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This action is funded by the European Union

**ANNEX 1**

of the Commission Implementing Decision on the financing of the annual action programme part 2 in favour of Bangladesh for 2018

**Action Document for "Supporting the implementation of the PFM Reform Strategic Plan in Bangladesh"**

|  |   |                                     |                              |                                     |
|--|---|-------------------------------------|------------------------------|-------------------------------------|
| <b>1. Title/basic act/<br/>CRIS number</b>                               | Supporting the implementation of the PFM Reform Strategic Plan in Bangladesh<br>CRIS N°: ACA/2018/039-918   |                                     |                              |                                     |
| <b>2. Zone benefiting<br/>from the action/<br/>location</b>              | Asia, Bangladesh<br>The action shall be carried out at the following location: Bangladesh (nationwide)  |                                     |                              |                                     |
| <b>3. Programming<br/>document</b>                                       | Multiannual Indicative Programme between the European Union and the People's Republic of Bangladesh for the period 2014-2020 <sup>1</sup> , which has been amended following the mid-term review <sup>2</sup> |                                     |                              |                                     |
| <b>4. Sector of<br/>concentration/<br/>thematic area</b>                 | Priority sector 1: Democratic Governance  | DEV. Aid: YES <sup>3</sup>          |                              |                                     |
| <b>5. Amounts<br/>concerned</b>  | Total estimated cost: EUR 10 000 000<br><br>Total amount of EU budget contribution EUR 10 000 000   |                                     |                              |                                     |
| <b>6. Aid<br/>modality(ies) and<br/>implementation<br/>modality(ies)</b> | Direct Management – Procurement of Services   |                                     |                              |                                     |
| <b>7.a) DAC code(s)</b>  | 15111 – Public Finance Management<br>15114 – Domestic Revenue Mobilisation  |                                     |                              |                                     |
| <b>b) Main Delivery<br/>Channel</b>                                      | 90000 Others  |                                     |                              |                                     |
| <b>8. Markers (from<br/>CRIS DAC form)</b>                               | <b>General policy objective</b>   | <b>Not targeted</b>                 | <b>Significant objective</b> | <b>Main objective</b>               |
|  | Good governance   | <input type="checkbox"/>            | <input type="checkbox"/>     | <input checked="" type="checkbox"/> |
|  | Aid to environment  | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/>            |

<sup>1</sup> C(2014) 5718 of 18.08.2014.

<sup>2</sup> C(2018) 4741 of 20.7.2018, "Addendum to the Multiannual Indicative Programme between the European Union and the People's Republic of Bangladesh for the period 2014-2020".

<sup>3</sup> Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

|  |  |                                     |                              |                          |
|--|--|-------------------------------------|------------------------------|--------------------------|
|  | Gender equality (including Women In Development)   | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | Trade Development  | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | Reproductive, Maternal, New born and child health  | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | <b>RIO Convention markers</b>  | <b>Not targeted</b>                 | <b>Significant objective</b> | <b>Main objective</b>    |
|  | Biological diversity   | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | Combat desertification   | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | Climate change mitigation  | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
|  | Climate change adaptation  | <input checked="" type="checkbox"/> | <input type="checkbox"/>     | <input type="checkbox"/> |
| <b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b> | There is no GPGC thematic flagship programme to which this action contributes.   |                                     |                              |                          |
| <b>10. SDGs</b>  | SDG 16 – Promote peaceful and inclusive societies for sustainable development, and in particular 16.6 which aims at developing effective, accountable and transparent institutions at all levels<br>SDG 17.1 – Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection |                                     |                              |                          |

## SUMMARY

Bangladesh has made progresses in overall macro-fiscal management over the last decade maintaining more than 6% Gross Domestic Product (GDP) growth on average per year. To achieve its aspiration to attain the Middle-Income Country status by 2021, the Government of Bangladesh aims to have inclusive growth in the development process which will benefit every citizen.

In line with this, and to further strengthen the governance of public funds in order to implement the country's development agenda, a new and comprehensive Public Financial Management Reform Strategy 2016-2021 (PFMRS)<sup>4</sup> was adopted in August 2016. This new strategy was based upon the Public Expenditure and Financial Accountability (PEFA) 2015 findings and, with the support of a World Bank managed Multi-Donor Trust Fund (MDTF) to which the EU is contributing, the Government is currently drafting a PFM action plan that will lay out the implementation of the PFMRS.

In order to sustain a pro-poor growth, promote efficient use of public resources and delivery of public services, with the present Action Document, the European Union (EU) will continue its support to the Public Finance Management (PFM) reform in Bangladesh in full complementarity with all other Donors involved. Under the Multi-Annual Indicative Programme (MIP) 2014-2020, the EU intends to contribute to the implementation of the Government of Bangladesh's PFMRS 2016-2021.

The present Action aims at strengthening domestic revenue mobilisation and domestic accountability. It will provide targeted Technical Assistance to the Government agencies in the areas of Domestic Revenue Mobilisation (DRM) with the National Board of Revenues

<sup>4</sup> <https://www.scribd.com/document/341042803/PFM-Reform-Strategy-2016-21-Final>

(NBR) and domestic accountability with the Office of the Comptroller and Auditor General (OCAG) and the Parliamentary financial oversight Committees.

The Action will enhance the role that EU can play to promote a policy dialogue in the framework of the existing comprehensive PFMRS to ensure the highest-level political commitment and engagement.

## **1 CONTEXT**

### **1.1 Sector/Country/Regional context/Thematic area**

Bangladesh has made commendable progress in economic growth and fight against poverty over the last decade. The Bangladesh economy has shown resilience against both external and internal uncertainties remarkably well and is foreseen to maintain decelerated inflation, narrowed budget deficit, escalated foreign exchange reserve, and surplus current account. However, infrastructure gaps and inadequate energy supply combined with high cost of doing business remain the main challenges to the realisation of the country's growth potential. The latest value for GNI per capita, Atlas method (current USD), in Bangladesh was 1,330.00 as of 2016, after a steady improvement over the years. This puts the country in the World Bank's bracket of Low Middle Income countries. Despite this progress, disparities across social groups, gender and regions continue.

The main development policies of Bangladesh are: *Outline Perspective Plan of Bangladesh 2010-2021: Making Vision 2021 a Reality*, and the 7<sup>th</sup> Five Year Plan FY2016 - FY2020. Marking the 50<sup>th</sup> anniversary of Bangladesh's independence, the Vision 2021 provides a roadmap for accelerated growth and defines the broad approaches for eradication of poverty, inequality and human deprivation. The major objective is to achieve the threshold for middle income status by 2021. More specific strategies and implementation are articulated through the Five-Year Plans. There are 31 sector strategies that translate the objectives articulated in the Five-Year Plans at the sectoral levels. These two main national documents assign due importance on democratic governance as well as on specific elements of better PFM such as improved budget preparation and execution for better service delivery, strengthened domestic accountability and enhanced domestic resources mobilisation.

#### **1.1.1 Public Policy Assessment and EU Policy Framework**

##### ***Public Policy Assessment***

In 1971, Bangladesh was a new country, emerging from conflict and with an inherited public financial management system modelled according to the needs of the colonial administration in the Indian sub-continent. The public financial management (PFM) system has evolved over time to cater to the development needs of the country. A series of reforms have been introduced over the last two decades, and much has changed since the inherited system. New laws (notably the Public Money and Budget Management Act, 2009) were introduced to enact the principles of sound financial management. A series of public financial reform programs were undertaken from the 1990s onwards, which improved the management of public resources, but nonetheless fell short of expectations. With now over 160 million inhabitants, and a high number of transactions, PFM reforms in Bangladesh remain a complex challenge. There are also cases where good quality legislation is enacted but not implemented.

A new and comprehensive PFM Reform Strategy 2016-2021 (PFMRS) was adopted in August 2016. This new strategy was based upon the Public Expenditure and Financial Accountability (PEFA) 2015 findings and followed a previous PFM Strategy (2007-12). Unlike previous plans, the new Strategy is quite extensive and follows a holistic approach and builds on the past reforms and lessons learnt in order to strengthen the basics required for achieving the overarching national goals stipulated in Vision 2021 and subsequent Five Year Plans. The Strategy attempts to address all the key elements of the country's PFM system: revenue mobilisation, allocation and expenditure of public resources, and accounting, scrutiny and oversight of the spent funds. It also has a focus on the required 'change management' in terms of improving institutional behaviours, enhancing stakeholder engagement and ownership and communication processes, and outcomes.

The PFMRS was developed by a cross-institutional team from the Ministry of Finance, OCA, Planning Commission, National Board of Revenue and Public Accounts Committee supported by both external and local consultants and analysts. It identifies five key overarching goals:

- Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth;
- Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan;
- Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution;
- Goal 4: Promote accountability through external scrutiny and transparency of the budget; and
- Goal 5: Enhance the enabling environment for improved PFM outcomes.

The Strategy is well drafted and it is useful to build the essential budget credibility and fiscal discipline while being implemented. The guiding principles of this reform remain country ownership, gradualism, with a stronger focus on getting the basics in place and a change management or institutional reform. Moreover, the Government of Bangladesh is now engaged in the drafting of a subsequent PFM Action Plan. The first draft released on 15 January 2018 is overall a well-structured and sequenced plan, with clear activities (including on organisational change), a timeline and responsible parties for each main objective.

With regards to tax administration, in 2011, the National Board of Revenues (NBR) developed a comprehensive Modernisation Plan 2011-2016 and is foreseeing the drafting of a new Plan to start in 2019. The plan identified strategic reform including legal and structural reforms, administrative reorganisation, an automation of the system (e.g. to properly record collection data, analysis of data for risk management purposes), and capacity building of the staff. This Plan is yet to be implemented entirely but NBR has made progress in some strategic areas<sup>5</sup>. The Modernisation Plan

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<sup>5</sup> Namely in tax policy reform, automation of tax service, strengthening of Central Intelligence Cell (CIC), strategic communication through organising Tax fair, introduction of Alternative Dispute Resolution provision in

of the NBR has been fairly supported, however PEFA poor scoring of PI 10 (Fiscal risk reporting), and PI 19 (Revenue administration), indicate problems in tax revenue management and support IMF's suggestion for further strengthening of the revenue sector to be a high priority.

With regards to domestic accountability, in 2013, the Office of the Comptroller and Auditor General (OCAG) developed and approved its Second Strategic Plan 2013-2018 with the goal to implement the International Standards for Supreme Audit Institutions (ISSAI) and to achieve good Governance through establishing accountability and transparency in Public Financial Management. As part of the developing process of this plan, OCAG had a SAI need assessment to identify the weaknesses and gaps of the Supreme Audit Institute (SAI) and addressed three goals for the second Strategic Plan: 1) to enhance the quality of audit; 2) to enhance the professional efficiency of auditors; 3) to strengthen leadership and internal Governance. Some progress has been made, with the contribution, besides the Government of Bangladesh, of two DP funded projects (SCOPE<sup>6</sup> and SPEMP<sup>7</sup>, see paragraph 3.2 and donor matrix in annex). Staff has been trained, quality of audit report has improved but, some aspects of OCAG work are yet to be fully consistent with modern audit practices.

### ***EU Policy Framework***

The proposed action is in line with the Commission proposal for a New European Consensus on Development aiming to provide a collective vision for development policy for the EU and its Member States. The new Consensus recognises the importance of the EU support for the mobilisation and effective use of domestic public finance, for sound public expenditure management, for developing tax systems and increasing the efficiency of public expenditure. The Action will directly address the Peace priority of the new European Consensus by promoting accountable and transparent institutions.

It is also in line with the *EU collect more, spend better*<sup>8</sup> approach (Commission Staff Working Document 5 November 2015). It also takes into account the recommendations of the special report of the European Court of Auditors on *The use of Budget Support to improve domestic revenue mobilisation in Sub Saharan Africa*<sup>9</sup> which underlines the importance of revenue mobilisation in developing countries, points at challenges related to tax avoidance and tax evasion, and reiterates the strengthening of financial and technical assistance for developing countries and regional tax administration frameworks.

The EU's policy framework for Bangladesh is governed by the Multi-Annual Indicative Programme (MIP) 2014-2020. One of its key areas is 'Strengthening

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the Finance Act 2011, establishment of international Taxes division to separately deal with money laundering, transfer pricing, etc.

<sup>6</sup> Canada-supported 'Strengthening Comptrollership and Oversight of Public Expenditure (SCOPE)' project (2008-2015)

<sup>7</sup> World Bank Multi-Donor Trust Fund (MDTF) for Strengthening Public Expenditure Management Programme (SPEMP)

<sup>8</sup> [https://ec.europa.eu/europeaid/sites/devco/files/com\\_collectmore-spendbetter\\_20150713\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/com_collectmore-spendbetter_20150713_en.pdf)

[https://ec.europa.eu/taxation\\_customs/sites/taxation/files/docs/body/devco\\_cm\\_sb\\_pf160614.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/docs/body/devco_cm_sb_pf160614.pdf)

[https://ec.europa.eu/europeaid/sites/devco/files/pol-collect-more-spend-better-swd-20151015\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/pol-collect-more-spend-better-swd-20151015_en.pdf)

<sup>9</sup> <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=40763>

[https://www.eca.europa.eu/Lists/ECADocuments/SR16\\_35/SR\\_REVENUE\\_IN\\_AFRICA\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR16_35/SR_REVENUE_IN_AFRICA_EN.pdf)

Democratic Governance' under which one of the key pillars is financial governance. The PFMRS 2016-2021 provides a good basis for an EU funded programme to further support the Government in its process of reforms in PFM. This is also relevant to other ongoing EU interventions and more specifically for ongoing and forthcoming budget support programme (in Education and Social Protection).

### 1.1.2 *Stakeholder analysis summary*

Stakeholders can be divided in two broad categories: those which will benefit directly from the proposed interventions and those which will benefit from the wider perspective of improved Public Financial Management.

The stakeholders that benefit directly are: the **National Board of Revenue (NBR)**; the **Office of the Comptroller and Auditor General (OCAG)** and the **Parliamentary Oversight Committees**.

The **National Board of Revenue (NBR)** – the tax administration authority - is called to play a more effective role due to the fact that it is increasingly recognised that moving to middle-income country status requires scaling-up of social expenditure and at least a 50% uplift in revenue collection from the current low level of 8.7% of GDP which makes Bangladesh one of the least effective tax collectors in the world. The NBR is part of the Ministry of Finance and subject to its lengthy decision-making procedures and frequent job rotation. While it is a recognised international standard to organise tax administration on the basis of taxpayer segments (large, medium-size and small) and functions (taxpayer service, audit, enforcement), NBR consists of three wings organised on the basis of tax type (Income Tax, Value Added Tax and Customs), with a need to improve communication between them, and duplication of effort. The Board has about 20 members. The number of income tax officers countrywide is estimated at 700, which is rather low (out of a total of 3,500 in the NBR). NBR's annual reports are made publicly available but with significant delays. The latest report on their website is for 2010-2011.

The **Office of the Comptroller and Auditor General (OCAG)** the Supreme Audit Institution (SAI) of Bangladesh - is responsible for, *inter alia*, auditing the annual financial statements of Government, Local Government and Statutory Bodies. OCAG is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and the regional Asian Organisation of Supreme Audit Institutions (ASOSAI). These institutions aim to improve the quality of external auditing through studies, training and exchange of ideas. OCAG comprises six main departments. Three of these are concerned with the production of accounts and annual financial statements: Bangladesh Railway Finance Department; Defence Finance Department and the Civil Accounts Department. One is concerned with training: the Financial Management Academy (FIMA). Two cover the functions of an SAI: the Comptroller and Auditor General's Office (for high level management) and the Audit Directorates (ten) which undertake the actual audit work. It carries out compliance and financial audit, performance audit and IT audit in various functional areas (e.g. commercial, revenue, civil or works). Approximately 4,000 officers and staff are presently working in the OCAG of which 13% are women. The structure of OCAG and its relationships with other stakeholders are detailed in OCAG's Strategic Plan 2013 to 2018<sup>10</sup>.

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<sup>10</sup> <http://www.cagbd.org/assets/upload/publication/1af5c04b2d3a94ea652a0ff7e8933b7f.pdf>

The **Public Accounts Committee (PAC)** is one of three financial oversight committees of Parliament aimed at promoting public sector accountability and effective governance. Its role is to examine the reports of the OCAG on the annual financial statements of all public sector organisations and to report to Parliament thereon. It also examine accounts showing the appropriation of sums granted by the House for the expenditure of the Government, the annual finance accounts of the Government and such other accounts laid before the House as the Committee sees fit. Upon examination of irregularities, the Committee reports to the Parliament with recommendations of remedial measures. The PAC is one of only two committees referred to in the Constitution and can be regarded as the lynchpin between OCAG and the Executive and, thus, plays a vital role in holding the government accountable. The Committee consists of no more than fifteen members appointed by the House, and a Minister cannot be appointed member of the Committee.

There are two other Parliamentary Oversight Committees:

The **Committee on Estimates** examines the estimates presented before the Parliament as to whether they are prepared with maximum possible efficiency and economy. The functions of the Committee are (1) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be affected; (2) to suggest alternative policies in order to bring about efficiency and economy in administration; (3) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and (4) to suggest the form in which the estimates shall be presented to the House. The Committee consists of no more than ten members appointed by the House, and a Minister cannot be appointed member of the Committee.

The **Committee on Public Undertakings** provides ex-post scrutiny on the public undertakings especially with regards large public investments. The main functions of the Committee are (1) to examine the reports and accounts of the listed public undertakings; (2) to examine the reports, if any, of the Comptroller and Auditor-General on the public undertakings; (3) to examine any deficiency of the public undertakings, whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices. The Committee reports to the Parliament on remedy of irregularities and lapses of the public undertakings and recommend measures. The Committee consists of no more than ten members appointed by the House, and a Minister cannot be appointed member of the Committee.

There are a number of other **Government Institutions** stakeholders which play an important role in PFM related matters and which are co-responsible for ensuring a comprehensive implementation of the PFMRS. The **Ministry of Finance (MoF)** is the primary PFM stakeholder and its **Finance Division** is the general coordinator of the PFM Reform Strategy. Other stakeholders include: the **Planning Commission** which prepares the development segment ( $\pm 30\%$ ) of the budget as well as the national development and planning documents such as Perspective Plan and Five Year Plans; the **Budget Management and Review Committee** which assesses the availability of resources and discuss progress on budget implementation; and **Line Ministries, Departments and other public Agencies (MDA)** which are responsible for preparing, implementing and reporting their respective sector budgets.

In addition, Civil Society Organisations (CSO) and the general public will benefit from improved governance and accountability.

### **1.1.3 Priority areas for support/problem analysis**

The priority areas for support are domestic accountability and oversight and domestic revenue mobilisation. This section provides an overview of general problems related to PFM. The following sections provide a detailed problem analysis for the priority support areas.

The 2015 PEFA assessment<sup>11</sup> highlights that there has been progress in areas such as medium-term budgeting, debt management, fiscal transparency, improved financial information, external auditing and training of officials on PFM.

However, the diagnosis also identifies large scale deficiencies continuing in the PFM system. These include the accounting, reporting, financial management information systems. There is also fragmentation of the recurrent and development budgets and concerns over both the timeliness and quality of the annual audited financial statements. Furthermore, there are ongoing weaknesses in internal controls, external oversight mechanism, and follow-up to audit observations and in revenue administration.

Bangladesh has shown some improvement in developing its PFM systems since the 2010 PEFA assessment. However, this is not always reflected in the scoring as developments have not been fully implemented, for example, in procurement, internal audit, oversight of public corporations, and external audit. The 2015 PEFA assessment also concluded that sustained political will is essential to instil a compliance culture and to successfully implement the next generation of reforms.

The recently adopted comprehensive Public Financial Management Reform Strategy (PFMRS) represents a vital, major step forward and demonstrates a much stronger degree of political support than in the past. The Government of Bangladesh, through the adoption of the PFMRS, has set a path of reform, identifying short, medium and long terms actions aimed at eliminating the public management dysfunctions. The strategy includes a first set of priorities and the Government of Bangladesh, with the support of the Multi-Donor Trust Fund administered by the World Bank, is now disaggregating the actions into activities and tasks. This Action Plan is currently being developed and is foreseen to start during fiscal year 2018/2019 (starting in June 2018).

Together with the two other strategic/planning documents, i.e. the Strategic Plan (2013-2018) within the Office of the Comptroller and Auditor General, the Modernisation Plan of the National Board of Revenue (2011-2016 and its foreseen successor), the PFMRS and its Action Plan provide a good basis for the identification of the priority areas of interventions.

Regarding corruption issues, the strengthening of PFM systems as a whole will be key to reduce the overall risk of fraud. This Action will support key government institutions that have the mandate to identify mismanagement of public funds and fraud: the Office for the Comptroller and Audit General and the Parliamentary Financial Oversight Committees.

#### ***Domestic Revenue Mobilisation***

In the preliminary findings of the IMF Article IV mission (February 2017)<sup>12</sup>, the modernising of the tax system is indicated as a necessity to boost Bangladesh's low

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<sup>11</sup> [https://pefa.org/sites/default/files/BD-Jun16-PFMPR-Public%20with%20PEFA%20Check\\_0.pdf](https://pefa.org/sites/default/files/BD-Jun16-PFMPR-Public%20with%20PEFA%20Check_0.pdf)

<sup>12</sup> [www.imf.org/~media/files/publications/cr/2017/cr17147.ashx](http://www.imf.org/~media/files/publications/cr/2017/cr17147.ashx)

budget revenue and to allow room for public investment and social spending to increase to levels consistent with the government's growth ambitions without compromising fiscal sustainability. The new Value Added Tax (VAT) Law of 2012, whose entry into force at that time was still foreseen for July 2017 (now rescheduled to July 2019), will simplify the rate schedule, remove leftovers of turnover tax, and eliminate taxation of company branches at local level. This will raise revenue, and will have other significant benefits, including contributing to make tax administration more transparent, reducing taxpayers' compliance costs and contributing to build a modern tax system more broadly.

It should be noted that Bangladesh's tax revenue has ranged between 8% and 9% of GDP in the last five years, which is low compared to other countries in South Asia. Whilst the economy has been growing above 6% per year in the last 10 years, revenue effort (revenue collections as a percentage of GDP) has not gone up, mainly because of shortcomings in tax policy and administration. In addition, too ambitious revenue forecasts, which cannot be matched by actual revenue collection, adversely impact overall budget credibility.

A TADAT (Tax Administration Diagnostic Assessment Tool)<sup>13</sup> assessment was carried out in Bangladesh in March 2017. It was the first one in South Asia. It was requested by the Chairman of the NBR, and has been conducted by a mission of five consultants. The assessment report have not yet been published but the preliminary findings identified tax registration, risk management process, audit management and internal audit as key areas in need of improvement, as described below.

The challenges of the tax administration concern the risk management system; the registration databases for income taxes and VAT are separate and not linked electronically or functionally; there is no unique tax payer identification number; the risk management process for ensuring compliance is manual and it is not a structured process which involves assessment, evaluation and quantification; this limits the possibility to assess and quantify and correct the amount of taxes due and unpaid; and there is a plan for managing IT risks but no plan to identify, assess and mitigate other risks. The rate of on-time filing for all core taxes is low; audit selection is entirely manual and not based on structured risk assessment or prioritisation; the audit programmes for income taxes and VAT are separate and not coordinated; there is no evaluation of impact of audits (as deterrent effect) on increased compliance level. PEFA 2015 highlighted the need to manage tax arrears more effectively.

In addition, the NBR's accounting system has no automated interface with the revenue accounting system of the MoF (i.e. with the central FMIS). There is no properly functioning internal audit unit within NBR. Furthermore, there is also no internal affairs unit to control and assure staff integrity. Finally, annual reports and strategic plans are published with significant delays.

On a positive note, the NBR provides a range of information relating to the main tax obligations and rights of taxpayers through a variety of communication channels; and the information provided to taxpayers is valid and useful. NBR keeps regular contact with stakeholders through tax fairs and seminars to obtain feedback and suggestions; it uses third party information sources and field inspections to detect unregistered businesses and individuals to be submitted to audit. In addition, NBR has a

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<sup>13</sup> [www.tadat.org](http://www.tadat.org)

comprehensive withholding and advance payment system that meets international good practice; a system of binding rulings, and a tax dispute resolution mechanism which is extensively used.

IMF and Government of Bangladesh<sup>14</sup> agreed that mobilising domestic revenue should be a foremost policy priority to create fiscal space for increasing public investment in critical infrastructure and strengthening social safety nets, while keeping the debt-to-GDP ratio broadly stable. From the matters mentioned, the proposed intervention focuses on risk management, taxpayer audit, tax arrears management (all with focus on NBR's Income Tax Wing) and internal audit. The estimated indicative allocation for DRM under the present Action is approximately EUR 4 000 000.

### ***Domestic Accountability and Oversight***

PEFA has identified weaknesses in Performance Indicators (PI) 18 Legislative scrutiny of budget, PI 26 – PI 30 internal and external audit. At present, the coverage of external audit is less than 50% of government entities and that too are mainly compliance audits. Timeliness of financial reports submission by the ministries, preparing audit reports and legislature's scrutiny, which is a key factor in the effectiveness of the accountability function, is also of a concern. Although there is a process for timely and systemic follow-up of external audit recommendations and/or observations for an audited entity, there are deviations in its implementation.

Both the OCA's Strategic Plan 2013-2018 and the PFMRS (2016-2021) recognise the limitations of audit coverage and processes, timeliness in preparing and approving audit reports, and insufficiency of professionalism among auditors to provide adequate assurance that the public funds are used efficiently and effectively. To address these issues, the PFMRS highlights the need to raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness, the Strategic Plan indicates the need of a paradigm shift from compliance audit to entity-based performance audit. In addition, to ensure domestic accountability, audit reports should be tabled to the PAC on time by ensuring stronger supervision and monitoring by auditors. Human resource development within OCA should also be addressed. This will contribute to the comprehensiveness, quality and reliability of the information provided to the Parliament

OCA has its own Training Academy – Financial Management Academy<sup>15</sup> (FIMA). To maximise both the benefit from, and sustainability of, the training element of the proposed intervention, at least one member of any technical assistance staff recruited should be based in FIMA. This will help ensure that not only are the theoretical training courses correctly focussed and targeted but will also ensure that they are linked to on-the-job training to reinforce the lessons learnt through practical work.

The Government has introduced the concept of Programme Effectiveness<sup>16</sup> whereby Ministries, Department and Agencies (MDA) enter into an annual contract with the Government to deliver specific services. It is essential that the Comptroller and

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<sup>14</sup> Sections 6, 7 and 8 of the Bangladeshi Letter of Intent to IMF, Annex of the 5<sup>th</sup> and 6<sup>th</sup> review of the Extended Credit Facility 10/2015

<sup>15</sup> [www.fima.gov.bd](http://www.fima.gov.bd)

<sup>16</sup> Effectiveness constitutes one of the 3 "Es" of Performance Auditing: Programme Effectiveness is ascertaining whether or not programmes have been delivered in the most cost-effective ways possible

Auditor General have the capacity to audit whether or not these contracts have been fulfilled. Accordingly, this is one of the areas covered by the proposed intervention.

The financial oversight Committees suffer from outdated rules of procedure; dealing with non-prioritised issues; somewhat limited interest towards committee work, audit observations and timely disposal of audit and committee recommendations; limited operational facilities and professional skills; lack of public disclosure; inadequate orientation and induction of members on the role of oversight committees. The PAC in particular still suffers from receiving poor quality audit reports covering a wide range of audit observations mostly relating to legal non-compliance, regardless of magnitude or relative importance. This limits its ability to review and comment on material matters which would make an effective contribution to good governance and help ensure the accountability of the Executive.

Whilst some progress with previous supports has been made in reducing the backlog, it remains a serious problem. The proposed interventions will have a positive impact in dealing with this problem by improving the quality of the audit reports which will speed the review process; by enhancing the Management Information System (MIS) handling the reports in both OCAG and the PAC; ensuring that the PAC has an effective mandate (including powers to clear old, irrelevant audit reports without having to review them); and ensuring that all players has the necessary skills to undertake their part in the process in the most effective way possible.

Lastly, the proposed intervention is designed to strengthen integrity in revenue administration by upgrading the Internal Audit Unit in NBR, to enhance the skills of the OCAG and the Parliamentary Oversight Committees to deal with cases of mismanagement.

## 2 RISKS AND ASSUMPTIONS

### *Risks and mitigating measures*

There are three levels of risks perceived that can influence the implementation of the proposed programme: (i) political risks, (ii) institutional risks; and (iii) operational risks.

| <b>Risks</b>  | <b>Risk level (H/M/L)</b> | <b>Mitigating measures</b>  |
|---|---------------------------|---|
| <b><i>(i) Political Risks</i></b>   |                           |   |
| Corruption  | H                         | Establishing an NBR Internal Audit Unit and developing the skills of the OCAG and the Parliamentary Oversight Committees will help highlight cases of corruption.   |
| Inadequate political engagement and operational leadership for PFM reform.                                    | M                         | Strategic high-level policy dialogue with the Ministry of Finance and other stakeholders; joint work at donor level including through the MDTF. Follow up of the PFMRS and Action Plan.   |
| Dependence on donor funding could lead to decrease of domestic financing of reforms and hence, a reduction in | M                         | The Government of Bangladesh has been supporting PFM reforms with its own funds. The Government of Bangladesh is requested to continue financing PFM activities (in particular those which are not covered by donor funding) with their |

|  |   |   |
|--|---|---|
| ownership.   |   | resources and concessional loans from the World Bank. This principle is at the basis of the MDTF's use agreed among donors.   |
| <b>(ii) Institutional Risks</b>  |   |   |
| Weak institutional capacity in the Government of Bangladesh agencies to implement PFMRS, which will affect long term sustainability.   | M | Enhance institutional strengthening (in line with the 'change management' suggested by the PFMRS) and capacity building of government agencies involved in the PFMRS implementation. These activities will be financed through the MDTF.  |
| Insufficient commitment of the line ministries to implement the reform agenda and insufficient leverage by the Ministry of Finance   | M | The Government of Bangladesh has demonstrated its initial commitments for further PFM reforms in the national development documents, conducting PEFA 2015 and TADAT 2017, formulating the PFMRS 2016-2021 and in its advocacy on the use of country system based on strong PFM. Setting up of PFM Reform Coordinating Committee (as foreseen in the PFM Action Plan) to keep all Government of Bangladesh agencies involved in the implementation of the reform strategy. |
| Dependence on a limited number of key officials in the partner organisations and turn-over   | H | Essential restructuring of units in charge of PFM is required (Change Management in the Action Plan)<br>Wider involvement and interest is foreseen as the reform advances<br>Large dissemination of trainings and ToT   |
| Lack of wider citizenship participation.   | M | Greater use is being made of websites. The further development of these, especially to make them more interactive, has been identified as outputs under this intervention.  |
| <b>(iii) Operational Risks</b>   |   |   |
| Instead of giving adequate attention on overall PFM reform activities, more priorities/focus is given to few specific activities like FMIS   | M | Policy dialogue to ensure a balanced path of reforms in all areas; division of support activities among donors  |
| Procurement practices leading to leakages  | L | Improvement in the implementation of the legal framework and enforcement of mechanisms already existent, including the e-procurements   |
| <b>Assumptions:</b>  |   |   |
| <ol style="list-style-type: none"> <li>1. The Government of Bangladesh will provide support to the PFM reform agenda, including through public financing of the reforms;</li> <li>2. The Government of Bangladesh will further build institutional and human resources capacities for PFM reform;</li> <li>3. The Government of Bangladesh will ensure sustainability and continuity; and</li> <li>4. There will be a PFM Reform Coordinating Committee, consisting of senior representatives</li> </ol> |   |   |

of each implementing agency inter-ministerial/department cooperation and a PFM Reforms Unit in MoF as identified in the PFM Action Plan.

### **3 LESSONS LEARNED, COMPLEMENTARITY AND CROSS-CUTTING ISSUES**

#### **3.1 Lessons learned**

Donor's interventions on PFM reform in the past 15 years have had positive effects, although the impact and sustainability are not always as per the expected levels. The World Bank administered Multi Donor Trust Funds clearly have carried out some positive changes. However, in each case the PFM reviews identified slow implementation, issues regarding Government ownership, lack of organisational change and the prevalence of a piecemeal approach. PEFA 2015 scores corroborate this picture. This has been taken into account when extending the MDTF by focusing more on the design and implementation of the PFM Action Plan and related Change Management. Similarly, the support to NBR, OCAG and PAC are built on the lessons learnt from the SPEMP and are drawn from the sequenced priority actions identified by the Government of Bangladesh in the PFM Action Plan.

#### **3.2 Complementarity, synergy and donor coordination**

The proposed EU programme will build on the long history of PFM development in Bangladesh. The attached matrix provides a useful overview of this history indicating the donors involved, the size of, and areas in which those interventions have taken place.

The main recent support to the expenditure-side PFM reform has been provided by a Multi Donor Trust Fund (MDTF) initially financed by EU, UK (DfID), Canada, Denmark and the Netherlands and managed by the World Bank (2009-2016). Denmark and the Netherlands withdrew in 2017. The three remaining donors (EU, UK and Canada) agreed that the unutilised funds (approximately USD 19 000 000) should be used to provide support for PFMRS implementation in selected areas and agreed that the MDTF would be extended for further five years, until 31/12/2021.

Priority areas for the extension are focused on core PFM issues and are as followed:

- support immediate advisory and technical assistance needs of the Finance Division relating to Financial Management Information and Systems roll-out;
- support the Government of Bangladesh in Change Management for the implementation of the PFM Strategy; and
- supplement implementation of the PFM Action Plan with high quality advice, technical assistance, and knowledge exchange.

For the present Action, great care will be given to **ensure synergy** between the two programmes and with other donors' initiatives. As the World Bank supports the VAT wing of NBR, and USAID and ADB supports or will support the Customs wing, the EU will focus its support on the Income Tax wing of NBR. World Bank's foreseen support to domestic oversight will be designed in coordination with the EU present Action. It is expected that the South Asia Regional Training and Technical Assistance Centre (SARTTAC) will provide some ad hoc short term trainings. Synergy will be sought with these trainings, as well as those that could be provided by INTOSAI. The Action will also participate in the efforts made to improve the public finance management of the education sector and social protection, the two budget support

operations of the EU in Bangladesh. Specifically, it is envisaged to support OCAG's audit work in the fields of Education and Social Protection and provide relevant audit training courses to staff of Internal Audit Units established by Ministries, Departments and Agencies in education and social protection.

**Complementarity** between the extended MDTF and the new Programme will be ensured. This process should be guaranteed through continuous consultations between the EU and the WB, as well as by a well-functioning **co-ordination** system among donors both within the Task Team on PFM within the Governance Working Group (part of the Local Consultative Group) where donors and Government agencies concerned sit and within the MDTF Steering Committee (Government of Bangladesh agencies, World Bank, Canada, DFID, EU). Other programmes are detailed in the Annex “Matrix of Relevant Actions by Other Funding Entities”.

### **3.3 Cross-cutting issues**

The EU is committed to promote good governance and democracy, major underlying issues within the MIP 2014-2020. Supporting the PFMRS is fully coherent with this focus as it will contribute to increased efficiency and transparency in the use of government and external resources.

#### **Environment**

Environmental issues have become a major concern due to impact on public health and development of Bangladesh. Air and water pollution, groundwater contamination, nuisance from solid waste and noise pollution are amongst the main environmental issues in Bangladesh. Central Government, Local Government and other organisations are attempting to undertake steps to reduce the environmental pollution in the country. Those crucial issues should impact the budget laws and consequently be more integrated into the implementation of the PFMRS. In addition, Bangladesh could probably obtain international climate finance if suitable country systems and funding mechanisms are in place based on a sound PFM system.

The proposed intervention does not impact directly on environment, biodiversity or climate change. However, the audit training programme can include training on environmental audit as part of performance auditing including how to audit any measures put in place by government to protect the environment.

#### **Gender Equality**

Many legal and policy measures have been taken to uphold the rights of women. Despite enactment of new and progressive laws and approval of policies for establishing women's rights in the public spheres, many discriminatory laws exist in the country. Lack of uniformity in the provisions of family laws for different religion also contributes to discrimination where women from different religions enjoy different rights as per their own religious laws. The lack of enforcement of laws and policies is still a concern. The Government has introduced gender budgeting to better focus on issue related to gender equality and rights for women as well as women's advancement. This will provide data for changing policies in this area. During the implementation of the proposed programme the NBR, OCAG and PAC should be guided by the following principles: equality and equity; accountability; empowerment; participation; non-discrimination and attention to vulnerable groups. The short term expertise available for this Action could be used for the provision of technical assistance in order to raise awareness and build the capacity of key stakeholders on gender budgeting, do gender-specific analysis of revenues and expenditures, produce

sex-disaggregated data, etc. Moreover, the project will address specifically the public finance management of education and social protection, two major areas of social spending that are contributing to enhance social capital among women and girls.

### **Rights Based Approach**

Whilst Bangladesh is a signatory to many international commitments, the country has not yet ratified: the International Covenant on Civil and Political Rights (ICCPR-OP 2, Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (OPCAT), Conventions on refugees and stateless persons, UNESCO Convention against Discrimination in Education, ILO Conventions Nos. 169 and 1899, ILO Convention No. 138. Bangladesh also does not fully respect/implement the Convention on the Rights of Children which they ratified in 1990.

Since the overall aim of the programme is to ensure sound and transparent management of resources, activities in the implementation and monitoring of the programme will be conducted in accordance with the rights based approach working principles of applying all rights; (meaningful) participation; non-discrimination – with particular attention to gender equality and inclusion of indigenous minorities and persons with disabilities; accountability; transparency and access to information. Activities will also seek to address relevant capacity gaps amongst key duty bearers and rights holders to ensure that the realisation of rights is inclusive and does not result in negative consequences, particularly for the most vulnerable in Bangladeshi society.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

The **overall objective** of the programme is to strengthen domestic revenue mobilisation and domestic accountability.

**Specific Objective 1:** *To support the National Board of Revenue to increase tax collection;*

**Specific Objective 2:** *To support the Office of the Comptroller and Auditor General to carry out its modernisation programme;*

**Specific Objective 3:** *To support the three Parliamentary Financial Oversight Committees to fulfil their respective mandates.*

The EU targeted support is expected to contribute to the following results, focusing on the key milestones identified within the PFMRS 2016-2021 and subsequent Action Plan:

- Tax collection is increased and tax risk management capacity of the NBR is improved;
- External audits are gradually carried out as per international standards and auditors are better trained and prepared to carry out their tasks;
- Parliamentary scrutiny is improved through strengthened performance of the financial oversight committees.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG 16 and in particular 16.6 which aims at developing effective, accountable and transparent institutions at all levels, as well as SDG 17.1 which aims at strengthening domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection. This does not imply a commitment by the country benefiting from this programme.

## **4.2 Main Activities**

The key indicative activities will include the following:

### **National Board of Revenue**

On the basis of the review of the NBR Modernisation Plan and the PFMRS 2016/2021, it is proposed to provide support to the NBR in the following areas, including through training, daily coaching, and advice on regulation and manuals:

#### **• Integrity**

- Following a thorough gap analysis, support the establishment/strengthening of NBR's internal audit mechanism;
- Promote awareness among NBR staff of the existing legislation protecting whistle-blowers; participation of NBR in the Parliament peer to peer exchanges.

#### **• Risk Management**

- Support the NBR Income Tax Wing with systemic risk management;
- Support the NBR Income Tax Wing with respect to taxpayer registration;
- Support the NBR Income Tax Wing in income tax audit; ;
- Support the NBR Income Tax Wing in income tax arrears management.

#### **• Organisation and Planning**

- Undertake a review of the organisational framework, along with a needs assessment in terms of planning and staff training;
- Support the NBR to update its Modernisation Strategy;
- Support and advice on specific IT functionalities as required;
- Facilitate peer to peer exchanges.

### **Office of the Comptroller and Auditor-General**

On the basis of the review of OCAG Strategic Plan 2013-2018 and the PFMRS 2016/2021, it is proposed to support OCAG in the following areas:

#### **• Audit Planning and Methodology**

- Support the OCAG to update its Strategic Plan;
- Support OCAG in its development of the audit of Programme Effectiveness (performance auditing);
- Support OCAG in using Risk Analysis and Key Performance Indicators (KPI) in the audit planning process;

- Support OCAG in developing its Quality Assurance structure and mechanisms, through training and peer review;
- Review and update as necessary the Risk Management Strategy and Guidelines.
- **Professional Development and Capacity Building (in particular through FIMA)**
  - Continue developing OCAG Financial Management Academy (FIMA) as a centre of excellence;
  - Determine the feasibility of exchanges and twinning with other SAI;
  - Undertake a Training Needs Assessment to enable the effective planning of OCAG staff training (on audit, with attention to ISSAI compliance);
  - Continue supporting audit work through on-the-job training and pilot audits, especially in the fields of Education and Social Protection, IT and Financial auditing (including for finance and appropriation accounts), as well as revenue, SDG and environmental auditing;
  - Review and assist in the improvement of audit reports including improving response times;
  - Provide relevant audit training courses run by FIMA to staff of Internal Audit Units established by Ministries, Departments and Agencies management (especially those related to Education and Social Protection) ;
  - Support and advice on specific IT functionalities as required, in particular audit software and website development;
  - Continue supporting the externally assessed professional CIPFA, and other suitable qualifications;
  - Take part in peer to peer exchanges with the Parliament.

### **Parliamentary Oversight Committees**

- **Legislative Framework**
  - Undertake a review of the legislative framework to ensure that this enables each committee to execute its mandate effectively and support improvements when required;
  - Support relevant legislation on external audit, when necessary.
- **Professional Development and Capacity Building**
  - Undertake a Training Needs Assessment to enable the development of effective training;
  - Upgrade the capabilities of the Budget Analysis and Monitoring Unit;
  - Organise peer to peer exchanges in relevant areas.
- **Information Technology**
  - To undertake a Needs Assessment of both hardware and software necessary to achieve the full functionality of the Management Information System (MIS) and other operational and information tools;

- Train staff in the skills necessary to maintain the above.
- **Public Interest Related Information Disclosure Act 2010 (PIRI)**
  - Organise an identification survey of the implementation constraints of the PIRI;
  - Support PIRI Act road map implementation and dissemination.

### **4.3 Intervention Logic**

Since 2009, the EU has contributed with EUR 15 000 000 to PFM reform actions in the country implemented through the PFM Multi Donor Trust Fund managed by the World Bank. This has proven to be effective in bringing a degree of improvement into PFM, but not enough to fuel a systemic reform and feed a relevant and continued policy dialogue.

The Government of Bangladesh, through the adoption of a comprehensive and long term PFM Reform Strategy, has taken a significant step forward, showing a stronger degree of political support and setting a path of reform. The current drafting of a five-year Action Plan which is time-bound, sequenced, costed and with clear roles among the Government agencies is also a very positive signal. This momentum represents a valid opportunity for the EU to keep supporting Bangladesh's reform path in PFM.

The existence of a comprehensive PFMRs and the value added of EU to promote a systemic approach and comprehensive reform through policy dialogue, have led the EU Delegation to consider additional and very targeted support in the country's PFM area. Such bilateral aid will ensure that all funds allocated are targeted effectively to achieve the aims of enhanced governance and accountability.

While the Multi Donor Trust Fund will continue to support PFM core activities and the overall coordination of the reforms, EU specific assistance will extend the support in the areas of domestic revenue mobilisation and domestic accountability, mainstreaming both the needs as laid out by the existing country assessments and the national priority strategies.

## **5 IMPLEMENTATION**

### **5.1 Financing Agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

### **5.2 Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is **60** months from the date of entry into force of the financing agreement.

Extensions of the implementing period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

### **5.3 Implementation Modalities**

Both in indirect and direct management, the Commission will ensure that the appropriate EU rules and procedures for providing financing to third parties are

respected, including review procedures, where appropriate, and compliance of the action of the EU restrictive measures affecting the respective countries of operation<sup>17</sup>.

### 5.3.1 Procurement (direct management)

|                                       |                                  |                                |   |
|---------------------------------------|----------------------------------|--------------------------------|---|
| Subject in generic terms, if possible | Type (works, supplies, services) | Indicative number of contracts | Indicative trimester of launch of the procedure |
| Technical Assistance                  | Services                         | 1                              | 2018 Q4   |

### 5.4 Scope of Geographical Eligibility for Procurement and Grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

### 5.5 Indicative Budget

| Area                                    | EU contribution (amount in EUR) |
|---|---------------------------------|
| 5.3.1 – Procurement (direct management) | 9 800 000                       |
| 5.8 – Evaluation, 5.9 - Audit           | 200 000                         |
| <b>Total</b>                            | <b>10 000 000</b>               |

### 5.6 Organisational Set-up and Responsibilities

Regular progress follow-up and monitoring of deliverables should take place with the continuous involvement of the EU long term experts and each of the three partners; namely, National Board of Revenue, Office of the Comptroller and Auditor General and the three Parliamentary Oversight Committees.

A Programme Steering Committee (PSC) should oversee programme coordination and implementation across the components and institutions of the Action. The PSC will review proper implementation, approve the annual work plans, provide broad guidelines for administrative procedures and address matters requiring inter-institution decisions.

The EU will be a full member of the PSC and will have an active participation and engagement in the programme management in line with policy dialogue process. It will include the main stakeholders: National Board of Revenue, Office of the Comptroller and Auditor General, Parliament, and Ministry of Finance. The detailed composition of the PSC will be defined during the inception phase. The PSC will be chaired by a Government representative to be fixed during the inception phase.

<sup>17</sup> [https://eeas.europa.eu/sites/eeas/files/restrictive\\_measures-2017-04-26-clean.pdf](https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf)

The PSC will meet at least twice a year, and ad hoc meetings will be organised whenever necessary.

Complementarity between the extended MDTF and the new Programme will be ensured. This process should be guaranteed through continuous consultations between the EU, the Government of Bangladesh and the WB, as well as by a well-functioning co-ordination system among donors both within the Governance Working Group Task Team on PFM and within the MDTF Steering Committee (Technical Advisory Committee with Government of Bangladesh agencies, World Bank, EU, Canada, DFID and JICA).

The Action will also participate in the efforts made to improve the public finance management of the education sector and social protection, the two budget support operations of the EU in Bangladesh. Domestic oversight and revenue mobilisation will feed into the policy dialogue within the wider PFM reform agenda but also from the specific angle of social security and education PFM systems. This policy dialogue will take place at the different levels under the Education and Social Protection budget support programmes.

## **5.7 Performance Monitoring and Results Reporting**

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8 Evaluation**

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for learning purposes, in particular with respect to whether the condition, as identified in the various need analyses, are such as to warrant continuing to support every proposed area of the action.

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the intervention includes pilot projects which need evaluation for eventual roll-out.

The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in S2 2020 and S1 2021.

## **5.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, two contracts for audit services shall be concluded under a framework contract end of 2019 and mid-2021.

## **5.10 Communication/Visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported within the budgets indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

## APPENDIX - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

|                           | Results chain   | Indicators   | Baselines<br>(incl. reference year)  | Targets<br>(incl. reference year)   | Sources and means of<br>verification  | Assumptions |
|---------------------------|---|--|--|---|---|-------------|
| Overall objective: Impact | The overall objective of the programme is to strengthen domestic revenue mobilisation and domestic accountability | <p>1. Progressive increase in the tax-to-GDP ratio</p> <p>2. Timeliness and public availability of audit reports</p> | <p>1. 9.6% of GDP (projection 2017)</p> <p>2. Audit reports are slow to be completed and late to be delivered to Parliament (2017)</p> | <p>1. Per policy- tax-to-GDP ratio exceeds 10% (2021) and increases annually</p> <p>2. 30% of audit reports presented within 90 days after completion for FY 2019-20<br/>2020<br/>- 50% of audit reports presented within 90 days after completion by FY 2020-21<br/>- 90% of audit reports presented within 90 days after completion by FY 2022-23</p> | <p>1. NBR; MoF; Bureau of Statistics (BoS); IMF country reports</p> <p>2. OCAG and Parliament reports</p> |             |

|                                      |  |   |  |  |                        |  |
|--------------------------------------|--|---|--|--|------------------------|--|
| Specific objective(s):<br>Outcome(s) | <p><b>Specific Objective 1:</b> To support the National Board of Revenue to increase tax collection</p>                                    | <p>1.1: PEFA Scores on Revenue administration</p>       | <p>1.1 (2015)<br/><b>PI 19: D+</b><br/>PI 19-2: D<br/>PI 19-3: D<br/>PI 19-4: D</p>                        | <p>1.1 (2021)<br/><b>PI 19: C</b><br/>PI 19-2: C<br/>PI 19-3: C<br/>PI 19-4: C</p>                         | <p>1.1 PEFA Report</p> | <p>The Government of Bangladesh will provide support to the PFM reform agenda, including through public financing of the reforms;</p>  |
|                                      | <p><b>Specific Objective 2:</b> To support the Office of the Comptroller and Auditor General to carry out its modernisation programme;</p> | <p>2.1: PEFA Scores on External Audit</p>               | <p><b>2.1: (2015)</b><br/><b>PI 30: D+</b><br/>PI 30.1: D<br/>PI 30.2: D<br/>PI 30.3: D<br/>PI 30.4: C</p> | <p><b>2.1: (2021)</b><br/><b>PI 30: C+</b><br/>PI 30.1: C<br/>PI 30.2: C<br/>PI 30.3: C<br/>PI 30.4: B</p> | <p>2.1 PEFA Report</p> | <p>The Government of Bangladesh will further build institutional and human resources capacities for PFM reform;</p>  |
|                                      | <p><b>Specific Objective 3:</b> To support the three Parliamentary Financial Oversight Committees to fulfil their respective mandates</p>  | <p>3.1: Improved PEFA Score on Legislative Scrutiny</p> | <p><b>3.1: (2015)</b><br/><b>PI 31: B</b><br/>PI 31.1: D<br/>PI 31.2: A<br/>PI 31.3: A<br/>PI 31.4: B</p>  | <p><b>3.1: (2021)</b><br/><b>PI 31: B+</b><br/>PI 31.1: B<br/>PI 31.2: A<br/>PI 31.3: A<br/>PI 31.4: A</p> | <p>3.1 PEFA Report</p> | <p>The Government of Bangladesh will ensure sustainability and continuity of the reforms;</p> <p>The new resources generated through increased tax collection are invested in public programmes.</p> |
| <b>O u</b>                           | <b>NBR Integrity</b>   |   |  |  |                        |  |

|  |  |   |  |                                      |               |
|--|--|---|--|--------------------------------------|---------------|
| Output 1.1 NBR Central Internal Audit Unit is established            | 1.1.1 Status of Internal Audit Unit  | 1.1.1 Does not exist (2017)                               | 1.1.1 Unit established and operational (2021)    | 1.1.1 NBR modernisation plan reports | NBR ownership |
|  | 1.1.2 Status of internal audit manual  | 1.1.2 Manual does not exist (2017)                        | 1.1.2 Manual is written and accepted (2021)      | 1.1.2 NBR modernisation plan reports |               |
| Output 1.2 Awareness raised on Act protecting whistle blowers in NBR | 1.2.1 Number of officers who have participated in peer-to-peer exchanges (by sex)            | 1.2.1 0 (2017)  | 1.2.1 TBD during needs assessment                | 1.2.1 Exchange reports               |               |
| <b>Risk Management</b>   |  |   |  |                                      |               |
| Output 1.3 Systemic risk management is in place                      | 1.3.1 Status of risk management strategies and guidelines                                    | 1.3.1 There is no risk management strategy (2017)         | 1.3.1 Strategies and guidelines available (2021) | 1.3.1 NBR modernisation plan reports | NBR ownership |
|  | 1.3.2 Number of staff trained on the risk management strategies and guidelines (by sex)      | 1.3.2 0 (2017)  | 1.3.2 TBD during needs assessment                | 1.3.2 NBR modernisation plan reports |               |
| Output 1.4 Improved taxpayer registration is in place                | 1.4.1 Status of protocols to exchange taxpayer information across the three wings of the NBR | 1.4.1 Communication exists but could be harmonised (2017) | 1.4.1 Protocols are operational (2021)           | 1.4.1 NBR modernisation plan reports |               |

|  |   |  |   |                                      |               |
|--|---|--|---|--------------------------------------|---------------|
| Output 1.5 Income tax audit (including risk based audit selection) is improved | 1.5.1 Status of income tax audit manual   | 1.5.1 No risk-based audit guidelines, no audit manual for NBR Income Tax wing                                      | 1.5.1 Risk-based audit guidelines adopted<br>Manual accepted                | 1.5.1 NBR Modernisation Plan reports |               |
|  | 1.5.2 Number of people trained on the use of the manual (by sex)                | 1.5.2 0 (2017)   | 1.5.2 TBD during needs assessment   | 1.5.2 NBR Modernisation Plan reports |               |
| Output 1.6 Income tax arrears are better managed                               | 1.6.1 Status of arrears management manual                                       | 1.6.1 No arrears management manual for NBR Income Tax wing   | 1.6.1 Manual accepted   | 1.6.1 NBR Modernisation Plan reports |               |
|  | 1.6.2 Number of people trained on the use of the manual (by sex)                | 1.6.2 0 (2017)   | 1.6.2 TBD during needs assessment   | 1.6.2 NBR Modernisation Plan reports |               |
| <b>Organisation and Planning</b>   |   |  |   |                                      |               |
| Output 1.7 A modernisation strategy,, including IT design, is formulated       | 1.7.1 Status of modernisation strategy  | 1.7.1 Not available. Strategy for 2011-2016 has expired (2017)   | 1.7.1 Strategy 2019-2021 available; implementation reports published (2021) | 1.7.1 Plan                           | NBR ownership |
|  | Output 1.8 Staff are aware of international practise for organising tax systems | 1.8.1 Number of staff trained or otherwise made aware of international practice in organising tax systems (by sex) | 1.8.1 0 (2017)  | 1.8.1 TBD during needs assessment    |               |

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| <b>Outputs 2 - OCAG</b> | <b>Audit Planning and Methodology:</b><br>Output 2.1 OCAG has an effective strategic plan in place | 2.1.1 Status of updated Strategic Plan                     | 2.1.1 New plan not available (2017)                         | 2.1.1 Strategic Plan 2018-21 available and implementation reports (2021) | 2.1.1 New Plan                | OCAG ownership |
|                         |  | 2.1.2 Status of Performance Auditing                       | 2.1.2 To be assessed  | 2.1.2 # of Performance Audits undertaken (2021)                          | 2.1.2 Audit Reports           |                |
|                         |  | 2.1.3 Status of risk-based planning using KPI              | 2.1.3 To be assessed  | 2.1.3 Detailed audit plans include KPI (2021)                            | 2.1.4 Annual Plan of OCAG     |                |
|                         |  | 2.1.4 Status of Quality Assurance structure and mechanisms | 2.1.4 Quality assurance exists but could be improved (2017) | 2.1.4 Quality Assurance Manual used (2021)                               | 2.1.5 Strategy and Guidelines |                |
|                         |  | 2.1.5 Status of Risk Management Strategy and Guidelines    | 2.1.5 Current strategy (2017)                               | 2.1.5 New Strategy and Guidelines (2021)                                 |                               |                |

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|  | <p><b>Professional Development and Capacity Building:</b> Output 2.2 OCAg staff have the required skills to provide a fully professional audit service</p> | <p>2.2.1 Extent to which FIMA can provide the required standard of training</p> <p>2.2.2 ISSAI compliant audits</p> <p>2.2.3 Staff of Internal Audit Unit access to FIMA courses (by sex)</p> <p>2.2.4 Status of software and website</p> <p>2.2.5 Number of people accessing professional Cipfa and other qualifications (by sex)</p> <p>2.2.6 Number of officers who have participated in peer-to-peer exchanges (by sex)</p> | <p>2.2.1 Current FIMA (2017)</p> <p>2.2.2 Model exists for scale up and OCAg is interested in adopting the standard (2017)</p> <p>2.2.3 0 (2017)</p> <p>2.2.4 Software currently inoperable (2017)</p> <p>2.2.5 Full Cipfa (12) Advanced Diploma (23) Diploma (40) Certificate (176) (2017)</p> <p>2.2.6 0 (2017)</p> | <p>2.2.1 Improved standards (2021)</p> <p>2.2.2 # audits conducted by OCAg that are compliant - # TBD during preliminary assessment (2021)</p> <p>2.2.3# of staff trained to internal audit (2021) - # TBD during preliminary assessment</p> <p>2.2.4 Software and website fully functional (2021)</p> <p>2.2.5 Full Cipfa (30) Advanced Diploma (50) Diploma (100) Certificate (300) (2021)</p> <p>2.2.6 TBD during needs assessment (2021)</p> | <p>2.2.1 Annual reports</p> <p>2.2.2 Audit Reports</p> <p>2.2.3 FIMA Training Reports</p> <p>2.2.4 Audit reports</p> <p>2.2.5 Cipfa certification</p> <p>2.2.6 Exchange reports</p> | <p>OCAg releases staff for trainings and pilot audits</p> |
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| <b>Output 3 – Parliament Oversight Committees</b>   | <b>Legislative Framework:</b> Output 3.1<br>Effectiveness of present mandate is reviewed                                | 3.1.1 Status of mandate  | 3.1.1 Not available (2017)               | 3.1.1 Effective mandate in place (2021) | 3.1.1 IMF country assessment            | MPs willing to attend courses |
|   | <b>Professional Development and Capacity Building:</b> : Output 3.2<br>Committee staff and parliamentarians are trained | 3.2.1 Number of committee members and staff trained                  | 3.2.1 0 (2017)                           | 3.2.1 Staff 50<br>Committee 45 (2021)   | 3.2.1 Training reports                  |                               |
|   |   | 3.2.2 Upgrade Capacity of Budget Analysis and Monitoring Unit (BAMU) | 3.2.2 Not functioning fully (2017)       | 3.2.2 Functioning body (2021)           | 3.2.2 Parliament reports                |                               |
| <b>Information Technology:</b> Output 3.3<br>The Management Information System (MIS) supports the Parliamentary Oversight Committees in the execution of their respective mandates. | 3.2.3 Number of MPs/staff participating in Peer to Peer exchanges   | 3.2.3 0 (2017)   | 3.2.3 TBD during needs assessment (2021) | 3.2.3 Exchange reports                  |   |                               |
|   | 3.3.1 Extension of MIS to all Committees  | 3.3.1 Not available (2017)   | 3.3.1 MIS extended (2021)                | 3.3.1 Project report                    | Parliament's engagement in the hardware |                               |
| 3.3.2 Link the MIS of OCAG and PAC  | 3.3.2 Not available (2017)  | 3.3.2 Link in place (2021)   | 3.3.2 Project report                     |   |   |                               |
| 3.3.3 Update the website to make it interactive   | 3.3.3 Basic Website (2017)  | 3.3.3 Website functional (2021)                                      | 3.3.3 Website                            |   |   |                               |

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|  | <p><b>Public Interest Related Information Disclosure Act (2010):</b> Output 3.4 Constraints to the implementation of the Public Interest Related Information Disclosure Act (2010) have been examined and a plan of action developed</p> | <p>3.4.1 Status of survey to identify constraints to implementation</p> <p>3.4.2 Status of road map for lobbying for implementation and dissemination</p> | <p>3.4.1 Not available (2017)</p> <p>3.4.2 Not available (2017)</p> | <p>3.4.1 Survey completed (2021)</p> <p>3.4.2 Available and in use (2021)</p> | <p>3.4.1 Survey report</p> <p>3.4.2 Road map</p> | <p>Parliament's ownership</p> |
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