making positions. The reforms were also meant to remove the 'spurious elitism' from the administrative civil service cadre. In practice, however, none of these objectives seems to have been achieved. Apart from the technical and professional services, the competitive examination is tilted in favor of liberal education graduates. And the subsequent training of civil servants emphasizes law, revenue and general administration. This tends to exclude high quality technical and professional personnel from high positions where they could influence policy. And it has resulted in a public controversy over the relative merits of professionally or technically trained civil servants, the 'Prokrichi' and the 'generalist' civil servants. Promotion policy is today one of the most contentious civil service issues, and a major cause of friction between the various cadres. The main complaints are that the promotion system is politicized, and that it offers unequal opportunities, amongst cadres, for promotions to the top echelons of government. Indeed, the High Court of Bangladesh has recently declared the setting up of the Cabinet sub-committee on promotion (para 7.25) to be ultra vires and the promotion of around 200 senior civil servants has been considered irregular.

0.30 Management of the economy in today's fast moving complex and inter-dependent global world is a daunting task for any government. Add to this the immensely complex and huge development challenges facing Bangladesh, and nothing short of Herculean management and technical skills are needed to manage Bangladesh. The existing government "closed entry" personnel system based on cadres cannot provide the required skills. Each ministry needs a wide variety of skills. Policy making needs people who can relate a ministry's subject area to the government's broader social and economic objectives, as well as the political and economic constraints to which it is subjected. On the other hand it also needs people with a detailed understanding of the substantive professional discipline, like those skilled in economics and financial management. The following

recommendations are made to help ensure competent and well trained people occupy policy making and management jobs in Ministries, Agencies and Departments.

- ***Establish specialized functional groups:*** One possible measure, which could address the skills mismatch issue and at the same time the inter-cadre rivalry, is the clustering of ministries into functional groups and establishment of Specialized Senior Staffing Pool (SSSP) to manage the functional clusters. The present unified SSP practice would then be discontinued. These functional clusters/groups might, for example, include: a macro-economic group, a social sector group, an infrastructure group, an agriculture and natural resources groups, and also one for general administration. Deputy-secretary-rank officers from all cadres would be eligible to join any one of the SSSP groups based on their track record and the results of a competitive examination. These should be Masters-level tailor-made modules covering the core theoretical and applied knowledge needed for policy-making in each subject. Officers would study in their own time and could choose to take the exam for more than one group. Anyone appointed to a joint secretary level job would have to have passed these exams as well as completed specialized training at designated institutions including BTAC. Once a person is selected for any of the SSSP groups, they would stay within that group for the rest of the career, becoming Agency Heads/Secretaries in due course if performance is satisfactory.
- ***Establish a more pro-active lateral entry policy.*** A more open system might be better, since it could help introduce competitive pressures. However, in the context of Bangladesh, a completely open system may not work so well. One reason is that people may enter laterally but, given the shortage of jobs elsewhere, they might be reluctant to exit laterally. Another is that an open system also allows opportunities for patronage by both civil servants and political leaders. One might consider instead a partially open system. A large number of industrial countries, including the UK, New Zealand, and the US, and a

number of developing countries, including Malaysia, Thailand, Pakistan, Argentina, and Chile give agencies or departments greater authority to recruit their staff from the open market. This is a lead which Bangladesh might well follow.

- ***Employ more people on contracts.*** As part of the above, the Government could help redress the skill gap generated by the strict cadres by making more appointments on contract. The Government has most often used this power to retain the services of officials after their retirement — primarily former Civil Service of Pakistan officers and male members of the bureaucracy. However it could also be used to increase the participation of professionals, and women. Another possibility is to recruit more people on short-term assignments. Given the pace of change in the outside world, the Government needs regular injections of well-informed staff, especially if it is undertaking major reforms or modernization programs. These could be independent consultants on short term assignments who would return to their university or research organization after completing their task.
- ***Decentralize Recruitment,*** while establishing recruitment guidelines (Box 7.2) and ensuring appropriate checks and balances to ensure that this is consistent with fiscal objectives and is budget neutral. In the immediate future the extent to which decentralization is pursued will depend to a large extent on the Government's decision to delegate more authority to Department Heads, to recruit in accordance with rules laid down and monitored by the

Public Service Commission. However, a more fundamental decentralization would await changes in the way Government units are structured. If, for example, the Government chooses the Agency approach, it would have to allow the Chief Executives full authority over a number of personnel matters, including the recruitment of middle-level staff. In the UK and New Zealand, the Agency heads are already allowed to recruit their key staff through open competition, and at market rates.

- ***Prepare skill profiles for ministries*** — The Government should prepare profiles of the skills required for key position in various ministries/agencies and make some tentative selection of officers who would be trained to work in those units at senior levels. Their training and career path will be designed to this goal. Although there will be some wastage, the benefits are likely to outweigh the disadvantages.

0.31 These changes should enhance the professional competence of the Government, allow professionally trained and experienced people to reach higher echelons of the Civil Service, and remove the tradition of enlightened amateurism -- while allowing the generalists to specialize in their chosen skills. They should also reduce the stultification that inevitably results from a rigid bureaucratic personnel system. It is imperative for Bangladesh's future that management jobs, whether in policy-making or agencies, be staffed by people with the requisite professional and technical knowledge. In an interdependent world, it is also important for Bangladesh's image to have senior staff who have both the breadth and depth of knowledge and

Box 7.2 The Recruitment Checklist

- Is it necessary to fill the vacancy at all, or at this level?
- If so, what is the nature of the job, now and in the future?
- What qualifications, qualities, skills, experience and achievement record will a future job holder require?
- What are the requirements of the top team into which the individual needs to fit?
- Is there a sufficient field of candidates already within the department, or in order to get a strong field is it necessary to extend the search to the wider Civil Service or to full open competition?
- Are there wider reasons in the departmental interest, or the corporate interest of the Civil Service as a whole, to provide the opportunity for new blood to be brought into the department or the Civil Service through this vacancy?

Source: *The Civil Service: Continuity and Change*, White Paper presented to Parliament by the Prime Minister, July 1994.

experience to deal with complex issues such as the environment, capital markets, and international investment.

Promotion

0.32 In Bangladesh, as in most other developing countries, the Civil Service rules require that promotions be on the basis of both merit and seniority.^{96 97} However, it tends to attach a greater weight to seniority. Some reforming countries are trying to link salaries and promotions to performance, but they face stiff socio-cultural resistance. And the more tradition-bound countries like Korea, Japan, and Thailand, have largely stuck to seniority. Bangladesh does, in a formal sense, have an 'efficiency bar' which civil servants must cross to ascend the salary ladder, but this is treated more as a matter of routine. In Singapore, for example, the efficiency bar can only be crossed after passing a strict examination.

0.33 The sole authority dealing with promotions of civil servants, used to be the Senior Services Selection Board (SSSB), headed by the

⁹⁶ The discussion in this section is confined to an evaluation of promotion from within the existing civil service ranks; lateral recruitment is reviewed in para 3.64.

⁹⁷ A detailed description of the GOB promotion policies and delegation of this function for levels of officials is in the Report by the Four Secretaries: Towards Better Government in Bangladesh, September 1993.

Cabinet Secretary. But in 1987 the ruling Government politicized the issue by introducing the Cabinet Sub-committee on Promotions. The Government needs to overhaul the promotion system by:

- ***Depoliticizing the promotion clearance process:*** While all senior level appointments are subject to political level clearance process in most countries, the reasons for rejection of SSSB recommendations, by the Cabinet Committee, should be clearly documented and transparent. In addition, it should introduce into the selection board people with professional experience in personnel management. It might either do this by expanding the SSSB membership, or by establishing a new institution which should be independent of serving civil servants and members of any particular political party. Introducing external members into the selection process would have a number of advantages. It would ensure that personnel policies and techniques keep abreast of those in the private sector. It would also reassure the private sector that the option of lateral entry is being pursued dispassionately.
- ***Linking Promotion to Performance:*** The way to achieve the best from employees is to specify their objectives clearly and to evaluate their performance against these objectives. This is not the usual practice in the Bangladesh Civil Service. Indeed most officials prefer

vague definitions of output to avoid being evaluated objectively. Even on projects where donors have insisted on job descriptions these have not been adhered to either in recruiting staff or in the functioning of the project. Box 7.3 describes briefly the attempts of a number of other civil services to inject their promotion systems with elements of competitiveness. These ideas could be emulated in Bangladesh. Needless to say, establishing objective performance standards is well within the capacity of the Bangladesh bureaucracy.

Job Rotation

0.34 Another reason for the poor performance of public sector personnel is their frequent job rotation. There are a number of reasons for the frequent and mostly ill-planned transfer of key officials. The main one is the policy of restricting 'in situ' promotions. But ambitious civil servants also see rotation as a means of rapid promotion -- hopefully finishing up in a high profile donor-

funded job. As one bureaucrat put it: "the current caricature of a successful career is to get oneself whizzed around in as many key posts as possible, rubbing shoulders with very senior people". This phenomenon is not peculiar to the country's top-most civil servants (box 8.4), but applies at all levels of the civil service, since job rotation is generally devoid of considerations of career planning or professional development.

0.35 All postings and transfer orders, are accompanied, for instance, by a claim that it is in "public interest". But, in the absence of any objective criteria such certification becomes a formal statement lacking any real meaning. The short tenure of officials is very disruptive. Civil servants often use transfer as an alibi for not meeting their agreed work objectives, and a frequent refrain heard while discussing a problem is: "I have only been in the job for a few months.

Box 7.3: How Other Countries Link Promotion to Performance

- *United Kingdom* — A relatively participative, objectives-based promotion system has now been in use for a few years. Performance appraisal has been decentralized and Ministries/Agencies are free to devise their own system subject to certain principles e.g., all civil servants are evaluated annually in Job Appraisal Reviews which become part of an Annual Staff Report. Supervisors interview employees to discuss progress made against previously agreed work objectives, and to define new ones for the coming year. An 'open' section in the annual performance report records the comments of both parties. An important point is that performance in current job is assessed separately from suitability for promotion which depends heavily on staff reports along with interviews with candidates' former superiors.
- *Singapore* — Singapore has taken one of the most innovative approaches to performance evaluation and promotion. Promotion is largely merit based, with considerable staff mobility among different ministries. First of all, the Government moved from a confidential evaluation system to a participatory performance appraisal system developed by the Shell Oil Company. The performance appraisal has two parts. One reviews and assesses past job performance; the other assesses the candidate's management and leadership potential -- the so called 'helicopter capacity' -- in an effort to identify and subsequently groom executive talent.
- *New Zealand* — New Zealand has forged the tightest links between performance appraisal and promotion. Using private sector models, the New Zealand Government measures performance against objectives and standards agreed upon at the beginning of the review cycle. Performance standards relate both to outcomes (e.g. the crime rate, road accidents) and to outputs (the number of patrols, road improvements). For example, the contract for the Governor of the Reserve Bank is linked to the rate of inflation. If inflation stays is kept within 0-2 per cent annually he or she earns a bonus; if inflation exceeds the contracted objective not only is there no bonus, there is also likely to be a reprimand and the contract may not be renewed.

Box 7.4: A Rolling Stone Angers No Boss

A major weakness of the Civil Service is the frequent rotation of senior civil servants. This erodes the concept of accountability, loses the benefit of accumulated experience, and weakens commitment to the immediate task. The following are some glaring cases of frequent rotation in key ministries.

- *The Ministry of Jute* — In mid-1993 the GOB successfully negotiated its biggest ever IDA Credit (\$250 million) for adjusting the jute sector. The secretary who negotiated this Credit was transferred within one month of the final negotiations, and since then the Ministry of Jute has changed two more secretaries including one employed on contract after retirement and since shifted elsewhere. The incumbent secretary retired on June 30, 1995.
- *The Ministry of Water Resources* — The MOWR has had its secretary changed three times in almost four years. This is despite the critical role the MOWR plays in directing the talks on common rivers water sharing with India and its management role in the internationally known Flood Action Plan.
- *The Ministry of Health & Social Welfare* — One of the largest consumers of the country's Annual Development Budget, and the recipient of the largest (\$600 million) multi-donor Family Planning and Health Project is the Ministry of Health & Social Welfare. During the last four years the Ministry changed its secretary four times.
- *Roads & Highways Department* — This is the single largest user of the ADP, and has had three Chief Engineers in the last 20 months. The title of Chief Engineer seems to serve as a retirement gift for those anointed.
- *The Planning Commission* — The 'think tank' of the government also gets through large numbers of secretaries. There are four secretaries appointed as Members in the Planning Commission, most of whom remain in a constant state of readiness to move to an operational position. The Planning Commission serves as a kind of 'parking lot' for secretaries -- or as a 'green pasture' prior to or after retirement.

One of the main reasons for the nomadic character of secretaries is the Government's practice of 'management by crisis'. During the course of their careers certain secretaries develop a reputation as 'fire fighters' who get moved to problem areas. Another reason for transfers is that they fall out of favor with the powers that be. Last but not least, there is simply an acute shortage of seasoned top level civil servants. The mandarins of Bangladesh's Civil Service, the 300 members of the erstwhile CSP, are fast becoming an endangered species _ the last batch is expected to depart in the year 2001.

This, of course, begs the question as to what is an optimum posting period. There is no easy answer, but most successful bureaucracies try to ensure that key staff remain in position for three to five years. This permits sufficient time for learning, taking concrete decisions, and correcting for any emerging implementation problems. This should become the practice in Bangladesh.

Gender Imbalance

0.36 In 1992, out of total public sector employment, 78,057 or only 8.2 percent were women. This is despite the reservation of quotas (10 percent for Class I and II posts, and 15 percent for Class III and IV posts). Table 7.13 shows for the period 1986 to 1991 the gender disaggregation of those sitting for the BCS examination -- and those selected. While the proportion of women

taking the examination increased over this period, there was no corresponding change in the proportion of women selected.

0.37 The more worrisome aspect is that women are not only under-represented in the Civil Service, they also tend to be concentrated in the bottom of the hierarchy. Over 90 percent are in Class III and IV. This means that the vast majority of women in the Civil Service are low-paid, clerical staff, having no say in either making or implementing policy. This phenomena is in large part explained by the relatively late induction of women at the professional levels in the civil service. Even so, for Bangladeshi women civil servants, the proverbial 'glass

Table 7.13 Gender Ratio of BCS Selection

Year	Total No. of Candidates	Total No. Selected	Percent Males Selected	Percent Females Selected
1986	33504	2117	85.45	14.55
1988	37348	1166	83.70	16.30
1989	28419	1022	88.65	11.35
1990	30677	995	86.62	13.38
1991	37593	n.a.	n.a.	n.a.
Total	167541	5000	85.86	14.14

ceiling' remains firmly in place. Currently, there is not a single female Secretary, and there is only one Additional Secretary (assigned to a training institute), three Joint Secretaries and three Deputy Secretaries. The Government is taking some affirmative measures at the field level: it has agreed that for recruiting primary school teachers, 60 percent of all new vacancies are to be filled by women. But this will do little to increase the number of women involved in the governing of Bangladesh.⁹⁸

0.38 Increasing the number of women in government will require a clear lead from the top. A good start would be for the Women's Affairs Division to prepare a policy paper. This should hopefully contain specific targets for female recruitment, plans for suitable training programs, and procedures for identifying candidates for fast-track promotion. In addition, a number of other measures would also be useful. These include:

- Improving the working conditions for women, including provision of day-care centers, rest rooms, hostel facilities, and transport facilities.
- Introducing as far as practicable the policy of posting spouses together in the same station.

⁹⁸ It is important to note that women are also grossly under-represented at the political level. For instance, there is not a single woman Cabinet minister. Thirty parliamentary seats are reserved for women who are chosen on the basis of the votes of elected MPs.

- Establishing a Government policy to firmly discourage the harassment of women and a process to permit redress for grievances in this area.
- Introducing mandatory training programs focusing on such subjects as gender in management, sexual harassment, and equal opportunities for women.
- Adopting interim measures, including appointing more women on contract or as consultants.

Training

0.39 Another crucial issue in the years ahead will be training. A fundamental issue is that the Government gives training a very low priority in its budget allocation, its promotion policy, and incentive system. And even when people are trained in a particular skill they often get posted to perform unrelated duties⁹⁹. The public servant's job is likely to change markedly in the years ahead, particularly with the emphasis on de-regulation, the greater reliance on private sector institutions, and the gradual shift towards participatory development. So staff at all levels will have to undertake periods of retraining.

⁹⁹ This aspect has been addressed in the UNDP Public Administration Reform Study.

Bangladesh has a fairly elaborate civil servant training system. This includes the Public Administration Training Centre, the Regional Civil Service Training Centres, and the specialized training institutes managed by ministries and departments. The report *Towards Better Government* deals at some length with the deficiencies of the current system. This report just highlights three important areas for reform:

- ***The curricula and teaching practices at the training centers need to be reassessed in the light of contemporary needs.*** The content of training is very traditional. It emphasizes didactic learning in contrast to human resource development (HRD). Thus course content includes excessive emphasis on subjects like culture, history, law and learning about rules — as opposed to developing quantitative and analytical skills.
- ***Making an assignment in the Civil Service Training Centers as a mandatory requirement for fast-track promotion.*** Postings to training institutes are generally treated as a dumping ground, and perceived as a punishment posting. In the armed forces, for example, commandant or instructor assignment in the Bangladesh Military Academy or the Military Staff College is a ticket to quick promotion to the highest ranking jobs in the forces. This pattern should be followed on the civil side as well, combined with assigning a one-step higher grade to jobs in training centers. This kind of policy shift should, however, be part of a comprehensive Human Resource Policy for Government, backed with a specific Action Plan and budget to upgrade training.
- ***The Government should also evolve a policy for better utilization of people who receive training abroad in reputed institutions and programs.*** At present, their deployment and

career prospects are determined by normal seniority and cadre rules: an officer who has completed a training program, for example, will have to wait for promotion until his or her senior with an undistinguished record gets promoted; and more often than not he or she will be assigned to jobs remotely connected with the training received in overseas universities. The Government may consider accelerated promotion for these officers, and deployment in places where they can better use their knowledge, regardless of their cadre. In recent years, training opportunities have also been offered to officers outside the Government — from banks and training institutes, for example. The Government may bring them into the policy making structure on fixed assignment and, subject to their performance in the ministries, consider absorbing some of them permanently.

Managing Staff Rationalization and Redundancy

0.40 Establishing a sound and acceptable staff rationalization and redundancy program would be critical to reforming the role of government, which inevitably creates redundancies. The report outlines five measures in this regards:

- ***Early retirement and general attrition*** is one of the most common (and painless) ways of reducing civil service numbers. This has been a feature of a number of civil service reform programs including those in Cameroon, Costa Rica, Ghana and to some extent in Pakistan and India. Bangladesh retires about 10,000 employees per annum, so retirement in itself will not bring about any major reduction in civil service numbers. Nevertheless it could reduce numbers somewhat if it enforced the retirement age and used the provision to prematurely retire staff who have completed 25 years of service.

Box 7.5: The Changing Face of the Civil Service Training System

Almost all reforming governments recognize the importance of training for public sector personnel. Accordingly, the leading countries are overhauling their training systems, including giving their training institutes a commercial orientation. At the same time, managers are being held accountable for their decisions on training resource allocations.

• *United Kingdom* — Major changes are underway in the UK Civil Service College, which now resembles a business school. It has, for instance, adopted business language and methods; developed a strategic plan and offers courses organized in seven 'market business groups'. Performance is ruthlessly measured against targets, and consultants have been brought in to advise on how to reward it in pay. The main aim is to change the old image of the college as a remedial institution where failing civil servants were sent. Today, the best and the brightest sign up for courses which cost typically 1,000 pounds a week and are charged to the departmental budget. No wonder the Civil Service College made a profit of 133,000 pounds on a turnover of 14.7 million pounds in 1992.

• *India* — The training for the Indian Administrative Service (IAS) is also undergoing a sea change. The training programs are being redesigned to attune IAS officers to the new market philosophy. Refresher courses for civil servants are now being held in premier academic institutions like the four Indian Institutes of Management (IIMS). Besides classroom instruction, the officers are taken on field visits to the stock exchanges, industries, and chambers of commerce. In recent months, the number of officers questioning the rationale of liberalization is reported to have dwindled sharply — most officers are now keen on catching up with the changes in various economic policies and the implications of GATT for India. Probably the most significant effect of these new changes has been in terms of the civil servants' attitudes.

- ***Eliminating 'ghost' workers*** has been one of the more effective techniques used by a number of countries.¹⁰⁰ Bangladesh could also explore these possibilities. As a first step, a census should be carried out to determine the exact number and type of government employees. One of the complicating factors here is that around 20 per cent of civil servants are hired under the Development Budget (and are largely uncounted). To a considerable degree donors must share the blame for creating this bureaucracy as a requirement for project aid. Staff on development projects are usually absorbed under the recurrent budget — swelling the numbers of the permanent Civil Service.
- ***Establishing well designed redundancy programs*** is one of the more realistic ways of achieving the necessary reductions. Combined with recruitment, this also enables the skills mix to be improved. In the last few

years the GOB has embarked on a retrenchment program for both the state-owned manufacturing enterprises and the regular government departments. The program has been fairly successful in that some 23,000 workers have been separated without any major political upheaval. Nevertheless, the policies supporting the separation program need some streamlining, particularly the arrangements for redundancy amongst regular civil servants. The current policy is based on the recommendations of the 1992 Mostafiz Committee, which included an elaborate severance scheme for civil servants. The Committee recommended: that a separate commission be constituted to determine the surplus manpower in all government organizations and semi-autonomous bodies; that the Government should assist those organizations which have already determined their surplus manpower and decided upon a reorganized structure; that the surplus manpower should be given a gratuity at the normal rules over 50 percent of the grace pension; that those governed by the Gratuity Rules or Factories Act should be given pay, gratuity, and provident fund benefits according to the normal rules; that no assurance should be given for alternative

¹⁰⁰ In the 1980's GOB placed a number of public servants under control of Upazila Parishads with corresponding budgetary transfers. It was then found that a large number of officials -- especially doctors -- were working in Dhaka, though drawing salary from thana health complexes. These were "ghost doctors" as far as THCs were concerned.

employment for the discharged employees and that no programs in this regard should be provided. Table 7.14 compares redundancy facilities permitted by various developing countries. Bangladesh clearly offers generous terms. This is an issue worth further examination.

- **Removing the mandatory rule on absorbing redundant staff:** The Government's redundancy program has run into difficulties as a result of departments trying to absorb redundant staff, instead of retrenching them. They have little choices since a 1985 government rule says that all surplus staff must be retained on the Government pay-roll until suitable positions can be found for them. When civil servants are declared surplus they revert to the surplus pool at the MOE, which circulates their names to other department or ministries. Ironically, this may put them in a better position than serving employees. Surplus staff are not required to meet any specific qualifications; they are exempt from departmental examinations; and when they transfer they are entitled to carry their seniority even when they lack specific departmental experience.. A postal department official may thus end up as a tax official. In short, being declared surplus could be a blessing
- **Enhancing Funding for Redundancy Payments.** Another constraint to shedding redundant staff has been the lack of adequate budget funds. The FY94 budget included a provision of Tk. 3 billion for the separation program, but the demand far outstripped the resources. A similar provision has been made in the current budget. Given the comfortable fiscal position, and the short- to medium- term monetary and non-monetary benefits of eliminating redundant staff, ***a substantial enhancement of funding to pay-off redundant workers is recommended.*** Establishment of a well funded and publicized Redundancy Fund should also reduce opposition to reform, as clearly exemplified by the experience of the Jute workers.

0.41 This involves actions on two fronts: Strengthening personal accountability and developing Public Service Ethics.

0.42 The existing Civil Service Conduct Rules (CSCRs) contain adequate provisions for initiating disciplinary action against officials for errant behavior, and non-performance.¹⁰¹ But the 'due process' is so cumbersome and the scope for recriminations so real that senior officials generally prefer to take the soft option of a convenient transfer. One could suggest that the Government might increase accountability by introducing summary disciplinary procedures and tightening job descriptions. But these would only be short-term expedients. Together with establishing performance standards, the CSCRs should be streamlined to make it easier for managers to lay off poorly performing staff. If civil servants were judged against their performance and denied the cushion of life tenure, then personal accountability would probably follow naturally.

0.43 While recognizing that money motivates behavior much better than the ethic of public service, a pro-active program needs to be put in place to reestablish a strong civil service ethic¹⁰². The core public service values in the past would have been considered to be neutrality, integrity, fairness and equity, and an ethos of serving the 'public interest'. These values remain important,

¹⁰¹ There is a basic problem of reconciling accountability controls with the need to ensure managers have sufficient flexibility to meet performance standards. In the United States, for example, administrative changes during the New Deal Era were geared to ensuring that taxpayers' money was not stolen by elected public officials. The resultant controls and checks had the side-effect of making it difficult to efficiently manage public money and assets.

¹⁰² *The Emerging Public Service Culture: Values, Ethics, and Reforms*, Kenneth Kernaghan, Canadian Public Administration, Volume 37, No. 4 (Winter).

Table 7.14 Severance Formulas in Selected Countries

Country	Formula
<u>Asia</u>	
Bangladesh	2 months' basic salary for each year of service and additional gratuity payments deposited as contribution (worker/employer).
Pakistan	One month's basic salary with all benefits and four months' basic salary for each year of service.
India	1.5 months' basic salary and dearness allowance for each year of service.
Laos	One year's salary.
Sri Lanka	Employment guaranteed up to the age of 55, even when enterprises are privatized. Retrenchment is on selective basis and has no standard formula. The recent maximum compensation paid to the leather workers was Rs.200,000.
<u>Latin America</u>	
Argentina	Varies, but on average provides 75% of basic salary for six months, followed by severance payment averaging US\$ 3,000 (depending on years of service), which is paid in six installments.
<u>Africa</u>	
Central African Republic	Forty months' salary and the employees' accumulated pension fund contribution.
Gambia	1.2 months' salary per year of service.
Ghana	Four months' basic salary, plus two months' basic salary per year of service.
Guinea	Flat amount equal to about five years' basic salary for the average worker, with 30 percent paid up front and the balance paid in twenty monthly installments.
Guinea-Bissau	One year's salary paid in monthly installments.

but citizens are increasingly demanding that they be supplemented by quality, responsiveness, transparency, and accountability.

0.44 The above two sets of values are essentially compatible, though they may not appear or some may not think so, the emphasis and articulation, however, may differ. For example, a civil servant cannot attain “quality” unless he or she acts with a sense of neutrality, fairness and equity; similarly, serving “public interest” would demand responsiveness, transparency and accountability. The emerging

social context they have to work, however, may generate internal tension: the paternalistic regime (symbolized by “maa-bap”) has been replaced by a new context where the civil servants have to interact simultaneously with democratically chosen political leaders, professionals from both inside and outside the country, and a more informed and critical citizenry. To serve in the emerging context, the civil service has to become more heterogeneous while retaining — perhaps much more strongly — the central corpus value of serving the people i.e., “public interest”. The future will offer more individual responsibility,

excitement and reward. The downside of this could, for instance, be an overemphasis on results, irrespective of how one achieves them. The upside, or positive risk, of promoting the new culture or value system -- linked to a system of incentives and penalties -- is that Bangladesh's public service will become more flexible. Rather than a 'doing' agent, it will be more of a 'steering' agent, and will also be more responsive to the public. The change is critical for retaining a professional elite role for the civil service.

Strengthening The Civil Service Management System

0.45 Civil service reforms in both industrial and developing countries have highlighted the importance of establishing an appropriate Civil Service Management (CSM) system. In Bangladesh the overall responsibility for managing the Government's personnel functions lies with the Ministry of Establishment (MOE). However the situation is complex since the MOE shares this function with other ministries. The Cabinet Division, for example, heads several key personnel committees; indeed the Cabinet Secretary, much like in the UK, is the *de facto* Head of the Civil Service. The Public Service Commission (PSC) also plays a major part, since it has exclusive authority for recruiting all mid-level and senior encadred civil servants. The Ministry of Finance (MOF) too is involved: in conjunction with the MOE and the line ministries it ensures complement control, and through its financial-cum budget monitoring operations the MOF also has an important role in determining the compensation package and size of the Civil Service. In addition, the administrative aspects relating to non-civil service jobs are dealt with directly by the concerned ministries.

0.46 This rather loosely defined system of shared responsibility leads to fragmentation and causes delays in decision-making. Recruitment of new staff is the most time consuming and frustrating task in government; it can dissuade even the most zealous of reformers. The case of changes at the Board of Investment (BOI) illustrates this point well. It has taken almost two years to process the BOI reorganization proposals: these had to pass first through the PM's Secretariat

(which is administratively responsible for the BOI), then to the MOE for its opinion on abolition and redefinition of positions, then to the MOF for evaluating the financial implications of the proposed reorganization.

0.47 Review of the CSM systems of other countries reveals two well-developed models. The first, as exemplified in the US and Canada, involves centralized personnel management, though combined with a degree of deconcentration. The second, as in the UK and New Zealand, permits increasing decentralization, flexibility and delegation to the line level. Both systems have their advantages, but for countries with skill shortages, particularly at the lower levels, the most appropriate model is probably the centralized one. This offers uniformity in standards of personnel aspects such as accountability, merit based promotion, and training. However, a variant suitable for Bangladesh might be to permit maximum autonomy to ministries and their constituent parts in managing their staff, within their budget envelopes and the standards prescribed by the central body — this would leave human resource planning and skill development as centralized functions.

0.48 One of the priorities for reforming Bangladesh's CSM system should be to ***strengthen the Ministry of Establishment***. The MOE operates under a number of handicaps. It works through a plethora of rules and regulations which are often archaic and arcane, and its computerized personnel database is still rudimentary. But the chief area of concern is its Organization and Management (O&M) Wing, which is seriously lacking in both capacity and clout. This is headed by a joint secretary and often staffed by officials who may lack professional training and experience in personnel management, in human resource development, or in practices of office management. Attempts have been made in the past to improve the situation. The World Bank-assisted Public Administration (Training and Personnel Management) Project (1983), for example, tried rather unsuccessfully to strengthen the O&M Wing and set up a computerized personnel management system. However, much more needs to be done, not just to increase MOE's

efficiency, but also to focus its activities on human resource management. As its name denotes, the MOE deals primarily with managing 'establishment' rather than people. ***For a start consideration should be given to change its name to Human Resources Development Wing,*** thereby symbolizing a new orientation towards managing and developing the Government's most important assets — its civil servants. Once this happens, the MOE should then help other agencies by giving training in personnel management so that efficiency can be ensured in the front line.¹⁰³

¹⁰³ In the case of Singapore, for instance, such training has paid high dividends in that the involvement of the trained ministry staff in planning has offset the potential risks of an overly rigid, centralized system

PARADIGM SHIFT

FROM HERE TO THERE -- THE

The final chapter discusses the factors which could trigger public sector reform and the conditions necessary to sustain the reforms. The importance of political commitment and good management is underlined. The concluding section also includes a vision of what the governance of Bangladesh might be like in¹ the 21st Century.

"For there is no other way to preserve what we consider good in the past other than by exorcising all that was bad in it." Lee Kwan Yew (Singapore, 1959)

Forces of Change

0.1 It is perhaps fair to state that the reform process has been on-going in Bangladesh in a number of areas. Thus compared to the role of the public sector a decade back, NGOs and the private sector have become much more important, government has taken some innovative initiatives and there is increasing recognition about the limitations of the State. The reform movement is in the right direction and irreversible -- there is no reason to believe that the gains over the last decade will be reversed. The movement, however, is at glacial speed in comparison to economic imperatives and looming challenges and opportunities. Previous chapters have indicated some new areas where interventions could be made to transform the economic governance of Bangladesh. But, what would lead to shifting of gears? "Why should bureaucrats and politicians reform a structure which allows them a secure and comfortable living in an environment full of uncertainty"? This is one of the most difficult practical questions facing public sector management reform. In many reforming countries the breakthrough followed a severe crisis — war, economic failure, or major political change. The leadership seized that moment to initiate radical reforms and develop coalitions to support them —

or circumstances did not allow the leadership any other option; the second route to reform makes it less sustainable. Bangladesh, however, does not face any immediate or obvious upheavals — more a debilitating ongoing weakness in public management which continues to sap the country's economic and social strength. Triggering the reform process here will, therefore, be more challenging and at the same time rewarding. **Looking into the future, four sets of mutually re-enforcing forces, which are now nascent but gathering momentum could trigger the change of pace.**

0.2 **First the public**, in general, is becoming increasingly impatient with the poor quality of public services like education, health and key infrastructure like power, water and telecommunications. People are adversely affected by the virtual breakdown of the legal system and the increasing levels of lawlessness. Their business enterprises are bearing the cost of doing business in a country where most transactions are delayed and distorted by inefficiency and corruption. The negative public perception is heightened when it sees the sweeping reforms being achieved elsewhere — if these can take place in neighboring Thailand, Malaysia and Vietnam, then why not Bangladesh? Citizens and the private sector now realize that Bangladesh is part of a global village -- where people, scientists, workers, entrepreneurs, firms can leave at the speed of a 747 -- and therefore they will push Government to do all it can to become more efficient.

0.3 **Secondly a group of reform minded politicians and the media**, on both sides of the political divide, are increasingly becoming vocal and recognizing that the success of economic reforms in Bangladesh and therefore growth prospects, is being seriously undermined by the weak implementation capacity and quality of

public institutions. There is recognition that the cumulative impact of these problems is the failing to make a dent in alleviating poverty or in getting the country out of the low growth trap. This is despite the government's relative success in mobilizing financial resources for development and the initiation of sound macro-economic policies. They are voicing concerns that there is a downward spiral in public sector's institutional capacity which will make it even more difficult in the future to manage change, improve delivery of

public services and ensure a stable macro-economic and market friendly environment for sustained growth.

0.4 **Third are the many dedicated, far-sighted and innovative officials** who have initiated bold changes of their own volition (Box 8.1) -- the Agents of Change.

Box 8.1: Emerging from the Bureaucratic Cocoon

Many civil servants in Bangladesh have already demonstrated an appetite for innovation. The following initiatives, though still at a nascent stage, offer cause for optimism.

- *The Dhaka Metropolitan Police* — The Dhaka Metropolitan Police (DMP) have taken the unprecedented initiative of developing a detailed two-year Corporate Plan. This involves evaluating the strengths and weaknesses of the police force, and examining its work objectives and its indicators of performance. The decision to prepare the Plan, the first of its kind by a government department in Bangladesh, was taken in 1993 at a fortnightly DMP conference. The fact that the DMP did not have an in-house planning capacity, was no deterrent; the DMP simply by-passed the standard bureaucratic practices and sought consultancy help from the Institute of Business Administration at Dhaka University. Following the preparation of the Plan, a one-day participatory workshop was conducted in January 1994. Then the Plan concept was disseminated widely throughout the Force, from the top brass to the lowest ranks. In November 1994, the DMP presented its Plan to a group of senior Secretaries to obtain their support for its implementation. The Plan aims to maximize value for money, and it proposes to decentralize financial management and relate expenditures to specific operations. Now the only question is whether government procedures and practices will dare permit this degree of innovation, flexibility, and autonomy.
- *The Bangladesh Bureau of Statistics* — The BBS management, while keeping within the framework of the Government's overall office practices, has been introducing important changes in the way the Division works. For instance, 'work contracts' have been entered between the Secretary and the seven unit managers. Within a given budget envelope, the unit managers have agreed to deliver products of an agreed quality, and by a certain date. Simply introducing hardened civil servants to the idea, if not yet the practice, of contractual obligations is a considerable leap forward. In another similarly unprecedented move, the Statistics Division has contracted-out the data entry aspects of its routine tasks. Now it is even considering inviting competitive bids for the entire Agricultural Census; not before time, perhaps, and it may never happen, but the mere fact that such a thing is being contemplated is in itself striking.
- *The General Education Project* — The Project Co-ordinating Unit (PCU) which manages the donor-assisted General Education Project, is trying out an innovative approach to supervision. Not only has it contracted out the non-formal education component of the project to 16 NGOs, it has also contracted out the supervision of the NGOs to a private company, Development Partners Consultants. The consultants monitor the NGO activities and report back to the PCU on a monthly basis. They also issue quarterly reports which serve as the basis for the release of funds by the Government. It is envisaged that the proposed second General Education Project will make even more use of external supervision. Not only will they evaluate and report on the quantitative aspects of the program, but they will also monitor the qualitative aspects of education in Bangladesh.
- *National Board of Revenue* — Until recently, the National Board of Revenue was closely involved in supervising imports by export industries — managing and issuing the utilization permits for the duty-free import of raw materials. The garment manufacturers had argued that this regulatory control was cumbersome and costly, and for several years they had suggested streamlining the process or transferring responsibility to their own Association. In mid-1994, the NBR did indeed transfer this responsibility to the Bangladesh Garment Manufacturers and Exporters Association — setting a healthy precedent for transferring other regulatory functions to the private sector.

0.5 **Lastly, the donors too are becoming increasingly impatient.** They are under pressure from their national legislatures to make the best use of scarce aid resources and are being forced to review the nature and size of their assistance to Bangladesh. If other countries are willing to make better use of aid, then Bangladesh is likely to be left on the sidelines. Given the low rate of domestic saving, the need to raise investment not only to accelerate but to sustain the pace of development, and the implausibility to raise capital in the world market, Bangladesh would enjoy strong donor support for scarce concessional funds if efficiency of public administration improved.

0.6 **The public dissemination of this report could play a critical role in catalyzing the nascent internal forces** such that the trigger point is reached sooner than later. It would achieve this by reinforcing the views of the “Agents of Change” in the public/political sector, and the silent citizen majority, that: the situation is untenable, improved delivery of service makes good political sense, attitude of indifference shows cynical selfishness, and good economic governance warrants change.

Lessons of Experience

0.7 The history of Public Sector Management Reforms, in both industrial and developing countries, is replete with failed attempts, unfinished agendas, and poorly focused programs. Apart from the inherent difficulty of the task, the lack of success can be attributed to three interrelated factors. **First, the resolve of the bureaucrats who have to implement the reforms has often been undermined by weak and flagging political commitment.** There is perhaps no fail-safe system for guaranteeing continuing political support, but the risk can be lessened by ensuring through a more participatory process of reform formulation that all the stakeholders share the broad objectives of the reform programs. In practice, this would entail, as far as practicable, mobilizing the support of the legislators, the private sector, academics, elected representatives at the local level, and NGOs. This may be achieved by jointly diagnosing the problem and identifying reforms and

implementation strategies through action planning workshops and media discussions. The involvement of unions, professional bodies and staff associations is important at each stage.

0.8 **Secondly, public sector reforms have mostly failed when governments have tried to implement a comprehensive and radical reform agenda.** This report advocates an “incremental approach” to public sector reforms.. The process must be open; indeed a public awareness campaign to mobilize its support is a key element of managing change. In practice, it means initiating reforms sequentially and also applying them to pilot programs, while ensuring that efforts are “connected” and focused on critical trigger points. These will not only help build up support for reforms by demonstrating their potential benefits, but also provide useful lessons for the future to those managing the process of change. The report suggests criteria for selecting pilot programs and also suggests some departments/agencies for initial reform (Volume III - Good Government in Bangladesh, ODA Report, January 1995). The main selection criteria focus on: (i) basic public services where the functions are relatively discrete and sufficiently measurable to allow managerial autonomy with proper monitoring of performance; and (ii) areas where efficiency gains can be readily obtained by simply streamlining bureaucratic processes.

0.9 **And thirdly, public sector reforms have faltered for lack of appreciation and support by the civil servants who are responsible for implementing the reforms which are likely to impact on them in more than one way.** All bureaucracies have to adjust to changing times and new missions. A few do this well, but for the most part, civil servants are tempted instead to adhere strictly to the status quo and adopt a protectionist attitude toward the existing power configuration which usually benefits the vested interest groups, including themselves. Fortunately, every bureaucracy also includes a group of ‘pre-emptive bureaucrats’, people who foresee the need for reform, and can prepare for it — or at least deal flexibly with it. These “Agents of Change” are critical to the implementation of public sector reform since they seek real change to outmoded,

inefficient procedures and practices. Experience has shown, however, that if their motivation and energy are to be sustained they need to be given wider recognition. Also those likely to be adversely affected by reforms in the short term (the losers) need to be compensated satisfactorily as an incentive not to oppose reforms.

Promoting and Managing Change

0.10 Successful change does not just happen, it needs to be managed in a purposeful way. Most importantly, reforms need political leadership-- a champion at the top level of government. It is envisaged that this would come from the PM. Under this leadership aegis, the National Commission for Reforming Government and the Efficiency Unit, together, are envisaged as the key Promoters and Managers of Change. Their strategy for managing change would need to be built around the following key elements:

- Motivating for change, i.e. increasing awareness among principal stakeholders of the need for change and its inevitability, and ensuring that expectations are realistic;. The reforms should avoid to create false expectations about early success — one must make it amply clear that public sector reforms are “a process rather than event”.
- Reducing resistance, by providing a clear picture of what the change will mean for different groups, setting out safety-nets and compensation programs where appropriate, and reducing individual uncertainty . In marketing the reforms, care be taken to extoll the virtues of the changes rather than the defects of the previous practice
- Designing and operationalizing the new system, this must be done with the active cooperation of those the system is meant to serve;
- Institutionalizing the reforms, this will involve stabilizing the new model, training for new skill requirements, and internalizing change values.

0.11 Bangladesh’s political leadership may find it extremely difficult to embark on a radical reform program which is likely to de-stabilize its own power base. Similarly, it would not be easy to galvanize the civil servants in support of reforms meant to reduce their discretionary authority, privilege, and above all, rent-seeking opportunities. Last, but not least, the commitment to channel public resources through programs managed by NGOs and private sector is bound to cut into strong vested interests.

0.12 Despite the likely resistance from such “vested interests” the government is well advised to initiate the reforms resolutely. This is justified, if anything, by the political leaderships own “enlightened self-interest” since the reforms are bound to yield both a high political and economic pay-off to the government itself. The experience of the East Asian and other fast growth countries has amply demonstrated that an efficient public sector is key for accelerated economic growth as a means to alleviating poverty. In Bangladesh, following this path also makes ample political sense with the likely ground swell of public support -- and a increase in the vote bank-- if the government begins to earnestly attack public sector inefficiency, the poor quality and virtual absence of public services, the discretionary authority and lack of accountability of public officials, and endemic corruption. In pursuing this agenda the government will not find itself without allies. The general public and the business community are becoming increasingly impatient; and the donor community is finding it more difficult to justify aid to countries which fail to set their own house in order. Above all there also allies within government--a core group of farsighted and “Agents of Change”, for implementing the proposed program.

0.13 An implementation agenda, based on lessons of successful reforming countries, is outlined in the Executive Summary.

The 21st Century — The Shape of Bangladesh’s Public Sector

0.14 Bangladesh will be a different country as it enters the 21st century. This is not a matter of choice. The internal pressures from a rapidly

growing, and more demanding, electorate will fuse with the external pressures from a much more competitive global economic environment to create new opportunities and new demands. The public sector, as presently constituted, will not be able to cope, unless it creates a critical mass of trained personnel capable of making the leap into the next century.

0.15 One can easily imagine the outlines for a future Bangladesh public services that responds to the needs of the citizens. Governance will of course rest on a stable democracy and a duly elected central government — a government discharging its responsibilities in very different ways. It will certainly not follow a fixed blueprint -- as it would be entering an age when the only certainty is that of continuous change. The report can, however, predict some general directions of this change.

0.16 First, there will be a **smaller but more Effective, Responsive and Accountable Government**. A successful administration will have redistributed many of the present functions so that they can be performed much more efficiently and effectively elsewhere. This will mean devolving some to local government, contracting the delivery of others to NGOs or to private firms. The Government will continue to pay for many forms of health and education services, for example, but it will devolve these services to the institutions best able to deliver them. And the Government will continuously monitor the results to ensure that citizens get value for money.

0.17 In many other cases the Government will have withdrawn entirely from functions it currently performs -- either because these tasks are no longer needed, or because they can be better financed and delivered by the private sector. It will, for example, have privatized, or in some cases closed, many loss-making state-owned enterprises.

0.18 This will leave a leaner and fitter central government free to concentrate on the tasks which only governments can best perform. While the Government will continue to play a very active development role it will be primarily doing so as a

facilitator, overseer and contractor, providing block grants for projects and monitoring their probity and effectiveness.

0.19 The new form of governance will also clear the territory in which the private sector — from the smallest street vendor, to the largest corporation — can grow and prosper. It will have cut away at the thicket of regulations, sparing only those which are essential for the protection of public interest and the promotion of equitable and productive business activity. And it will have rejuvenated the judicial system so that both individual and corporate behavior is held to account and is judged quickly and fairly.

0.20 But above all the next form of governance for Bangladesh will be based on a new relationship with its people. The days of a secretive and self-serving bureaucracy should be just an unpleasant memory. In the reformed system, the people of Bangladesh would have free and open contact with their government. They would participate in its plans, measure its effectiveness, and hold it to account for its failures. Government personnel would be assessed and paid according to their skills, their performance, and their willingness to help ordinary citizens. It would have shifted gears from a bureaucratic functioning to a culture of quality and service; from a focus on controls on inputs to results; from a government which steers and leaves to others the rowing of the boat; from one where government guarantees jobs to one where customer guarantees jobs; from one of setting the rules to one of setting examples and providing vision; from one of encouraging public servants to become good as against the present focus on preventing them from being bad; from a system which will nourish desirable practices rather than the present obsession to check undesirable practices; and above all a government that works better and costs less.

GOVERNMENT	Short Term Actions (Within First 6 Months)	Near Term Actions (Within 12 Months)	
PROPOSED REFORM AGENDA MATRIX			
<p>6 Months)</p> <p>GOVERNMENT</p> <p>Parliament on vision of government in of civil service reforms and specific k better.</p> <p>Reforming Government and initiate providing the technical backup.</p> <p>ons by the Nurunnabi Reorganization s Report.</p> <p>onitor implementation of reforms. PM's office.</p> <p>Funded Safety Net Program for p as efficient service agencies.</p>	<p>Near Term Actions (Within 12 Months)</p> <ul style="list-style-type: none"> Establish a Task Force on transparency, made up of independent members drawn from various professional and occupational groups to recommend specific measures for increasing transparency. Formulate and announce public agencies or institutions for public sector governance. Develop guidelines to require elected officials declare annual income/tax payments. Continue implementation of Recommendations of National Commission on Reforming Government. Draft Bill restricting the growth of government Establish Fully Funded Safety Net Program for redundant workers Convert selective Bureaus/Boards into fully autonomous Agencies. 	<p>Medium-Term Actions (Within 2 years)</p> <ul style="list-style-type: none"> Repeal the Official Secrets Act, 1923 and replace with Information Act Bring transparency by bringing public domain — all bidders should be legally entitled to have a copy of the Procurement Evaluation Committee's National Report for closure, unbidding, contracting out and streamlining. Publish annual income/tax payments of elected officials Pass Legislation restricting the growth of government Submit in timely manner to parliament report on accounts, audits and annual performance for all SOEs and parastatal organizations. 	<ul style="list-style-type: none"> St... Tr... in... co...
<p>AND RESPONSIVENESS</p> <p>and initiate actions for formulating an mentary Institutions.</p> <p>h related office.</p> <p>public complaint offices.</p> <p>Public Accounts Committee</p> <p>ate to party representation in ittees.</p>	<p>DEREGULATION AND ESTABLISHING ENABLING ENVIRONMENT</p> <ul style="list-style-type: none"> Accelerate implementation of program recommended by (i) Derogulation on Public Account. Complete establishment of public complaint offices. Establish a Derogulation Commission and the public becomes as requiring all ministries to submit proposals for striking off redundant, regulate the steps to provide legislative assistants for MPs. Initiate steps to frame regulations for power, telecom, aviation, and gas sectors as a means of paving the way for mobilizing private sector investment. Initiate steps to establish a fully equipped Economic Policy Analysis Unit in the executive ministry/agency. Require all proposed regulations drafted by executive ministry/agency to be reviewed by the public (e.g. send draft to Parliament, arrange hearings). 	<ul style="list-style-type: none"> Complete program to strengthen the Public Accounts Committee Provide for legislative assistance of reforms proposed by Deregulation Commission. Finalize the framing of regulations for power, telecom, aviation, and gas sectors. Establish Task force to prepare and publish a compendium of all Policy Analysis Unit while per of public concern and interest. Secretary initiate pilot programs to minimize contact between Key executive and judicial appointments made subject to Parliamentary confirmation. 	<ul style="list-style-type: none"> Pu... W... Re... by... re... Pa...
<p>g Citizens' Charter.</p> <p>ounce its objectives and performance to enable continuous performance</p> <p>s and develop measurable and nds as part of a Citizens' Charter. under the PM's office.</p>	<p>(ii) Legal Reform</p> <ul style="list-style-type: none"> Establish and start staffing Law Reforms Commission. Initiate steps to establish and staff judicial training institute. Initiate steps to prepare the program for strengthening judicial system. Monitor and ensure performance of measurable and transparent service delivery standards for the selected 	<ul style="list-style-type: none"> Fully staff the Law Reforms Commission and report Expand number of Bar Bench required to issue Citizens' Charter. Commence with the program for strengthening judicial system. 	<ul style="list-style-type: none"> Fu... Fi... fo...
<p>EC Reforms</p> <p>o link budgetary allocations to priorities and performance</p>	<p>STRENGTHENING ALTERNATIVE INSTITUTIONS</p> <p>(i) NGOs</p> <ul style="list-style-type: none"> Initiate Medium-Term Budget Process Reforms Establish GOB-NGO consultative Council. Prepare plan to streamline the NGO registration and approval process Initiate steps for ensuring NGO inputs in development planning by requiring that investment proposals to ECNEC should include NGO views Establish Standards on Scope/TORs for external audits of SOEs. 	<ul style="list-style-type: none"> Streamline the NGO registration and approval process and assign responsibility to ADAB for overseeing NGO Continue with Medium-Term Budget Process Reforms Revise the NGO regulations to reduce excessive control and vagueness Complete separation of audit and account functions. Allow contracting out of audits for selected agencies Continue with the steps for ensuring NGO inputs in development planning by requiring that investment proposals to ECNEC should include NGO views. Initiate action to set up PKSf type mechanism for financing social/rural sector programs of NGOs. 	<ul style="list-style-type: none"> Se... fi... N... E... ph... pr... N...
<p>ti-corruption issues.</p>	<p>(ii) Local Government</p> <ul style="list-style-type: none"> Reactivate/amend the draft Local Government Reform Bill. Establish oversight body for A.G.B. 	<ul style="list-style-type: none"> Implement Medium-Term Program for reform of public services to LG management. Develop revenue sharing formula, and ground rules for LG functioning 	<ul style="list-style-type: none"> Pl... se... D... gr... Pr... L...

<i>Short Term Actions (Within 6 Months)</i>	<i>Near Term Actions (Within 12 Months)</i>	<i>Medium - Term Actions (Within 2 years)</i>
Sector Advisory Council.	<ul style="list-style-type: none"> Implement Recommendations of Advisory Council. 	
STREAMLINE NATIONAL Reduce the size and scope of Planning Commission and Ministries planning policy	<ul style="list-style-type: none"> Reduce the size and scope of Planning Commission functions, while strengthening the Ministries planning policy formulation capacity. 	
BUSINESS PRACTICES Government Departments/ autonomous (Secondary Education) as Principal Powers of Project Directors. Requiring the PM's approval to only essential to the functioning of the Project approval process including	<ul style="list-style-type: none"> Eliminate Cabinet committee on procurement and instead establish a permanent Secretary Level Inter-ministerial Committee to be made responsible for all procurement which exceeds the authority of the line ministry secretaries. Strengthen the Organization and Management Wing of Establishment Ministry, to improve personnel management. Review Rules of Business and Secretariat Rules. 	
PERSONNEL Initiate program of "Agents of Change" within Ministry of Finance Conduct training needs assessment, and for all mid-level officials.	<ul style="list-style-type: none"> Expand and if necessary revise program to promote and train "Agents of Change". Establish Merit/Special Pay Scheme. Continue with MOE institution building program. Prepare options for developing a staff redundancy and mid-career retirement plan. Allow lateral entry of selected personnel from autonomous bodies, professions, to ministries and vice versa. Initiate program to de-link public enterprise/judiciary salaries from government salaries. 	<ul style="list-style-type: none"> Initiate large scale overseas training programs and ensure proper utilization of trained personnel. Develop and implement a staff redundancy and mid-career retirement plan. Continue to carry out the training needs assessment, and develop a career profile system for all mid-level officials.
PARTICIPATION Program allocated to women and lateral entry in positions. Initiate program to attract more women to join	<ul style="list-style-type: none"> Introduce mandatory training programs focusing on gender in management, sexual harassment, equal opportunities for women, etc. 	<ul style="list-style-type: none"> Continue program for increasing representation of women in public sector.

**GOVERNMENT THAT WORKS:
REFORMING THE PUBLIC SECTOR**

ANNEX I

Page 1

STRUCTURE OF GOVERNMENT

BANGLADESH

1. Through a Constitutional amendment in 1991, Bangladesh adopted a Parliamentary form of government with the Prime Minister as its Chief Executive, and the President as the Head of State. The country's executive powers are thus exercised by the Prime Minister who heads the Cabinet of Ministers'; the cabinet, in turn, is collectively responsible to Parliament. As such, the unicameral Parliament is the supreme legislative authority, as well as the ultimate repository of public accountability. The government organization can be conceptualized as a two-tier administrative system. The Central Secretariat (defined as the conglomerate of all Ministries and Divisions) is supposed to provide the policy and clearing house functions, while general administration (law and order, land administration and revenue collection), delivery of public services, and implementation of development programs is carried out at the sub-national levels -- divisions, districts, thanas -- representing the central level ministries/departments. Moreover, there is entire range of local government authorities such as municipal corporations in cities, district councils, thana committees and union councils. They have some elected representatives and perform limited, but very diverse administrative and development functions. The Table below shows the administrative, the average population, and approximate area covered at each level.

2. The Government's functions are performed through the following organizational arrangements:

i) Ministries and divisions. The apex of government is formed by the ministries and divisions which are responsible for policy formulation and for monitoring programs and projects. While the political head of a ministry is a minister or a state minister, the administrative head and Chief Accounting Officer responsible for managing the ministry's tasks is the secretary (in some instances additional secretary). A ministry could be made up of one or more divisions. Given the ever-changing shape of government, and the realignment of ministerial jurisdictions and transfers of functions, it is hazardous to categorize ministries, but they can be at least informally classified as three types: *economic*, including Ministries of Finance, Planning and Commerce; *development*; including Education, Health, Road and Road transport, and, *service-oriented or welfare*, including the Ministries of Relief, Social Welfare, Labor and Manpower. When ministerial functions cross organizational boundaries, or consultation is required to enrich the decision, the highest coordinating body is the Cabinet and its committees. Inter-ministerial coordination also occurs at the bureaucratic level.

Bangladesh Administrative Units

Level	No.	Average Pop.	Average Area (in Km)
Division	5	24 million	29514
District	64	1.9 million	2305.78
Thana	489	245 thousand	302

ii) Departments and directorates. The task of implementing the Government's development programs lies primarily with the departments and directorates. Currently, there are 178 departments. Departments differ greatly not only in size, but also in status and character. Some directorates are only service bodies in that they either provide a public service (such as the Directorate of Motor Vehicles), or regulate economic activities (such as the Directorate of Textiles). Some of these have a significant interface with the public, such as the Customs and Income Tax Departments and those agencies attached to the Education and Health ministries, such as the Director-General (DG) of Secondary Education, and the DG of Health Services.

iii) Autonomous bodies and corporations. These are set up as statutory organizations under special Presidential Orders, Ordinances, and Acts. The public sector organizations thus created provide a range of goods and services. A number of these, such as the Bangladesh Jute Mills Corporation and the Bangladesh Chemical Industries Corporation, are involved in managing manufacturing enterprises (there are 153 such SOEs). The employees of the corporations include administrative, operational and marketing staff and workers. The former are civil servants, while workers are governed by various labor laws.

**GOVERNMENT THAT WORKS:
REFORMING THE PUBLIC SECTOR**

ANNEX II

BANGLADESH

1. Over the past three years, donors have initiated three major studies on public sector management reform.

2. *The 1989 USAID Public Administration Efficiency Study (PAES)*. This study offers recommendations in four principal areas: (a) Secretariat System and Work Procedures; (b) Ministry-Department relationships; (c) Ministry-Corporation relationships; and (d) Project Cycle Policies and Procedures. The study contains substantive proposals on increasing delegation and accountability and human resource development, and includes a large number of recommendations on improving office practices. The implementation of the PAES study has been piecemeal, with the GOB adopting some of the 'less controversial' aspects of the report.

3. *The 1993 UNDP Public Administration Sector Study (PASS)*. This study originated from widespread concern about the deterioration in public sector performance, and a perception that principles

of accountability and transparency were not adhered to. The recommendations of the study were presented in two categories, those proposing consolidation, and others requiring reform. The latter are geared to developing a more responsive, transparent and accountable administrative system.

4. *The 1993 Four Secretaries Report (FSR)*. This Report was based on a visit to the UK sponsored by ODA as part of the "Good Governance" work. The FSR contains specific recommendations to: improve the functioning of the Civil Service by addressing issues of a merit-based recruitment and promotion; create incentives for standards of performance; improve financial management; increase accountability and transparency and strengthen the audit office and set up an Ombudsman system; and finally, to strengthen human resources through improved training. The report, entitled *Towards Better Government in Bangladesh*, was submitted to the Government and is currently being reviewed by the Oli Ahmed Committee (Box 1.4).

ANNEX III

Page 1

BANGLADESH

**GOVERNMENT THAT WORKS:
REFORMING THE PUBLIC SECTOR**

**OUTLINES OF THE AGENCY
APPROACH**

5. The Agency approach has a number of direct benefits:

- It ensures that the roles and responsibilities of ministers and civil servants are explicit and clearly stated.

- It focuses on the job to be done and the required results through specific standards and targets.
- It leads to more business-like management, particularly of financial matters, through delegated, ring-fenced budgets and accrual accounting.
- It leads to greater openness and more accountability through published standards of service, reports and accounts.

6. The Agency approach offers a flexible and practical way of putting government activities on a modern, efficient, output-oriented management basis. It allows each organization to progress at a pace and in a manner best suited to the task it performs. There are also important staff benefits. Agencies tend to have a strong sense of identity and the Chief Executive is able to develop, in his or her staff, a greater sense of pride and commitment. 'Front-line' staff are much closer to consumers than their parent department, and often have suggestions for improving service.

In an Agency, these ideas can be taken up without constant reference to 'head office'. The Agency also promotes a real sense of customer service. For example, opening times of local offices can be adjusted to fit the needs of local people; and work patterns can be rearranged to ensure that customers deal with familiar staff. Local offices can also be furnished and equipped to provide a satisfactory environment for both customers and staff.

7. Before the Agency is set up, a fundamental review of the activity if necessary. If, it is decided that there is justification for retaining the function, and if it should remain within Government to be undertaken by public servants, a further review is carried out to determine which tasks it should perform. This might, for example, require new financial and personnel regimes which differ widely from normal civil service practice. Individual and team incentive schemes, such as bonuses, would be allowed for staff who achieve cost and quality targets. Crucially, the Chief Executive will also be given full autonomy to make his or her own day-to-day management decisions without interference from either the Minister or his officials. The Agency may also be permitted to retain at least a proportion of the money saved through efficiency gains to reinvest in the business.

8. But where public money and public services are concerned, the Agency cannot enjoy untrammelled freedom. Ministers remain ultimately responsible for policy and for the activities carried out in their name. It is necessary to draw up a framework document for the Agency which sets the parameters within which the Agency must operate. The drawing up of the framework is negotiated between the designated Agency head (Chief Executive), and the responsible Ministry. Once the overall objectives and mandate have been fixed, this process should begin with proposals from the prospective Agency. Typically, the framework document will cover:

- the Agency's prime function, or mission
- its main tasks and objectives (Box 4.6 and 5.1 are illustrative examples)
- its public service standards

- the roles of the key players: the minister, the ministry and the Chief Executive
- the performance measures by which its results will be judged
- the Chief Executive's financial and personnel freedoms and flexibilities
- the Agency's accounting and reporting mechanisms.

9. The Framework Document is published when the Agency is launched, so that everyone concerned — the Minister, the Ministry, Agency staff, Parliament and the public — shares the same understanding of how the Agency will operate. The Framework Document is, in effect, a proxy contract which binds both parties — the Minister and the Agency. Framework Documents may be revised if circumstances change; in any case, they should be reviewed every few years to reflect reality.

ANNEX IV

BANGLADESH

**GOVERNMENT THAT WORKS:
REFORMING THE PUBLIC SECTOR**

BUDGET CALENDAR AND PROCESS

Table 1 : Budget Calendar - Revenue

Date	Activity Revenue Budget
31st August	Printing and Distribution of Budget Forms (Estimating Officers forms and Controlling Officers Forms) for next financial year.
30th September	Preparation, printing and supply of Budget Forms to the CGA (CGA's forms)
10th October	Submission of estimate by the Estimating Officers
31st October	Receipt of estimates in Ministry of Finance and CGA's office from the CAO's with 3 months actuals.
25th November	Receipt of consolidated estimates in Ministry of Finance with 3 months actuals from the CGA's office
20th January	Completion of examination of Budget Estimate in the Ministry of Finance
22nd January	Receipt of schedule of new expenditure in Ministry of Finance
15th February	Receipt of 6 months actuals from CGA's office
15th February	Commencement of Budget meetings with Sector(Line) Ministries at Ministry of Finance
28th February	Completion of review of the estimates on the basis of 6 months actuals in the Ministry of Finance
1st March	Preparation and dispatch to the printers of 1st edition of the Budget and Schedule of New Expenditure
10th March	Receipt back of the 1st edition of the Budget from the printers and dispatch to the Ministries
28th March	Completion of Discussion of the Estimates with Sector (Line)Ministries
7th April	Presentation of the Budget estimates to the Cabinet
May	Preparation and printing of Budget Estimate, details of Receipt and Expenditure, Supplementary Estimate, Finance Minister's speech and Budget at a glance
May	Presentation of Supplementary Estimate to Parliament
1st week June	Presentation of the Budget estimate to Parliament
1st week June	Authentication of Supplementary Estimates
1st July	Authentication of Budget Estimate

Table 2 : Budget Calendar - Development

Date	Aid Memorandum	Project Planning and Approval	Resource Projections	Three Year Rolling Investment Program	Annual Development Program	Development Budget
July/ Aug		Continuous process		Proposals for Inclusion in TYRIP requested by Planning Commission		
Sept		New projects submitted by Directorates to Ministry Planning Cell				
Oct			Projections made for TYRIP Projections made for Revised ADP	Continuous flow of project through Programming Committee		
Nov	Preparation of Outline by ERD Sector(Line) Ministry submissions requested by Planning Commission	Project concept papers submitted by Ministry of Planning Cell to Sector Division Planning Commission. Sector Division submit project concept papers to ECNEC	Tax revenue projections requested by Budget Wing from Research Dept. NBR.	TYRIP completed utilizing Indicative resource details		
Dec		ECNEC approvals granted		Printing	Estimates requested for revised budget	
Jan	Sector Ministry submissions received Draft Submitted to Cabinet by GED	Sector Ministry prepares detailed project proforma			Revised estimates received from Sector Ministries	
Feb	Cabinet approval	Sector Minister approval sought			Revised ADP completed	
Mar					Sector Ministries submit estimates	Conversion of revised ADP commences
Apr					Sector Division scrutiny and Ministry meetings Programming Committee Meetings	
May			Final Resource estimate available		ADP finalized and forwarded to ECNEC for approval	ADP converted to Development Budget

GOVERNANCE	Short Term Actions (Within First 6 Months)	Near Term Actions (Within 12 Months)	
PROPOSED REFORM AGENDA MATRIX			
6 Months)			
<p>GOVERNMENT</p> <p>Parliament on vision of government in of civil service reforms and specific k better.</p> <p>Reforming Government and initiate providing the technical backup.</p> <p>ons by the Nurunnabi Reorganization s Report.</p> <p>onitor implementation of reforms. PM's office.</p> <p>Funded Safety Net Program for p as efficient service agencies.</p>	<p>Near Term Actions (Within 12 Months)</p> <ul style="list-style-type: none"> Establish a Task Force on transparency, made up of independent members drawn from various professional and occupational groups to recommend specific measures for increasing transparency. Formulate and announce public agencies or transparency development guidelines require elected officials declare annual income/tax payments. Continue implementation of Recommendations of National Commission on Reforming Government. Draft Bill restricting the growth of government Establish Fully Funded Safety Net Program for redundant workers Convert selective Bureaus/Boards into fully autonomous Agencies. 	<p>Medium-Term Actions (Within 2 years)</p> <ul style="list-style-type: none"> Repeal the Official Secrets Act, 1923 and replace with Information Act Bring transparency by bringing public domain — all bidders should be legally entitled to have a copy of the Procurement Evaluation Committee's National Report for closure, unbidding, contracting out and streamlining. Publish annual income/tax payments of elected officials Pass Legislation restricting the growth of government Submit in timely manner to parliament report on accounts, audits and annual performance for all SOEs and parastatal organizations. 	<ul style="list-style-type: none"> St... Tr... in... co...
<p>AND RESPONSIVENESS</p> <p>and initiate actions for formulating an mentary Institutions.</p> <p>h related office.</p> <p>public complaint offices.</p> <p>Public Accounts Committee</p> <p>ate to party representation in ittees.</p>	<p>DEREGULATION AND ESTABLISHING ENABLING ENVIRONMENT</p> <ul style="list-style-type: none"> Accelerate implementation of program recommended by (i) Derogulation on Public Account. Complete establishment of public complaint offices. Establish a Derogulation Commission and begin public hearings as well as requiring all ministries to submit proposals for striking off redundant regulations. Initiate steps to provide legislative assistants for MPs. Initiate steps to frame regulations for power, telecom, aviation, and gas sectors as a means of paving the way for mobilizing private sector investment. Initiate steps to establish a fully equipped Economic Policy Analysis Unit in the executive ministry/agency. Require all proposed regulations drafted by executive ministry/agency to be reviewed by the public (e.g. send draft to Parliament, arrange hearings). 	<ul style="list-style-type: none"> Complete program to strengthen the Public Accounts Committee Provide for legislative assistance of reforms proposed by Deregulation Commission. Finalize the framing of regulations for power, telecom, aviation, and gas sectors. Establish Task Force to prepare and publish a compendium of all Policy Analysis Unit while per of public concern and interest. Secretary initiate pilot programs to minimize contact between regulatory and judicial agencies Key executive and judicial appointments made subject to Parliamentary confirmation. 	<ul style="list-style-type: none"> Pu... W... Re... By... re... Pa...
<p>g Citizens' Charter.</p> <p>ounce its objectives and performance to enable continuous performance</p> <p>s and develop measurable and nds as part of a Citizens' Charter. under the PM's office.</p>	<p>(ii) Legal Reform</p> <ul style="list-style-type: none"> Establish and start staffing Law Reforms Commission. Initiate steps to establish and staff judicial training institute. Initiate steps to prepare the program for strengthening judicial system. Monitor and ensure performance of measurable and transparent service delivery standards for the selected 	<ul style="list-style-type: none"> Fully staff the Law Reforms Commission and report Expand number of judges required to issue Citizens' Charter. Commence with the program for strengthening judicial system. 	<ul style="list-style-type: none"> Fu... Fi... fo...
<p>EC Reforms</p> <p>o link budgetary allocations to priorities and performance</p>	<p>STRENGTHENING ALTERNATIVE INSTITUTIONS</p> <p>(i) NGOs</p> <ul style="list-style-type: none"> Initiate Medium-Term Budget Process Reforms Establish GOB-NGO consultative Council. Prepare plan to streamline the NGO registration and approval process Initiate steps for ensuring NGO inputs in development planning by requiring that investment proposals to ECNEC should include NGO views Establish Standards on Scope/TORs for external audits of SOEs. 	<ul style="list-style-type: none"> Streamline the NGO registration and approval process and assign responsibility to ADAB for overseeing NGO Continue with Medium-Term Budget Process Reforms Revise the NGO regulations to reduce excessive control and vagueness Complete separation of audit and account functions. Allow contracting out of audits for selected agencies Continue with the steps for ensuring NGO inputs in development planning by requiring that investment proposals to ECNEC should include NGO views. Initiate action to set up PKSf type mechanism for financing social/rural sector programs of NGOs. 	<ul style="list-style-type: none"> Se... fi... N... En... ph... pr... N...
<p>ti-corruption issues.</p>	<p>(ii) Local Government</p> <ul style="list-style-type: none"> Reactivate/amend the draft Local Government Reform Bill. Establish oversight body for A.G.B. 	<ul style="list-style-type: none"> Implement Medium-Term Program for reform of public services transfer of selected public services to LG management. Develop revenue sharing formula, and ground rules for LG functioning 	<ul style="list-style-type: none"> Pl... se... D... gr... Pr... L...

<i>Short Term Actions (Within 6 Months)</i>	<i>Near Term Actions (Within 12 Months)</i>	<i>Medium - Term Actions (Within 2 years)</i>
Sector Advisory Council.	<ul style="list-style-type: none"> Implement Recommendations of Advisory Council. 	
STREAMLINE NATIONAL Reduce size and scope of Planning Commission Strengthen Ministries planning policy	<ul style="list-style-type: none"> Reduce the size and scope of Planning Commission functions, while strengthening the Ministries planning policy formulation capacity. 	
BUSINESS PRACTICES Streamline Government Departments/ autonomous (Secondary Education) as Principal Empower Project Directors. Require the PM's approval to only Essential to the functioning of the Streamline project approval process including	<ul style="list-style-type: none"> Eliminate Cabinet committee on procurement and instead establish a permanent Secretary Level Inter-ministerial Committee to be made responsible for all procurement which exceeds the authority of the line ministry secretaries. Strengthen the Organization and Management Wing of Establishment Ministry, to improve personnel management. Review Rules of Business and Secretariat Rules. 	
PERSONNEL Initiate program of "Agents of Change" within Ministry of Finance Conduct training needs assessment, and for Program for all mid-level officials.	<ul style="list-style-type: none"> Expand and if necessary revise program to promote and train "Agents of Change". Establish Merit/Special Pay Scheme. Continue with MOE institution building program. Prepare options for developing a staff redundancy and mid-career retirement plan. Allow lateral entry of selected personnel from autonomous bodies, professions, to ministries and vice versa. Initiate program to de-link public enterprise/judiciary salaries from government salaries. 	<ul style="list-style-type: none"> Initiate large scale overseas training programs and ensure proper utilization of trained personnel. Develop and implement a staff redundancy and mid-career retirement plan. Continue to carry out the training needs assessment, and develop a career profile system for all mid-level officials.
EMPLOYMENT Program allocated to women and lateral entry in Positions. Programs to attract more women to join	<ul style="list-style-type: none"> Introduce mandatory training programs focusing on gender in management, sexual harassment, equal opportunities for women, etc. 	<ul style="list-style-type: none"> Continue program for increasing representation of women in public sector.