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Reform Initiatives In Bangladesh Audit Department

Syed Yusuf Hossain*

Over the past two decades, the world has witnessed a clear shift of paradigm in public administration with increasing emphasis on governance for growth and development. Governance with its principal attributes, accountability and transparency, is receiving increasing attention by the poilicy makers, legislators and civil society in all democracies regardless of their levels of development. Added to the concepts of accountability and transparency is the growing concern on economic, efficient and effective use of resources.

One of the basic elements of a country's governance structure is public sector management which should aim at achieving greater efficiencies in governmental operations, reduce and prevent opportunities for corruption and check leakage and wastage of public resources. In a developing economy where resources are scarce and wastage is endemic, it is important that sound management practices designed to optimise resources are strictiy adhered to. There is a widely held view that it is not lack of resources but the optimum and best use of available resources which make difference in our efforts for growth and development. It is sound and efficient management which essentially makes the difference.

There is an increasing demand of the people on the government of the developing countries for delivery of goods and services and enhanced expectation of the populace for a higher quality of life. In a globalised world of today, the developing nations are faced with the twin challenges of living up to the increasing expectations of the tax payers and the people on the one hand and growing competitiveness of the new international economic order on the other.

Experts, professionals, academics and development partners tend to believe that optimisation of resources could potentially be a critical element in the process of ensuring greater welfare of the people. Wastage and misuse of resources are potential threats to providing better opportunities and benefits to the people. Poor management is one of the principal factors responsible for wastage and misuse. Improved management and optimisation of resources are, therefore, inseparably linked.

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An integral component of the overall management process is financial management. Clearly, this remains to be the principal focus of the paper, since this is an essential pre-requisite for the success of any organisation. It plays a significant role in the economic, efficient and effective use of public resources.

Admittedly, the institutional arrangements, systems and procedures that exist in the developing world do not fit or are not compatible in the context just outlined and therefore warrants substantive changes through a process of sustained reforms. Many nations within their available resources have realigned their efforts to bring in reforms to keep pace with the developments taking place elsewhere. Having appreciated the present needs, developing nations being late starters in the process of development have to redouble their efforts to make up for the lost time. The development partners are increasingly demonstrating their willingness to support the reforms agenda that bring both systemic and institutional improvements as well as professional development and knowledge management.

Against this backdrop, in recent years the Government of Bangladesh has undertaken a number of reform initiatives in important areas including public financial management. Consistent with these efforts, Bangladesh Audit Department has launched reform programmes to address the weaknesses and flaws in the existing systems and procedures that limit the potential role the department could play in the process of ensuring accountability and optimum use of resources for good governance.

Foremost tasks to enhance the effectiveness of audit in the use of public resources in Bangladesh have been:

(a) Timely preparation and submission of audit reports;
(b) Enhancing quality of audit and its effectiveness;
(c) Modernization of financial audit;
(d) Shift of emphasis from transaction based financial audit to that based on performance and results.

Therefore, immediate priorities were:

i) Update and modernise the manuals;
ii) Introduce Performance/Value for Money Audit;
iii) Develop human resources management strategies to meet newer and emerging needs;
iv) Improve the image of audit nationally and internationally as a strong oversight institution for good governance;
v) Regional and international cooperation for the benefit of SAI Bangladesh.

The purpose of this paper is to review the reform agenda undertaken thus far by Bangladesh Audit Department and highlight the contributions they make towards fulfilling its mission as well as realising its vision as a proactive partner in the process of governance.

Since the inception of Bangladesh Audit Department, the approach to audit had been essentially conventional, focussing only on the review of transactions against compliance with the laid down rules and regulations. Even, instances of reviewing transactions against materiality were indeed rare. The results of audit, therefore, failed to create desired impact. The information provided to Parliament through annual audit reports was of limited use. The role of audit as an integral part of the country's governance structure was seriously limited and the department's image and effectiveness, as a result, was substantially impaired.

Besides, audit-management relationship was markedly strained as audit could not orient itself to offer any objective assessment of the strengths and weaknesses of the systems and procedures in place, performance of the organisation in achieving its objectives and problems within the organisation with suggestion for corrective measures and remedial actions. Questioning on insignificant issues by audit led management to largely believe that it was an impediment to achieving the development goals. Audit, therefore, could not perform its role as an aid to the modern management process.

There was hardly any work within the department to promote 'marketability' of audit outputs to the clients for whom they were intended. There had been little or no interaction between the management and the audit to understand and appreciate each other's role towards realisation of the shared goals as partners in management and development. The executive agencies ignored many of the audit observations leaving them unresolved for years together. Many are still lying pending with the Public Accounts Committee and given the volume of contents, their resolution in the foreseeable future seems to be almost impossible. Much of the value and significance of audit work were thus seriously undermined in the process. Lack of professionalism and severe constraints in skilled and trained human resources were primarily responsible for this lacklustre performance over the years.

In Contrast to the scenario outlined above, there has been a marked shift in the approach to public sector auditing in the global setting over the past couple of decades with special focus on issues of performance and results. The global audit comrnunity set out to establish methodologies, procedures and techniques for conducting performance audit to assess the results of public spending in terms of economy, efficiency and effectiveness. This significant shift was in most part attributable to new set of concepts and emerging realities in the domain of public administration. Partly this was attributable to the character, contents and volume of public spending for attainment of the welfare goals of the nations. More importantly, the accountability regime shifted from an emphasis on procedures, control and regulation to accountability for results and performance.

Against these realities in territorial and global context, the department realised that improvement of the quality and effectiveness of our audit in conformity with the international standards would be the right step to enhance the usefulness of our work to the Parliament and the executive as well as other stakeholders.

Bangladesh Audit Department's recent initiatives to effect reforms in government audit to bring improvements in the existing practices could be seen as an appropriate step towards this direction. Three Technical Assistance Projects aided by United Nations Development Programme (UNDP) and the Department for International Development (DFID), UK are at work simultaneously to implement a set of consciously chosen reforms agenda. Specific needs of reforms in various spheres of government auditing coupled with training for skill development are being addressed by these projects.

The Projects are:

- Strengthening the Office of the Comptroller & Auditor General (STAG)
- Reforms in Government Audit (RIGA)
- Enhancing Training Facilities of Financial Management Academy (FIMA)

In the backdrop of institutionalization of democracy, the demands for greater accountability and transparency in public operations for establishing good governance and optimisation of resources are being discussed and deliberated more seriously than ever before. This has raised the expectations of the people from an independent legislative audit institution, which works as a key oversight agency in the chain of accountability process.

The citizens expect that the legislative audit institution should be able to identify inefficiencies in the delivery of services, wastage, misuse, lack of propriety and corruption and suggest ways to minimise these ills and maximise outputs. The principal focus of our reform agenda has been to provide a solid methodology base in conformity with modern standards and our own needs. The financial audit which remains to be the mainstay of our

FIMA Project

The Audit & Accounts Training Academy was restructured, renovated and renamed as Financial Management Academy (FIMA) in 1997 to impart training in the field of Public Financial Management across the Government. FIMA Project was taken up in April 1999. The Project envisages the following target outputs:

- MAAB Course:

As part of senior level training courses on Government Financial Management, FIMA introduced a Nine-week Management, Accounting, Auditing and Budgeting (MAAB) course. This course has been a milestone since inception of FIMA. It has drawn junior and mid level officials across the government. It has helped produce better output in their work places and has enhanced skill level on a multi-sectoral approach to financial management. The course has been widely appreciated at all levels.

- Short Training Courses:

FIMA also organises a range of short training courses to develop essential skills of midlevel officers across the public sectors in government budgeting, audit and accounting. The courses include :

- Training in Accounting Skills & Knowledge (TASK)
- Taining for Excellence in Accountable Management (TEAM)
- Training in Budgeting & Accounting System (TIBAS)
- Building Essential Skills in Training (BEST)
- Awareness in Audit Reforms (AWARE)

- Design and develop senior level training courses in Government Financial Management with special emphasis on IT.

- Examine feasibility of introducing Distance Learning Programme.
- Diploma Courses on Auditing, Finance & Management are being introduced.

FIMA is a unique Institution of its kind. Concerted efforts are underway to develop FIMA into a Centre of Excellence in the field of Public Financial Management.

Performance Audit has also been undertaken by the STAG Project funded by UNDP. These audits are being carried out jointly by the department's in-house expertise and the specialised consultants. For the first time there has been outsourcing from the private sector to complement the skill and efforts of the department. This is an attempt to ensure a degree of sustainability and a step further to internalise reforms.

The Executive Committee established in line with experience of some developed countries involves the key senior officials in formlulating strategic plans and work programmes as part of participatory management.

The establishment of Human Resources Development Cell is another important initiative towards drawing an appropriate and effective strategy for systematic and coherent human resources management strategy. In this regard, the department takes a lead in the public sector management in Bangladesh.

The principal thrust of our reform agenda is establishing timeliness and quality of audit. One of the major weaknesses in our audit had been the consistent lack of timeliness, which largely impaired the image of the institution as a 'major informant' to the Parliament and a key player in the oversight function.

To clear the backlog, audit reports upto 1999 - 2000 have been updated. To ensure timeliness, audit reports for 2001 relating to 14 key ministries has been completed by 30 December 2001, within six months after closing of the financial year. To establish quality, a carefully chosen Quality Assurance Team has been commissioned. The team is at work and examines, among others, the extent of application of Government Auditing Standards in carrying out audit as well as reporting the results of audit. Increasingly emphasis is being shifted to quality from quantity to fulfil the basic mandate of the institution.

A sound and effective internal control mechanism is a pre-requisite for successful management. The department is having a closer view of the internal oversight functions. For the first time in Bangladesh a survey of Internal Control Systems operating in various key Government Departments and Public Organizations has been undertaken to identify the deficiencies, inadequacies, and the system weaknesses prevalent in such organisations, hindering effective and proactive administration. The report has been submitted to the Government with the proposal to entrust the department with the responsibility of setting Internal Control Standards for public sector entities and monitor the results. If the proposals are accepted, it would be a major stride towards proactive management for greater accountability and efficiency. It would be a major example of initiating public sector reforms by SAI Bangladesh.

As part of its image building process the department hosted for the first time an International Confernce on a very topical theme-"Improving Oversight Functions: Challenges of the New Millennium" which brought together Hon'ble Members of Parliament from home and abroad, Auditors General of different countries, distinguished delegates and experts from different oversight institutions across the five continents. Organized in cooperation with UNDP and the World Bank the conference provided an excellent forum to deliberate on issues surrounding the main theme. The deliberations helped conference participants formulate important recommendations for improving financial oversight functions in Bangladesh. At the Triennial Assembly of Asian Organisation of Supreme Audit Institutions (ASOSAI) held in Thailand in October, 2000 CAG, Bangladesh was elected to the Board of Governors of ASOSAI. In recognition of our recent reform initiatives an ASOSAI Workshop in Financial Audit was awarded to Bangladesh and Successfully hosted in September 2001, first of its kind since independence. Successful holding of workshop was widely acclaimed by the ASOSAI Secretariat, the participating countries, the peer organisations in private sector audit in Bangladesh and the local media.

At the recently concluded XVII International Congress of Supreme Audit Institutions (INCOSAI) held in Seoul, Korea, Bangladesh has been included in two important Standing committees of the world body, the working group on Audit of Privatization and INTOSAI Committee on Internal Control Standards.

The reform initiatives are part of the first generation of reforms in government auditing and in conformity with the reforms agenda in public sector financial management in the country. To sustain the results, there is a need for strategic reforms which warrants systemic, institutional and structural changes. Implementation of such reforms would need consistent efforts and an environment which supports changes for better results.

In all our reform endeavours while we seek support from within, the Parliament and the Government, we do also look up to the support and cooperation from the audit fraternity and development partners to reinforce and sustain our efforts.

In an ever changing world of management with newer and emerging challenges, we need to secure an enabling environment to work to our full potentials to help ensure accountability and transparency and act as an aid to modern management practices towards efficient, economic and effective use of public resources.

Macro economic policy indicators of Bangladesh

Dr.A.K.M.Ghulam Rabbani*

Introduction: The macro management policies in Bangladesh broadly divide into two groups-long term and short-term. Long-term policies can be characterized as growth and development policies, and the short-term as stabilization and adjustment policies. The objectives of the long–term policies are to accelerate growth of the economy particularly growth of real sectors, alleviation of mass poverty and human resource development (i.e. pursue poverty reducing growth policies). Short-term policies aim at controlling inflation and stabilize fluctuations around the long- term trend (i.e. subdue the business cycles facing the economy) with a view to advance the growth and development process. Adjustment of real exchange rate to promote exports and ensure balance of payment stability is the other major objective of the short-term policies.

To achieve the objectives both fiscal and monetary policy instruments are used. Long- term growth is pursued mainly through resource allocation and fiscal expenditures. Short–term policies use mainly instruments of monetary and exchange rate policies. Fiscal instruments are also used, though somewhat sparingly.

The macro management policies impact on the behavior (production, consumption saving and investment etc.) of the five institutional sectors that constitute the economy. Macro economic management is, therefore, concerned with the behavioral changes in the five institutional sectors, namely the Non Financial Corporate Sector, Financial Corporate Sector, General government, Household and Non Profit institutions serving households. In addition, managing their interactions with the rest of the World or the external sector of the economy is also an important part of the macro management.

Macro indicators are regarded as useful tools in the rich and extensive toolbox required for prudent macro policy and they facilitate application of sound judgment for monitoring and evaluating the benchmark position and the emerging trends in the economy or sectors, specific objective oriented indicators are required. The indicators need to be sensitive, reliable and easy

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to compile and interpret. Each indicator is characterized by specific methodology of compilation and a time specific quantitative magnitude that change intertemporally. For proper appraisal of the trends or the changes in the magnitudes of the indicators and relating the changes to the emerging socio- economic development, use of background indicators such as size of population or population growth rate is also required.

This paper assembles a sample of major macroeconomic indicators that are arranged by key policy objectives. The indicators have been selected for their relevance to macromangement of the Bangladesh economy. Some relevant background indicators are also included to add a social perspective to the economic indicators. Descriptions of the indicators emphasize their theoretical underpinnings and the concepts behind them. These are based on the current literature. Understanding of the theoretical underpinnings of the indicators is necessary for their correct interpretation and use. In fact policy makers are more concerned about concepts beneath the indicators than techniques of their compilation, that help them in understanding and clarifying their use.

Exploring the concepts beneath the indicators

Descriptions of selected Indicators and their theoretical underpinnings

Growth of the economy: For macroeconomic purpose the domestic economy is defined by the GDP. Growth of the economy is, therefore, measured by the GDP growth. From the supply side GDP in market prices is measured by the sum of value added of industries in producer prices plus tax on products (i.e. imports). To measure growth rate the price effect needs to be eliminated by deflating industry value added and tax on products by appropriate index numbers or by the method of revaluation. From the demand side GDP is measured by the identity: C+ G+ I+ Δ inventory + X-M, which can be manipulated to yield: M-X = (S-I) + (G-T). The latter relates balance of payment deficit in the current account to inflow of resources (funded by transfers and credits from the rest of the world) and government borrowing in the domestic market. From the policy point of view the level of investment (both public and private) can influence the target growth of GDP. For a developing country the economy must grow and for Bangladesh macro policies can influence growth by raising Public saving through prudent fiscal policies and using the saving to raise economy wide productive investments.

Real Sector growth rate: Real sector of GDP comprises agriculture (including crops, livestock, forestry and fishing), mining and quarrying, manufacturing (small, medium and large), electricity, gas and water production and construction (each of which is called "industry" in national accounting). Real sector growth rate is measured by the weighted average of the individual growth rates of these industries, weights being proportional to the value added of the respective industry. Thus, like GDP growth rate, the levels and the rates of fixed investment rates of these industries can influence growth rates of the real sector. Real sector growth is important since it determines the growth of the rest of the economy particularly relates services like trade, transport, financial services and housing.

Economy wide GFCF : Economy wide GFCF (Gross fixed capital formation) is synonymous with GFCF in the five institutional sectors that comprise the domestic economy. The five institutional sectors are Non financial corporate sector, financial corporate sector, General Government, Household and NPISH (Non Profit Institutions serving households). Government can directly influence the GFCF of the General Government by generating saving by curtailing its current consumption, and by raising GFCF of government owned Non Financial and Financial Corporations and by providing appropriate incentives to the remaining institutional sectors. Raising GFCF will in turn affect GDP growth rate.

Domestic saving: Domestic saving is the sum of savings of the five institutional sectors. Government can raise saving by curtailing its current consumption and raise the savings of other sectors by providing appropriate saving incentives. The largest savers in the Bangladesh economy are the Household and the Financial Corporate sectors. Total domestic saving is expressed as % of GDP for policy and international comparison purposes.

Aggregate household saving is estimated via compiling household institutional sector account by deducting household final consumption from aggregate household disposable income. **The two components of household saving are substitutable, household investment declines when household financial saving increases. Therefore, there is need to treat them jointly.**

Determinants of private saving:

Private saving consists of household and corporate saving. For macro policy purposes it is essential to identify the proximate determinants of private saving which are influenced by both non-policy and policy variables. Recent researches by the World Bank shows that the key non-policy determinants of saving in developing countries include persistence, income, growth, demographics, and uncertainty. Economic policy determinants of saving include fiscal policies, pension reform, financial liberalization, external borrowing and foreign aid.

Poverty alleviation

Poverty measures: Poverty relates to (households') inability to meet the basic needs due to income deficiency and is a normative concept synonymous of a low level of living. The normative income level separating the poor from the nonpoor is defined by the poverty line. **For statistical measurement of poverty two types of poverty lines are defined: the food poverty line and the basic need poverty line.** Three measures of poverty, known as the FGT (Foster, Greer and Thorbecke) measures are used to provide quantitative measures of food poverty in the country. The three measures are: headcount ratio, poverty gap and the squared poverty gap and are derived from the following formula:

$$P_a = \frac{1}{n} \sum \left[\frac{Z - X_i}{Z} \right]^a$$

Where a = 0,1 or 2, i = 1 to q, the number of persons below the poverty line i.e. the number of the poor.

X= per capita monthly disposable income or its proxy monthly total expenditure

Z= poverty line per capita in monetary term, separate poverty lines are determined for the urban and rural areas; Poverty line is determined empirically and is based on per capita expenditure data collected through household expenditure surveys.

Z – X measures the difference between the poverty line and per capita expenditure and is zero for X> Z

By putting a = 0, the headcount ratio is derived. Similarly, by putting a=1 the poverty gap ratio and by putting a = 2 the squared poverty gap are obtained. Quantitative measures of Poverty are essential for poverty alleviation policies. The FGT measures are estimated annually or periodically in Bangladesh by the BBS using data from HES and other household income and consumption surveys.

For international comparison World Bank uses $1 (measured in PPP dollars) a day income as the international Poverty Line. Another variant of the

International Poverty Line is to use $2 a day as the poverty line. 29.1% of the population of Bangladesh is estimated currently to be below the $1 a day International poverty line. On the other hand 77.8% is estimated to be below $2 a day Poverty Line (WDR 2000/2001).

Growth is pro-poor, as the ADB Poverty Reduction Strategy (1999) points out, when it is labor absorbing and accompanied by policies and programs that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups.

It must be recognized that poverty is a multidimensional phenomenon. WDR (World Development Report) 2000/2001 suggests that **one route for investigating the causes of poverty is to examine dimensions of deprivations highlighted by the poor. The basic dimensions highlighted are:**

- Lack of income and assets to attain basic necessities – food, shelter, clothing and acceptable level of health and education
- Sense of voicelessness and powerlessness in the institutions of state and society
- Vulnerability to adverse shocks, linked to an inability to cope with them.

Income inequality: evidence shows that in absence of strong redistributive taxation the growth that has taken place in the economy has relatively benefited the richer section of the population more. The dualistic nature of the economy aided by the following factors, among others, have militated against substantial reduction of income inequality in Bangladesh:

- inequality in land and other tangible wealth ownership
- inequality in the distribution of access to education and health care facilities
- wider prevalence of unemployment and underemployment among the poor.
- shortage of and urban bias in investment resources and inappropriate technological choices

Gini coefficient and Lorenz curve provide aggregate measures of income inequality. Gini coefficient varies from 0 to 1; the lower is the value of Gini coefficient the lower is the inequality that it measures. **The policies that help shift the Lorenz curve progressively towards the line of equality tend to reduce income inequality. To achieve this objective growth and equity need to be made complementary.**

Labor force participation, employment and unemployment

Labor force: Labor force is defined as the number of people available for productive work (i.e. work related to GDP) and includes all resident employed and unemployed persons. Looking from employment status view point, all self-employed and wage employed persons are included in the labor force. Self-employed persons comprise employers, unpaid family workers and other self-employed. Housewives, young children, aged and infirm, pensioners do not belong to labor force. **Following Solow Model, growth of GDP depends on changes in employment, GFCF and technology.** Other thing being constant, growth of GDP will promote employment of the labor force.

Unemployment: is a situation, which exists when members of the labor force wish to work but cannot get a job (this concept relates to wage employment and is used in the sense of involuntary unemployment). Unemployment rate measures the extent of unemployment of the labor force at any particular time.

Underemployment: the concept of (open) unemployment relates primarily to wage employment. Since the majority of the labor force in Bangladesh is self-employed the concept of underemployment (or disguised unemployment) is more relevant for the self-employed in assessing the their employment outcome in term of the marginal product of their employment. **It is a normative concept and equates marginal product of the self-employed to the subsistence wage as the cut-off point separating the employed from the underemployed.** Various levels of disguised unemployment or underemployment can be stipulated depending on the marginal product of the self-employed ranging from zero to the subsistence level wage. Reduction of unemployment and underemployment by enhancing GDP growth rate is a key element in poverty reduction policy and a key objective of macro management in Bangladesh.

Production trend

Promoting agricultural and industrial production: A key policy of macro-management is to promote both agricultural and industrial production growths. This recognizes the interdependence of agriculture and industry. Agriculture sector provides food and exportable cash crops and products (like jute, tea and hides and skin, fish, vegetables etc.), outlet for industrial goods out of rising real income and makes a factor contribution to development through the release of resources if productivity rises faster than demand for commodities. Industry adds to the demand for food and other goods produced by agriculture and absorbs surplus labor, which help raise productivity in agriculture.

The long run objective is to ensure orderly transfer of resources-both labor and capital- from agriculture to industry. In view of surplus labor in agriculture rural labor tend to migrate naturally in response to better opportunities in industry and expectation of higher real income in urban areas. In most models rural-urban migration is a positive function of the expected urban- rural wage differential. This is measured by the difference between the urban wage, adjusted for the proportion of the total urban labor force employed (as a proxy for the probability of finding work) and the agricultural wage expressed in terms of manufactured goods.

Price and wage movements:

Measures of Inflation: Inflation is the rate of change in prices, and the price level is the cumulation of past inflation. If Pt-1 represents the price level last year and Pt represents the current price level, the inflation rate over the past year can be written as

$$\prod = (Pt - Pt\text{-}1)/Pt\text{-}1$$

where $\prod$ stands for inflation rate. Correspondingly, today's price level equals last year's price level adjusted for inflation: $Pt = Pt\text{-}1 + \prod * Pt\text{-}1$ or $Pt = Pt\text{-}1(1+\prod)$

Three indicators are generally used to measure inflation:
The GDP deflator, the Consumer Price Index and the Producer Price Index.

Calculation of real GDP (constant price GDP) gives a useful measure of inflation known as the GDP deflator. The GDP deflator is the ratio of nominal GDP in a given year to real GDP of that year. The deflator measures the change in prices that has occurred between the base year and the current year.

The Consumer price index (CPI) measures the cost of buying a fixed basket of goods and services representative of urban or rural consumers. CPI differs in three main ways from the GDP deflator. First, the deflator measures the prices of a much wider group of goods and services than CPI does. Second, the CPI measures the cost of a given basket of goods and services, which is the same from year to year. The basket of goods and services included in the GDP deflator, however, differs from year to year, depending on what is produced in the economy each year. By contrast, the CPI measures the cost of a fixed basket of goods and services that does not vary over time.

Third, the CPI directly includes prices of imports, whereas the deflator includes prices of goods and services produced in the country.

The producer price index (PPI) is the third index that is widely used. Like CPI. The PPI is a measure of the cost of a given basket of commodities. However, it differs from the CPI partly in its coverage, which includes for example raw materials and semifinished goods. It differs, too, in that it is designed to measure prices at an early stage of distribution system. Whereas the CPI measures prices at the retail level, the PPI is constructed from prices at the level of the first significant commercial transaction. This makes the PPI a relatively flexible price index and one that frequently signals changes in the general price level or the CPI, sometime before they actually materialize. For this reason, the PPI, and more particularly, some of its sub-indices, such as the **index of "sensitive materials"**, serve as one of the business cycle indicators that are clearly watched by policy makers.

Price stabilization (The Money – Inflation link): In macroeconomic management in a market determined environment price stabilization has come to be synonymous with control of inflation through manipulating money supply. Inflation is measured by the rate of change- point-to-point or annual average- of the nationally representative consumer price index (CPI) or other measures of inflation and is defined as the persistent increase in the price level (as measured by CPI) over a period of time. The theoretical basis of such an approach is the quantity theory of money supply. This stipulates that other things being constant, the rate of change in the overall price level is caused by the change in money supply. Symbolically, MV= PO, where M is a measure of the money supply, V is income velocity of circulation of money, P is a measure of the overall price level and O total output of goods and services in the economy or a measure of real income. V, the income velocity of money is the number of times the money stock turns over each year in financing payments made to purchase the economy's output. Keeping V and O constant, P is seen to be directly related to M. Here M relates to narrow money concept. In Bangladesh it is M2 (M1 plus time deposit) seems to have the best correlation with inflation, (as measured by the rate of change of national CPI). However, it needs to be stressed that it is hard to control inflation by manipulating narrow money only, since many forms of broad money can easily be converted into narrow money on the initiative of the holders.

A major objective of macroeconomic policy is to target the future inflation rate based on continuing accurate measure of the changing price level. Framework for targeting inflation involves public announcement of medium term numerical targets for inflation (usually through the Budget speech of the Finance Minister) with an institutional commitment by the government to achieve these targets. Additional key features include increased communication with the public and the markets about the plans and objectives of monetary policy and increased accountability of the central bank for obtaining its inflation objectives. **Monetary policy decisions are guided by the deviations of forecasts of future inflation from the announced inflation target, with inflation forecast acting (implicitly or explicitly) as the intermediate target of monetary policy.**

Managing interest rate(s): Interest rate management is a key element of the monetary policy pursued as part of macroeconomic management of the economy. **The objectives of noninflationary monetary policy in a developing country like Bangladesh are to:**

- **raise the level of saving and investment,**
- **expand money supply to meet the increased demand for money per unit of output and**
- **to facilitate the monetary needs of business.**

In determining both demand and supply of money interest rate plays a key role, which is reflected in the interest elasticities of demand and supply of money. **For mobilizing voluntary saving and rationing credit real interest rate needs to be high, while for credit expansion it needs to be relatively low. In a freer market regime, where a policy of non-intervention is pursued, it is usual to let supply and demand for money determine the interest rate structure**

Unification of interest rate structure by integrating capital market is another key objective of interest rate monitoring. Reducing the dominance of unorganized money market, where interest rates are very high, is part of capital market integration. Unorganized money markets largely embrace rural agriculture and urban small and informal activities, where interest rates are high compared to interest rates in organized markets.

Economy wide wage movement: The objective of monitoring movement of wage rate economy wide is to watch the relative movement of agricultural and non-agricultural wages and ensure that agricultural wage rate does not fall below subsistence wage. The expected urban (non-agricultural) rural wage differential is the key factor in triggering rural-urban migration. The level of rural (agricultural) wage rate is also an important factor in alleviation of rural poverty and retarding rural –urban migration. Targeted programs like rural works program in pockets of distress are part of policy instrument.

Money supply

Trends in money supply: money supply is the amount of money in an economy. There is a range of the definition of money from M1 to M5 depending on definition of liquidity. M1 is narrow money comprising money in circulation and demand deposit, M2 is M1 plus time deposit. **Trend of money supply or the long-term money growth of M2 is monitored primarily because inflation seems to be closely related to the growth of M2.** Together with the trend in money supply in nominal terms, the trend in money supply in real terms or the trend in real balance should also be monitored.

Trend in real balance or the money supply divided by CPI gives a measure of the changes in the amount of real goods and services, which could be obtained by spending it. Changes in the real balances are a function of changes in money supply and changes in price level. Real balances rise if money supply increases proportionately faster than the price level. **The amount of real balances people wish to hold is an increasing function of their real incomes and is likely to be a decreasing function of interest rate and the rate of inflation.**

The demand for money is a demand for real balances. It is the purchasing power, not the number of taka notes that matter to holders of money.

The money supply, M1, is made up of currency and checkable deposits. A broader measure, M2, also includes savings and time deposits at depository institutions as well as some other interest-bearing assets.

The chief characteristic of money is that it serves as a means of payment. **The three classic reasons to hold money** are for transactions purposes (M1) and for precautionary (M1 and M2) and speculative reasons (M2 and M3).

The decisions to hold money are based on a tradeoff between liquidity of money and the opportunity cost of holding it when other assets have a higher yield.

The inventory-theoretic approach shows that **an individual will hold a stock of real balance that varies inversely with the interest rate but increases with the level of real income and the cost of transactions.** According to the inventory approach, the income elasticity of money demand is less than unity, implying that there are economies of scale.

Uncertainty about payments and receipts in combination with transaction costs gives rise to a precautionary demand for money.

Precautionary money holdings are higher the greater the variability of net disbursements, the higher the cost of liquidity, and the lower the interest rate.

The empirical evidence provides support for a negative interest elasticity of money demand and a positive income elasticity. Because of lags, short-run elasticities are much smaller than long-run elasticities.

Trends in reserve currency: a currency which government and international institutions are willing to hold in their foreign exchange reserve and which finances a significant proportion of the country's international trade. The prerequisites for these two conditions are:

- the value of the currency must be stable in relation to other currencies
- the currency is that of a country which holds an important share of world trade
- there exists an efficient foreign exchange market in which the currency may be exchanged for other currencies
- and the currency is freely convertible

In the context of Bangladesh US dollar has continued its role as the lead reserve currency.

Trends in the bank credit: bank credit consists of loans and overdrafts to banks' customers. **Credit enables a producer to bridge the gap between production and sale of commodities.** Hence channeling bank credit to the priority sectors of production or trade is of crucial importance in macro economic management. Bank credits form part of the country's money supply and thus have considerable importance in inflation and monetary management. This is done through regular monitoring of the volume and the flow of bank credit by institutional sectors and industries. Governments resort to credit restrictions or credit squeeze to restrain the growth of total demand in times of rising prices. In a credit squeeze, restrictions on the availability of credit are normally accompanied by higher rates of interest.

Trends in micro credit: is of special significance in Bangladesh in rural poverty alleviation. The trends in credits disbursed by lead NGOs including the Grameen Bank needs to be part of macroeconomic management. Funds lent by the donors and GOB directly or through Bangladesh Bank to the lead NGOs and Grameen for this purpose should also be monitored.

Targets of monetary policy:

There are three points in monetary policy targeting. A key distinction is between ultimate targets of policy and intermediate targets. Ultimate targets are variables such as inflation rate and the unemployment rate (or real output) whose behavior matters. The interest rate or the rates of growth of money or credit are intermediate targets of policy. Open market operations, and reserve requirements are the instruments with which the targets can be achieved.

It matters how often the intermediate targets are reset. If the money target was reset more often, as velocity changed, the Central Bank could come closer to hitting the ultimate targets.

The need for targeting arises from a lack of knowledge. If the Central Bank (or the monetary policy maker) had the right ultimate goals and knew exactly how the economy worked, it could do whatever was needed to keep the economy as close to its ultimate targets as possible.

Targeting the monetary base: is an extreme target. The central bank can essentially control the monetary base exactly. If it were the intermediate target, the Central Bank could achieve its target easily. The problem with monetary-base targeting is that while the Central Bank could achieve the money-base target, it could completely miss the ultimate targets of policy. Unpredictable changes in the money multiplier and velocity can break the tight link between the money base and nominal GDP.

Inflation targeting Inflation targeting is the other end of the tradeoff. The Central Bank could reduce money growth whenever inflation appeared to be developing.

Targeting nominal GDP: under nominal GDP targeting, the Ministry of Finance and the Central Bank would announce a target path for nominal GDP. By targeting nominal GDP growth, the monetary authority builds in an automatic policy tradeoff between inflation and output. If inflation turns out high, the nominal income growth target implies that the Monetary Authority will be aiming for a lower level of output growth than it would have otherwise.

Targeting has an important role in monetary policy. Because the economy is always evolving unpredictably the Monetary Authority can not avoid using its judgment in deciding which targets to follow and which to change.

Trend in market capitalization: market capitalization is the market value of a company's issued share capital i.e. the quoted price of its shares multiplied by the number of shares outstanding. Market capitalization of stock exchange measures the value of the total number of shares traded in the exchange monitoring of which is required to judge the buoyancy and growth of the share market.

Changes in share market prices: changes in share market prices are monitored through share indices that indicate changes in the average prices of shares traded on the stock exchange. The indices are constructed by taking a selection of shares and weighting the percentage changes in prices together as an indicator of aggregate movements in share prices. Broadly speaking, a share index shows percentage changes in the market value of a portfolio compared with its value in the base year of the index.

The following two assumptions apply in a well-functioning share market and lead to random walk pattern of fluctuations of share prices.

- The price of a share is the net present value of expected dividends
- New information changes expectations of future dividends but only by surprise since if it is not a surprise, it is not new information.

Not all share markets are efficient in the sense that the market will follow a random walk. However, major markets are observed to follow random walks. The return to the share market is extraordinarily volatile compared to interest rates, but it is substantially higher on the average.

The share market is heavily influenced by long-term interest rates, as share prices fall when interest rates rise. **The link between share price and long-term interest rate is given by:**

P = d/r, where d is the dividend and r, the long-tern interest rate.

Long-term interest rates equal the average of current and expected future short-term interest rates plus a term premium

DFI and Portfolio Investment

Direct foreign investment: foreign investment relates to acquisition of assets abroad by resident institutional units of a country. When these assets are real the investment is termed DFI or direct foreign investment. When financial, these relate to acquisition of securities (portfolio investment i.e. providing initial capital for a new company or increasing that of an existing one) or bank deposits. DFI is preferred to portfolio investment from abroad because the former involves a technological input. For a country like Bangladesh where savings are insufficient relative to the potential demand for GFCF, **DFI or foreign capital can be fruitful means of stimulating investment and rapid growth. In addition DFI can be a means of easing strains on the Balance of Payment and a conduit for transfer of technology from abroad.**

DFI often involves setting up of subsidiary companies for domestic production of commodities, which previously were imported from the parent company. Inview of their importance and implication for the country's balance of payment through repatriation of profit and invested capital, DFI and foreign portfolio investment in Bangladesh are regularly monitored by the BOI and the Bangladesh Bank. The level of DFI flow compared to the country's needs is still small and is concentrated in few sectors like natural gas and export oriented industries located in the export processing zones.

A recent World Bank study (Foreign Direct Investment in Bangladesh: issues of Long –run Sustainability, Dhaka: October 1999) shows that foreign private capital flows into Bangladesh in recent years have taken three forms: foreign direct investment (DFI), portfolio investment, and foreign currency loans (supplier's credit or loan). WB projections show that DFI inflows is likely to average US$ 620 million annually during 1992-00, and about $900 million annually till 2010.

The Bank study recognizes the benefits of DFI for the recipient economy of Bangladesh to range from its contribution to physical capital formation, human capital development, transfer of technology and know-how (managerial skills), to expansion of markets and foreign trade. The Bangladesh economy, being at the preliminary stage of DFI flows, is only beginning to reap some of these gains.

The inflow of private capitals also gives rise to future repayment liabilities in the form of repatriation of profits, interest payments and amortization of private debts.

The main concern regarding the inflow of private capitals into the country's economy therefore, centers around the domestic economy's capability to sustain the foreign exchange payments that will be needed to cover profit repatriation, interest payments and amortization of private debts. Will the inflows generate sufficient production, exports and foreign exchange to provide the wherewithal for those payments?

The study finds that the immediate impact of DFI flows is to increase the current account deficit due to the high import intensity of inflows and as the stream of payments become due, the net draw-down of reserves. WB projections and study indicate that there is little prospect of reserve accumulation on account of DFI inflows over the entire 2000-10 period.

DFI will occupy a significant place in the economic landscape of Bangladesh. Recording comprehensive, internationally comparable, and up-to-date statistics on DFI and other private capital flows is a prerequisite for macroeconomic analysis and policy making. Private capital flows-both inflows and outflows- are problematic components of the balance of payments accounts compiled by the Bangladesh Bank. This is largely due to difficulties involved in accounting for transactions that do not require any government approval. Difficulties are further compounded by the fact that private firms are typically reluctant to volunteer information that is not required by existing regulations.

Portfolio investment by the ROW (rest of the world) involves cash flows, but the quantum has remained negligible. The bulk of the DFI and private debt appears to have financed imports of capital equipment and machinery. These transactions enter as debits in the current account of the BOP but the corresponding entries in the capital account are deficient, since the DFI and debt financed imports are not identified as distinct from other LC-based imports. Information on DFI inflows in export processing zones (EPZ) is available, however, outflows are difficult to record. BOI compiles information on the basis of registration of DFIs. But evidence suggests that nearly two-thirds of registered/proposed investment do not materialize. As such, BOI registrations are not a sound basis for assessing the quantum of DFI inflows. A move back to pre-approval requirements is a solution. An other way out in generating comprehensive information on private capital inflows and outflows is to develop by the Bangladesh Bank a non-intrusive system of retrieving private capital information on regular basis from commercial banks and all other parties involved.

For macromanagement purposes the following indicators of private capital inflows and outflows are required:

On the inflow side: Inflow of the annual and quarterly quantum of Portfolio investment from the ROW

Inflow of annual and quarterly quantum of DFI

Inflow of annual and quarterly quantum of private foreign currency loans (supplier's credit or loans)

On the outflow side: Repatriation of profits/income: annual quantum Interest payments distinguished by supplier's credit and long term loans: annual and quarterly volumes

Amortization of private loans distinguished by supplier's credit and long term loans: annual and quarterly volumes.

Government Financial Statistics

Trend in GOB tax collection: GOB taxes are compulsory payments or compulsory transfers to GOB by the other institutional units. The revenues collected through taxation are used by the GOB together with non-tax receipts and borrowings to finance its recurrent and development expenditures.

Taxation reallocates resources from private to government uses in two distinct steps:

- First, the ability of individual institutional units to command resources is reduced, because taxation reduces income for spending (disposable income) on market goods and services.
- Second, the revenues collected by government then are used to purchase those services used to produce the market goods and services that individual institutional units can no longer afford because of the effect of taxes on their income.

A single –step alternative to taxation is the use of government power to directly acquire resources. The most common example of this is the military draft.

GOB taxes can be broadly divided into two groups: tax on production and products (The so-called indirect taxes) and tax on income and wealth (direct taxes). The general effect of taxes on production is measured by the increase in (market price) value added or GDP. Taxes on products (tax on imports or somebody else's production) do not add value but are part of GDP measured in market prices.

A person's annual consumption is his annual income less the amount of that income saved that year. Wealth represents the value of a person's accumulated savings and investments at any point of time. The annual flow of income from the stock of accumulated wealth in a nation is the annual return to saving.

The tax rate structure describes the relationship between the tax collected over a given accounting period and the tax base. The average tax rate, ATR, is the total amount of taxes collected divided by the taxable base.
ATR = Total Taxes paid/ Value of the Tax Base

The marginal tax rate, MTR, is the additional tax collected on the additional value of the tax base as the tax base increases.
MTR = Additional Total Taxes Paid / Additional Value of the Tax Base
A tax with a proportional rate structure is sometimes called a flat rate tax. When a progressive tax rate structure is used, the average tax rate increases with the size of the base. The tax bracket gives the increment of annual income associated with each marginal tax rate.

Alternatives to taxation:

Debt finance: debt finance is the use of borrowed funds to fund government expenditures. Debt finance is used to postpone the burden of taxation. The golden rule of government borrowing is to finance capital expenditures made by government authorities.

Transfers or donations: are voluntary contributions to government from individuals or organizations both at home and abroad.

User charges: are prices determined through political rather than market interaction. These charges can finance government –supplied goods and services only when it is possible to exclude individuals from enjoying their benefits unless they pay a fee. User charges can help to finance such government-supplied services as highways, bridges and recreational facilities.

Earmarked taxes are special taxes designed to finance specific government –supplied services. These taxes are similar to user charges. For example use gasoline tax to finance roads and alternative public transport facilities.

Government induced inflation: is a sustained annual increase in prices caused by expansion of the money supply to pay for government supplied goods and services. Government can simply print money to pay for costs of government –provided goods and services or take other measures to expand the money supply. The net effect of such continual increases in the money supply is sustained increases in the general level of prices or inflation. Increases in the market prices of goods and services caused by the expansion of money supply force citizens to curtail their consumption and saving, which in turn finances the reallocation of resources to public use over the long run.

GOB uses taxes and non-tax resources to fund its expenditures. **Since in the ultimate analysis GDP is the broad tax base of GOB taxes, it is useful to express the annual tax receipts as percentage of GDP in order to reflect the overall tax effort of the government.**

Trend in GOB expenditure: Trend in the total GOB expenditure consisting of revenue or recurrent and development expenditure and expressed as percentage of annual GDP.

Fiscal or the budget deficit of GOB: the excess of GOB total expenditure over its income. This has to be met by borrowing-domestic and foreign-which increases government debt and the future debt servicing liability and preempts future revenue. For macroeconomic evaluation and policy the deficit is assessed by comparison with the GDP in market prices.

Outstanding GOB debt: To meet fiscal deficit GOB borrows from domestic sources and foreign bilateral and multilateral donors. For forecasting debt service liability the amount of outstanding GOB debts by sources and debt instruments are required and are part of debt management policy. The objective of debt management is to keep down the expected cost of debt servicing and ensure that funds are available when needed. Debt servicing includes payment of interests as they become due and amortization payments. When debts are long dated a large proportion of debt service consists of amortization or redemption payments. Where debts are short dated most debt service consists of amortization payments. The shorter dated debts worsen the debt servicing difficulties. ERD and the Bangladesh Bank are involved in keeping records of the GOB debts. For policy assessment annual debt service payments are usually expressed as the ratio of the country's export earnings.

External sector development:

Trends in the annual exports from Bangladesh: exports from Bangladesh widen the total market for the country's producers and consist of goods and services. Visible exports are goods sent to the rest of the world (ROW); invisible exports are services sold to the non-residents. The current policy emphasis is on export led growth by letting exports increase faster than other components of national expenditure. This involves diversification of domestic products, increasing exportable surplus, lowering product prices (measured in foreign exchange) and improving product quality. Export statistics are compiled by the BBS and Export promotion Bureau and are based on the computerized data of the customs department (that includes all sea, land and air custom points) Bangladesh Bank compiles data on export receipts. Valuation of exports is in f.o.b. terms.

Import movements: Imports of Bangladesh consist of goods and services produced by the ROW and bought by the country's resident institutional units. Imports are said to take place when ownership changes take place between the resident and non-resident institutional units. Like export, visible imports are goods physically brought into the country. Invisible imports include imports of services particularly transport and insurance services rendered by the non-residents in the import process. Along with the policy of export promotion, Bangladesh pursues import substitution strategy selectively particularly with respect to food and other consumer goods and agricultural inputs. Imports are valued in Bangladesh in c.i.f. terms. Import statistics compiled by BBS are based on computerized data of the customs department. Bangladesh Bank compiles data on import payments.

The export and import statistics compiled by the Bangladesh Bank often differ significantly from the data compiled from the custom based returns. The differences arise mainly due to differences in recording methods- in the timing of transactions, in definitions of residence and ownership and in the exchange rate used to value transactions. For compilation of the balance payment of the country custom based data need to be used.

Current account deficit: is the sum of net exports of goods and services, property income and current transfers i.e. the difference between total receipts and expenditures on current account. If receipts exceed spending, there is a current account surplus, and if spending exceeds receipts there is a current account deficit.

Terms of trade (Barter terms of trade): is the ratio of an index of country's export prices to an index of import prices. The barter terms of trade is said to improve if this ratio increases, so that each unit of exports pays for more imports and to deteriorate if the ratio falls, so that each unit of exports buys fewer imports. However, this could be misleading if the country's terms of trade improve because of increased foreign demand for exports or because domestic inflation exceeds that abroad. Thus movements in the terms of trade summarizes the separate movements in the country's export and import prices measured by the indices of export and import prices.

Foreign exchange reserve: the stock of gold and foreign currencies held by the country's central bank on behalf of the Government to finance any call that may be made from its creditors for the settlement of foreign debt. The payment needs depend on the size of the outstanding liabilities, which in turn relate to balance of payment surplus or deficit and on the willingness of the creditors to hold the debts. Pressure on the reserve, therefore, is a reflection of the underlying trading problems of the country, or expectation of a fall in exchange rate of the country's currency. Bangladesh Bank regularly publishes the movements in the country's foreign exchange reserve valued in US dollar.

External debt of the country: Country's external debt consists of long-term and short –term external debts. Long-term external debt is debt that has an original or extended maturity of more than one year and is owed to nonresidents and repayable in foreign currency, goods or services. Short- term external debt is defined as debt that has an original maturity of one year or less. External debts are classified (for example in World Debt Tables) in the following categories:

- **Public debt:** is an external obligation of a public debtor that includes the national government, its agencies and autonomous public bodies.

- **Publicly guaranteed debt:** is an external obligation of a private debtor that is guaranteed for repayment by a public entity.
- **Private nonguaranteed external debt:** is an external obligation of a private debtor that is not guaranteed by a public entity.

Total external debt of a country is defined as the sum of public long-term debt, private nonguaranteed long –term debt, short –term debt and the use of IMF credit.

Use of IMF credit denotes repurchase obligations to the IMF with respect to all uses of IMF resources.

Purchases are total drawings on the General Resources Account of the IMF during the year excluding drawings in the reserve tranche.

Repurchases are total repayments of outstanding drawings from the general Resources Account during the year excluding repayments due in the reserve tranche.

Debts aggregated by creditors: Two categories of creditors are distinguished: official and private.

For macro policy purposes the following data categories are useful:

- Debt outstanding, including undisbursed, is the sum of disbursed and undisbursed debt at year-end.
- DoD: Debt outstanding and disbursed is total outstanding debt at year end
- Commitments are the total of loans for which contracts were signed in the year specified
- Disbursements are drawings on loans commitments during the year
- Service payments are actual repayments of principal (amortization) and payments of interest made in foreign currencies, goods or services in the accounting year
- Projected service payments are estimates of payments due on existing debt outstanding, including undisbursed. They do not include service payments that may become due as a result of new loans contracted in subsequent years.
- Net flows or net lending are disbursements minus principal repayments.
- Net transfers are net flows minus interest payments (or disbursements minus total debt service payments)

Discussion: We have developed around 30 major macroeconomic indicators (some of which are supplemented by sub indicators). The sub-indicators total around 70 and are divided into 11 groups for their relevance to policy analysis. Some of the indicators are annual in nature, some like inflation and price changes, current account balance, exchange rate or foreign exchange reserve are very short term indicators. Their quarterly, monthly or even shorter-term movements (in periods of great volatility) are of general policy interest. In fact indicators based on annual data are more useful for structural adjustments or long term policies. Their use in short time monitoring is constrained by the usual long lead-time involved in gathering annual data. Indicators based on quarterly or monthly data on the other hand are useful for short time adjustment policies. Policy makers are usually careful about using too many indicators as they may create information overload, providing irrelevant information along with the relevant.

Obviously, of the more than 30 indicators included in our list some are policy instruments through which policies to achieve targets can be manipulated, while others are outcome indicators that are largely the results of policy implementation. Since it is useful to separate the key indicators into two such groups, outcome and instrument, we have also tried to separate the indicators into the two groups. The indicator table gives broad identification as to which group a particular indicator belongs.

The usefulness of the indicators included in the list can be judged by the following criteria:

- Policy relevance of the indicators i.e. whether the indicators provide the information required by the macro policy makers and are easy to interpret.
- Whether the indicators are based on sound principles that are widely acceptable
- Whether it is possible to establish links of the data base on which the indicators are based with other databases
- Whether the indicators are sensitive enough to monitor change in the macro environment
- Whether the indicators are measurable indicating that it is possible to collect the data in the time frame required to take policy decision in the most cost-effective manner.
- Whether the level of aggregation is appropriate i.e. the level at which the indicator can be aggregated to give meaningful results

In addition, some indicator can also be judged by additional criteria such as establishing a threshold or a normative value that can be given to compare performance or whether the indicator provides a basis for international comparison.

Judged by these criteria most of the indicators on our list would appear to be relevant although some of the indicators (being structural type that change rather slowly over time) may not be sensitive enough to monitor changes within the prescribed time frame.

It is apparent that the basic objective of macro economic management in Bangladesh is to accelerate GDP growth rate for which the key instruments are fixed investment on the demand side and money supply on the supply side. The other objective is stabilization of the economic fluctuations by keeping inflation under control and ensuring BOP stability. For the ROW sector stability, facilitating other resource inflow from the ROW and exchange rate adjustments for the promotion of exports are the basic instruments that are manipulated.

Usually fiscal policies try to accelerate growth of the economy via the fixed investment channel. Fiscal policy affects business fixed investments through corporate tax and tax credit policies. Government investments are induced through raising public sector saving by pruning or restraining expenditures and augmenting public saving through concessional foreign assistance. Monetary policy affects business fixed investments largely through interest rate (real interest rate, which is equal to nominal interest rate minus the expected inflation rate) and credit policies.

In terms of time dimension, Government typically pursues two types of macro policies: short and long term policies. Short term policies deal with shocks and disturbances and aim at stabilization of the economy. Long term policies aim at growth and structural changes of the economy and modernization of the society with poverty alleviation and human resource development as the long-term goals. The objective of growth predominates on the analogy that " rising tide lifts all boats".

Short-term stabilization of the economy is dealt with fiscal and monetary policies, which are in fact the basic tools of macro management. Long term policy is embodied in growth policies. However, it is important to recognize the interdependence of short-term stabilization and long term growth policies so that the two types of policy bundles can act in a mutually supportive and reinforcing fashion.

Short-term macro policy is constrained by various policy lags. In particular, recognition lag (lag between occurrence of the problem and in recognizing that action is required), decision lag (the delay between recognition of the need for action and the policy decision) and action lag (lag between the policy decision and its implementation) affect the speed of government policy formulation and implementation. In general, lags for monetary policy are short while fiscal policy actions are less rapid.

Fiscal policy and particularly changes in government spending act directly on aggregate demand and affect income more rapidly than monetary policy. However, the long outside lag makes fiscal policy less useful for stabilization. Fiscal policy therefore, tends to be used relatively infrequently to try to stabilize the economy and is unsuitable for discretionary fine-tuning of the economy. With monetary policy decisions can be made frequently. As a result monetary policy is ideally suitable for fine-tuning of the economy.

Apart from policy lags, there is great deal of uncertainty about the effects of macro policies on the economy. Uncertainty about policy effects arises because the policy makers do not know the precise values of the multipliers. Shocks and disturbances effect the equilibrium of the economy but not necessarily the marginal responses and not necessarily the multipliers.

In the short run the Government is always uncertain about how the economy will react to policy changes. Government uncertainty about effects of policy arises because government often does not know the true model of the economy and partly because it does not know what expectations firms and consumers have.

The best procedure under the circumstances is to employ a portfolio of policy instruments and use a weaker dose of both monetary and fiscal policies and react to a small disturbance in a small way. The reason for practicing diversification in this way is that there is at least a chance that errors in estimating one multiplier will be offset by the errors in estimating the other. Errors in setting policy are likely to cancel one another. Hysteresis or delayed and persistence of policy effect needs also to be taken into consideration. As a result of hysteresis effect "no policy" is often better than a "bad or hasty policy". **To be effective, the macro policies need to be proactive and "activist". Policies that respond pragmatically to the current or the predicted state of the economy seem to achieve most.**

Inflation is a major source of uncertainty in the economy and a perennial target of macro management is how to subdue inflation or the sustained (high) rise in prices. Inflation is a monetary phenomenon in the long run. No major inflation can take place without rapid money growth and rapid money growth will cause rapid inflation. **"The inflation rate serves as an indicator of the overall ability of the government to manage the economy".** A frequent argument is that money growth is the result of government budget deficits. In fact an unwise fiscal expansion can be made more potent by fueling it with a monetary expansion.

An effective institutional check to the inflationary bias in government discretionary policy solution is to set up a central bank that is autonomous and independent of the electoral cycle and that has a clear mandate to fight inflation (e.g.by preventing the government to gain access to the country's money supply). There is strong empirical evidence that show that the more independent the central bank, the lower the inflation rate in the country. Germany is a case in point. European Central Bank is based on this principle. However, "stability culture" and acceptance of the goal of price stability by the country's population are also critical factors in ensuring sustained price stability.

There is need for institutional arrangement for regular compilation and timely dissemination of the macro economic indicators in support of macroeconomic policy formulation, implementation and monitoring in the government.

One of the objectives of macro economic management is to strengthen institutional capability to undertake macroeconomic policy analysis and implementation. Macroeconomic management is basically a multidisciplinary and multiorganisational activity undertaken on a regular basis and coordinated by a key stakeholder, usually the Ministry of Finance, as in Bangladesh.

In Bangladesh the three key stakeholders, the Ministry of Finance, Bangladesh Bank and the Planning Commission are involved in macro economic policy making. Of them Ministry of Finance and the Bangladesh Bank are also directly involved in policy implementation. Setting up an effective coordinating mechanism among the key stakeholders and its regular operation is essential for the government macro economic policy making to succeed. Well-trained staff, their continuity ensuring sustainability of expertise and timely availability of economy wide reliable and comprehensive data are essential ingredients of effective macro management in the country. A basic rule of macro management is "use as many policy instruments as there are policy objectives", which can only be pursued if comprehensive data are available.

Time series data, yearly, quarterly and monthly, are most useful for constructing macro indicators. Data that we have used for constructing the indicators have come mainly from the BBS sources and fiscal data from the Ministry of Finance and monetary data from Bangladesh Bank have supplemented them. Data quality is very important for effective policy formulation and implementation. Poor data and inconsistent indicators postpone the time when a trend becomes clear there by prolong the policy lags. Although the quality of BBS data appears to be improving many of the BBS generated economic data still lack timeliness and suffer from coverage errors. The monetary data are available only from the Bangladesh Bank sources and are generally of high quality. Source of fiscal data is the Ministry of Finance and the National Board of revenue. However, availability of fiscal data in usable form (e.g. in aggregated time series forms) is a big problem.

Interrelationship among the indicators has to be taken into account in monitoring and is a problem that can give rise to inconsistency in projection based on several indicators. In fact using two indicators jointly, for example one as the ratio of the other such as tax-GDP ratio or short-term foreign private debt as ratio of foreign exchange reserve is more revealing for policy assessment instead of using an indicator singly. The latter ratio is a robust predictor of financial crisis. This is also one of the reasons of using a macro model rather than using the disparate indicators singly and jointly. A multi-equation model can describe the dynamic behavior of the economy in a more complete way. The model however, needs to be operationalized and made transparent to provide outputs meaningful for the macro policy makers who can use them in policy analysis. The effects of policy changes are also studied through econometric and simulation models. Multi-equation simulation models are particularly suitable for analyzing the policy outcomes and for forecasting purposes.

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Cost-benefit Analysis For Development Project Appraisal

Ahmed Ataul Hakeem*

Like many other developing countries, Bangladesh have accepted national economic planning as a means of accelerating the pace of socio-economic development which is carried out by the Planning Commission. The Minister of Planning is in charge of the Planning Commission which is the central Planning institution of the Government.

One of the major responsibilities of the Planning Commission is to examine and appraise all development projects prepared by the Administrative Ministries and Executing agencies and recommend them for approval to the DPEC (Departmental Project Evaluation Committee), SPEC (Special Project Evaluation Committee) & ECNEC (Executive Committee of the National Economic Council) depending on the size of a project. At present all development projects costing more than Taka 10 core have to be approved by the ECNEC.[1]

In practice, no uniform system of project appraisal has been carried out so far resulting inconsistency in approval of projects which has made the whole mechanism vulnerable to biased subjective judgement. In a country of over 130 million people it is not at all worth scrutinizing centrally all projects irrespective of cost involvement which has actually caused perennial problem of excessive pressure on the central planning office resulting hasty and improper decision.

In the backdrop of such scenario, a brief paper with recommendations on the system of cost-benefit analysis in project appraisal has been presented here.

Projects are the building blocks of an investment plan. By a project, we mean, any scheme, or part of a scheme for investing resources which can reasonably be analysed and evaluated as an independent unit. In considering the desirability of projects in a developing country it is frequently necessary to look at them from the point of view of the basic needs of the country, or the desire to save foreign exchange or to provide employment or to use

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available raw materials, rather than simple financial criteria applied in most of the industrialised countries.

For a private commercial entrepreneur, project choice is a rather simple exercise. If he knows his objectives, all he has to do is to ascertain which projects satisfy his objectives best. For a planner the picture is somewhat more complex. In choosing projects he has to ascertain which ones best satisfy the interests and objectives of the nation. This is complex, not merely because the national interests are not easy to define, but also because the reading of these interests by different planners may well be different. If diferent planners pursue different national objectives, the result may be unsatisfactory and conceivably disastrous.

The main reason for doing social benefit cost analysis in project choice is to subject choice to a consistent set of general objectives of national policy. The choice of one project rather than other must be viewed in their total national impacts (on employment, output, consumption, savings, foreign exchange earnings, income distribution and other things of relevance to national objectives) and this total impact has to be evaluated in terms of a consistent and appropriate set of objectives. UNIDO (United Nations Industrial Developments Organisation) provides certain guidelines in 5 stages known as the UNIDO approach to project appraisal.[2]

Project appraisal has a number of dimensions. First of all, it affects the sponsor of the project. Secondly, it affects the national economy in that it uses scarce resources and adds something to the national product. Thirdly, it affects the society at large by changing the patterns of savings, consumption and investment.

A project sponsor analyses a project at the micro-level from the actual costs incurred and benefits received. Here the focus of the whole analysis of costs and benefits will be the maximisation of project's profits. Obviously, the project sponsor will include only those costs and benefits internal to him. He does include such costs as are not borne by him and such benefits as are not actually enjoyed by him. Only direct costs and benefits are relevant. Since he buys his inputs from the market and sells his output in the market. the appropriate measures of costs and benefits are the market prices. This is Financial analysis which involves calculation of financial profitability at market prices (UNIDO Stage-I).

In real world, the effect of a project goes far beyond the span of above analysis and will have tangible or intangible effects on the overall economy. Indirect costs, though not borne by the entrepreneur, fall on some individual or group of individuals, which, in the absence of the project, would not have been there; again, indirect benefits though not enjoyed by the entrepreneur, accrue to some individual or group of indivduals which in the absence of the project, would not have been there. Such indirect costs and benefits incidental to a project are real costs and benefits to the economy. When projects are undertaken by the state, consideration of both direct and indirect costs and benefits have to be taken.

Further, market prices may not reflect the true scarcity values of goods and services due to market imperfections. This is particularly true of the developing countries like Bangladesh economy which generally suffer from structural disequilibrium. Projects appraised from overall point of view of the economy can not ignore such distortions. In this type of appraisal market prices will have to be adjusted to make them reflect their true scarcity values. This is done by the application of "Shadow prices" or as these are sometimes called "accounting prices". Adjustment of market prices by shadow prices is done with the objective of making prices of inputs and outputs reflect their true economic worth to the society. This type of appraisal is the economic appraisal (UNIDO stage-II).

Even though the basic frame-work is one of " present value" in both financial and economic appraisal, there exists divergence between commercial profits and social gains in any year and that between market rate of interest and the appropriate social rate of discount.

Costs and benefits are project-specific i.e. the nature of costs and benefits and their impact on the economy differ from project to project. It is therefore, not possible to lay down any general principle regarding the types of costs and benefits which need to be included in economic appraisal of projects. The appraiser of a project will have to use his knowledge, experience and judgement in identifying costs and benefits for individual projects. Although, there is general agreement about the necessity of using shadow prices in economic appraisal, opinions, however, differ regarding the theoretical approach to their calculation. Under the OECD method goods and services are valued at their international prices. Domestic market prices are adjusted by the use of conversion factors derived from the relationship of domestic prices with international prices. It should be noted that under this methodology, commodities are classified as traded and non-traded goods. For traded goods. c.i.f. prices for importables (with proper adjustment to reflect the effect of additional import demand on world prices) and f.o.b. price for exportable (with the same type of adjustments) are used after making appropriate adjustments for domestic transportation and distribution costs. Non-traded goods are decomposed to identify the traded and non-traded components and same procedure is applied for the traded components.[3]

Market distortions are also caused by the fiscal measures of the government which interfere with the normal operation of market forces. Government impose taxes and grants subsidies to goods and services. These are transfer payments and need to be adjusted in the calculation of appropriate economic prices of goods and services. Taxes should be subtracted from and subsidies added to the market prices to derive the economic worth of goods and services.

A project may have influences that work outside the market rather than through it. Such influences are called "externalities" which do not enter financial analysis. Externalities are relevant for social choice and provide a sufficient argument for rejecting commercial profitability as a guide to public policy. Externalities can arise in the process of production (e.g. industries causing water pollution) in the process of consumption (e.g. additional cars crowding the roads), as also in the process of sales and distribution (e.g. advertising affecting the tranquillity of the community). Externalities are often most pervasive. Given our present state of knowledge it appears to be practically impossible to quantify many externalities. As such, we must take into account the qualitative descriptions of these effects. In certain situations such qualitative judgements about externalities may well prove decisive in the choice of a project.

Another ingredient of present - value estimates is the social rate of discount. Given any series of profits the size of the present value depends on the rates of discount. The social rates of discount may differ from commercial rates of interest for many reasons. An individual may expect to live only a certain number of years and the discounting of future that springs from this limitation may not be appropriate for social choice, since planners wish to take longer view and give greater importance to the welfare levels of future generations.

It may be mentioned here that the UNIDO method uses domestic currency as the numeraire so where inputs/outputs are valued at border prices they will be expressed in a foreign currency. We must convert these to domestic currency using a Shadow Exchange Rate (SER). Official exchange rates are adjusted by a premium (+ or -) to arrive at the SER. Like many other developing countries the currency in Bangladesh is over-valued so (+) premium to be used. The Foreign exchange premium is a uniform rate which should be centrally calculated by the statistical office. It provides a guide to the level of protection within the economy.

It should be noted in this connection that only items valued at border prices need to be adjusted for the foreign exchange premium. Items valued at cost of production or consumer willingness to pay are assumed to implicitly include the premium. The premium will be the excess of the Shadow Exchange Rate (SER) over the Official Exchange Rate (OER).[4]

$SER = \sum fi\ Pi^{D}/Pi^{\ B(c.i.f)(imports)} + \sum Xi\ Pi^{D}/\ Pi^{\ B(f.o.b)(exports)}$

Where, f=fraction of imports of an item to total imports, P^{D} = domestic price X= fraction of exports, P^{B} =border price

Having done the financial and economic appraisal we are faced with the problems of distribution between generations (intertemporal distribution) which focuses on a project's impact on savings and investment (UNIDO Stage-III) and distribution between contemporaries (intratemporal distribution) which focuses on project's impact on income distribution (UNIDO Stage-IV).

Before dealing with the adjustments at Stage III & IV we must identify the groups in society which gain or lose as a result of the project. Since gains and losses must balance, each group gaining some other group loses.

Labour intensive projects tend to help low income groups who can save little whilst capital intensive projects benefit capitalists who have a greater propensity to save because they already have high income.

We have to use the marginal propensities to save for each group to estimate their impact on savings in the economy.

In countries like Bangladesh where savings and investment are sub-optimal, the indirect effects of a project constitute its impact on savings and investment. To the extent that a project influences current investment rates than consumption it will provide not direct consumption benefits but indirect future consumption benefits. It is essential to evaluate the overall effect of a project on the mix of consumption and investment in the country for every year in which the project is in operation. It is, moreover, necessary to estimate the ultimate aggregate consumption benefits due to a unit of current investment so as to make these comparable with the benefits due to a unit of current consumption. To do this we require a measure of the value of a unit of current investment relative to the value of a unit of current consumption. This measure is known as the "Shadow price" of investment, a national parameter given by the central planners.

One practical approach to evaluate the re-distribution benefit of a project is to measure the amount of consumption that is generated in the poorest region or is enjoyed by the poorest class. In combining this objective with other objective e.g. with the aggregate consumption objective, a precise weight would have to be chosen for attaching an additional value to the consumption of the poor. The choice of these weight, of course, ideally a preliminary to policy decisions.

Moreover, redistribution usually to poor income groups and to specific regions is quite a high priority in Bangladesh due to prevailing inequality in income distribution and disparity among various regions of the country. The Government of Bangladesh is highly concerned about the regional disparities in the level of development.

Income distribution obtaining in Bangladesh is considered socially undesirable. Due to political and administrative constraints, it might not be possible to use fiscal or other policy instruments to achieve the desired income distribution directly, it may be possible to attain this objective by building income distribution considerations in the project design or selection process. This may be achieved by identifying the various beneficiaries and putting different "weights" on benefits accruing to different beneficiaries in deriving the measure of total "social profitability". The different groups which gain or lose as a result of the project can be identified in the workings for UNIDO Stage-III. For considering regional redistribution further analysis should be done for identifying affected or benefited groups on a regional basis.

At this stage we have to calculate distribution adjustment factors to reflect the premium or penalty to attach to each group - negative for high income groups and positive to low groups. For this, there might be a trade - off between growth and income distribution objectives. The government need to balance one against the other. The process relies heavily on political judgement. It may be possible to arrive at the "Weights" by observing the political process assuming it is consistent.

In practice, the derivation of income distribution weights for a particular group involves estimation of a number of national parameter which are called "social parameters" because they relate to both income distribution and growth objectives, as distinguished from efficiency parameters which relate to only growth objective.

The first step at this stage is to determine the Base level of consumption defined as the level of per capita consumption at which additional income going to an individual is as valuable as income going to the government. In Bangladesh this level may be fixed at \$ 100 and at this level we attach a weight of 1.0 Groups with income twice this level a ratio of consumption to base of 2 and so on.

From the following formula we can calculate the income-distribution weights based on the elasticity of the marginal utility of income using as the power:[5]

$Wi=(b/ci)^n$; where Wi = income-distribution weight of i-th group

b = base level of income

ci = income level of i-th group

n = the 'power' to reflect the elasticity of marginal utilty which to be adjusted to reflect political thinking.

The AFd for each group is Wi-1

We have to apply AFd to increase gains or reduce losses of the groups with income below base level and vice-versa. Finally the impacts of this exercise have to be adjusted on the N.P.V derived at stage III.

Since regional distribution is a political issue, the weights to be applied to distribution impacts by regions should be left to political judgement.

Generally it should be quite adequate for making decision on a project after going through four stages of project appraisal suggested by UNIDO but Bangladesh, being a very poor country with acute scarcity of resources, should also evaluate the social desirability of the project which depends very much on social values of a country. Where social value exceed its efficiency value it is a 'merit' good and if below it is a 'demerit' good. What is socially valuable may in fact be politically valuable or of strategic importance to the nation. In Bangladesh basic necessities, earning foreign exchange, creation of employment per se may be regarded as highly 'socially' valuable.

To implement social desirability aspect of project appraisal (UNIDO Stage-V) we have to assess the social value of the good which involves least objective analysis of all the stages of the UNIDO guidelines. We have to calculate an adjustment factor (AF) by applying the following formula:

AF = (Social value/Economic value) -1

The efficiency price is multiplied by the AF and the resulting adjustment is made to the NPV of stage-IV.

Identifying the social value of a good may prove difficult. Where a good is imported the size of import duty may be a useful guide. Generally merit goods are not subject to duty or very little duty but demerit goods have high or sometimes penal rate of duty.

However analysts should be careful at this stage, because it is possible to get 'Carried away' with such analysis.

To sum up, the present value of a project is calculated on the basis of all direct and indirect costs and benefits accruing to the society during the life time of the project, properly discounted by the social rate of discount. If the present value is positive, the project is profitable. From amongst competing projects, the one with the highest present value should obviously be selected.

Thus the Five stages of the UNIDO Guidelines, combined with the technical and managerial analysis that must be part of the financial analysis, complete the project appraisal. Such appraisal should determine whether project is acceptable and, if it is, whether it is the best alternative; the purpose is not to quantify with great accuracy the myriad of direct and indirect effects it may have on the economy. Only those that may significantly affect the final conclusion should be considered. Those who evaluate projects by cost-benefit criteria should evaluate their own work by the same criteria. Theoretical niceties of economic project appraisal sometimes carried to the point where it produces only superfluous information instead of better pragmatic investment decisions. Moreover it requires highly trained financial analysts which involves huge expenses especially when foreign experts are needed because of lack of local expertise. Rough shadow prices applied at very outset of a project design are far more important than perfect shadow prices applied just before the project is presented for final approval. Perfect in shadow prices is obviously pointless if they are to be applied in the very early stages of project design, when even the basic information on physical inputs and outputs is very rough.

Having discussed about the various aspects of project appraisal, now I would like to suggest some reforms on the administrative procedure for streamlining project approval system.

The development project can be divided into three categories for the purpose of processing, appraisal and approval :

I. 'A' category schemes - Projects costing up to Tk. 5 Crore.
II. 'B' .... Tk. 25 Crore
III. 'C' .... more than Tk. 25 Crore.

In every development Ministry a Planning cell should be set up headed by the Secretary of the Ministry and composed of economists, statisticians and other technical officers. All concerned with the appraisal exercise should be properly trained in the field for undertaking such an important task.

The approval task of 'A' category schemes should be vested with the sponsoring Ministry for the sake of decentralization, prompt action and reduction of heavy pressure on the central planning office (Planning Commission), while 'B' category schemes should come up to the Planning Commission for necessary scrutiny and approval. Only 'C' category schemes should be forwarded to the Executive Committee of the National Economic Council (ECNEC) - the highest body, for approval.

Project planning, evaluation and appraisal is, in the final analysis, an art. It is not an exercise in isolation, but is interrelated with planning at both the sectoral and national level. However, after studying all the relevant factors, the point remains that the choice has to be made. Despite all the information collected and processed the final decision will always entail uncertainty and risk at shorter or longer odds. The past may certainly throw light on the future but this light will never be bright enough. It may be improved by the sophisticated and pragmatic approaches and techniques of project appraisal and evaluation, but those taking the decision cannot delegate their responsibility when the time comes for the choice to be made. The role of analysis is primarily to make the decision makers aware of the consequences of different possible decisions and enable them to take only those risks judged acceptable to the enterprise.

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Public Policy Making in Bangladesh : An Overview

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Policy : Conceptual framework

In a modern democracy government is involved in so many variety of activities that it is difficult if not impossible, to make an inventory of those activities. Policy as framework of governmental intervention covers such a variety of activities that encourages a scholar to note that "Public policy is whatever governments choose to do or not to do" (Dye, 1987). Governments do many things. They regulate conflict within society; they organize society to carry on conflict with other societies; they distribute a variety of symbolic rewards and services to members of the society; and they extract money from society, most often in the form of taxes. Policies thus may regulate behavior, organize bureaucracies, distribute benefits, or extract taxes-or all these things at once.

From a sectoral perspective, public policies may deal with a wide variety of substantive areas like: defense, energy, environment, foreign affairs, education, welfare, police, highways, taxation, housing, social security, health, economic opportunity, urban development, inflation and recession, and so on.

The word *policy* is often used in ordinary conversation. Policy in its simplest sense refers to " a futuristic statement of intentions and specific actions". However, there are different uses and dimensions of understanding of the word "policy".

1. Policy as a label for a *field of Activity* initiated by the Government or a legitimate authority.
2. Policy as expression of a *General Purpose or desired state of affairs.*
3. Policy as *specific proposals.* It refers to some specific action packages.
4. Policy as *Decision of the Government.* It refers to specific decision of the government on certain issues.

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5. Policy as *Formal Authorization.* It refers to a particular set of activities, which has got formal authorization, parliamentary approval or statutory endorsement.

6. Policy as a *Programme.* It refers to a specific sphere of government activity involving a particular packages of legislation, organization efforts, and concerted programmes.

7. Policy as *Model of intervention.* Policies are considered to be theoretical intervention to achieve specific results.

Public policy is not a new concern of political science and or public administration. The classical writings of political philosophers reveal an interest in the policies pursued by governments, the forces shaping these policies, and the impact of these policies on society. However a closer look indicates that the major focus of attention of political science has never been primarily on policies, but focused on the institutional aspects of government and on the political behaviors and processes associated with policy making. Traditional political science emphasized more on the describing and analyzing the institutions in which public policy was formulated but the linkages between important institutional arrangements and the content of public policy largely remained unexplored.

Modern *behavioural* political science has however focused its attention on the processes and behaviours associated with government. This involved the study of the sociological and psychological bases of individual and group behavior; the functioning of interest groups and political parties; and the description of various processes and behavior in the legislative. Although this approach described the *processes* by which public policy was determined, it did not deal directly with the linkages between various process and behaviours and the content of public policy.

From the late 1960s and onward political science has shifted its focus to public policy and emphasized its concern to the description and explanation of the causes and consequences of government activity. The new approach involved a description of the content of public policy; an analysis of the impact of social, economic, and political forces on the content of public policy; an inquiry of the effect of various institutional arrangements and political processes on public policy; and an evaluation of the consequences of public policies on society, in terms of both expected and unexpected consequences.

Before we further conceptualize public policy, it would be helpful to consider some of the implications of the concept of public policy. *First,* the definition links policy to purposive or goal-oriented action rather than to random behavior or chance occurrences. Public policies in modern political systems do not, by and large, just happen rather these are intended and designed to accomplish specified goals or produce definite results. The goals of a policy may be somewhat loosely stated and cloudy in content, thus providing general direction rather than precise targets for its implementation.

Second, policies consist of courses or patterns of action taken over time by governmental officials rather than their separate, discrete decisions. It is difficult to think of such actions as a cabinet decision to withdraw fertilizer subsidy or a decision to introduce an award for the outstanding farmer as public policies. A policy includes not only the decision to adopt a law or make a rule on some topic but also the subsequent decisions that are intended to enforce or implement the law or rule. Health policy, for example, is shaped not only by certain acts but also by a stream of administrative rules and decisions interpreting, elaborating, and applying the act to particular situations.

Third, public policies emerge in response to *policy demands,* or those claims for action or inaction on some public issue made by other actors--private citizens, group representatives, or other public officials--upon government officials and agencies. Such demands may range from general insistence that government "do something" about traffic congestion to a specific call to ensure public safety in highways. In short, some demands simply call for action; others also specify the action desired. In response to policy demands, public officials make decisions that give content and direction to public policy. These decisions may enact statutes, issue executive orders, promulgate administrative rules, or make judicial interpretations of laws.

Fourth, public policy involves what governments actually do, not just what they intend to do or what they say they are going to do. If a legislature enacts a law requiring employers to pay no less than a stated minimum wage but nothing is done to enforce the law, and subsequently little change occurs in economic behavior, it seems reasonable to contend that public policy actually specifies non-regulation of wages. *Policy statements* in turn are formal expressions or articulations of public policy. Among these are legislative statutes, executive orders and decrees, administrative rules and regulations, and court opinions, as well as statements and speeches by public officials indicating the government's intentions and goals and what will be done to realize them. Policy statements are sometimes notably ambiguous.

Fifth, public policy may be either positive or negative. Some form of overt governmental action may deal with a problem on which action is demanded (positive), or governmental officials may decide to do nothing on some matter on which government involvement was sought (negative). In other words, governments can follow a policy of laissez-faire, or hands off, either generally or on some aspects of economic activity. Inaction becomes a public policy when officials decline to act on a problem--that is, when they decide an issue negatively. This choice differs from non-action on a matter that has not become a public issue and has not been brought to official attention.

Finally, public policy is based on law and is authoritative. Members of a society usually accept as legitimate the facts that taxes must be paid, import controls must be obeyed, and traffic rules must be complied with, unless one wants to run the risk of fines, jail sentences, or other legally imposed sanctions or disabilities. Thus public policy has an authoritative, legally coercive quality that the policies of private organizations do not have. Indeed, a major characteristic distinguishing government from private organizations is the monopoly over the legitimate use of coercion. Governments can legally incarcerate people; private organizations cannot.

Areas of Public Policy: Public policies cover a wide and serious range of issues. Most of these issues can, however, be subsumed under one of the following broad groups:

National defense,	Health
International affairs	Income Generating/ Poverty Alleviation
Science and Technology	Law enforcement
Natural resources, environment	Government Reorganization
Energy	Economic Control
Agriculture	Human rights/ Civil Rights
Commerce	Labour
Transportation & communication	Taxation
Community and regional development	Revenue & resource generation
Education, training, Human Resource	Social Welfare

The above list is neither complete or comprehensive. What this list fails to show, however, is how changeable policy issues can be. Given this changeability, a broader system of classification can be developed. Public policies can also be classified according to their impact on society, into one of three arenas : distributive, regulatory, redistributive.

Distributive policies are government actions that convey tangible benefits to individuals, groups and business interest. Distributive policies are synonymous with governmental subsidies or patronage. Included here are most contemporary public land and resource policies, rivers and harbors, developmental , business, and agricultural "clientele" services; and the traditional tariff.

Regulatory policies are also specific and individualized in their impact though not quite to the extent that distributive policies are. Although the laws are stated in general terms .

Redistributive policies, the third type, involve a conscious attempt by the government to manipulate the allocation of wealth, property rights or some other value among broad categories of private, individual in society.

The scheme of distributive, regulatory, and redistributive policies is an useful aid to any inquiry of policies. In particular, it can increase the understanding of the politics associated with policy making.

Theories and Approaches to Public Policy: The theoretical approaches to policy studies include: political systems theory, group theory, elite theory, institutionalism, and rational choice theory. In fact all these approaches have been devised or developed to understand the political processes and dynamics and thus also used as interpreting tools for public policy analysis (Jones, 1970).

Political Systems Theory: Public policy may be viewed as a political system's response to demands arising from its environment. The political system in effect comprises those identifiable and interrelated institutions and activities (what we usually think of as governmental institutions and political processes) in a society which make authoritative allocations of values (decisions) that are binding on society. Input into the political system from the environment consists or demands and supports. Demands are the, claims for action that individuals and groups make to satisfy their interests and values. Support is rendered when groups and individuals abide by election results, pay taxes, obey laws, and otherwise accept the decisions and actions undertaken by the political system in response to demands. Outputs of the political system include laws, rules, judicial decisions, and the like. Public policies are the feedback or outputs made at a given time and the demands arising from the environment. Policy outputs may produce new demands, which lead to further outputs, and so on in a never-ending flow of public policy. Political systems theory depicts government as simply responding to demands made upon it, and its results are sometimes characterized as "input-output studies." ((James, 1984)

Group Theory: According to the group theory of politics, public policy is the product of the group struggle. From group theory public policy is viewed as the product of reaching an equilibrium in a process of group struggle at any given moment, and policy thus represents a balance which the contending factions or groups constantly strive to weight in their favour. Group theory rests on the contention that interaction and struggle among groups are the central facts of political life. A group is a collection of individuals that may, on the basis of shared attitudes or interests, make claims upon other groups in society. It becomes a political interest group when it makes a claim through or upon any of the institutions of government. The main concept in group theory is access. To have influence and to be able to help shape governmental decisions, a group must have access, or the opportunity to express its viewpoints to decision-makers. Obviously, if a group is unable to communicate with decision-makers, if no one in government will listen to it, the chances that it will be able to affect policy making are slim. In the nature of things, some groups will have more access than others. Public policy at any given time will reflect the interests of those who are dominant. As groups gain and lose power and influence, public policy will be altered in favor of the interests of those gaining influence against the interests of those losing it.

Group theory focuses on one of the major dynamic elements in policy formation, especially in pluralist societies, but it seems both to overstate the importance of groups and to understate the independent and creative role that public officials play in the policy process. Indeed, many groups have been generated by public policies.

Shortcoming of *group theory* is that many people (e.g., the poor and disadvantaged) and interests (such diffuse interests as natural beauty and social justice) are either not represented or only poorly represented in the group struggle. From a methodological perspective, it is misleading and inefficient to try to explain politics and policy making solely in terms of the group struggle. This bias leads to neglect of many other factors, such as ideas and institutions, which abound and which independently affect development of policy.

Elite Theory: Approached from the perspective of elite theory, public policy can be regarded as reflecting the values and preferences of a governing elite. The essential argument of elite theory is that public policy is not determined by the demands and actions of the people or the "masses" but rather by a ruling elite whose preferences are carried into effect by public officials and agencies. Dye provides (1990) a summary of elite theory:

1. Society is divided into the few who have power and the many who do not. Only a small number of persons allocate values for society; the masses do not decide public policy.

2. The few who govern are not typical of the masses who are governed. Elites are drawn disproportionately from the upper socioeconomic strata of society.

3. The movement of non-elites to elite positions must be slow and continuous to maintain stability and avoid revolution. Only non-elites who have accepted the basic elite consensus can be admitted to governing circles.

4. Elites share a consensus on the basic values of the social system and the preservation of the system.

5. Public policy does not reflect demands of the masses but rather the prevailing values of the elite. Changes in public policy will be incremental rather than revolutionary.

6. Active elites are subject to relatively little direct influence from apathetic masses. Elites influence masses more than masses influence elites.

Elite theory is a provocative theory of policy formation. Policy is the product of elites, reflecting their values and serving their ends, one of which may be a desire to provide in some way for the welfare of the masses.

Institutionalism: Institutional structures, arrangements, and procedures often have important consequences for the adoption and content of public policies. They provide part of the context for policy making, which must be considered along with the more dynamic aspects of politics, such as political parties, groups, and public opinion, in policy study. By itself, however, institutional theory can provide only partial explanations of policy.

Rational-Choice Theory: The rational-choice theory, which is sometimes called social-choice, public- choice, or formal theory, originated with economists and involves applying the principles of microeconomics theory to the analysis and explanation of political behavior (or non-market decision-making). It has now gained quite few adherents among political scientists. Rational-choice theory both alerts us to the importance of self-interest as a motivating force in politics and policy making, and provides a better understanding of decision-making processes. Many contend, however, that politics is not as devoid of altruism and concern for the public interest as the rational choice theorists assume. Rational-choice studies of political behavior are often characterized by rigid and narrow assumptions, mathematical equations, abstractions, and remoteness from reality.

Features of Public Policy: Based on the above theoretical and conceptual framework, we may further identify some basic characteristic features of public policies in any set of democratic governance. These include:

a. Public policy is characterized by its *publicness,* that is public policies are meant to protect the interest of the public in general;
b. Public policies must be *in line with the constitutional law;*
c. *Consistent* with international norms, laws and conventions.
d. Reflection of the *political commitment* of the party in power;
e. It is *compulsory* to all. That is no one above the implication of public policy. For that matter public policy could be treated as the *utilitarian law of the land.*
f. Public policies are *goal oriented and purposive* as against random governmental actions.
g. *Reactive* as well as *pro-active* by nature

Framework of policy making in Bangladesh: The Constitution of Bangladesh provides a clear outline for formulation public pollicies and development goals, objectives and strategies. Fundamental principles of the State Policy as elaborated in the constitution categorically emphasized the issue of meeting the basic needs of the people, vest on the state the responsibility to attain, through planned economic growth, a constant increase of productive forces and steady improvement in the material and cultural standard of living of the people, with a view to securing the citizens : a. the provision of basic necessities of life, including food, clothing and shelter, education, and medical care; b. the right to work, that is the right to guaranteed employment at the reasonable wage having regard to the quantity and quality of work; c. the right to reasonable rest, recreation and leisure; and d. the right to the social security . (art. 15)

The Constitution of Bangladesh (Fundamental Principles of the State Policy : Article no. 8-25) provides the outline of the public policies and development goals, objectives and strategies. There are as many as 25 articles under Part II of the Bangladesh Constitution that describe the fundamental principles of the state policies. Following are selected few which have direct bearing on the public policy making, administrative decision and the overall functioning of the public administration system in Bangladesh.

Art.8 # Absolute trust and faith in Almighty Allah.

Art 9 # Promotion of local government institution

Art 10 # Participation of women in national life.
Art 13 # Principles of ownership.
Art 14 # Emancipation of peasants and workers.
Art 15 # Provision of basic necessities.
Art 16 # Rural Development and Agricultural revolution.
Art 17 # Free and compulsory education.
Art 23 # Separation of Judiciary from executive.

The Five Year Plan (FYP) provides the broader framework of public policy in Bangladesh. Keeping in view the constitutional framework and the FYP, the government of Bangladesh has stressed the following five major policy interventions:

a. Improving macroeconomic management,
b. Promoting a competitive private sector;
c. Promoting better public-sector management and better public services;
d. Accelerating agricultural growth and rural development; and
e. Promoting faster and fairer human development through a long-term intervention in education, health, nutrition, and population.

Institutional structure of policy making in Bangladesh Cabinet: As per the clause of the Rules of Business 1996 clause 4(ii) "no important policy decision shall be taken except with the approval of the cabinet". Cabinet is the ultimate authority of approving a policy. In addition to many others following policy-related issues must be cleared by the cabinet:

a. all cases related to legislation, including promulgation of ordinances;
b. cases involving vital political, economic and administrative policies; and
c. proposals relating to change of any existing policy or cabinet decisions.

The cabinet has its own structure to assess and examine selected policies through different cabinet committees. Following are the names of some of the Cabinet committees on selected policy areas:

a. Food planning and monitoring committee
b. Senior Appointment, Promotion and Service structure
c. National Award
d. Government Purchase
e. Committee on Pay fixation
f. Committee on Foreign employment
g. Committee on Urgent and National Interest
h. Committee on Finance and Economic affairs
i. Committee on Foreign Affairs

j. Committee on Law and Order

Ministry: Ministry is a self contained administrative unit responsible for the conduct of business of the Government in a distinct and specified sphere. The minister is responsible for policy matters concerning his ministry and for implementation thereof. He is also responsible for conducting the business of his ministry in the parliament. The Secretary is the official head of the Ministry. He is responsible for the administration and discipline and for the proper conduct of the assigned business. He is also the principal accounting officer of the ministry, its attached departments and subordinate offices. He keeps the minister in charge informed of the working of the Ministry.

At the ministerial level Minister in charge is responsible for conducting the business of the ministry /divisions. The major responsibility of the ministry as per the Rules of Business clause 4(ix) is "policy formulation, planning and evaluation of execution of plan".

The role of the ministry is limited to : a. Policymaking; b. planning (corporate, long and short range); c. evaluation of execution of plans. d. legislative measures; e. assisting the minister in discharging of his responsibilities to the Parliament; f. personnel management at the top level, i.e., i) officers; not below the rank of Member/Director in cases of Public Corporations/Autonomous bodies; ii) officers not below the rank of Salary Grade VII; g. such other matters as may be determined by the Prime Minister.

Ministry of Finance and Ministry of Law, Justice and Parliamentary Affairs play very significant and important role in the public policy formulation and approval process. The Rules of Business (art 14 (4) clearly sets out that the "Finance Ministry should be consulted on all economic and financial questions arising out of any case and in particular :

a. preparation of export programme and import policy ;
b. negotiation of trade and barter agreement
c. determination of tariff policy;
d. determination of pricing policy;
e. determination of investment policy and
f. determination of labour policy.

Similarly consultation with the Ministry of Law, Justice and Parliamentary Affairs is obligatory in terms of :

a. all legal proposals for legislation;
b. all legal questions arising out of any law;
c. preparation of any contacts, international agreements, international

conventions pronouncing and modifying international law;

d. the interpretation of any law;

e. before the issue of or authorizing of the issue of a rule, regulation or bye la etc. in exercise of statutory power.

Secretaries Committees: In addition to the cabinet committees there are also two Standing Secretaries Committees to oversee the administrative arrangement as well policy issues of the government.

These committees are :

a. Secretaries Committee of Administrative Development

b. Secretary's Committee

National Economic Council (NEC): The National Economic Council (NEC) is the highest authority to approve major economic policies and development strategies. It is assigned to formulate the national policy and objectives for long term plans. The ministries are responsible to adopt their policies, plans and programmes according to the objectives and priorities set by the NEC.

The NEC consists of all members of the Council of Ministers and is chaired by the Prime Minister. Members of the Planning Commission and Secretaries in charge of all ministries, divisions are expected to attend the meeting. In addition the following officials are required to attend the ECNEC meeting :

Cabinet Secretary .

Member (Programming), Planning Commission .

Member (General Economic Division) Planning Commission

Member , concerned Division , Planning Commission

Governor , Bangladesh Bank

Secretary , Economic Relations Division

Secretary , Finance Division

Secretary , Planning Division

Secretary , IMED Division

Secretary of the concerned Ministry .

The Secretariat services to the council is provided by the Planning Ministry.

The NEC performs the following functions :

a. provide overall guidance at the stage of the formulation of Five Year Plans , Annual Development Programs and related economic policies.

b. finalise and approve plans programs and policies

c. review progress of implementation of development programme.

d. take such other decisions and actions as may be considered necessary for socio - economic development.
e. consider and approve development projects costing above Taka five crore.
f. consider and approve investment projects in the private sector costing above Taka fifteen crore.
g. consider proposals for investment companies as private or joint ventures or with foreign participation.
h. monitor the economic situation and review overall performance of the economy and related policy issues.
i. consider performance of statutory corporations and specially their financial results.
j. consider rates , fees and prices of public utility services or products of public enterprises.

Planning Commission: Planning Commission[1] is the central planning body of Bangladesh. It is a body of professionals and sector specialists engaged in the formulation of macro as well as micro economic plans and policies of the government. Through the formulation of the five-year Plans and the Annual Development Plans, the Planning Commission in effect translate the ideas, aspirations and the commitment of the party in power.

The Planning Commission is entrusted with functions of preparing national plans and programmes according to the directives of the National Economic Council (NEC). The Commission through multi-sectoral input-output models, makes macro economic projections and sets output targets for the sectoral activity at different time frames such as long term perspective plans like Five Year Plans and Two Year Plans etc. Although responsibilities from planning to execution are shared between the administrative ministries and planning commission the planning process starts with the mapping of economic trends and identification of alternative possibilities by the Commission, leading to formulation of the technical framework of a plan. Ministries and agencies participate indirectly in these technical works as source of information.

Planning Commission launches detailed economic, financial and technical appraisal of projects and mobilizes resources for their

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[1] Planning Commission is composed of six divisions. These are : i. General Economics Division (GED); ii. Programming, Evaluation and Appraisal Division; iii. Socio-Economic Infrastructure Division; iv. Industries and Energy Division; v. Physical Infrastructure Division; vi. Agriculture, Water and Rural Institutions Division.

implementation in consultation with the Finance Division and Economic Relations Division of the Ministry of Finance.

First and Second Five Year Plans used a model popularly known as input-output framework based on *multi-sectoral consistency model.* Consistency is such a framework implies that the supply of each sector's output is matched by demand generated by inter-sectoral and final use at the base year relative price. The *Applied General Equilibrium Model* is being used in the preparation of Third and Fourth Five Year Plans which explicitly deals with the social accounting matrix. As a radical departure from traditional planning model, the Fifth Plan framework rests more on flexible projections and forecasts of incremental change in various development parameters than on rigid targets for realisation during the Plan period. An input-output model has been used to project both sectoral growth as well as sectoral investment. Planning Commission is currently making transaction to *Social Planning Model,* in which welfare indicators, both monetary and non-monetary, would be clearly introduced. There is also increasing emphasis on the participation of the beneficiaries and the private sector in the planning process.

General Economic Division and the Programme, Evaluation and Appraisal Division deal with the general macro issues of the national economy. Major functions of the GED include: i. Evaluation of plans and policies; ii. Review of macro-economic situation covering national income, international economic relations, savings, and investments, fiscal and monitory situation, employment and other macro economic aspects of the economy, iii. Determination of macro-economic policies; iv. Coordination of preparation of plans like : Perspective/ Five-year and Annual plans; v. Coordination of research on macro-economic issues.

While the functions of the Programme Evaluation and Appraisal Division includes : i. Coordination of preparation of annual development programmes; ii. Authorization of development projects and release of funds for unapproved projects; iii. Economic appraisal of development projects.

Other four sectoral divisions deal with the planning and policy issues of different sectors of the national economy. Functions of the sectoral divisions are as follows:

i. Formulation of sectoral plans consistent with the macro planning objectives;

ii. Coordination of sector development programmes consistent with the sectoral plans;

iii. Processing of development projects including project appraisal and serving as the secretariat of the sectoral project evaluation committees;

iv. Preparation of sectoral annual development programmes in consultation with the sectoral ministries and agencies;
v. Formulation of sectoral development and planning policies.

Parliamentary Committee: According to the constitutional provision (Art. no. 76), the *Jatiya Sangshad* appoints from its members some standing committee and other function specific committees to run the parliamentary affairs. There are number of 48 Ministerial Standing Committees and little over 100 other sub-committees of the Parliament. Following are the important ones that regulate the activities of the public administration system in the republic: a. Public Accounts Committee, b. Estimates Committee, c. Public Undertakings Committee

Public Accounts Committee: The functions of this Committee includes, the examination of accounts showing the appropriation of sums granted by the House for government expenditure, the annual finance accounts of the government and such other accounts laid before the house. In scrutinising the appropriation accounts, and the report of the Comptroller and Auditor General, it is the duty of the Committee to ensure that the money shown in accounts have been used for the stated purposes, that the expenditure conforms to the authority governing it and that re-appropriation has been made in accordance to the rules framed by competent authority. The Committee shall also examine statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, expenditure of autonomous and semi-autonomous bodies and so on.

Committee on Estimates: This Committee examines all estimates referred to it. It is the function of this Committee to report on economies, improvements in organisation and efficiency and administrative reforms underlying the estimates that may be effected. It has to examine whether the money is laid out within the limits of the policy implied in the estimates and to suggest the form of presentation of estimates before the House.

Committee on Public Undertakings: This Committee examines reports and accounts relating to 25 public undertakings as specified in Schedule 4 of the Rules of Procedure as well as reports of Comptroller and Auditor General on public undertakings. It considers the extent of autonomy of the public undertakings and examines possible deficiencies. It sees to it that these undertakings are managed in conformity with sound business principles and prudent commercial practices.

Committee on Petitions: There is a Committee on Petitions which is supposed to "every petition referred to it by the Speaker. The Committee is supposed to report the House on specific complaints made in the petition referred to it and suggest remedial measures in a concrete form". (Art 231-232)

Assessment of the role of Parliament: There are inadequate debate on policy and legislation in Parliament. Many important matters including the Five-Year Plan are not discussed in the Parliament at all (Aminuzzaman, 199XX). Most policy is formulated in the ministry level are not even announced in the parliament, so it is not surprising that such policies have little public understanding and are often implemented half-heartedly.

Parliamentary committee (PC) are enthusiastic about their role in policy making and other accountability measures but has gross limitation in terms of: a. mandate, manpower, technical skill and logistic support in addressing their respective agenda (Ahmed, 1998). As a result for example, the PAC has a backlog of 400 Audit reports. This delay invariable reduces the deterrent and corrective influence on the executive as, by the time particular transaction are examined, those responsible have been transferred, or retired or even died, and escape having appeared before the PAC.

One of the PAC committee reports that "the PAC has noticed with great regret that no ministry has complied with its directives to regularize excess expenditure. This not only shows that the clear directives of the committee are violated but also reveals the extent of indifference of ministries to check financial irregularities in government" (3rd report of PAC)

It is also observed that the role and boundaries of PC are overlapping and not well defined. The parliamentary committees are yet to establish right kind of procedures and practices. Moreover there is also a discrepancies in terms of the role prescribed in the Constitution and the Rules of Procedures of the Parliament.

Role of Donor Agencies in Policy making: Donors play a significant role in the development plan formulation and management in Bangladesh. The available empirical evidence indicate that donors in general tend to influence the policy making in Bangladesh. The donors have overriding concerns on the direction of public policy in Bangladesh. The normative biases and perceptions of the donors have indeed influenced the policy content and process. Interestingly the donors among themselves have different approaches and perspective and policy agenda. Bangladesh as a recipient country has to accommodate and adjust to the donor priorities and concerns in broader policy making and planning activities (Sobhan, 1990).

On an average about 55 to 60 percent of development expenditure is supported by the donor agencies. Donors play a significant and noticeable role in injecting policy ideas and recommendation of different policy interventions. Donors also play an important role in policy analysis and review. Among the multi-lateral donors, World Bank and IMF are considered to be the leading ones, which exert considerable pressure and persuasion to bring policy changes and reforms.

There are *two types of donor* agencies in Bangladesh namely : Bi-lateral donors and Multi-lateral donors. Bilateral donors include the following countries : Australia/ AUSAID, Canada/CIDA, Denmark/DANIDA, Germany/GTZ, France, India, Japan/JICA, Netherlands, Norway/MDC/NORAD, Switzerland/ SDC, Sweden/SIDA, United Kingdom/DFID, United States of America/ USAID. etc.

Multilateral donor agencies include : Asian Development Bank (ADB), Economic and Social Commission for Asia and Pacific (ESCAP), Food and Agriculture Organization (FAO), International Atomic Energy Agency (IAEA), International Monitory Fund (IMF), United National Children Fund(UNICEF), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO), World Bank (IBRD/IDA), World Food Program (WFP), World Health Organization (WHO), UNFPA, European Union (EU).

Following diagram presents the dynamics of formulation of public policy in Bangladesh

Dynamics of Policy Making

Policy demand

Political parties
Pressure/Interest Group/Stakeholders
Media
Advocacy Group/Lobbyist
International Agencies
Donor Agencies
Regional bodies/ UN Bodies/ International Conventions
Incremental learning of bureaucracy & feed back

Policy Ideas/Input

- Institutional learning
- Feed back from Ministerial Review Committee
- Concept paper of the Ministry/Departments
- Consultant Reports/Research Reports
- Policy Orientation of the Government
- Long Range Plans/Five Year Plans
- Donors persuasion
- Sector Study Reports
- Media / Public pressure/ Civil Society

Policy Formulation

- Concerned ministry (Financial, Economic Analysis, Technical Analysis)
- Donor's Consultant (Shadow role)
- Inter-ministerial Consultation

Concurrence: Legal Implication (Legal Analysis from ministry of law)
Environmental Analysis (Ministry of Environment)

Policy Approval

- Secretary (Basic functional policies)
- Minister (Substantive ministerial)
- Parliamentary Standing Commitees of the Ministries
- Cabinet (major inter-sectoral and policies with inter-ministerial Implication)
National Economic Council (NEC)
National Implementation Committee on Administrative Reforms (NICAR)

Policy Analysis, Evaluation & Monitoring

- Parliamentary Standing Committees of the Ministries
- Donor's consortium Meeting at Dhaka/Paris
(Review of the progress of policy implementation and persuasion of policy reforms)
- Bilateral Donor's Review/ Sectoral Policy review (World Bank)
- IMED (Reviews only projects not policy)
- Coordination Committee of the Ministry
- Cabinet Division - monitoring of cabinet decisions

Critical issues of Public policy in Bangladesh: Over the last two decades or so Bangladesh has shown outstanding performance in enabling near self-sufficiency in rice, reduction of population growth, significant increase in immunization and primary school enrollment, and rapid growth of garments sector. But still Bangladesh is trapped in a low growth and low investment cycle, more than 50 percent of people live in poverty and the level of public investment programmes continues to remain low at 8-9% of GDP despite availability of concessional funds. Private investment levels are low as at 6-7% of GDP. The impact of many public sector programme is negligible. Only 4 % of students entering Grade one complete grade 12. Annual loss of Public enterprises are staggering, about 2 % of the GDP.

An assessment of the objective condition indicates that policy formulation and implementation in Bangladesh are inadequate primarily for following reasons (World Bank, 1996):

- Weak policy formulation capacity
- Weak commitment at the bureaucratic level
- lacks responsiveness - usually symbolic, some policies are " a matter of too little, too late"
- policies are inconsistent
- policies are unpredictable
- lacks credibility – most Bangladeshi greet policy announcements with considerable skepticism – viewing them more as response to donor conditionality rather than as genuine commitment to change.

In addition, empirical studies (Aminuzzaman, 1992,1993) have also identified following reasons as the other weaknesses of policy formulation and implementation and analysis in Bangladesh : a. Lack of the tradition of democratic governance/ lack of tolerance on criticism. b. Weak and inadequate parliamentary bodies, c. Lack of professional skills to undertake policy analysis, d. Donor driven and tailored policy analyses.

Policy making in Bangladesh has always been an isolated process and not effectively linked with forward looking resource management and in-depth macro economic analysis. Major Policy documents like Five-year Plan is based on anticipated revenue from within and donor support. Most of the macro goals of the Five Year Plans are more of "wish list" than a realistic goals. Evaluation Committee in the Planning Commission tend to focus on less important aspects such as staffing, vehicles/ equipment and consultant employment, often by-passing the important policy, planning and implementation issues. The role, scope and credibility of the Planning Commission is thus questioned by line ministries.

Conclusions: Critics argue that major actors of public policy making in Bangladesh seem to have played an inert and or partial role. Political executives treated the major policies more as rhetoric, parliament has been involved more with legislative role and partisan concern than serious debate on policy issues. Not a single policy has been tabled and appropriately debated in the parliament. By and large it is the public bureaucracy which bears the sole responsibility of preparation of major policy policies but it lacks professional competence and aptitude for policy analysis.

One emerging force in policy advocacy in Bangladesh is Civil society. Like many other newly emerging democracies, Civil society in Bangladesh can play a critical role in public policy making. The role of civil society, in fact, would depend on the nature of the demand and surrounding conditions. However, we may present a brief list of areas of involvement of the civil society in the context of Bangladesh : a. Policy advocacy and mobilization of public opinion, b. Act as source of demand, c. Active participation in formulation process (as think tank/ experts, participation in public hearing/ policy workshop/ seminar) d. Bridging gap between the clients and government, e. pressurizing the Government through Media, f. Supporting the popular movement in favour of a given policy issue, g. Lobbying with the donor groups/development partners, h. Playing the role of mediator/ arbitrator between client and government and i. Undertaking policy analysis and research.

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Mutual Fund-Operations and Management

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1. Introduction: Mutual Funds are now perhaps the most widely known investment schemes around the world. Especially in the last two years or so, Mutual Funds have become increasingly popular in the USA and Japan. Huge amount of funds have flowed into the Mutual Funds in the last two years.

What are these Mutual Funds-why are they so successful?

Simply put, a Mutual Fund is a collective investment vehicle. Mutual Funds collect the investible funds of a large number of investors and collectively invests the money in a wide range of securities. Mutual Funds design and develop a portfolio (basket) of securities. And an investor who buys a Mutual Fund, is in effect buying a portfolio.

It is a professionally managed investment package which pools together money from investors to invest in a portfolio of stocks, debt securities or other financial asset.

The basic theme emanates from a simplistic concept of portfolio management. Investment in securities market entail risk. The principal objective of investment management is to maximise returns and minimise risk. Risk minimisation requires risk management. One aspect of risk management is the development of a portfolio which invests in a large number of different types of securities.

2. Advantages:

The advantages of Mutual Funds are as follows :

(a) Diversification: The most important advantage of investing in a Mutual Fund is that an investor is able to acquire indirect interest in the securities of many companies and thus diversify the risk of investment. For example, an investor with Tk. 10000 normally would be able to purchase one or two securities. But by investing in a Mutual Fund, the investor is able to acquire indirect interest/ownership in 30, 50 or even 100 securities.

(b) Professional Investment Management : Mutual Funds provide investors with professional investment management. Building a portfolio requires comprehensive, in depth analysis for selecting underlying securities.

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In today's global investment strategy, fund investment involves locating rewarding investment opportunities world wide necessitating continuous monitoring. It is near to impossible for individual investors to undertake all these activities which are expensive, time-consuming and analytical. Mutual Funds with their experience, pooled resources and professionals are best placed to undertake all these functions efficiently.

3. Types of Mutual Funds: There are different types of Mutual Funds. However, the type of Mutual Funds are different in the American system and the British system. In the American system, there are three types of Mutual Funds-Open-End Funds, Closed-End Funds and Unit Trust.

Open - End Funds: These Funds continually sell and redeem certificates for the investors. The price of such fund is based on its net assets value (NAV). The price of a certificate is quoted on bid-offer basis. The offer price is the price at which the Fund sells the certificates. The offer price is the NAV per certificate plus sales commission, if any, charged by the Fund. The sales commission here is called load.

Closed-End Fund: Compared to the open-end funds, the Closed-End Funds sell certificates like any Company (Corporation) and usually do not redeem (repurchase) the certificates. Number of certificates is fixed. These closed end funds are traded on organised exchanges or over the counter market. The price is determined by supply and demand. As a result, the price can deviate from the NAV. Investors wishing to buy or sell closed-end funds must take the help of brokers and pay brokerage commission.

Unit Trust: A Unit Trust is similar to a closed end fund since the number of Unit certificates is fixed. As the name suggests, in the Unit Trust, a trustee is required to be appointed. Sponsors and trustees are separate entities to avoid any conflict of interest. Unit Trusts typically invests in bonds. Unit Trusts are different from both the Open-end funds and closed end funds (specialising in bonds) on a number of counts. Firstly, Active trading of bonds in the Unit Trust is absent. Once the trust is organised by the sponsors and handed over to a trustee, the bonds are held by the trustee till they are redeemed by the issuer. Thus, the operational costs is generally less than the costs incurred by the other funds which actively shuffle their portfolio securities. Second, Unit Trusts have a specified termination date unlike Mutual Funds and closed-end funds which do not have termination dates. Third, the investors in Unit Trust know that the portfolio consists of a specific basket of bonds which will not be altered by the trustee. We now turn to British system, which is replicated in Bangladesh though with some structural modification. There are two types of Mutual Funds in the British system. The Investment Trust and the Unit Tursts.

The Investment Trust : In the investment trust, the total number of certificates (shares) at any time is fixed. Thus new investors can only purchase these certificates from existing holders who had purchased at the time of first issue. In form, an investment trust is an ordinary registered Company. Its objective is the collective investment of money subscribed by its certificate (share) holders. However, though they are called investment trust, they are not strictly trusts in the sense unit trusts are because there is no trust deed and no trustee. The holders' claim on the assets of the trust is only the very general claim that any shareholder has on a company. In fact, being a limited company makes an investment trust subject to relevant provisions of the Companies Act.

The fact that the investment trusts do not continually accept new funds and channel them to ultimate borrowers, unfolds the criticism that closed-end funds are not really financial intermediaries in the strict sense, However, an overwhelming majority experts argue that increasing numbers of Mutual Funds investing in wide array of securities do help companies in raising capital.

Unit Trusts: Unit trusts accept funds from investors on a continuous basis by selling fund certificates. A unit trust is constituted usually for a fixed period of time not under the Companies Act provision but by special trust deed. Apart from the unit holders, there are two other parties-the managers and the trustees. The managers and the trustees have a fiduciary obligation to the unit holders. Under the U.K. law, the trustees who are required to be body incorporated have the securities registered in their name. The managers, who too must be body corporate are vested the responsibility of making the investment decisions, selling and re-purchasing units and undertaking other administrative functions.

The unit trusts are flexible or open-ended, implying that its capital is not fixed. In most cases, the units are not listed with stock exchanges. The investors buy the units from the managers at a stated offer price, which is published daily. The offer price is based on the market value of the underlying securities. On the other hand, the unit holders have option to sell their units back to the managers at a bid price published daily, which is generally below the price at which the units are on offer. The gap between the offer price and bid price embodies two things (i) The stock market margin between the buying and selling prices of the underlying securities and (ii) investment costs, e.g., stamp duties.

The distinction between the closed-end fund and Unit Trusts is highlighted below (U.K. Context) :

Feature	Investment Trust	Unit Trust
Form	Limited liability company	Laid down under Trust Deed
Parties	Shareholders and directors	Managers, trustees and unit-holders
Life of Trust	Perpetual	Fixed period of years
Law Governing	Companies Act	Prevention of Fraud (Invest't.) Act, 1958 and Board of Trade Regulations
Capital	Fixed: may have various types of share, appropriately geared	'Open-ended : standard units of no maximum number
Marketability	Shares normally quoted on the Stock Exchange	Units repurchased by managers
Control	Directors and members (according to Articles of Association)	Managers, subject to Board of Trade Powers: but not unit-holders
Vesting of Portfolio Accounts	In the company Balance Sheet, Profit and Loss Account	In the trustees Published accounts limited to Managers' affairs in relation to the trust
Audit	By members' auditor, duly qualified	By auditor approved by the trustees
Financial Policy	May range to include e.g. heavy retention of profits	Trust Deed normally requires full distribution of income

Load Funds and No Load Funds: As stated earlier, 'load' funds are those which impose sales commission while those funds which do not impose sales commission is called no load funds. In case of load fund the certificates are sold by salesmen who are paid commission. The total sales commission (load) is added to the not asset value (NAV).

In case of no-load funds, no salesman is involved. The certificates are sold by the issuers over the counter or by mail.

However, no load funds are expensive when compared to load funds because no-load funds necessitate opening branches in far-fledged locations to sell the certificates. The argument against the load fund is that the holders have to pay a higher price for load-fund certificates. The rate of load or sales commission is generally 8% of NAV in U.S.A. and 6% of NAV in India.

In addition all funds charge a management fee to cover the costs of operating portfolio - such as, brokerage fees, transfer costs, etc.

4. Categories of Mutual Fund : A number of different categories of funds have evolved over the years. The major types of Mutual Funds are-

Stock/Equity Funds	**Objective :** Capital appreciation is the main objective of any stock fund. **Investments :** Fund Managers work towards this objective by focusing and investing in common stocks with excellent prospects for price appreciation. **Types :** Small cap funds; blue chip funds; growth stock funds; emerging market funds; international/global funds; sector funds, etc. **Risk/ return:** Equity funds tend to offer higher expected returns as they assume on higher risks.
Bond/Income Funds	**Objective :** Frequently referred to as income funds, the primary goal of bond funds is to provide steady streams of income to investors. **Investments :** Income funds invest mainly in fixed income securities such as bonds, debentures, and fixed deposits. **Types :** High-quality bond funds; high yielding bond funds; regional and global bond funds, etc. **Risk/ Return :** Income funds are generally less risky compared stock funds. Thus, expected returns of the former are lower than that of the latter.
Balanced/Mixed Funds	**Objective :** The objective of such a fund is to give investors moderate capital growth with regular streams of income through dividends. **investments :** A balanced fund is a mixture of a stock fund and an income fund. **Types :** With these funds, the asset mix between, say, stocks and fixed income assets will differ according to the fund's investment objectives. **Risk/Return:** Balanced funds provide greater stability than stock funds, as their values do not fluctuate as much as the latter. At the same time, they offer greater potential returns compared to income funds.

Money Market Funds	**Objective :** Known as the safest kind of open-ended unit trusts, the objective of a money market fund is to give conservative investors a higher level of income as compared to deposits. **Investments :** Mainly in short-term maturing money market instruments such as letters of credit, corporate IOUs, commercial papers, short-term treasury bills. **Types :** US$/Yen/Euro currency funds. **Risk/Return :** Although the "safe" money market funds generate low returns compared to other kinds of funds, these funds do have attractive features such as their inexpensive cost structures. Money market funds usually incur low expenses and many managers of such funds usually pass some of the savings back to the investors like offering them low annual management fees. Many even waive the upfront sales charges.
Sector Funds	**Objective :** These funds enable investors of specialised knowledge to take advantage of the potential opportunities and trends of a particular sector. **Investments :** Sector funds primarily invest in equities in a specific sector. **Types :** Specific industries or sectors such as property, technology, telecommunications, gold, healthcare. **Risk/Return :** An equity sector fund demands higher expected returns because it is more speculative and risky as compared to a global stock fund. This is due to its less diversified sector focus.
Single Country Funds	**Objective/Investments/Types:** A single country fund (be it an equity, bond or balance fund), like its name suggests, invests only in a specific country. **Risk/Return :** Similar to sector funds, single country funds tend to be more volatile in nature due to their limited geographical area of investment, especially single-country equity funds. But such funds are expected to compensate investors with higher returns for the added amount of risk taken.

5. Organization and Operations : Mutual funds are generally organized under laws as Companies or business trusts. They are usually externally managed by a separate entity, supplying that they do not have employees of their own and all of the operations are conducted by third parties. The structure of a typical mutual fund in USA is depicted below :

(a) **Board of Directors/Trustees:** Funds that are established as Companies have directors, while funds established as business trusts have trustees. The duties of directors and trustees are in effect similar. The role of directors and trustees in preventing conflicts of interest is central to the regulatory scheme to which mutual funds are subject. Directors and trustees are required to oversee the management and operations of the fund, to provide policy guidance, and to protect the interests of fund shareholders. These duties imposed on mutual fund directors and trustees are in addition to those responsibilities imposed generally on corporate directors and trustees under state law.

In USA, Federal law generally requires that at least 40 percent of the fund's board of directors be persons who are not connected with the fund, its investment adviser, or its principal underwriter. These outside/independent directors act as watchdogs over the shareholders' interest and provide a check on the investment adviser and other persons affiliated with the fund.

(b) Investment Adviser: The investment adviser is vested with the crucial task of selecting porfolio investments for the fund in accordance with the fund's investment objectives and policies. The investment adviser is usually paid for these services by way of a fee based on the value of the fund's net assets. Many investment advisers also provide administrative services to the fund.

(c) Custodian and Transfer Agent: Generally Mutual Funds are limited in their ability to hold their own assets and, therefore, generally place their assets in the custody of a third party. Most mutual funds use a bank as custodian, whose principal functions include safeguarding the fund's assets, making payment for the fund's purchases of securities, and receiving payments for the fund when securities are sold. The transfer agent is responsible for shareholder record keeping services. It maintains shareholder account records, issues new shares, cancels redeemed shares, and distributes dividends and capital gains to shareholder.

(d) Principal Underwriter/Distributor: The principal underwriter (or distributor) arranges for the distribuion of the fund's shares to the public.

6. Mutual Fund Regulations: The increasing popularity of the Mutual Funds world wide, particularly in the USA, has increased the awareness among the holders and regulators alike to monitor and assess the performance of the Mutual Funds, Securities market regulators have formulated guideline and norms in order to-

(i) Ensure that the Funds are orgainsed in an orderly manner conforming to stipulated guidelines.

(ii) Ensure that the investors receive adequate and accurate information particularly price sensitive, performance sensitive information from time to time.

(iii) Project the physical integrity of the fund's assets.
(iv) Prohibit or regulate forms of self dealing.
(v) Restrict unfair or unsound capital structures.
(vi) Ensure fair valuation of investor purchase.

7. Performance Management : Several yardsticks have been evolved to evaluate the performance of Mutual Funds in USA. These include 3/5/10 years Average Return Safety Ratings, Yield, Worst Loss, Up-market and Down Market Ranks, Market Volatility, Annual Portfolio Turnover, Sales Load, Tax efficiency ratio. In USA most of mutual fund performance is evaluated by Morningstar and Lipper Analytical Services. Morningstar, whose ranking of Mutual Funds is widely used provides a five star ranking for best Mutual Funds.

8. The Bangladesh Scenario : In Bangladesh, the Mutual Fund industry is quite small in size. There are now only eleven Mutual Funds -nine managed by Investment Corporation of Bangladesh, one by Bangladesh Shilpa Rin Sangstha and the other by a private sector non bank financial institution. Of these, only one is open-ended managed by ICB while ten others are closed ended. The major aspects of these Mutual Funds are described below:

(a) Unit Fund : Unit Funds were introduced/floated by ICB in 1981. This Fund sells certificates to investors continuously. The sale price is fixed by ICB as the fund manager. The sale price is determined on the basis of a number of criterion such as, the NAV, the stock market conditions, expected return etc. Generally the lowest sale price prevails in the first week of August in a fiscal year. After the closing of a fiscal year on 30 June, sales/transfer are suspended in the Month of July to facilitate audit of accounts and declaration of dividend for the preceding year (if any). ICB also repurchases (redeems) the certificates from investors at a price called the repurchase price-which is five taka less than the corresponding sale price.

The unit certificates are sold by (i) ICB offices over-the-counter and (ii) authorised branches of some commercial banks who are paid commission for their service. The fund is transferable. The certificates are not listed on the stock exchange. The Unit Fund operation is regulated by the ICB Unit Regulations framed in 1981. These regulation provide for The ICB Unit Fund Regulation provide for fthe following :

(1) Issue of Units.
(2) Registration of Unit.
(3) Closure of Register.
(3) Transfer of Certificates.

(5) Repurchase of Units.
(6) Management of ICB Unit Fund
(7) Management Charge.
(8) Brokegrage and Commission.

ICB gets commission @ Tk. 1.25 per certificate as management fee.

(b) Mutual Funds: The Mutual Funds managed by ICB are closed-ended since the number of certificates are fixed and the issues/issue managers do not continually sell the certificates. There is no provision for repurchase (redemption) of certificates by the issuers. These certificates are traded on the stock exchanges. At the time of IPO, the issue (offer) price is fixed by the Fund manager. So far all the Mutual funds have been issued at face value. There after the price is determined through supply and demand published in daily stock exchange quotation. Theoretically the price of a Mutual Fund certificate can change daily. The managers receive a fee at the rate of Tk. 1.00 per certificate for managing the funds.

The Mutual Fund General Regulations framed separately by ICB Provide the guidelines for operation of the Mutual Funds. Again, these regulations provide for The Mutual Fund Regulations provide for the following:

- Constitution and Issue of the Fund.
- Register of certificate holders.
- Closure of Register.
- Allotment of certificates.
- Underwriting of Mutual Funds and Payment of Commission and Brokerage.
- Transfer and transmission of certificates.
- Management of BSRS Mutual Fund.
- Management Charge.
- Duration of the Fund.

9. Mutual Fund Regulations-2001: The Mutual Fund Regulations promulgated by SEC in June 2001 describe in details the formation and operation of Mutual Funds.

Constitution: A Mutual Fund is required to be constituted in the form of a Trust under the Trust Act, 1882. But the Country Mutual Funds which are listed outside can be formed as per the rules and regulations of the country in which the fund is to be listed.

Four parties are involved in the process of management and operation of a Mutual Fund Sponsors, Trustee, Asset Manager and Custodian. .

A Mutual Fund is to be floated by Sponsor (s) with the help of Trustee, Asset Manager, and Custodian who have sound track record, professional competence, financial soundness, general reputation of fairness and integrity in all business activity. The loan defaulters are barred from sponsoring Mutual Funds.

The Sponsors will appoint a company (in special cases, more than one company) as Trustee (or Board of Trustees in case of more than one company) to manage the Mutual Fund. The company acting as Trustee must have experience in financial services. The particulars of the Trustee shall be forwarded to the SEC for approval.

The Sponsors or if authorised by the trust deed, the Trustee will appoint an Asset Management Company which, after being approved by the SEC, will manage the affairs of the Mutual Fund and operate the schemes of such fund.

To keep the assets of the Mutual Fund under safe custody, an SEC approved Custodian will be appointed. The Custodian or any of its directors cannot be associated with any Asset Management Company.

Minimum amount, Sponsors' contribution

The minimum amount to be raised in respect of each close-ended and open-ended scheme is three crore taka and six crore taka respectively. For an open-ended scheme there is no maximum limit.

The Sponsors' contribution will not be less than 10 per cent of minimum subscription to be raised under any scheme of a Mutual Fund.

The Regulations provide for the following :

(i) Contents of the Trust Deed.

(ii) Duties and Responsibilities of Asset Management Company.

(iii) guidelines on investment:

- (a) No Mutual Fund shall invest more than 10 per cent of its capital in any one company's shares.
- (b) No individual scheme of the Mutual Fund should invest more than 15 per cent of its paid-up capital any one company's shares.
- (c) No Mutual Fund under all its schemes taken together should invest more than 20 per cent of the funds in the shares, debentures or other securities of a single company or group.
- (d) No Mutual Fund under all its scheme taken together should invest more than 25 per cent of its funds in the shares and debentures of any one industry; provided that provision shall not apply to a scheme which has been floated for investments in one or more specified industries and a declaration to that effect has been made in the offer letter.

Financial Management Capability Model

Rajesh Dayal*

Introduction: Governments everywhere are having to contend with shrinking budgets, downsizing, delayering, privatization, effects of globalization, pressure to balance the budget, greater demands for programmes and services, etc. 'Business as usual' - profligate spending financed through external borrowings and/or increased taxation - is no longer acceptable. Taxpayers demand greater accountability and transparency than in the past. Husbanding scarce government resources and deriving maximum value from public expenditures is the key and central to an organization's ability to do so is the effectiveness of its financial management system.

The Financial Management Capability Model (FMCM) presented in this paper is a practical tool for assessing the current financial management capability of an oranization, the key elements it needs to have in place to achieve effective financial management and what it needs to do to bridge the gap. The FMCM was developed as an audit tool by the Office of the Auditor General of Canada to establish its expectations for financial management in Canadian government departments and agencies. The author acknowledges his indebtedness to the Office of the Auditor General of Canada of the use of published material on this subject.

Objectives of Financial Management: Government managers are trustees of public resources. As they deliver programs and services, they have a responsibility to do so with probity (acting, as one ought), prudence (careful and responsible management of public resources) and concern for economy, efficiency and effectiveness. They also have to account for the manner in which they have handled the resources at their disposal. Authority and accountability are two sides of the same coin. Financial management is only one part of the integrated function of management, but in a government environment, it is a particularly important one. The objectives of financial management are shown in Exhibit 1.

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Exhibit 1: Objectives of Financial Management

Support for decision making. Managers should have the information and knowledge they need to support operational decisions and to understand the financial implications of decisions before they are taken. They should also monitor decisions for any potential financial implications and for lessons learned.

Financial and non-financial information. Managers should have the information needed for financial decisions and for management control and accountability. The information should be relevant (useful and understandable); reliable (complete, accurate and authorized); and timely.

Management of risks. The organization should identify, assess and consider the consequences of events that could hinder its achievement of goals and objectives and/or result in significant loss of resources. Risks that require monitoring and assessing include the full range of business risks, such as operational and strategic risks as well as social, legal, political and environment risk.

Efficient, effective and economical use of resources. The organization should have enough resources to carry out its operations and should use them with due regard to economy, efficiency and effectiveness.

Accountability. Accountability means that an organization understands and can demonstrate how it has used the resources entrusted to it and what it has accomplished with them.

Control environment. The organization should have an organizational climate that fosters the achievement of financial management objectives, including commitment from senior management, shared values and ethics, communication and organizational learning.

Compliance with authorities and safeguarding of assets. The organization should carry out its transactions in accordance with applicable legislation, regulations and executive orders; observe spending limits and ensure that transactions are authorized. It should have a system of controls over assets, liabilities, revenues and expenditures to protect against fraud, financial negligence, violation of financial rules or principles and losses of assets or public money.

Financial Management : Three Essential Elements "Financial Management" has almost as many meanings as people who use the term. In the private sector, financial management is usually associated with "treasury" and "comptrollership" activities. Treasury functions - debt management, investment and budgeting - in government are usually carried out by central ministries, primarily the Ministry of Finance. This paper focuses on only the financial management activities carried out by line ministries and agencies. These activities consist of three essential elements.

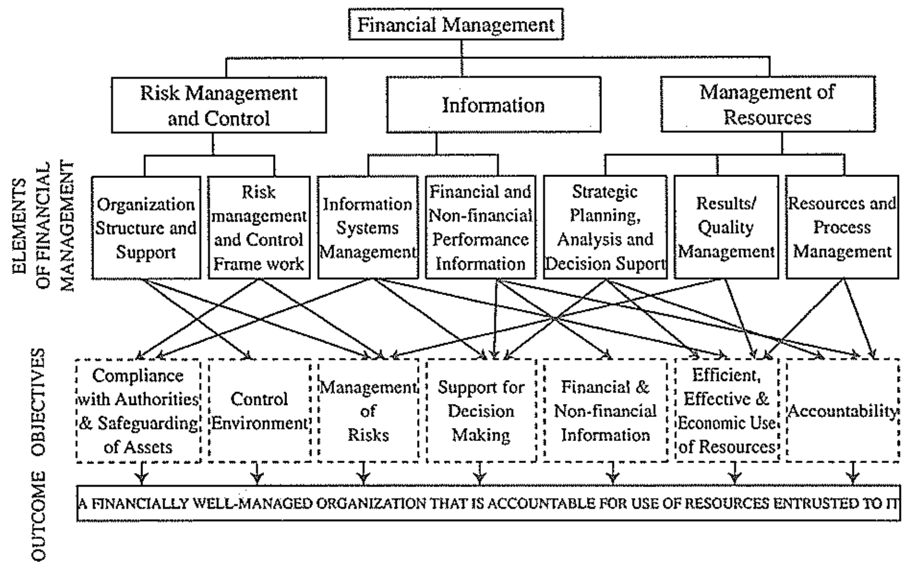
Risk management and control: An organization must identify the risks it faces (anything that could interfere with its ability to achieve its established objectives) and must establish a framework designed to manage and control those risks. An essential part of risk management and control is an environment that communicates the purpose, values and ethics of the organization.

Information: It is essential that the organization establish procedures to manage and protect the integrity of its data and to produce the type of information needed by managers to conduct their business and account for their responsibilities. This information must be avaliable when it is needed. This element includes management of information systems and financial and non-financial performance information.

Management of resources: This component of financial management focuses on managing and directing the organization's resources economically and efficiently to achieve corporate objectives. It includes strategic planning, analysis and support for decisions.

Financial management is an integral component of the organization's overall management. Indeed, these three essential elements of financial management overlap and relate to the other elements of management. Ultimately, an organization must have good management overall before it can have good financial management . The key elements of financial management and how they relate to the objectives of financial management are shown in Exhibit 2.

Exhibit 2: Elements of Financial Management



Principles of Financial Management: Underlying the Financial Management Capability Model are a numbedr of principles of financial management. These include:

- Financial management is an integral component of an effective management framework needed to help an organization achieve its objectives and account for the cost of doing so.
- Management is responsible both for determining the financial management capability appropriate to the organization and for establishing the processes and practices needed to achieve and maintain that capability.
- Financial management capability requirements differ from organization to organization. The appropriate level will be commensurate with the nature and complexity of the organization and the risks to which it may be exposed.
- Financial management activities must be cost-effective, i.e. the cost of maintaining controls should be commensurate with the risk the controls are intended to address.
- Financial management is everyone's responsibility. In carrying out their duties, all managers are responsible for considering the financial

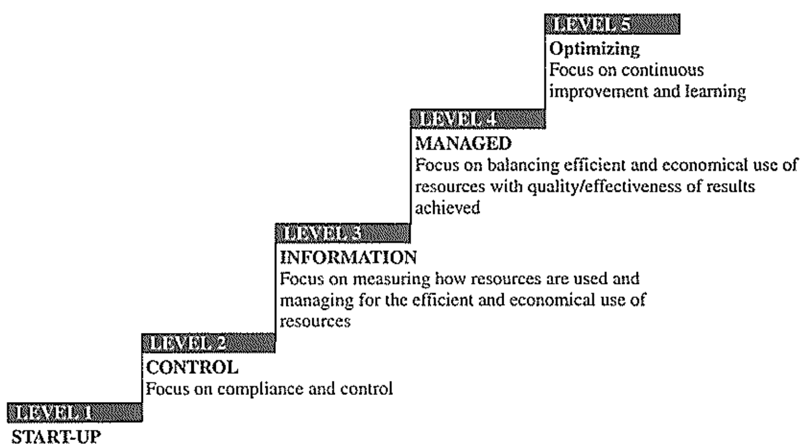
implications of their actions, i.e. for managing their resources in a cost-effective way.

The Financial Management Capability Model: The Financial Mangement Capability Model (FMCM) is a framework that describes the key elements of effective financial management. It provides a blueprint for strengthening financial management through small evolutionary steps, each step allowing progressive development of more sophisticated financial management practices, as needed. The model is organized into five progressive " capability levels" or stages through which an organization can evolve as it defines, implements, measures, controls, and improves its financial management processes. Each level represents a well-defined stage toward developing a mature financial management regime. The FMCM can be used by an organization to:

- Determine its financial management requirements based on the nature, complexity and associated risks of its operations;
- Assess its existing financial management capabilities against the requirements it has determined; and
- Identify any gaps between its requirements and its existing financial management capabilities. With this information, it can then address any significant gaps and work toward developing the appropriate level of financial management capability.

The five financial management capability levels are: Start-Up, Control, Information, Managed, and Optimizing (see Exhibit 3)

Exhibit 3 : Financial Management Capability Model



Each capability level consists of a cluster of "key process areas" (KPAs). When all of the KPAs associated with a given level have been instituted, the organization may be considered to have achieved that level. Note that each KPA has a purpose and one or more goals. Certain activities and results or outcomes are also associated with every KPA. Essentially, therefore, KPAs are the main building blocks that determine the financial management capability of an organization. They identify what must be in place at that capability level before the organization can advance to the next level.

The start-Up level: The Start-Up Level (Level 1) of financial management capability is characteristic of an organization that has not yet established its key policies and practices or its control framework. In the absence of established practices, the organization's ability to achieve its objectives depends on the isolated efforts and accomplishments of individuals. Under these circumstances there is no certainty that such accomplishments would be repeatable or sustainable. This lack of repeatable, sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework in place, assets may not be adequately protected or resources adequately controlled. The Start-Up Level, unlike other levels in the FMCM, is not a stable environment in which it is desirable to remain.

An organization might be at the Start-Up Level if it has experienced dramatic changes in its operations, for example, if it had implemented a new program or policy, amalgamated with another department or relocated its operations and has not effectively managed the increased risks associated with the changes. The key challenge the organization faces in progressing to Level 2 is to develop realistic, useful financial and operational business plans and to establish a basic control framework that allows it to monitor and control resources and safeguard and protect assets.

The Control Level: At the Control Level (Level 2), the focus is on compliance and control, i.e. on ensuring that adequate resources are available, assets are safeguarded, data are reliable, and operations are monitored and controlled and conducted with prudence and probity. Organizations at the Control Level are able to meet statutory and regulatory reporting requirements. Organizations at this level have established a control framework that provides a stable environment and ensures that control practices are repeatable and sustainable. The control framework includes financial, operational and management controls. When these basic controls are operating as intended, they will help the organization to control or reduce risks and to produce complete and accurate financial and operational data. With sound financial and operational data, the organization can carry out its basic stewardship responsibilities and meet its reporting obligations. The integrity of the data supports operational planning decisions and monitoring activities. It ensures that sufficient funds have been obtained to meet budget and cash flow requirements, and it satisfies statutory and operational reporting requirements.

An organization at the Control Level will be able to answer "Yes" to the following key questions:

- Do we have a control framework to ensure that our assets are safeguarded, our data are accurate and reliable, and our operations are conducted with prudence and probity?
- Are transactions processed and controlled in accordance with applicable legislative and/or regulatory requirements?

At the Control Level the primary activities of the Finance group are the traditional accounting function-processing transactions, bookkeeping and general accounting functions. The Finance group's focus is on ensuring that controls over the financial systems are adequate to produce complete, accurate and timely financial data and to provide functional guidance to operational groups as required. At this level, operational managers play a role in achieving basic financial management capabilities by establishing realistic financial plans based on expected results, and estimating the resources required to achieve those results. The data on which these plans are based are typically historical in nature, drawn from past experience. Operational managers would also track actual progress and resource use against planned results.

At the Control Level, reliable historical data are available. However, they are not generally available as "information". Although ad hoc analysis can be carried out, the effort to collect information may be extensive and time-consuming because it may be fragmented, scattered and not easily accessible.

The Information Level: At the Information Level (Level 3), the focus is on integrating the organization's financial and non-financial systems, practices and procedures to provide information that can be used to manage resources with prudence and probity and in an efficient and economical manner. At this level, an organization will be capable of both measuring and managing its risks, and can tailor management practices within its various operating units to manage and reduce risk cost-effectively. The organization will have information on the cost of producing a product of a given quality or delivering a service at a given level.

A key aspect of Level 3 is that the role of finance begins to move away from performing only the traditional accounting functions to providing valuable support as a team player to operational managers. Finance works with operational managers to develop a financial structure that provides them with cost-effective controls and information, which meets their day-to-day needs, for example, information on product costs. Operational managers also recognize their responsibility to contribute to the organization's financial management capabilities.

Critical to achieving this level of capability is an organizational culture that institutionalizes financial management practices. Senior management must explicitly demand and promote effective financial management and demonstrate its value. Such a culture is developed by formalizing financial management policies and practices across the organization and supplementing them with appropriate training-and a system of rewards, recognition and sanctions that reinforces the culture.

In addition to being able to answer "Yes" to the two Control Level questions, an organization at the Information Level will be able to answer "Yes" to the question: "Do we have the financial management systems, practices and information that we need to measure and monitor the cost and quality of our outputs and the use of our resources?

At the Information Level, an organization has established standards for all processes and activities to allow for measurement and comparison between similar business units across the organization. These standard financial management practices can be tailored to each unit's nature and unique risks. One of the key processes at the Information Level is to provide consistent and comparable financial and operational (non-financial) information and reports that meet the needs of managers. This information provides a basis for developing performance indicators, cost and quality measures and monitoring performance, to ensure that intended results are being achieved and to demonstrate accountability.

The Managed Level: At the Managed Level (Level 4), the organization uses the information developed at Level 3 to balance two competing objectives: using its resources economically and efficiently, and producing cost-effective results, for example, goods or services of acceptable quality. The organization understands the financial implications of the choices and trade-offs it makes between these objectives. Such information also allows the organization to better account for the way it uses the resources entrusted to it. An organization at this level can better manage its financial and operational performance because it has - and uses - the "right" information. It has information and analyses on the relative costs of different approaches to achieving its objectives and uses them to make informed decisions on cost versus quality, risk versus opportunities, or decisions on levels of service. An organization at this level also has mechanisms for measuring the impact of variables such as cost, quality, productivity and degree of success in achieving its stated objectives. This capability flows from a history of having measured and managed organizational performance, which includes, for example:

- managing the organization's information and knowledge resources as assets, so that information needed to make informed decisions is available (for example, by using simulations, historical trends and manipulation variables to see how they affect results);
- defining the relationships among variables that affect cost, quality and level of service and understanding how they impact on the organization's desired results;
- using information to make informed choices among competing objectives like cost, quality and schedule;
- understanding the financial implications of decisions before making them, and monitoring their outcomes;
- using quantitative information to control variances (for example, fluctuations or changes) in the organization's production or service delivery processes; and
- using quantitative information to balance among competing business line objectives (for example, to reduce cost, increase productivity, improve quality, reduce risk, increase opportunities).

An organization at the Managed Level will be able to answer "Yes" to the question: "Do we know what it costs to achieve a given result, and did we follow the most cost-effective approach in achieving it?"

The Optimizing Level: At the Optimizing Level (Level 5), the focus is on continuous improvement. The organization uses information from inside and outside to set and achieve strategic targets or objectives for improvement. Achieving these targets enables the organization to increase the value of its services or products to clients or consumers. The organization uses what it has learned from past experience to identify areas for future improvement. This involves:

- developing prospective information to anticipate both internal and external changes that may affect the organization's performance (instead of reacting to changes) and making the necessary strategic or tactical decisions to manage their effects;
- measuring the organization's performance against that of others in the same industry and setting targets for improvement;
- finding best practices and learning from other organizations (benchmarking); and
- finding ways to minimize costs and maximize revenues, and to improve the quantity and quality of outputs, by introducing new technology or improving existing processes.

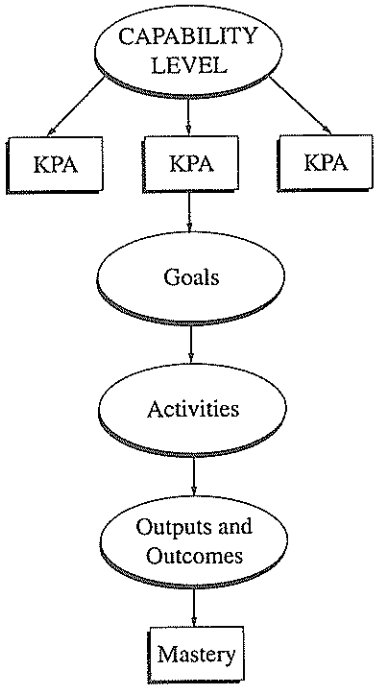
The key question that an organization at the Optimizing Level asks itself is: "How can we as an organization improve our performance?"

Achieving a Capability Level

***Achieving Capability levels*:** Achieving a given capability level involves mastering the key process areas (KPAs) associated with it and ensuring that these key processes are institutionalized within the organization.

Mastering Key Process Areas: An organization can reach a given level or financial management capability by mastering all of the key process areas included in that level.

Exhibit 4: Mastering KPA's-The Building Blocks of Capability Levels



As illustrated in Exhibit 4, each KPA has certain goals. To achieve the goals in one or more key process areas, an organization must carry out certain activities. Typical activities include:

- identifying requirements - such as the need for a certain control system - and developing plans and procedures to meet them;
- carrying out those plans and procedures;
- tracking and monitoring the work being done; and
- correcting any problems that may arise.

In turn, these activities produce immediate outputs (for example, a control system) or longer-term outcomes (for example, careful management of the cost of products or services). Once an organization has done the necessary work and achieved the outputs or outcomes associated with a KPA, we can say that it has "mastered" that KPA: it has in place a basic building bolck that contributes to reaching a particular capability level.

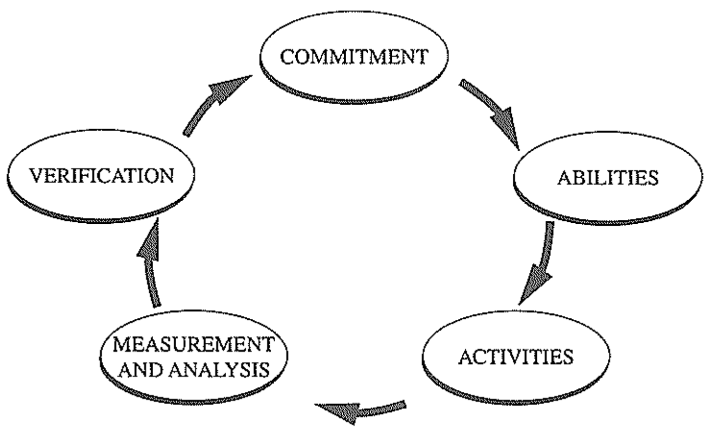
Institutionalizing Key Process Areas: By itself, mastering one or more KPAs is not enough. It is also essential to "institutionalize" the KPA and all of the activities associated with mastering it. By institutionalizing is meant weaving the KPA and related activities into the fabric or culture of an organization. Only in doing so will the organization make the KPA sustainable, repeatable and lasting.

Institutionalizing the KPA requires the "right" organizational climate. As indicated in Exhibit 5, some prerequisites or characteristics of such a climate are:

- **a commitment** to master the KPAs associated with reaching a particular capability level;
- the **ability** to carry out the necessary **activities** competently, for example, through training and development;
- ongoing **measurement and analysis** of activities and progress towards goals; and
- continuous **verification** to ensure that activities have been carried out in accordance with established policies and procedures.

Such a climate provides the support or foundation for reaching a financial management capability level appropriate to the organization.

Exhibit 5: Institutionalizing a Key Process Area



Extablishing Financial Management Requirements: It would be expected that managers would assess the nature of their operations and the risks they face in determining and establishing the financial management capabilities their organization needs. Risk, in this context, is any factor that may affect the organization's ability to achieve its objectives. Risks are identified through a process of first identifying potential hazards, then assessing the consequences to the organization should one occur, and finally determining the likelihood of the hazard's occurrence, given the control environment of the organization. Such a process is outlined in Exhibit 6.

As a first step, senior management would determine the organization's financial management requirements by defining its broad purpose and direction and assessing its risks (both financial and non-financial). The purpose of this assessment would be to determine three things:

- what risks the organization faces and which of those must be controlled;
- what financial and non-financial information the organization needs to meet internal and external accountability requirements; and
- what financial and non -financial information management needs to fulfil its operational and policy responsibilities.

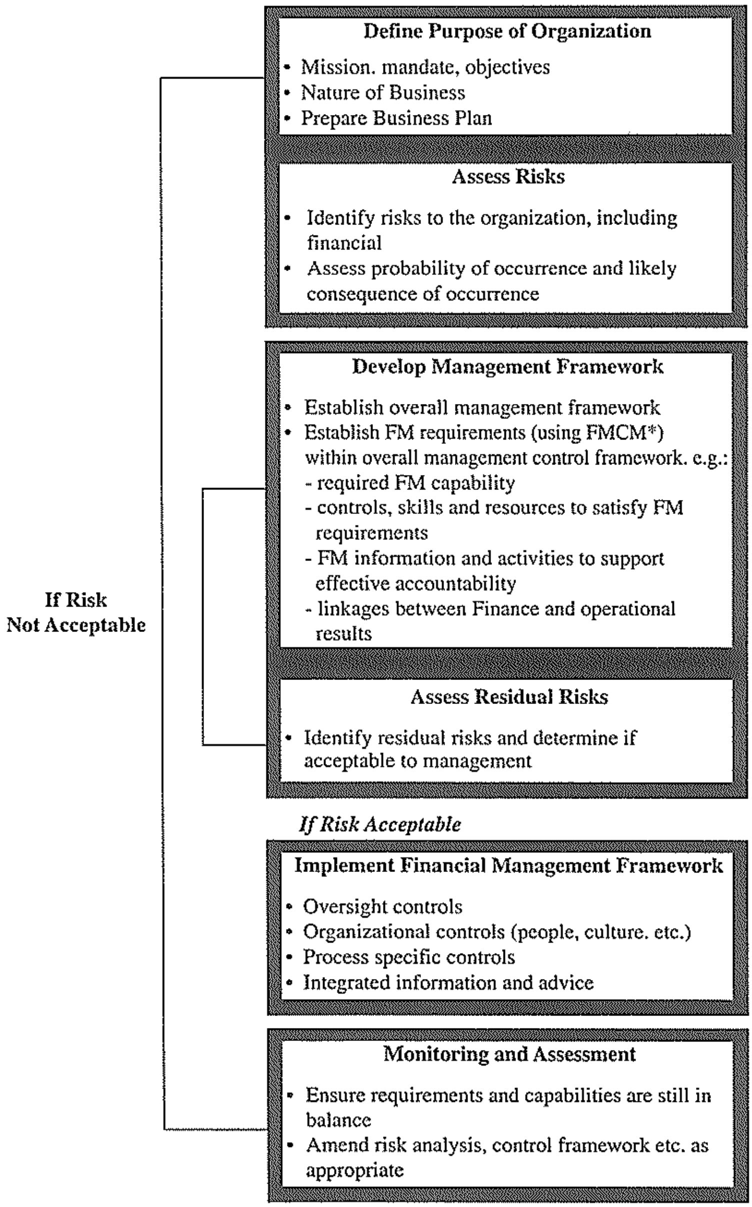
The second step would be for management to establish and overall management framework, based on the results of its assessment. This would include determining the financial management capabilities the organization needs, given the nature of its business and the inherent risks involved. This step would involve using the FMCM to:

- establish the financial management capability the organization needs;
- assess the organization's existing capability level; and
- provide guidance for closing any gap between the required and the existing levels of financial management capability.

Once financial management requirements have been established, management would identify any residual risks that exist and assess their acceptability. The existence of unacceptable residual risks would require management to reconsider its financial management requirements and the capabilities needed to meet them.

The third step would be for management to implement the financial management framework. This step involves monitoring processes and activities to ensure that financial management requirements and existing capabilities are still in balance and that they reflect the risks and needs of the organization. Any imbalance that this monitoring might reveal would have to be dealt with - for example, by modifying the risk analysis or financial management framework, as required.

Exhibit 6: Framework for Establishing Financial Management (FM)



The framework outlined in Exhibit 6 provides a way in which the Financial Management Capability Model could be applied. Auditors could use the Model to assess the audited organization's level of financial management capability relative to its requirements.

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Does Financial Development Accelerate Economic Growth ? An Econometric Analysis of Some Aspects of Bangladesh Economy

Dr. Mohammad Tareque*

Abstract: Within Cochrane-Orcutt AR method And ARDL approach to cointegration this paper investigates McKinnon's complementary hypothesis (complementarity between financial assets and physical assets in an underdeveloped economy) in case of Bangladesh. It finds that a depressed financial environment, characterized by a controlled and lowered rate of interest, would rather slow down the economic growth of Bangladesh by decreasing or impeding the growth of demand for financial assets and thereby, reducing or retarding mobilization of domestic private savings and loanable funds for investment. In Bangladesh, at the given stage of development, public investment is also found to be complementary rather than substitute to private investment. There also exists a feedback relationship between saving and economic growth. One would reinforce the other. Contrary to classical and new classical prescription, these findings suggest for a fully liberalized financial system where rate of real interest is determined by market forces.

Introduction: This paper is motivated by two considerations: (1) Recent reforms in Bangladesh's financial sector and deregulation of interest rates by introducing flexibility in the determination of both the deposit and lending rates of interest and (2) McKinnon (1973) and Shaw's (1973) contention that financial repression retards, rather than promotes, economic growth.[1]

The role of financial development in economic growth, to a great extent, was and still is a debatable issue.[2] Until early 1970s, the common view was that repressive inward-looking financial policies that keep the real interest rates low or negative would encourage growth by promoting investment. This

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[1] Financial repression represents an economic condition where the government's discretionary monetary and financial policies indiscriminately distort financial prices, discourage saving, lower investment, misallocate financial resources (Fry,1988).

[2] For a critical discussion on the roles of financial factors in economic growth, please see Dornbusch and Reynoso (1989).

view had theoretical backing from Keynes (1936) and Tobin (1965). Keynes argued for lowering of real interest rates by putting a ceiling on the nominal interest rate in order to advance economic growth as investment is inversely related to the real interest rate[3]. Within the setting of a monetary growth model, Tobin argued for a high rate of inflation to increase the capital labor ratio by lowering the demand for money relative to the demand for physical capital. In Tobin's model, inflation encourages economic growth during the transition towards a higher level of per capita income.[4]

Backed by such a conceptual support, most developing countries in the 1950s and 1960s embraced development strategies which included repressive and controlled financial policies (Fry,1988). The theory that such policies augment growth came under critique, principally from McKinnon (1973) and Shaw (1973). They maintained that financial repression retards economic growth instead of promoting it. Beginning with the works of Mckinnon and Shaw, a quite substantial body of literature has now came forth on the role of financial factors in economic development. Its basic idea is that a developed and efficient financial system can play an important role in economic growth and development. It has been argued that a low or negative real interest rate is a clear manifestation of financial repression that badly affects the performance of the economy.[5] It is asserted that a developed financial system provides services that are indispensable in a modern economy. The use of a steady, widely accepted medium of exchange lessens the costs of transactions. It facilitates trade and therefore, specialisation in production. Financial assets with attractive yield, liquidity, and risk characteristics encourage saving in financial form. By evaluating alternative investments and monitoring the activities of borrowers, financial intermediaries increase the efficiency of

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[3] Real interest rate was presumed to remain above the full-employment equilibrium level.

[4] The Latin American structuralist school also suggests that inflation is conducive to economic growth.

[5] *First,* a low or negative real interest encourages current consumption and induces people to hold savings in the form of real, rather than financial, assets as the former is better hedge against inflation. Second, a low or negative real interest generates an excessive damand for investible funds and creates problems associated with credit rationing and rent-seeking actinities. *Third,* a low or nevative real interest cause inefficiency in investment and encourages capitalintensive investment which is not compatible with factor endowments of developing countries.

resource use. Access to a variety of financial instruments enables economic agents to pool price, and exchange risk. Trade, the efficient use of resources, saving, and risk taking are the cornerstones of a growing economy.

Background: Bangladesh inherited an under-developed and repressed financial system. It became more repressed and regressed as the post-liberation government followed the path of socialist restructuring of Bangladesh Economy. Financial system was defined by controlled interest rates, selective credit allocation, suppressed money and capital markets by regulations, and an over-valued currency.[6] However, since early eighties, Bangladesh Economy and so her financial market started to opening up gradually.

Reforms, in Bangladesh primarily began with the introduction of New Industrial Policy in 1981. Private banks were permitted to operate since 1982. From pegged and dual exchange rate system, Bangladesh had moved to flexible managed and unitary exchange rate system in late eighties. Recently, there were some attempts in Bangladesh to liberalize her financial sector as well. Financial reforms in most developing countries during the past two decades have been carried out in the belief that financial liberalization promotes saving, investment, and economic growth. Based on the recommendations of the National Commission on Money, Banking and Credit (1986), the Government of Bangladesh has undertaken a financial reform program since the late 1980s. A major initiative was taken in November 1989 when the interest rates were partially deregulated by introducing flexibility in the determination of both the deposit and lending rates of interest. Since 1990-91 the central bank has gradually moved from direct to indirect instruments for monetary management (Hossain and Rashid, 1997). Later on, it also abolished bands on both deposit and lending interest rates.

Table 1 reports data on inflation and interest rates in Bangladesh during the period 1973-2000. It reveals that up to late eighties inflation was in double digit number and real deposit rate of interest in Bangladesh was negative (as low as -65 per cent in the fiscal year 1974-75). However, since then the real deposit rate of interest has gradually moved towards a positive value because of an improvement in the inflationary situation. The real loan rate of interest was also strongly negative in Bangladesh during the early 1970s (as low as -

[6] Objective of these policies were to provide cheap credit for the private sector for export processing and import substituting industrialisation.

Table 1: Interest Rate and Inflation [7,8]

	Def86	NCPI86	Ndi/1	Nai/2	II	π	r_1	r_2	ρ_1	ρ_2
1972	12.1	11.5	2.8	10.5						
1973	17.2	16.2	3.1	10.9	42.0	41.2	-38.1	-0.9	-30.3	-0.7
1974	23.8	22.9	3.5	10.8	38.6	41.2	-37.7	-0.9	-30.4	-0.7
1975	40.7	38.8	3.5	11.3	71.2	69.3	-65.7	-0.9	-58.0	-0.8
1976	34.2	36.8	4.2	11.6	-16.0	-5.3	9.5	-2.2	16.9	-3.9
1977	35.0	38.3	4.3	11.0	2.4	4.2	0.1	0.0	6.8	1.3
1978	40.9	40.6	4.2	10.7	16.9	6.0	-1.8	-0.3	4.7	0.7
1979	46.8	43.8	4.3	11.1	14.4	7.9	-3.6	-0.4	3.2	0.4
1980	52.3	52.1	4.3	11.0	11.7	18.8	-14.5	-0.7	-7.8	-0.4
1981	59.7	58.5	7.0	13.1	14.2	12.3	-5.4	-0.4	0.7	0.1
1982	66.0	68.1	7.3	13.5	10.6	16.5	-9.2	-0.5	-2.9	-0.2
1983	71.5	74.8	7.4	13.6	8.3	9.8	-2.4	-0.2	3.8	0.4
1984	81.9	81.9	8.1	13.8	14.5	9.5	-1.4	-0.1	4.2	0.4
1985	91.1	91.0	8.1	14.5	11.2	11.1	-3.0	-0.2	3.4	0.3
1986	100.0	100.0	8.5	14.7	9.8	9.9	-1.4	-0.1	4.7	0.4
1987	111.0	110.3	8.6	14.7	11.0	10.3	-1.7	-0.2	4.4	0.4
1988	119.5	122.9	8.7	14.7	7.6	11.4	-2.7	-0.2	3.2	0.3
1989	128.7	132.8	8.9	14.7	7.7	8.0	0.9	0.1	6.7	0.7
1990	135.0	145.1	9.1	14.8	4.9	9.3	-0.2	0.0	5.5	0.5
1991	147.7	158.0	9.1	15.0	9.4	8.9	0.2	0.0	6.1	0.6
1992	154.0	166.1	8.1	15.1	4.2	5.1	3.0	0.5	10.0	1.6
1993	154.1	168.3	6.5	14.4	0.1	1.3	5.2	2.2	13.1	5.6
1994	160.7	171.5	5.3	12.8	4.3	1.9	3.5	1.2	10.9	3.8
1995	174.8	180.3	4.7	12.2	8.7	5.1	-0.5	-0.1	7.1	1.2
1996	184.5	187.6	6.1	13.4	5.6	4.1	2.0	0.4	9.3	1.8
1997	187.8	195.0	6.7	13.7	1.8	3.9	2.8	0.6	9.8	2.0
1998	196.2	207.3	7.1	14.0	4.4	6.4	0.7	0.1	7.7	1.0
1999	210.7	220.6	7.3	14.2	7.4	6.4	0.9	0.1	7.8	1.0
2000	225.4	234.7	7.8	14.4	7.0	6.4	1.4	0.2	8.0	1.1
2001	240.0	248.3	7.9	14.7	6.5	5.8	2.1	0.3	8.9	1.3
2002	254.6	262.2	7.9	14.6	6.1	5.6	2.3	0.3	9.0	1.4

Source : BBS & Bangladesh Bank

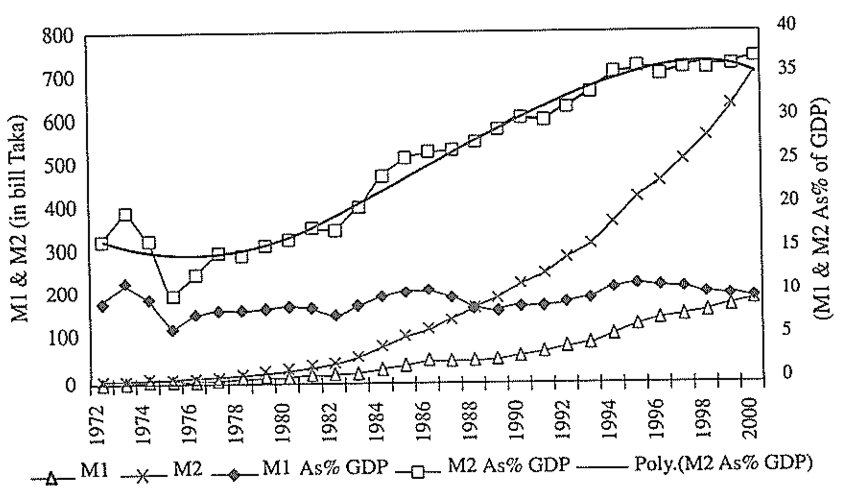
[7] /1 Ndi stands for nominal Deposit Interest rate, /2 Nai denotes nominal interest rate on advance
/3 II shows change in GDP Deflator with 1986=100. /4π indicates change in National CPI with 1986=100
/5 r is for real deposit interest defined as follows:
$r1=Ndi-\pi$ & $r2=(1+Ndi)/(1+\pi)-1$; Similarly, ρ1 & ρ2 defines real interest rate on advance.

[8] Figures for the Fiscal Year 2001 and 2002 are forecasted ones.

59 per cent in the fiscal year 1974-75). Since then, it has improved on a continuous basis and moved towards a positive value, which was reached in the fiscal year 1982-83.

The common measure of financial deepening of an economy is the ratio of broad money (M_2) to Gross Domestic Product (GDP). The ratio of M_2 to GDP in Bangladesh is shwoing a rising trend (Chart 1). From a mere 10% in

Chart 1: Financial Deepening of Bangladesh Economy



1974-75, it now stands at around 36%. It clearly demonstrates gradual financial deepening and increasing monetization of Bangladesh economy.

Within a Cochrane-Orcutt AR (Autoregressive) and an ARDL (Autoregressive Distributed Lag) approach to cointegration this paper investigates McKinnon's complementary hypothesis (complementarity between financial assets and physical assets in an underdeveloped economy) in Bangladesh. The paper is divided into three sections. Section I introduces the issue and delineates its background, different aspects of McKinnon's complementary hypothesis are modelled, estimated and evaluated in Scetion II, and Section III concludes the paper and outlines policy options.

Section II

As noted earlier, an extensively usded measure of financial deepening is the ratio of broad money to income. McKinnon (1991) argues that a high and rising M_2-GDP ratio indicates a large flow of domestic loanable funds for new investment[9]. As capital markets in developing countries are dominated by banks, the M_2-GDP encompasses the domestic flow of loanable funds in the system. Economic growth and the real deposit rate of interest are two other determinants of financial growth.[10] Economic growth expands the financial system as the demand for financial services inrcreases with an increase in economic activity, the expansion of the financial system in turn facilitates the intermediation between savers and investors and promotes economic growth (Chowdhury and Islam, 1993; Patrick, 1966).[11]

***Scenario 1:* The Real Deposit Rate of Interest and Financial Deepening**

The real deposit rate of interest is presumed to be a major determinant of financial growth in developing countries. Financial reforms that generate a positive return on deposit and increase the accessibility to financial institutions may raise saving and augment financial development.[12]

Bangladeshi data for the period 1977-1999 were used for the estimation of a semi-logarithmic equation of per capita real broad money (m_2) with per capita real income (y) and the real interest rate (nominal interest rate - inflation (π) (r) as the explanatory variables of following form :

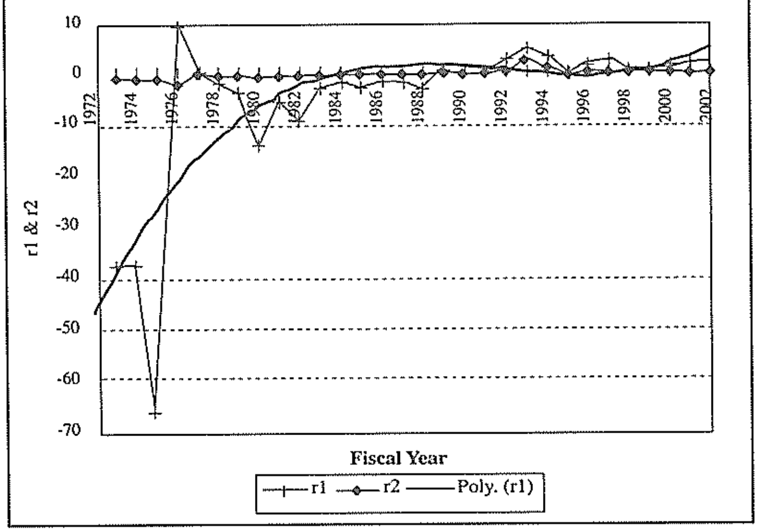
[9] McKinnon (1988, 1989) argues that a slower growth of financial assets in South Korea was one reason for the low level of real loanable funds available for investment through the organised financial sector.

[10] In fact, economic and financial growth have a feed back relationship.

[11] By examine the time series data for a large number of developed and developin countries, Jung (1986) found that in anf early stage of economic development, the financial sector is more important in facilitating transactions than intermediation.

[12] Empirical findings on the links between the deposit rate of interest and saving and between financial development and saving are ambiguous, enen in high performing East Asian newly industrialising economies (Chouwdhury and islam,1993).

Chart 2 : Historical Trend of Real Deposit Real Interest Rate Under Two Alternative Definitions



$$Im2=\beta_0 + \beta_1 ly + \beta_2 r \qquad (1)$$

The estimated equation by Cochrane-Orcutt Method AR(3) is presented below :

Cochrane-Orcutt Method AR(3)[13]: (converged after 22 iterations)

Dependent variable is lm_2,: 23 observations used for estimation from 1977 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
Inpt	-5.6785	4.3604	-1.3023[.208]
ly	1.0389	.44434	2.3380[.030]
r	.0053850	.0018093	2.9762[.007]

(2)

[13] Parameters of the Autoregressive Error Specification

U=	1.3024 *U(-1)	-.88656 *U(-2)+	.50632 *U(-3)+E
	(6.0039)[.000]	(-2.8531)[.011]	(2.6624)[.016]

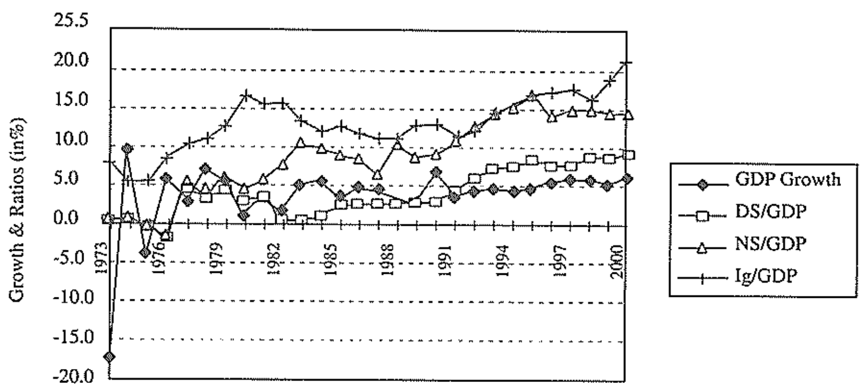
T-ratio(s) based on asymptotic standard errors in brackets

Major Test Statistics

R-Squared	.99217	R-Bar-Squared	.98938
S.E. of Regression	.038923	F-stat. F (5,14)	354.9120[.000]
Residual Sum of Squares	.021210	Equation Log-likelihood	40.1113
Akaike Info. Criterion	34.1113	Schwarz Bayesian Criterion	30.7048
DW-statistic	1.8823		

Equation (2) shows that the income elasticity of the demand for real broad money balance is about unity implying GDP growth brings about proportionate growth in broad money. The coefficient of real interest rate is positive. Unlike other studies, it indicates that increase in real interest rate would deepen financial market of Bangladesh.

Chart 3 : Historical Trend of GDP Growth and Saving/Investment Ratios of Bangladesh Economy



It may be inferred from above findings that the low level of financial deepening, savings are increasingly held in financial rather than in real asset forms. It improves the efficiency of intermediation between savers and investors and hence promotes economic growth (Chowdhury and Islam, 1993). In Bangladesh, since late eighties as real deposit interest rate has become positive, saving rate has also started to move up and so does the growth rate (Chart 3).[14]

[14] Please see page 4 of the Annex.

Scenario 2: **Complementarity Between Money and Capital**

The McKinnon model of finance in economic growth is pertinent to an underdeveloped fragmented economy. Usually, in such economies, capital markets are underdeveloped and/or embryonic. In such an economic environment, entrepreneurs are constrained and compelled to engage in self-finance as they do not have enough and/or easy access to bank credits. Investors in such an economy may be forced to accumulate monetary assets before they invest in high-yielding physical capital. Money thus serves as a 'conduit' for capital accumulation. It implies that the demand for money and the demand for physical capital are complementary in private asset protfolios. They are not subsitiutes as assumed in both the neo-classical and Keynesian models. The validity of McKinnon's (1973) complementarity hypothesis is often tested by estimating a money demand function of the following form (Hossain, 1996):

$$m=m(y,i_y,r) \qquad (3)$$

Where m is the demand for per capita real broad money, y is per capita real income, i_y is the ratio of investment to income and r is the real deposit rate of interest, as defined earlier. In this specification, all the partial derivatives of m are positive. Following the common practice in the literature, a modified specification of the McKinnon money demand function is used for estimation purpose such that :

$$m=m(y,S_y,r, reer) \qquad (4)$$

where sy is the ratio of saving to income and reer is effective exchange rate. Results of estimation of equation (4) in logarithmic form by Cochrane-Orcutt Method AR (4) are provided below:

Cochrane-Orcutt Method AR(4)[15]: (converged after 17 iterations)

Dependent variable is lm_2,: 27 observations used for estimation from 1973 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
Inpt	-8.2624	1.5619	-5.2900[.000]
ly	1.0504	.18505	5.6763[.000]
S_y	.014504	.0041966	3.4562[.002]
r	.0054270	.0017816	3.0462[.006]
lreer	.55247	.045506	12.1405[.000]

(5)

[15] Parameters of the Autoregressive Error Specification

Major Test Statistics

R-Squared	.99640	R-Bar-Squared	.99434
S.E. of Regression	.033392	F-stat. F (8,14)	483.8984[.000]
Residual Sum of Squares	.015610	Equation Log-likelihood	51.2606
Akaike Info. Criterion	42.2606	Schwarz Bayesian Criterion	36.4293
DW-statistic	2.4210		

The regression results as shown in equation (5) are fully consistent with McKinnon's complementary hypothesis. The positive and statistically significant coefficients completely validates the complementary hypothesis.

Scenario 3: **Real Deposit Rate of Interest and Private Investment**

The proposition that an increase in the real deposit rate of interest would increase investment can be tested for Bangladesh by estimating a private investment function of the following form:

Pri=Pri (r,m,p,tech) (6)

Where P_{ri} is the rate of private investment, r is the deposit rate of interest, m is per capita real broad money, p_u is the rate of government investment, and tech is technological progress. The partial derivatives of pi are :

$\delta P_{ri}/\delta tech>0$, $\delta p_{ri}/\delta r>$,and $\delta p_{ri}/\delta m>0$, while $\delta p_{ri}/\delta p_{ui}$ is indeterminate

In the above specification, tech and r have been included in accordance with the McKinnon theory of investmemt. The Variable, tech, is a proxy for technological progress. It is expected to capture the rate of profitability in investment and hence (perhaps) the average rate of return on physical capital. Different proxies were tried but found to be statistically insignificant. The real deposit rate of interest is expected to increase private investment by raising the rate of private saving.

The lag structure of Equation (6) needs explanation. Molho(1986) emphasizes the intertemporal nature of complementarity between money and capital. He suggested that even though there can be contemporaneous substituability between deposits and physical capital, the McKinnon model essentially indicates an intertemporal complementarity with current deposits intended to finance future investment. Thornton and Poudyal (1990) included real money as an explanatory variable in the saving function in order to

---

U=	.43968...U(-1)+	-.49597..U)-2)+	.25160...U(-3)+	-.23289..U(-4)+E
	(2.0528)[.055]	(-2.3946)[.028]	(2.3127)[.033]	(-2.8391)[.011]

T-ratio(s) bsed on assymptotic standard errors in brackets

---

provide a direct test for the McKinnon's complementary hypothesis. McKinnon (1973) indeed points out that the thesis of complementarity between money and physical capital implies that large and fast-growing real cash balances contribute to rapid growth in investment and aggregate output.

One delicate issue in the theory of investment is whether public and private investment are complements or subsitutes. Galvis (1979) argues that there is complementarity between private and public investment. Conversely, when the public sector is engaged in the production of final goods, it tends to compete with the private sector for resources and then the public and private investment become substitutes. Laumas (1990) suggests that even when the government tries to assist the private sector by providing infrastructure investment, because of the relative scarcity of resources the government may end up competing with the private sector for limited savings, skilled labor, and foreign exchange.

Autoregressive Distributed Lag Estimates[16]: ARDL (2,0,2,0) selected based on Schwarz Bayesian Criterinon

Dependent variable is lpri: 24 observations used for estimation from 1976 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
$Ip_{ri(-1)}$	.73026	.15692	4.6537[.000]
$Ip_{ri(-2)}$	-.33162	.14472	-2.2914[.035]
Ip_{ui}	.45421	.092553	4.9076[.000]
Im_2	1.4552	.64761	2.2471[.038]
$Im_{2(-1)}$	-1.8834	.59236	-3.1795[.005]
$Im_{2(-2)}$	.97061	.24412	3.9760[.001]
r	-.053476	.011284	-4.7393[.000]

(7)

[16] Diagnostic Tests

✧ Test Statistics	✧ LM version	✧ F Version
✧ A:serial Correlation	✧ CHSQ(1) = .0062506[.937]	✧ F(1,16) = .0041682[.949]
✧ B:functional From	✧ CHSQ(1) = .59732[.440]	✧ F(1,16) = .40838[.532]
✧ C:Normality	✧ CHSQ(2) = .97540[.614]	✧ Not applicable
✧ D:Heteroscedasticity	✧ CHSQ(1) = .77603[.378]	✧ F(1, 22) = .73513[.400]

Major Test Statistics

R-Squared	.95748	R-Bar-Squared	.94247
S.E. of Regression	.12793	F-stat. F (6,17)	63.7991[.000]
Mean of Dependent Variable	11.1083	S.D. of Dependent Variable	.53336
Residual Sum of Squares	.27821	Equation Log-likelihood	19.4346
Akaike Info. Criterion	12.4346	Schwarz Bayesian Criterion	8.3114
DW-statistic	1.9385		

Experimenting with different Auto-regressive Distributed Lagged (ARDL) models, the above from of lagged structure has been found statistically most significant with structural stability (Chart 4 and Chart 5). The results of estimation as embodied in equation (7) poignantly establish the complementary hypothesis. Equation (7) shows: (1) Growth of private investment in Bangladesh is negatively related to real interest rate but positively to growth of demand for broad money,[17] and (2) private investment in Bangladesh still hinges upon public investment. The results are consistent with the complementary hypothesis.

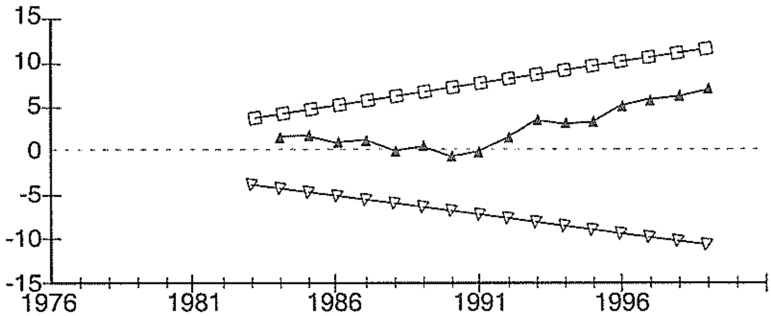
Equation (8) and (9) imply that there exists a long -run cointegrating relationship amongst growth of private investment, growth of public investment, growth of broad money and real deposit interest. The impact of growth of financial assets is much higher than real deposit interest rate on private investment in the long-run. Negative and insignificant effect of real interest rate on private investment would be cancelled out by more robust and positive impact of growth of financial assets. The error correction term (ecm(-1)) is of correct sign and statistically very robust implying that any departure from long-run relationhip corrects itself about twice within a year.

***Scenario 4:* The Real Deposit Rate of Interest and Private Saving**

One fundamental doctrine of the McKinnon model of finance is that real deposit rate of interest raises private saving. It is often called the volume effect of the real deposit rate of interest. As there is no conclusive empirical evidence on the volume effect of the real deposit rate of interest, it is argued that an increase in the real deposit rate of interest would at least increase the level of financial saving. The latter is often called the composition effect of the real deposit rate of interest. When an increase in the rate of financial saving increases productive investment, the rise in the real deposit rate of

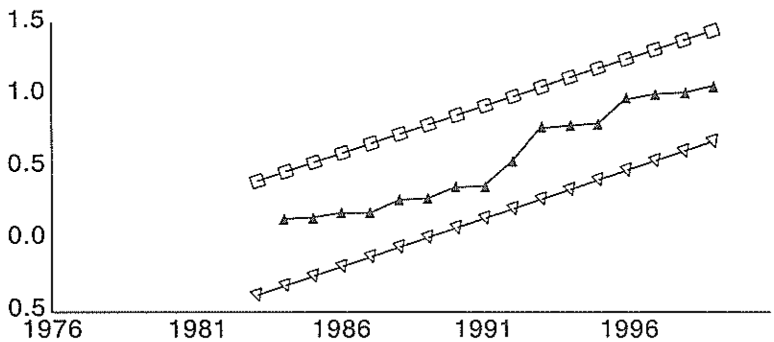
[17] It is important to note here that estimate coefficients of $lm_2/lm_{2(-2)}$ and $lm_{2(-1)}$ are of opposite signs and sum of ecefficient lm2 and $lm_{2(-2)}$ is larger r than the coefficient of $lm_{2(-1)}$ in absolute value.

Chart 4: Plot of Cumulative Sum of Recursive Residuals



The straight lines represent critical bounds at 5% significance level

Chart 5: Plot of Cumulative Sum of Squares of Recursive Residuals



The straight lines represent critical bounds at 5% significance level

Estimated Long Run Coefficients using the ARDL Approach:
ARDL(2,0,2,0,) selected based on Schwarz Bayesian Criterion

Dependent variable is lp_{ri},: 24 observations used for estimation from 1976 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
lp_{ui}	.75530	.054294	13.9114[.000]
lm_2	.90199	.17452	5.1684[.000]
r	-.088925	.016146	-5.5077[.000]

(8)

Error Corection Representaation for the selected ARDL Model: ARDL(2,0,2,0) selected based on Schwarz Bayesian Criterion

Dependent variable is dlp_{ri}: [18]24observations used for estimation from 1976 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
dlp_{ri1}	.33162	.14472	2.2914[.034]
dlp_{ui}	.45421	.092553	4.9076[.000]
dlm_2	1.4552	.64761	2.2471[.037]
dlm_{21}	-.97061	.24412	-3.9760[.001]
dr	-.053476	.011284	-4.7393[.000]
$ecm_{(-1)}$	-.60136	.11254	-5.3435[.000]

(9)

interest may promote economic growth.

As data on private savings are not available, domestic saving function of the following form is specified in order to examine the effect of the real deposit rate of interest on the rate of saving in Bangladesh[19]

$$s_y=s_y(r,lx,\ l_{gdp}) \tag{10}$$

where r is the real deposit rate of interest, lx is the log of exports (a proxy for export-orientation) and l_{gdp} is the log of GDP. The partial derivatives of sy are $\delta s_y/\delta r>0, \delta s_y/\delta l_{gdp}>0$ and $\delta s_y/\delta lx>0$.

Export-orientation has a positive impact on private saving. Several authors, such Maizels (1968) Lee (1979)and Chen (1979), put forward a

[18] List of additional temporary variables created:

[19] This specification is restrictive and exploratory in nature. See Hossain (1973) for a thorough discussion on the determinants of saving in Bangladesh.

$dlp_{ri} = lp_{ri}-lp_{ri(-1)}$
$dlp_{ri1} = lp_{ri}(-1)-lp_{ri(-2)}$
$dlp_{ui} = lp_{ui}-lp_{ui(-1)}$
$dlm_2 = lm_2-lm_{2(-1)}$
$dlm_{21} = lm_2(-1)-lm_{2(-2)}$
$dr = r-r_{(-1)}$
$ecm = lp_{ri} -.75530 * lpui -.90199 * lm_2 + .088925 * r$

R-squared	.70775	R-Bar-Squared	.60461
S.E. of Regression	.12793	F-stat. F(5, 18)	8.2340[.000]
Mean of Dependent Variable	.10433	S.D. of Dependent Variable	.20345
Residual Sum of Squares	.27821	Equation Log-likelihood	19.4346
Akaike Info. Criterion	12.4346	Schwarz Bayesian Criterion	8.3114
Dw-statistic	1.9385		

R-Squared and R-Bar-Squared measures refer to the dependent variable dlpri and in cases where the error correction model is highly restricted, these measures could become negative.

hypothesis, which suggests that an increase in the export income ratio augments saving in developing countries by promoting economic growth. This hypothesis is essentially based on the development experience of North and East Asian industrializing economies, where an export-oriented development strategy has helped in achieving rapid economic growth. However, in case of Bangladesh, we have found that lx, though significant in explaining macro saving behavior, is multi-collinearly related with both lgdp and r.[20] Therefore, lx has been dropped for estimation purpose of Equation (10)

After experimenting with different Auto-regressive Distributed Lagged Structures, we have found the lagged structure as specified and estimated in equation (11) is statistically most significant.

Autoregressive Distributed Lag Estimates:[21] ARDL(1,2,1) selected based on Schwarz Bayesian Criterion

Dependent variable is s_y: 23observations used for estimation from 1977 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
$s_{y(-1)}$	.73186	.068254	10.7225[.000]
l_{gdp}	-22.6946	11.9528	-1.8987[.075]
$l_{gdp(-1)}$	48.8622	10.7229	4.5568[.000]
$l_{gdp(-2)}$	-26.0584	10.9989	-2.3692[.030]
r	.10349	.055555	1.8629[.080]
$r_{(-1)}$	.16283	.048139	3.3826[.004]

(11)

[20] Estimated Long Run Coefficients using the ARDL Approach: ARDL(3,3) selected based on Schwarz Bayesian Criterion

[21] Diagnostic Tests

Test Statistics	✧ LM Version	✧ F Version
A:Serial Correlation	CHSQ(1) = 1.2884[.256]	F(1, 16) = .94948[.344]
B:functional Form	CHSQ(1) = .32486[.569]	F(1, 16) = .22923[.639]
C:Normality	CHSQ(2) = .94284[.624]	Not applicable
D:Heteroscedasticity	CHSQ(1) = 1.6425[.200]	F(1, 21) = 1.6150[.218]

Dependent variable is s_y: 24 observations used for estimation from 1976 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
lx	3.1166	.43908	7.0981[.000]
inpt	-31.9833	4.7451	-6.7402[.000]

Major Test Statistics

R-Squared	.93311	R-Bar-Squared	.91343
S.E. of Regression	.79957	F-stat. F (5,17)	47.4260[.000]
Mean of Dependent Variable	4.4206	S.D. of Dependent Variable	2.7175
Residual Sum of Squares	10.8684	Equation Log-likelihood	-24.0147
Akaike Info. Criterion	-30.0147	Schwarz Bayesian Criterion	-33.4212
DW-statistic	2.3250	Durbin's h-statisic	-.82481[.409]

Estimated Long Run Coefficients using the ARDL Approach: ARDL(1,2,1) selected based on Schwarz Bayesian Criterion

Dependent variable is s_y: 23 observations used for estimation from 1977 to 1999

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
l_{gdp}	.40724	.24005	1.6965[.108]
r	.99323	.29768	3.3366[.004]

(12)

Error Correction Representation for the Selected ARDL Model: ARDL(1,2,1) selected based on Schwarz Bayesian Criterion

Dependent variable is ds_y : 23 observations used for estimation from 1977 to 1999

Regressor[22]	Coefficient	Standard Error	T-Ratio[Prob]
dl_{gdp}	-22.6946	11.9528	-1.8987[.073]
dl_{gdp1}	26.0584	10.9989	2.3692[.029]
dr	.10349	.055555	1.8629[.078]
ecm(-1)	-.26814	.068254	-3.9286[.001]

(13)

[22] list of additional temporary variables created:

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dsy $= s_y - s_{y(-1)}$

dlgdp $- l_{gdp} - l_{gdp(-1)}$

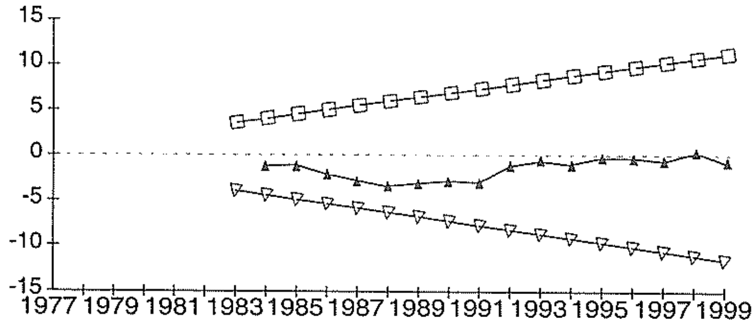
dlgdpl $= l_{gd}p(-1) - l_{gdp(-2)}$

dr $= r - r_{(-1)}$

ecm $= s_y - .40724 * l_{gdp} - .99323 * r$

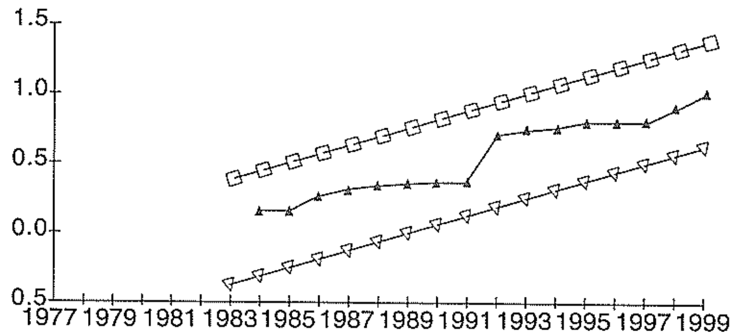
Estimation results show that it pass all the statistical tests[23] and the stability conditions (Chart 6 and Chart 7). The regression result suggests that the growth rate of real income have a positive and
significant impact on rate of saving. A long-run relationship exists between them and an departure corrects itself about 4 times a year (Equation (13).

Chart 6: Plot of Cumulative Sum of Recursive Residuals



The straight lines represent critical bounds at 5% significance level

Chart 7: Plot of Cumulative Sum of Squares of Recursive Residual



The straight lines represent critical bounds at 5% significance level

R-Squared	.83506	R-Bar-Squared	.78655
S.E. of Regression	.79957	F-stat. F(3, 19)	28.6891[.000]
Mean of Dependent Variable	.42002	S.D. of Dependent Variable	1.7306
Residual Sum of Squares	10.8684	Equation Log-likelihood	-24.0147
Akaike Info. Criterion	-30.0147	Schwarz Bayesian Criterion	-33.4212
Dw-statistic	2.3250		

[23] Please see the previous footnote.

Section III

We have found, quite contrary to other studies, that the coefficient of the real deposit rate of interest is positive, significant and quite robust in the broad money demand function and also in the saving function. Even stable long-run equilibrium exists between savings rate and real rate of interest. It is consistent with the view that an increase in the real deposit rate of interest would increase private saving. With a rise in financial deepening, savings are increasingly held in financial assets rather than in physical assets. It improves the efficiency of intermediation between savers and investors. This promotes growth. Economic growth, in turn, accelerates savings. We have seen this feedback relationship between savings and growth. One reinforces the other.

McKinnon suggests that households and firms maintain portfolio balance by holding stocks of monetary assets at a certain proportion of income. Stocks of monetary assets would be higher relative to income when the real return on holding money is high. Starting from a stationary state of zero net saving, an increase in economic growth affects households' desired ratio of money to income and induces them to save from their incremental income to raise their asset position and establish the ratio of money to income. This protfolio effect of growth on saving is noticeable - the higher the desired ratio of money to income, the higher is the rate of growth. The propensity to save, instead of being constant, is assumed to be dependent on economic growth due to the portfolio effect of growth on saving.[24] Our findings are quite compatible with this notion.

This finding has important policy implications for low-saving country like .Bangladesh.[25] It suggests that a depressed financial environment,

[24] However, in macroeconomic literature on saving, there are a number of alternative views on the impact of economic growth on saving and they do not unanimously suggest that economic growth has a positive role in saving (Friedmam, 1957; Modigliani, 1987).

[25] The effect of government saving on private saving could not be tested. This issue has gained prominence in macroeconomic literature. The debate centers around - to what the extent a shift in government saving induces an offsetting shift in private saving. Such an issue is often examined within the framework of the Barro-ricardian equivalence proposition. However, there is little evidence in support of the Barro-Ricardian eqivalence proposition in developing countries (Hoque and Montiel, 1989). Corden (1987) points out that the motive behind private households accumulating assets in response to rising government fiscal deficits is not to finance tax bill, but rather to evade future taxes.

characterized by a controlled and lowered rate of interest, would rather slow down the economic growth of Bangladesh by decreasing or impeding the growth of demand for financial assets and thereby, reducing or retarding mobilization of domestic private savings and loanable funds for investment.

In Bangladesh, at the given stage of development, public investment is also found to be complementary rather than substitute to private investment. It implies that public investment in infrastructure and social over-head would enhance the opportunities for private investment in raise the productivity of capital and increase demand for private output paving further growth.

Contrary to classical and new classical prescription, these findings suggest for a liberalized financial system where rate of real interest is determined by market forces.

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Reformation in audit - A Comparative Review

Md. Shahad Chowdhury*

Background: Since the Lima Declaration in 1977 the role of Supreme Audit Institutions around the world has changed from looking into the books and accounts to examine the correctness of expenditure to ascertaining economy, efficiency and effectiveness of public expenditure. Such change of 'audit domain' is the out come of greater awareness of the tax payer, the auditor and auditee to ensure better governance, more transparency and appropriate accountability.

Ever since the establishment of the Supreme Audit Institution of Bangladesh and the additional functions conferred upon it the organization has been carrying out the task of audit of all the public, autonomous and semi-autonomous institutions of the Republic regularly. Within a spell of over last 30 years the nature of audit methodology remains traditional and orthodox. Codes and manuals even dates back to 1935. The concentration of audit is on examining books and records to find out the faults of the spender rather than determining what is expected of them in maintaining financial discipline. Audit reports of the CAG reveal that the focus is on wasteful or infractuous expenditure, loss, damage, improprieties, theft, embezzlement, fraudulent practices and misappropriation. More often than not, the objections raised are insignificant or refer to trivial issues without dealing in detail about the context or results of the operations.

The onus of audit responsibility has increased manifold with the rising volume of government expenditure. In 1913-14 the total central and provincial expenditure in India was Rupees 125 Crore only. It rose to rupees 211 Crore in 1936-37 showing an incrase of 60% in 23 years. The budget for Bangladesh was Taka 808 Crore in 1972-73 including revenue budget of Taka 224 Crore and development budget of Taka 584 Crore. The revenue budget rose to Taka 17800 Crore in 1999-2000. The audit of revenue receipt of Taka 24151 Crore, foreign loans and grants of Taka 8360 Crore and domestic debt of Taka 3667 Crore are also under the purview of the CAG. The additional functions to the CAG includes audit of the accounts of 650 foreign aided

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projects and state owned enterprises. The task is carried out through 9 audit directorates with an army of 1300 auditors. The numbers of auditees are around 23000.

The reason behind looking from a historical perspective emanates from a desire to make the auditors and auditee aware and adjust to the emerging changes that are making in the Bangladesh audit department. The success of any attempt would depend largely on those who are working to bring the change and those who will be changed because of the change attempt. Unless all the parties are willing to accept that question of economy, efficiency and effectiveness for an accountable and transparent administration attempts for modernization would be frustrated.

Necessity of change: A change is required when existing systems or practices can not fully serve the purpose for which they have been established. This change approach either termed as 'reformation', 'renovation', 'restructuring' or 'improvement' need a sea of change in the mind set. To make the change approach effective recognizing the past and identifying the deficiencies of the present day practice are primary requirements for those who are engaged in the task and those who will be benefited out of it.

Global requirement to ensure effective stewardship and enhancing good governance make it imperative on the part of the SAI of Bangladesh to move along the way. Ensuring accountability is another priority. In doing so the justifiability behind the expenditure needs to be explored. Thus audit gets a new definition of ascertaining, 'what is there to what should be' there. To provide the user of the reports as tools for effective decision making the nature and quality of reports and contents therein needs revisiting. The audit reports of the past dealt less with what would be done rather what had been done? Their recommendations were more on financial irregularities than on functional responsibilities.

In the backdrop of such past and present scenario requirement for changes of the age-old methodology of audit is being increasingly felt. The notion of economy, efficiency and effectiveness has led to the development of a new audit approach. Our tradition bound financial and regularity audit though makes significant contribution to safeguarding public resources from misuse, wastage and misappropriation, it does hardly have any reflection on the success or failure of management in terms of objectives achieved.

Reforms initiated: With this end in view the first phase of reforms in government audit initiated by the office of the Auditor General in conformity with the on-going administrative reform in the country encompasses such areas as updating audit methodology, undertaking professional development of staff; improve the quality of audit to address economy, efficiency and effectiveness in public sector organizations. To this end two technical assistance projects, namely, 'Strengthening the office of the CAG' and 'Refoms in government auditing' have been carried out. The projects focused on the development of modern methodology through the preparation of internationally accepted audit standards, Audit codes, Audit manuals including Performance audit manual, training of trainers and staff and conducting pilot audits in performance auditing.

As short term initiative a Human Resource Development Unit, an Advisory committee and a Quality Assurance Cell have been established. The latest addition to such reform initiative is the opening of Performance audit Directorate.

Reform implementation related issues: All the steps of reform initiatives need to be evaluated in the context of the complication associated with the process of their implementation. To start with the manuals created for each of the audit directorates, quality of the staff that will carry the task of audit need to be upgraded to the international standard. This in itself is a major task. For which they need training in the professional bodies including the universities, Institute of Chartered Accountants, Institute of Cost and Management Accounting and similar other organizations at home and abroad.

To make reforms effective a number of considerations need to be made which can be broadly categorized as structural and functional. In the structural component a good number of issues will become pertinent like formation of audit teams. Our audit teams are good at work but lack adequate knowledge about the latest development. Skill and experience are also inadequate. It is important to have the right people in the right place. Audit teams should be formed with due recognition to the skills needed. PAC hearings have often questioned our knowledge, quality and competence. We need to form specialist audit teams. More commercial and accounting persons should be engaged on the specialist teams. Specialist teams should be permanent and become specialized on a sectoral basis with the right combination of knowledge, skills and interest.

In determination of audit scope and audit objectives effective consultation with the auditee and adequate care in formation of teams need to be given priority. Instead of assigning importance on the quantity of auditable units and the volume of audit objections priority should be placed more on the quality of audit and focused on worthwhile issues and quality assurance at the central level.

The points raised by the CAG auditors should lead to the consideration of broader issues. The audit points raised by the CAG auditors often lead to confusion rather than clear and often require further inquires from the users. This implies lack of understanding of relevant issues by the auditors. To address this problem careful and well thought out plans are the need of the hour.

To provide high quality work that adds real value to the accountability process through best possible audit service the reformation initiatives should be adjusted according to the prevailing situation. It takes courage on the part of the auditors to bring administrative lapses or mistakes to light. When they do, they deserve recognition in the form of advance increment, letter of appreciation, award and protection against possible retribution from the bureaucratic or political masters for the discomfort they may have caused.

Excessive emphasis on laying blames, however, may be counterproductive. If we wish to empower and encourage them to innovate, then we must be prepared to accept the risk, at times, mistakes and wrong decisions taken. When that happens, we should focus on learning from the experience rather than assigning blame.

Indiscriminate rotations / transfers undermine the development and retention of knowledge and expertise in the audit teams. Rotations/transfers should be kept to a minimum and should not be done without consultation with DGs. Rotated/ transferred staff should be suitably replaced. BCS officers should be retained in the directorates for at least three years. Teams should have some permanence to develop knowledge and expertise. Staff trained for something specific should be placed where they can use that training.

A fear that looms large among the auditors that reformation would quicken the way of doing away with traditional audit need to be redressed immediately. In doing so the auditors need to be more involved in the pilot audit projects and taught more of audit techniques to increase their confidence level.

Short term training on each of the components of audit process starting from planning to criteria selection, evidence gathering and preparation of audit report should be taken individually by each audit directorate.

Regarding the functional adjustment the question of ownership and accountability needs some revamping. Ownership of the audit process, audit management, quality etc is inadequate at all stages. Each directorate must have its own strategic plan, specific objectives, measurable targets, internal control mechanism and measurement mechanism. Each directorate should establish some standard for knowledge of entity under audit. Supervision of audit staff is essential for quality control. Senior people should go out for audit to gain first-hand experience. Clear accountability at each level in the directorate and in the CAG office should be established and staff should be held accountable for the work. Post audit quality control in the CAG office should be part of the audit process.

There could be strict policies governing the official conduct of auditors while on assignments. This would improve the current allegations about the auditors for accepting both financial and non-financial benefits from the auditee. Apart from ensuring adequate remuneration, the auditors especially at the field level need to be made aware of the serious disciplinary measures for corrupt and unethical practices. A strong framework of values and ethics and appropriately structured incentives can help to ensure that these initiatives are made helpful. The auditees on the other hand need to be reminded about their responsibility of avoiding and masking their responsibilities through pleasing the auditors.

With regard to determining scope of audit instead of increasing the audit paras we have to think in modern auditing terms of the concept of an audit entity -an organization as a whole, with plans, objectives, policies, systems, procedures etc.

The format of audit report receives criticism from both the auditors and auditee users. There are mixed responses from the CAG auditors on the adequacy of the format with the majority agreeing that providing more information on the objectives, policies and performance can make the reports more effective. The field auditors believe that the set format often prevented them from examining areas not covered by the format. Some public representative often term the formats as ambiguous and point out the lack of initiative on the part of the CAG auditors to restructure it according to the needs of the users. They express strong criticism that the formats of report do not provide information on time and cost of project for comparison. The format of audit reports may be replaced with chapters as practices in OAG Canada where each of the independent chapters reflect the current issues, the deficiencies of managers and areas for improvement.

Clear, timely information on money spent, where it went and what it achieved make it easier for those outside the organization to monitor the disbursement of funds for consistency with policy intentions, probity and prudence. The preparation of audit reports immediately after completion of audit and their timely submission to the parliament can then only augment the process foretold. In selection of issues for audit priority should be placed on matters of importance. If the reports are issued so late that the information become useless and limitations on the scope of audit often not identified, the recipient is given an incorrect sense of security.

After conducting the audit of projects or programs, to gauge the effectiveness of operations the view of donors, government counterparts and the beneficiaries are to be sought either through seminars, discussions or in written form. This will also help de-mystifying many aspects of audit, evaluation, inspection and investigation.

In order to make the reformation process effective a pause for a while is required to have insight about the potentials, oversight on what it is doing and far sight to accomplish the task ahead. Such criteria should be recorded in the mission plan of the CAG to establish audit as a facilitator and not as a foe. It is said that even best-designed aircraft; you still need a top-notch flight crew for maximum performance.

Suggestions for further consideration: The changes that are emerging for the improvement of audit techniques and methods are welcome signs of an effective and efficient audit department. The reforms may take some time to implement fully but the journey to reach the target at the end may start now without delay.

There are however some few more things yet to be done like the following:

1. Bringing the trained manpower under one pool and assigning them to the audit directorates according to their demand could be right step towards development of audit quality.
2. Additional training institutes may be established on regional basis with qualified tutors for field auditor's training on a regular basis. The assistance of experts from both home and abroad could be utilized to upgrade the standard of the training academies.
3. A follow up mechanism may be developed to get feed back or to ascertain whether we are auditing right thing? Do our recommendatons address the root cause? Are resources being used effectively? Or do the agency management operations are running effectively and whether the tax payer is served appropriately by the agency under review.
4. The CAG could be involved with the authority to invoke judicial action, if necessary, to effect the auditees' compliance with his request for information. The CAG (Additional Functions) Act. 1974 may be amended to

have a relevant clause to this effect. The CAG could be authorized to institute such litigation and not have to depend upon the Attorney General. This aspect of the legislation would remove the inadequacies of the CAG from the executive branch of the government and create sense awareness on the part of the auditees of the truly authoritative position of the CAG.

5. A very important challenge in the conduct of value for money audit is the task of establishing and enunciating audit criteria against which audit reports are made. Another important challenge is determination of materiality. The office should have its methodology specialists. It should have staff competent to comment on the reliability and accuracy of work measurement standards.

6. Effective internal control system at the directorate level and apex level should be established. This control would refer to the methods and procedures to be used by the management to ensure that decision are carried out properly, risks are minimized, works recorded, performance monitored and results reported, everything it takes to ensure that the program is running as it should.

7. The number of auditable units can be reduced if emphasis is focused more on issues of current importance than less important issues. Instead of carrying out of all the 23000 units, audit of some issues like year-end surge of expenditure, material management, contracts government-wide may become effective and cost beneficial.

8. The functions of audit directorates may be rearranged so that one or more audit teams do not go for auditing the same institute or organization at the same time. Surprisingly the local audit auditors and foreign aided projects auditors go to the same institution, while the former one audits the GOB fund and the later go for auditing foreign fund.

9. To identify and report on anomalies, evasion and irregularities in revenue assessment and collection a separate audit directorate may be created with specialist in revenue audit. Consultants may also be hired for this purpose.

10. The objective of the audit report of the CAG is to inform the parliament about activities the organizations audited. The citizens should also have access to the activity reports of the Auditor General. To facilitate the easy flow of information and ensure accessibility to the media the Auditor General's office may establish a News and Reports cell.

11. To improve the quality of audit reports editorial board may be formed with academicians from universities, journalists from media along with Director Generals from audit department.

Gradual transition towards better audit department needs a number of changes of which only a few have been mentioned in this article. There are more areas to be explored. Experience and innovation will tell us what to do next.

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Reforms in Public Financial Management and The Financial Management Academy[1]

Ekram Ahmed*

Introduction: Government of Bangladesh (GoB) has been pursuing a major reforms program in the public financial management for the last decade. The main focus of this reform is to improve the efficiency of the public sector in service delivery as well as efficient use of scarce resources. GoB adopted various strategies time and again to raise efficiency level of the public sector. Government achieved some successes in reforming the budgeting, accounting and the financial reporting process through the Reforms in Budgeting and Expenditure control (RIBEC) reforms programs initiated in early 1990s. Though there has been some achievements, any appreciable change in the efficiency level of the public sector is yet to be observed.

Some South Asian neighbours of Bangladesh are also going through reform activities in the public sector. The reforms in these countries are mainly in the public sector financial management and the principal focus is to improve the skills of the employees through the adoption of new systems, modern technology and training.

The late 1980s and early 1990s saw a shift in the attitudes and functioning of the public sector in the developed countries. It moved away from highly hierarchical centralized service delivery and competing with the private sector.

Reforms in The UK

The Financial Management Initiative of 1982: The British Public Sector reform started with the Financial Management Initiative (FMI) of the

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1 This article is a summary of the dissertation titled 'An investigation on the inclusion of Next Steps Initiatives in the Public sector reform agenda of Bangladesh', which was a requirement for obtaining MA in Government Financial Management from the University of Ulster, Norrthern Ireland, UK

Margaret Thatcher Government in 1982.

The FMI was the response to the recommendations made by the Treasury (Ministry of Finance) and Civil Service Committee in 1982 on efficiency and effectiveness in the civil service. The FMI aimed to promote in each department an organization and system in which managers at all levels have:

- A clear view of their objectives; and means to assess and wherever possible measure outputs or performance in relation to those objectives;
- Well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- The information (particularly about costs), training and access to expert advice they need to exercise their responsibilities effectively (Cmnd 8616, 1928, p 21).

The FMI was not entirely successful in achieving these aims.

Development of Next Steps Agencies: The UK Government set up an efficiency Scrutiny by the Efficiency Unit of the Treasury, to ensure that maximum benefit achieved out of the FMI into management across government as a whole.

The report of the Efficiency Unit titled 'Improving Management in Government: the Next Steps' was published in March 1988. The report stressed that 'The Civil Service is too big and too diverse to manage as a single entity. With 600,000 employees, it is an enormous organization compared with any private sector company and most public sector organizations (Efficiency Unit, 1988, para. 10).'

The report of the scrutiny has had a major impact on the shape and culture of the civil service. It concluded that there were three main priorities for change:

"First: the work of each department must be organized in a way which focuses on the job to be done, the systems and structures must enhance the effective delivery of policies and services.

Second: the management of each department must ensure that their staff have the relevant experience and skills needed to do the tasks that are essential to effective government.

Third: there must be a real and sustained pressure on and within each department for continuous imporvement in the value for money obtained in the delivery of policies and services."

The Report's recommendations included, among others, "Agencies should be established to carry out the executive functions of government within a policy and resources framework set by a department."

The Next Steps Process led to changes in all aspects of the work and management of the civil service. These changes included a much stronger focus on performance in relation both to quality of service for the customer and to efficiency; the strengthening of accountability and greater openness; and new approaches to personnel management. A key theme of Next Steps was the delegation of management responsibility to Agency Chief Executives, enabling management to design organizational structures and processes. The separation of executive functions of departments into agencies has set up a customer/contractor relationship between the two and managing this relationship has become a central issue in the strategic management of agencies, particularly in light of the wide spread introduction of competition for government services, an increasing focus on core services and the continuing need to run organizations along businesslines.

The Chief Executives of agencies are being recruited by open (including outside) competition, and appointed for a fixed tenure of three to five years and paid performance related pay. The agencies have responsibilities for budgets, pay, manpower and recruitment. Though the staff remain civil servants, each agency is a separate unit of management under the Chief Executive who has the day-to-day responsibility for delivering the services under its control. A framework document sets out the way the way the agency should operate. With a greater delegation of responsibility to the local level, it was intended that agencies should be better placed to be more responsive to the needs of those who use their services.

A key feature of Next Steps is the personal accountability of Chief Executives to their Ministers for the discharge of their responsibilities as set out in the Agency's Framework Document and for the achievement of performance targets. Ministers and Heads of departments are to sign performance contracts for delivery of outputs from a given level of inputs; in return they are given more managerial autonomy. These targets drive agencies towards the provision of better quality services and better value for the taxpayer. Open and accessible reporting of performance against the targets set by the government enables agencies to demonstrate how effectively they have discharged the task.

Benefits of Next Steps Initiative: The objective of the Next Steps program was to deliver government services to the taxpayers, customers and staff more efficiently, economically and effectively within the available resources. It provided a flexible and practical way of undertaking government activities in a modern, efficient and out-put oriented business-like ways. The agency approach offered the following direct benefits:

- It ensures laying down explicit and clearly stated rules and responsibilities for Ministers and Civil Servants;
- It emphasizes on jobs to be done and specific results to be achieved through specific standards, targets and key performance indicators;
- It ensures business-like management through delegated budget and accrual accounting;
- It leads to greater transparency and more accountability through Published standards of service, reports and accounts (Khan, 1998, p 64).

Analysis of Next Steps Initiative: The Next Steps Initiative brought qualitative change in the efficiency of the civil service. As the Citizen's Charter of 1994 on the Civil Service remarks, "Departments and agencies have made very substantial improvements in the efficiency of their operations and in the standards of service that they offer. " This is reflected in a range of examples of better quality service provision under the Citizen's Charter. With greater efficiency, there has been a continuing contraction in Civil Service staff numbers. In 1988, the year of inception only 3 agencies were established, by December 1998 the number increased to 138 with more than 70 percent of civil servants working in these agencies. The annual review of the next steps approach shows remarkable improvement in the service delivery of the agencies. The review of 1996-97 shows that agencies have achieved 75% of their targets, which is slightly below that of the previous year, which was 79%. In 1994-95 the outcome was 83% and in 1993-94 the outcome was 80% of their targets. Some agencies, in 1998, achieved over 90% of their set targets. A number of agencies have been very successful reflecting the commitment of the Chief Executives and their staff to high standards of customer service. Agencies appear to have played a key part in improving value of money and are one way of ensuring continuous improvements for departmental ministers to set performance targets, which are demanding, as well as being truly representative of the agency's work.

British Civil Service College: A Training Institute and an Agency: The Civil Service College is the UK's leading provider of management training and consultancy within the public service. This College was established in June 1970 and established as an agency on 6 June 1989. Its area of specialization is on personnel and managerial development. It provides a centre of excellence for developing the managerial and professional skills of civil servants, and promoting best practice throughout government both in management and key professional areas. This College offers a wide range of programs, which cover the whole spectrum of professional and managerial skills required in goverment, including policy work, government finance, audit, personnel management systems and project management, purchasing and training for professional groups. In addition to open programs, over 40 percent of its activity is geared to single clients and comprises tailored programs and consultancy. This College has faculty of 95 full-time teaching and consultancy staff, plus over 300 associates. College consultants work in a broad range of government departments and agencies across the UK on wide range of areas including:

- Strategic planning;
- Organizational change;
- Managing, measuring and rewarding performance;
- Better individual and organizational performance through better training;
- Contractorization.

Customers of this College are:

- Senior civil servants, agency chief executives and senior managers in the wider public and private sector;
- Middle and first line managers aiming to achieve both personal and organizational objectives;
- All who need an understanding of government, policy making and implementation;
- Professional staff who provide services that support organizational objectives;
- Those charged with facilities, estates, project and program management;
- IT service management and purchasing and supply;
- Specialist professionals within government.

The Civil Service College has a 15 member Internal Advisory Board in between the Chief Executive and the Minister. Its primary role is to advise the Head of the Home Civil Service on the development of policy in the activities and functioning of the college and monitoring performance of the college. The College Advisory Council generally meets every six months to discuss, monitor the activities and achievements of the college and provide advice, if necessary, to the Head of the Home Civil Service and the Chief Executive of the Civil Service College. The College has the following priorities for providing services:

- To develop skills and capacities of senior public servants;
- To strengthen the coordinating and change management capacity of institutions of governance;
- To assist with the development of mechanisms which strengthen the accountability, transparency, responsiveness and dfficiency of government organizations;
- To enhance the delivery capacity of government so that citizens, especially the poor and disadvantaged, gain maximum benefits from basic services.

The College has three centers: the residential training and main administration center is at Sunningdale Park, and non-residential centers in London and Glasgow. It has 13 conference rooms, 43 syndicate rooms and residential accommodation for 260 participants. The College has an extensive library, which supports learning, teaching and research.

Targets, Outturns and Achievements of British Civil Service College: As an agency, the British Civil Service College has to set targets on income performance and recover cost for running course. The consultancy income target was £600,000 in 94-95, £600,000 in 95-96 , and £600,000 in 96-97. The College earned £609,000 in 94-95, £1,259,000 in 95-96, and £1,437,000 in 96-97 against the set targets. The percentage of course evaluation target were 80%, 80% and 83% respectively during these three years and the outturn were 81%, 82.5% and 88% respectively. Target of students from the private sector were 990, 1000 and 1400 during this period and outturns were 998, 1069 and 839 respectively. Cost per student day was £207in 94-95, £220 in 95-96, £238 in 96-97 and £235 in 97-98. Total assets of the college were £2.1 m in 94-95, £2.3m in 95-96, £2.0m in 96-97 and £1.9m in 97-98. Capital outturns were £4.1m, £1.2m, £0.5m and £0.8m during this period. Gross running costs of this college were £21.2m, £20.6m, £18.6m and against these costs total income of this college were £ 19.5m, £19.5m, £20.1m, £18.9m and £18.6m during this period. The percentage of cost recovery during this period was 96%, 97%, 101% and 100% respectively. The college has a total staff of around 250. (Source: Next Steps Review Report 1998)

The above discussion reflects some distinct features of an agency. As an agency the British Civil Service College is fully autonomous in its operation. It may take advice from the Advisory Board but it is not mandatory for the Chief Executive to take decision on the Board's advice. As an agency the College has to set targets, report on the achievement against the targets, recover cost of service provided. The achievements against the targets are the measure of efficiency of the Chief Executive as well as The British Civil Service College. The outturns and achievements of the civil service College against its targets are satisfactory according to the Next Steps Review Report. The British Civil Servic College could recover almost all the cost it incurred for arranging training courses and also could generate resources for-future activities. It may be concluded that the British Civil Service College is a glorious example of an agency.

Reforms in Bangladesh

The reform process in Bangladesh started with the formation of an inter-ministerial Committee on Reforms in Budgeting and Expenditure Control (CORBEC) by the Ministry of Finance in 1989 with a view to bringing reforms in the financial management of the government. The Department for International Development (DFID) of the UK provided the technical assistance. The terms of reference of the committee were to examine and review the existing financial system and to report on government economic planning, budgeting, accounting and auditing, to identify areas of weaknesses and to make recommendations for improvements in those identified weak areas. The Committee worked extensively for two years and identified a number of weak areas in the financial management and made some important recommendations as to how improvements could be made to those weak areas. The committee emphasized on the development and improvement of financial management training facilities.

The Reforms in Budgeting and Expenditure Control (RIBEC) Project Phase 1 came into being in 1993 on the basis of CORBEC recommendations with a nine month diagnostic study, which paved the way for the Phase 2, the implementation phase with effcet from January 1-1995 for reforms in all areas identified in phase 1. Since January 1-1995 till December 1999 two implementation Phases of RIBEC (2A and 2B) have been completed and the third phase is now under implementation. The focused outputs targeted in these phase within the overall framework of CORBEC recommendations have been mostly achieved and some additional achievements were gained. In the implementation stage training received special care from the project side.

Training in Government Financial Management: GoB and DFID gave special emphasis on training for government officials both home and abroad for the sustainability of the reforms done and also to institutionalize these training activities. The Financial Management Academy came in the forefront of all these activities. The Management, Accounting, Auditing and Budgeting (MAAB) Course was introduced in FIMA in 1997 and so far 8 courses have been completed successfully and in all 227 mid-level government officers were trained in government financial management. In the mean time a link has been established with the University of Ulster, Northern Ireland, with the approval of both GoB and DFID to provide overseas training to successful MAAB students. Under the agreement with the University of Ulster, 22 GoB officers completed successfully a 13 weeks Certificate Course in government financial management at the University in 1998 and the same group did 13 weeks Diploma Course in 1999. 16 out of this 22 officers obtained MA in Government Financial Management in 2001 after doing their dissertation at home. Another batch of 22 MAAB students did their Certificate Course in 1999 and diploma course in 2000. They are now preparing their Dissertation onwards to MA. A new batch of 17 MAAB students did Certificate Course in 2000. The objective of this program is to create a core group of government officers adequately trained in government financial management, who would act as resource persons in FIMA training and appropriate jobs in GoB to carry forward and sustain the reform process. Five new training courses, Building Essential Skills in Training (BEST), Training in Budgeting and Accounting Skills (TIBAS), Awareness in Audit Reforms training (AWARE), Training in Accounting Skills and Knowledge (TASK) and Training for Excellence in Accountable Management (TEAM) were developed for officers working in financial management and are being run successfully on a regular basis at FIMA using MAAB students as part-time trainers.

Financial Management Academy (FIMA): The Audit and Accounts Training Academy (AATA), now known as Financial Management Academy, was established in 1972 to cater for the training needs of the Audit Department. The Director General is the Head of the Academy and supported by three Deputy Directors. It has 14 Audit and Accounts Officers working as full time trainers and 9 administrative support staff. It also uses guest and part-time trainers from Audit and Accounts Department and from other ministries/ departments as and when required. The Comptroller and Auditor General (C&AG) is responsible for placement of officers and staff to run this academy. The budget of the academy forms part of the overall budget of the C&AG's establishment and the budget allocation comes from the Finance Division. Training course for the officers and staff members of the Audit and Accounts Department are designed by FIMA, with the approval of the

C&AG. These are all general routine type training courses designed only for the officials of the Audit Department.

The Academy meets the training expenses, for training of officials of the Audit and Accounts Department, from its own budget allocation. For training given to officials of other ministries/ departments, on request, the academy recovers from them the actual training costs. The academy also charges an extra 10% of the actual cost as an overhead, which is treated as a receipt of the academy and is deposited under code 1102700002681 to the Government Account. The functions of the academy relating to the traditional training are carried out with the existing faculty.

Government widened the mandate of this academy to cover training needs as a result of reforms so far done in public financial management and renamed it as the Financial Management Academy in 1997. Under the new name the academy is now responsible for meeting the wider training needs of the government as well as the specialized training needs of the Audit and Accounts Department. It continues its traditional business of training for the officials of the Audit and Accounts Department in the original wing of the academy. New training courses on financial management for different categories of government officers are being designed and offered to Junior/ Mid-level officers of ministries and directorates across the government. Information Technology training courses are designed for senior government officials including the secretaries and FIMA has been entrusted with this responsibility.

As the mandate of the Academy widened and new training courses are designed, government thought it advisable to run all these new courses through a new project. The Project "Enhancing training Facilities of Financial Management Academy (FIMA)", jointlly financed by GoB and DFID, came into being from April 1999 to concentrate only on the training repuirements of the government. All these new training courses are designed by FIMA Task Force and have to be approved by the FIMA Project Steering Committee headed by the C&AG. A separate wing was established at FIMA with improved facilities to implement the above training programs.

Government formed the following 9 member Board of Advisors as one step forward towards greater autonomy for FIMA:

1.	Comptroller and Auditor General of Bangladesh	Chairperson
2.	Additional Secretary (Budget), Finance Division	Member
3.	Additional Secretary (Administration), Finance Division	Member
4.	Additional Secretary, Ministry of Establishment	Member

5. Additional Secretary, Ministry of Education — Member
6. Deputy Comptroller and Auditor General (Senior) — Member
7. Controller General of Accounts — Member
8. Controller General of Defence Finance (CGDF) — Member
9. Director General, FIMA — Member-Secretary

There is a provision to co-opt two responsible persons as members of the Board of Advisors.

Responsibilities of the Board of Advisors are to :

- provide general direction and overall policy guidelines;
- economic planning, approve annual budget, development programme and training plans;
- frame rules and regulations governing general management;
- develop FIMA's strategic objectives;
- approve human resource development principles and practices;
- approve an Annual Report of FIMA's activities; and
- guide FIMA to maintain its status as GoB's 'first Choice' facility for financial management training in Bangladesh.

Sustainability of FIMA Courses: The GoB-DFID funded project "Enhancing Training Facilities of FIMA" provides logistic and technical support including training costs at home and abroad. This support will phase out when the project comes to an end. All these training courses designed by FIMA Project have a very high profile and are urgently needed by the government. There is also a very big demand for the courses on financial management and Information Technology. Under the existing conditions FIMA is unable to sustain courses initiated by the project. FIMA will need more resources in the form of budget,manpower and logistics to sustain the training programs. At the moment FIMA has to depend upon the office of the C&AG for resources-manpower and budget-and also it has to seek approval for all courses designed by it. FIMA will need more operational autonomy and resources to sustain these courses and also to become the 'First Choice' training academy.

Conclusion: For all reforms different countries require different solutions particularly in respect of personnel and financial management. Better quality services do not happen by accident. Improvements require reform, innovation and tough decisions.

The following three levers of change, recommended by the World Bank, are key to reforms:

1. Unequivocal and sustained commitment of political leadership to a less

intrusive and more efficient government;

2. High powered and professionally staffed institutional mechanisms to conceive reforms, operationalize them and monitor implementation; and
3. Sound budget process to discipline both the quality and direction of public expenditure policy.

Political support and commitment is essential for public expenditure management reforms. Political support at the highest level is always desirable and sometimes essential for strengthening public expenditure management. Without political support fiscal discipline and improving efficiency are likely to be very difficult to achieve.

The Government of Bangladesh is fully committed to the reform programs being implemented in the public financial sector of Bangladesh. Government commitment was reflected through the CORBEC recommendations, through the working paper on way forward for RIBEC (1999-2000) and also through the task force recommendations for the greater autonomy of FIMA.

The Secretary, Finance Division, GoB, has on many occasions commented that Bangladesh is poor not that she lacks resources but for the huge wastage made by the public sector organizations during resource utilization. He emphasized on the development of good financial managers in the public sector and the need for training on financial management.

Training is an integral part of every reform process. The Financial Management Academy (FIMA) has been entrusted with the responsibility to train government officials on government financial management, on Information Technology and to develop a core group of financial managers. GoB is committed to turn FIMA into a center of Excellence for providing training in those fields.

One major requirement of the Government of Bangladesh, as part of the reforms program, is to develop a good number of efficient financial managers in the public sector and for this reason, to develop an improved training facility to cater the training needs of the government in the financial management and Information Technology. The Financial Management Academy (FIMA) is the outcome of the reforms initiative and has been contributing significantly in providing training to officials across the government. FIMA is a Directorate under the office of the reforms initiative and has been contributing significantly in providing training to officials across the government. FIMA is a Directorate under the office of the Comptroller and Auditor General and it has a lot of limitations in doing creative and innovative functions. It is observed that tight control of government on service departments, like FIMA, in personnel management and resources utilization create obstacles for these to perform well. For the sustainability of the reforms in the training area, the scope, mandate and authority of FIMA need to be raised. The question, therefore, is how valid is the agency approach of the UK for Bangladesh as a part of the reforms process and, if valid, should the Financial Management Academy be turned into an agency. The performances of organizations are to show their efficiency and commitment in discharging their functions in order to attain objectives set for accomplishment. The experience of the Next Steps Initiative and the British Civil Service College could be implemented in reforming and redesigning Financial Management Academy. Otherwise, FIMA may lose the credentials it achieved during the last few years through the project and also the potentials to sustain the reforms in future.

The ultimate success of FIMA will depend on to a great extent on the active involvement of key stakeholders, greater autonomy in decision-making and fulfillment of government commitment and building up the capability of FIMA to sustain the training programs as well as the reforms process.

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Performance Auditing as an aid to Public Administration

Moinul Islam*

For Public Sector auditing, regularity and compliance testing used to be the main vehicles for ensring accountability of Government organizations to the legislature. Regularity and compliance considertions, no doubt, are vital concepts to ascertain that revenue collection and public spending take place within an environment of regularity and financial propriety. But conformation with rules and regulation by auditee organizations in no way ensure that organizational targets and objectives are achieved.

Audits reporting results of regularity and compliance tests, in fact, fall short of answering users/stakeholders' questions regarding the overall performance of the unit being reported on. As the countries in this region move towards more democratic norms and practices, accountability and transparency considerations lead the legislature to ask what the executive i.e. the government has done with the approved budget, what levels of economy and efficiency were attained in government spending, whether stated government goals were achieved etc. These are basic questions for good governance.

The importance of good governance for the countries of the south asian region cannot be overemphasized. The economy of each country is more or less aid dependent. A big chunk of the revenue collected drain away to meet debt service obligations. Further more, development projects are characterized by corruption and wasteful practices. Therefore, it is not surprising that these countries are lagging far behind the aspired national goals and objectives.

Governing well, however, cannot be done without effcient and effective public administration. But to be an effective public administration, it is required that there is transparency and accountability for use of resources by the administration.

Transparency focuses on public reporting with the objective of making

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what governments do more visible, holding them accountable for the way they exercise authorities conferred on them and for meeting expectations they themselves have created. The cost of failing to be transparent can be high. A lack of transparency may lead to mistrust and poor governance. The modern multi-dimensional audit approach - performance auditing is best equipped to promote transparency and accountability of the governing bodies, which, in turn will support good governance i.e. improved public service/administration.

Performance auditing makes an independent assessment of the way public bodies use tax payer's money within the general frame work of economy, efficiency and effectiveness; there by, acting as an aid to improve services to society by promoting value for money in government decision making and enhancing organizational performance.

The Supreme Audit Institutions of several countries in the world have adopted performance auditing to report on the performance of government organizations to the legislature. In Canada, the Auditor General Act of 1977 clearly spells out the Auditor General's authority to review government spending in the context of economy, efficiency and effectiveness.

The article 128(1) of the constitution of People's Republic of Bangladesh provides that "The public accounts of the Republic and of all courts of law and all Athorities and officers of the Government shall be audited and reported by the Auditor-General". The Constitution, therefore, does not confine the Auditor General's reports to financial audit only, he may also decide to report on performance of auditee organizations.

Public Accounts Committee of the last parliament, furthermore, in its second report recommended that performance audit and value for money audit should be introduced in the country immediately, preferably not later than the year 2000.

The C&AG of Bangladesh, in 1995, launched performance auditing programs in addition to traditional financial and compliance audit. However, because of practical problems, like lack of trained and experienced manpower in this field and lack of awareness among the auditee organizations about performance auditing the Auditor General of Bangladesh, in the interim phase, has adopted comprehensive examinations i.e. mixing financial with performance auditing terming them as Special Audits.

As performance auditing is still in its rudimentary stage in this country, this paper examines the sub theme topic within more of a theoretical framework.

Performance Auditing - Defined: According to INTOSAI Auditing Standards performance auditing is "The audit of economy, efficiency and effectiveness and embraces:-

- Audit of economy of administrative activities in accordance with sound administrative principles and practices and management policies.
- Audit of the efficiency of utilisation of human, financial, and other resources, including the examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies.
- Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact." This is a very comprehensive definition.

For our purpose a simpler working definition of performance auditing is as under:

-It is an independent assessment of functions and operations of an organization to determine whether resources are being managed with due regard for economy, efficiency and effectiveness and that the accountability requirements are being met reasonably. Within the context of public sector auditing, this definition refer to sound public sector resource management practices.

Objectives of Performance Audit: Performance audit promotes value for money and transparency in the public sector. In performance audit great emphasis is laid on the auditee organization's accountability to the legislature for its stewardship of the public resources entrusted to it. Performance audit provides the legislature with independent and professional assessment of whether government has managed financial, human and physical resources with due regard to economy, efficiency and effectiveness. Such examinations can add credibility to information provided by the government to the legislature on the results of programs and activities.

Performance audits can bring useful information to parliament about what programs are working and why. Such information is critical for informed public debate on the appropriateness of the government's policies and the way they are implemented. These informations are also vital to the policy makers. For they will be deciding on programs/activities they should go ahead with, remedying deficiencies of weak programs and discarding the failing ones on the basis of those feedback.

The general objectives of this type of audit are to:-

- Provide a basis for improving public sector resource management;

- Improve the quality of information on the performance of public sector management for use by the stackholders - legislators, policy makers, and the general public;
- Encourage the public administrators to introduce public reporting on performance;
- Provide for accountability and transparency.

Improving Public Sector Resource Management : Performance auditing addresses the very questions of sound public sector resource management processes and achievements in the light of 4 vital concepts:-

- Economy
- Efficiency
- Effectiveness
- Accountability requirement.

Let us discuss these concepts in brief and ascertain how evaluation of each within the context of a public sector organization promotes transparency and accountability ultimately leading to better public sector resource management.

Measuring Economy :_Economy is a resource acquisition concept. While considering economy, the auditor tries to ascertain whether resources of right quantity and quality were procured at the lowest possible price and were available at the appropriate time and place.

Auditor's assessment of right quality and quantity questions the basic management practices or systems that are in place in the public sector to identify input requirement.

Minimizing cost of acquisition also involves comparison of cost estimates for all available alternatives over their life cycles and with each other. The auditor ascertains whether the procurement system took cognizance of the factors involved and went for the best possible alternative.

Economy assessment, however, is not limited to determining minimum cost of quality resources; rather it links the analysis to the achievement of organizational goals with resources, barely essential for the purpose and made available at the right time and place. Economy won't be achieved if the management has to wait a long time to receive the supply of the supposedly most economical inputs as the achievement of organizational goals will also be delayed by the process. Sound management practices, in such cases, recommend that going for the readily available alternatives is more economical.

In a recent study of a construction project it was seen that actual construction work had to be delayed as the land acquistion process was behind schedule by 1-2 years. An economy study at the early stage of the project would have recommended speedy acquisition by identifying the factors delaying the process.

While discussing economy let us talk about a classic case of procurement which took ten long years to materialize while the project cost doubled from Tk. 82.40 crore to Tk. 162 crore. In the PP of the project "BMRE of Chatak Cement Company Ltd." there was a provision for procurement of a 4MW GTG (GAS turbine Generator). The project was supposed to start on July'86 and to be completed by December' 89. In April'87 International Tender for the procurement of a 7 MW of GTG was invited. After technical and financial evaluation the bids were rejected on the ground that the cost was very high (Tk.23.54 crore) and all the 3 bids were submitted by the same manufacturer. Afterwards several attempts were made to procure GTG or STG of different capacities. Till the end of 1997, the project authority failed to procure any generator. The cost of the project had already doubled from Tk. 82 crore to Tk. 160 crore by that time . It now appears that the proposed cost of procurement for 7 MW GTG in 1987 was after all not so high.

Both implicit and explicit in the economy assessment are the revelations regarding the good or not so good practices, public administrators so far resorted to in procuring resources and the recommendations for future course of action for the top management. In economy study, the auditors compare planned procurement with actual procurement. In the process the management is made aware to have a procurement plan in future which will be more close to reality and will be better implemented. As a result, economy analysis in the end, helps the governing bodies to ensure rational distribution of scarce resources.

Efficiency Assessment: It is a resource utilisation concept covering the relationship between the output of goods or services the organiztion delivers and the input of resources utilised to produce them. The question, the performance auditor asks here is, how much output is achieved by using definite quantity of inputs. Here actual utilisation is compared with planned utilisation of resources to find out the level of efficiency achieved.

Efficiency evaluators presupposes that certain standards for inputs and outputs are available for the auditee organization. In the absence of available standards - specially in countries like Bangladesh, Pakistan etc., the auditor needs to get down with the management to determine agreed standards for performance measurement. In case of a project it can be planned results or outputs for a given input. Performance can also be compared over time, with similar organizations, across the same organization i.e. among different cost centers or against targets set down by the top management.

Efficiency evaluator, during performance audit, may uncover cases of non specification of work standards leading to overstuffing which is a common feature of government departments in this region. He may also discover accumulation of excessive stores or capital assets due to unclear or ineffective operational controls. A study by the C&AG, Bangladesh of Bangladesh Railway revealed instances of this nature.

Inspite of huge spares build up, it was seen that repair and maintenance of locomotives was hindered due to management claim of unavailability of stores / spares. Store management, here, is inefficient as it failed to serve the purpose of proper maintenance of locomotives. A properly alerted management and governing authority, in such a case will delve into the cause of store build-up and the simultaneous claim for lack of the same and remedy the situation. The resulting better maintenance of locomotives in the end will improve railway service.

The efficiency evaluation, thus, alerts the management and at the same time the governing bodies about the inefficient methods and procedures in the organization and how they should be addressed to. The ensuing transparency causes the public administrators to act more proactively to prove and establish that their administration is efficient.

Evaluating Effectiveness:_Auditing Effectiveness is perhaps, the most important and at the same time the most difficult area for the auditor. It covers the relationship between the intended and the actual results i.e. the out comes and the outputs of govt. projects and programmes. The organizational/project objectives or outcomes are the criteria against which the auditor measures the effectiveness of the auditee organization.

Outcomes or impacts of a project or programme may not be always obvious from the project/programme documents. Even when the positive outcomes are clearly identified in the project document the negative one may have been consciously suppressed. Here, the auditor's own ingenuity is called upon to distinctly identify the actual out comes and to report on them. This puts the auditor in a difficult spot. Moreover an auditee which has achieved economy and efficiency in its operations may fail to achieve the final objectives. For example, a school established to improve literacy rate in a community, may procure teaching materials very economically and its teaching methods may be very efficient. But high rate of school dropouts may hinder the achievement of desired level of literacy rate in the community. The high rate of school dropout may be directly linked to the students economic situation. An auditor who identifies why the project became ineffective can recommend possible remedial measures the policy makers might undertake to improve the overall situation.

In auditing effectiveness the auditor is required to ensure that:-

- The auditee has defined objectives which are achievable and at the sametime measurable.
- The objectives are realistic and based on reliable facts and forecasts.
- The level of achievement.
- The policy instruments selected for the attainment of the objectives are the result of careful evaluation of available alternatives.
- The progress is directly attributable to the activities of the auditee
- The auditee has an adequate monitoring system in place to ensure the effectiveness of policy instruments.

For public administrators as well as for policy makers, knowledge of effectiveness of a project or programme is very vital. Because, in the final analysis, every body is concerned with the positive social changes that may have been brought about by a project. For example output of an works programme may be the construction of a bridge over a river. The outcomes are that the people of both the banks will have easy passage, improved access to city market for their agro-produce, reduced journey time etc. While evaluating such a project, the preformance auditor will identify the outcomes achieved and any gap that may exist between the intended outcomes as per the project documents, and the actual ones. The resulting transparency obviously will strengthen the accountability process. The policy makers will also learn how to achieve the desired impact.

Accountability requirement:_Public administrators translate the legislative policies into appropriate programmes by utilising resources allotted through the budget. They, in return, have to report back to the parliament for use of those resources. Usually, this is done through appropriation accounts which confines reporting to what was spent against the budget allocations and the explanations are sought for any excess or less spending.

Performance auditing on the other hand, reports on the achievements of an organization in the context of what resources were available, and if there was any excess or less spending and whether that affected the overall performance of the auditee. It further comments on the adequacy and accuracy of the management's report on financial performance. The accountability of the auditee is thus examined from more than one angle by the performance auditor.

Conclusion: Performance auditing has added more dimensions to hitherto uni-dimensional government auditing. It goes beyond reporting compliance results. Economy, efficiency and effectiveness evaluation along with accountability reporting are its forte.

The advantages of performance auditing are numerous. It provides a basis for improving public sector resource management. Acquisition and utilization of resources in the public sector are evaluated within the context of economy and efficiency keeping in view, the overall attainment of objectives of the auditee organizations. It helps to create an environment where managers of public resources are encouraged to be proactive by improving performance to provide better public service/administration.

Performance auditing, by nature is more focused on the performance of the unit being audited. When this is linked to accountability aspects, feedback to the legislature and the general public gets better.

Performance Audits act as catalyst for increasing awareness about transparency and accountability for performance among the public administrators by reporting on operations of government departments and agencies emphasizing value for money recived and the reduction of waste in public spending. Accountability is strengthened as it comments on the adequacy of the executive reports regarding organizational performance - analizing completeness of those reports and picking out reports which are ambiguous or unsatisfactory.

Performance auditing, thus, serves both the requirements of compliance auditing and legislature's demand for more information on performance of resource utilising executive agencies. As awareness is built up among the public administrators for getting more value for money spent on various programmes, the ultimate outcome is an improved and better public service/administration.

New Public Management and Structural Adjustment Program-an overview

Kabirul Ezdani Khan*

I. Introduction : Modern public administration is not just about efficiency; it also involves ideas of democratic participation, accountability and empowerment. There is therefore a constant tension between two main themes: making goverment efficient and keeping government accountable. There is a corresponding tension between the conception of people as customers, in the context of relations between the state and the market; and the conception of people as citizens, in the context of relations between the state and the society. The influential model of new public management promises to integrate these themes, linking effciency and accountability together (Minogue 98,p-17). The 'new public management revolution' has sparked unprecedented interest in attempts to reshape and improve governance, defined as the array of ways in which the relationships between the state, society and the market is ordered. The radical public service reform programs of the 1980s that began in the UK, the USA and New Zealand have fostered a wave of reform in developed, developing and transitional countries, further fuelled by the collapse of the iron curtain and the notion that there are specific models of 'good governance' that have universal applicability.

II. New Public Management (NPM): In a recent analysis of public management reforms (OECD, 1995), it is concluded that notwithstanding differences in nature, size and approach to reforms, a common agenda has developed, 'a new paradigm for public management has emerged, aiming at fostering a performance-oriented culture in a less centralized public sector'. According to the OECD, this new public management paradigm is characterized by the following eight main trends:

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- Developing authority, providing flexibility	- improving the management of human resources
- ensuring performance, control, accountability	- optimizing information technology
- developing composition and choice	- improving the quality of regulation
- providing responsive service	- strengthening steering functions at the center

Hood presented his widely known definition of 'new public management' in his inaugural address in London School of Economics, based on the OECD review.

- hands on professional management	- competition
- standards and performance measures	- private sector style management
- output controls	- discipline and parsimony
- disaggregation of units	

The components of new public management were both structural (disaggregated organizations and greater competition) and managerial (more visible hands-on management, private sector management practices, tighter cost control, explicit measurement and greater emphasis on out put controls). While the justification for the reforms was founded on the need to make the delivery of public services manageable and accountable, to avoid waste and reduce costs, to encourage competition and customer responsiveness, to apply proven private sector practices and to focus on results, it lead to changes away from a uniform and inclusive public sector and from 'qualitative and implicit standards and norms' towards an environment of fewer procedural constraints, more discretionary powers, and to performance-related pay and less secure conditions of employment. (C. Hood, 1995,p-96).

After Taylor's The principles of scientific management, the various management theories and schools have been developed. There is one theory, model and technique of business management. The trend to introduce business like management in government therefore seems not so much inspired by scientific reason as it is by the ideological Zeitgeist. Several authors have examined the phenomenon of managerial reforms in western administrations, and various more or less different typologies have been published. What they all have in common is at least the following three characteristics:

- business management techniques,

- service and client orientation,
- market-type mechanisms such as competition.

The introduction of businesslike management began in the British civil service when Margaret Thatcher created the Rayner scrutinies. Mr. Rayner came from a private office and presided in the cabinet office over a project group, which had to support the many scrutinies in the various departments. The terms of reference for the scrutiny team which produced the report 'Improving Management in Government: 'The Next Steps' "to identify the progress achieved in improving management in the civil service" and "to identify the institutional, administrative, political and attitudinal obstacles to better management and efficiency that still remain". This report recommended reducing the civil service to a small "core" of policy makers and "transferring" other officials to work under free standing agency boards. The 'agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a department. Next step report was published in 1987 with view to ensure higher efficiency, better quality, more value for money-by granting more autonomy to the executive service delivery agencies.

III. New Public Management in Western Democracies: Since the end of the 1970s, the entire Western world appears to have moved into an era of administrative reforms. Furthermore, these reforms apparently display certain common characteristics. They all tend to be more or less managerial reforms. The trend in the direction of new public management is apparent in the United States, Great Britain, and other Western European administration, but on the other side of the globe as well, in Australia, New Zealand and other 'Western' Countries. Trend reports on developments of administrative reforms of the OECD (1990,1993) confirm that most developments point in the same direction, which is the introduction of ideas, models and techniques of public management, that is the adoption of business management techniques, a greater service and client orientaition, the introduction of market mechanisms and competition in public administrations.

In Germany, the concept of NPM adopted in different name, which is called New Steering Model. Helmut Klages and Elke Loffler (1998) said, "Universal NPM has entered Germany in the form of 'New Steering Model', which was marketed extensively in Germany by the 'Kommunale Gemeinschaftsstelle fur Verwaltungsvereinfachung' (Municipal Association for Administration Rationalization, KGSt) since the early 1990's. This model is proved to be very influential at the local level-meanwhile German local administration is characterised by a 'competition between different New Steering Models'".

France does not patricularly have an Anglo-Saxon tradition in respect to state, government and civil service. The haute fonctionaire publique, educated at one of the famous hautes ecoles such as the Ecole Nationale d' Administration (ENA) and a member of one of the grand corps such as the Conseil d' Etate the Cours des Comptes, not only dominates the French bureaucracy but politics as well. In this unique context, the managerial reforms which were introduced in French government by the circulaire Rocard of 1989. In it, three reforms were emphasized which displayed great similarity with management techniques of businesses: cercles de qualite, projects de service and centres de responsabilite (Rouban, 1994). They followed a japaness technique, which became popular in Western businesses as Total Quality Management (Kickert, W 1997).

New Public management in Belgium is associated with a more business-oriented style of management, cutting back on public spending and privatization. The tradition to neocorporatism, however, is still firmly in place. In the new structures of the APE's (Autonomous Public Enterprises), traditional political and interest groups are settling down in the executive boards with a view to controlling the policy of the public organizations. In these circumstances the freedom of action of the NPMs is likely to continue to be limited. (Depre and Hondeghem, (1996 p-98-99).

The Nordic countries have also followed the concept of NPM but they adopt it on the basis of their own administrative requirement. Markku Temmes (1998) said, "The NPM doctrine seems to have become a water shade in the recent administrative policy of the Nordic countries. Denmark has been a pioneer in applying NPM, and Danish solutions have been quite typical NPM- type solutions, although the administrative policy followed has been more carefully pursued than in the Anglo- Saxon countries". In Finland, the reform of public sector management, which started in the late 1980s, has spread rapidly throughout all levels of government. NPM was identified within 134 organisations. Most public managers are located in three types of organisations: result-budgeted and net-budgeted agencies; institutions and business action plans; and publlic enterprises and state owned companies. These are concentrated in industry and trade, communications and training, and public utilities. (Depre, Hondeghem and Bodiguel, (1996) p-283).

It is true that the main thrust for NPM began when the western democracies felt that existing government machineries are not functioning well with traditional concept of management. The success of NPM influenced the donors to introduce this concept in developing countries as condition to their loan. Developing countries are heavily suffered with the huge manpower in the public sector though these peoples are not giving proper service because of their inefficiency and traditional system of management. 'Developing countries seem intent on following new public management as an organizing principle for their societies. This is occurring with encouragement from the World Bank and other international agencies as an effort to overcome their endemic problems of development and the failure of earlier model of development economics and development administration'. (Hughes, 1998). The World Bank's World Development Report first raised the issue in 1983 as 'development failures and disappointments were now seen not simply as the result of inappropriate policy choices but also because state institutions were performing poorly'.

'Poor management, inefficient practices and public criticism of public services marked the beginning of the era of 'structural adjustment' during the 1980's. Indeed, the aims of this adjustment was precisely to 'reduce the size of the state' by transforming its role as direct supplier of services into one of regulating socio economic activities. From an economic standpoint, this meant cutting deficits, reducing government intervention in the economy and creating an environment favourable to growth, in which the private sector would play the leading role. From the political and administrative standpoints, this meant establishing a 'minimum state apparatus' by reducing bureaucracy and using public resources more effectiveely. Headed by the World Bank and International Monetary Fund (IMF), the Structural Adjustment Program (SAP) offered financial support and development aid to developing countries, on condition that the latter agreed to reform their civil service, to adopt 'free market policies and to manage public resources more effectively'. (Hentic. I, and Bernier. G, 1999).

IV. Structural Adjustment Program: Structural adjustment is a process of reforms in policies and institutions, with the goals of restoring sustainable balance of payments situations, reducing inflation and creating the conditions for sustainable growth in per capita income. Structural adjustment programs generally start with a conventional stabilisation program, intended to restore the viability of the current account and Budget. But they are distinguished from pure stabilisation programs by the inclusion of a set of microeconomic-institutional policy reforms.

Structural adjustment consists of two distinctive phases: short-term macroeconomic stabilisation to be followed by implementation of number of fundamental structural reforms. The former generally implies devaluation, price liberalisation and budget austerity aimed at reducing short-term disequilibrium, especially current account and balance of payment deficits and inflation. In practice, however, these distinctions as well as their sequencing have more often become blurred. There is a division of tasks between the Bank and the Fund. The application of macro economic stabilisation is carried out through IMF's Structural Adjustment and Enhanced Structural Adjustment Facilities (SAF and ESAF). The structural reforms are supported by World Bank's structural and sectoral adjustment loans (SALs and SECALs).

In a new turn, The World Bank's new President in the Bank's World Development report 1997 states: "Many have felt that the logical end point of all these reforms was a minimalist state. Such a state would do no harm, but neither could it do much good". He went on to say : " History and recent experience have also taught us that development is not just getting the right economic and technical inputs. It is also about the underlying, institutional environment: the rules and customs that determine how those input are used. Without an effcetive state, sustainable development, both economic and social, is impossible." Conceded to the ground reality, Bank has now incorporated a second generation of reforms. The evolving pattern of structural reform is summarised below.

V. The Evolution of SAP:

First Generation	Second Generation
Main Objectives Crisis management, reducing inflation and restoring growth.	Improving social conditions and competitiveness, maintaining macro economic stability
Instruments Drastic budget cuts, tax reform, price liberalisation, trade and foreign investment liberalisation, deregulation social funds, autonomous contracting agencies, some privatisation	Civil service reform, labour reform, restructuring of social ministries, judicial reform, modernising of the legislature, upgrading of the regulatory capacity, improvded tax collection, large scale privatisation, restructuring of the central local government relationships.
Main Challenge Macroeconomic management by an insulated technocratic elite.	Institutional development highly dependent on middle management in the pubblic sector.

Source: World Development Report,1997.

'Most of the developing countries during the last two decades have gone through a series of structural and policy reforms under the broad coverage called Structural Adjustment Program (SAP)'. (Aminuzzaman,1994).

VI. Structural Adjustment Program in Developing countries: The Approach to macroeconomic stabilization in developing countries underwent a major change in the late1970s paving the way for the implementation of structural adjustment programs in developing countries supported by the IMF and the World Bank in the early 1980s. The experience of the 1960s and 1970s suggested that the causes of macroeconomic disequilibria were deeply rooted in the structure of the economy and could not be addressed through short-term fiscal and monetary policies alone. The focus of stabilization policies shifted from the macro economy per se, to include the macro, meso and micro economy. Structural adjustment policies have come to inflluence all sectors of the economy and permeate virtually every aspect of short and medium term economic management due to the country's excessive dependence on concessional external assistance.

The structural policies as implemented during SAP in developing countries include a multiple set of policy packages. Gordon, David F (1996) explained issues and implications of structural adjustment program in sub-Saharan Africa. He said that structural adjustment program in sub-Saharan Africa have resulted in only partial economic successes, but have played a significant role in facilitating political liberalization. Economic reforms can be deepened however if policies which sustain economic and political reform efforts are more explicitly linked. There are 4 key dimensions for facilitating and sustainability of economic reform in the context of political liberalization is sub- Saharan Africa: 1. changing government behavior and strengthening government capacity, 2. enhancing the political capacity of effective policy implementation, 3.nurturing civil society and increasing nongovernment organization participation, 4. fostering the necessary institutional foundations for markets. It has become almost a cliché to say that Ghana is the World Bank's African showcase. In the twelve years since the government began its structural adjustment program (SAP), its combination of liberalizing reforms and strict fiscal and monetary measures has helped produce an average real growth rate 5% and bring inflation down from 120% to 30%. " The economy of Ghana is rather like a plane on the runway," Finance Minister Kwesi Bothwey recently told an audience of business leaders in Africa. "It has taxied for rather too long, and and if it doesn't take off soon we'll be in trouble". (Eade, Philip, 1995).

Over the last decade, the macro economic structures of South Asian Countries have undergone significant changes in the policy environment, leading to varying and very often contrasting trends in macroeconomic outcomes. Structural Adjustment Program (SAP), initially emerging as a set of short run stabilization policies to eradicate the chronic balance of payment and fiscal disequilibria, was later redefined and branded as "economic reform" under the auspices of the World Bank (WB) and International Monetary Fund (IMF) aiming at attaining rapid ecomomic growth and macroeconomic stabilization. Throughout the 1980s, every aspect of economic management of South Asian countries except India became the testing ground for the new classical parables and recipes. And at the end of the decade, they have produced some improtant outcomes bearing significant implications for the development proccess of these countries.

SAP has become the dominant development paradigm of South Asian countries. In spite of differences in the area of emphasis and policy mix across individual countries, basically SAP encompasses more or less a similar kind of policies with duel objectives of achieving a high and sustainable economic growth and maintaining a desirable macroeconomic balance. Srilanka is the first country that formally inaugurated SAP in South Asia during 1977/78. The initial adjustment measures of Srilanka included reduction of administrative controls, reduction of subsidies on agriculture and consumer goods, introduction of major tax and interest rate reforms and unification of exchange rate at a depreciated level. (Rahman.S, 1996).

Mathur, Ajeen N (1993) discussed about the structurl adjustment program in India. He said that the aim of the structural adjustment program in India is to achieve macro economic stabilisation and structural reform through government expenditure cuts, a tight monetary policy and strengthening of capital markets, the removal of distortion -inducing controls on private sector activity, greater reliance on foreign capital and technology, and an effective exit policy for the closure or restructuring of loss-making firms in either the private or the public sectors.

In Pakistan, 'With IMF help, the government is attempting to restore fiscal balance through a multi- year structural adjustment program designed to increase revenues, control spending, and stabilise monetary growth. In addition, it is privatising public sector industrial units, financial institutions, and utilities; eliminating state monopolies in banking, Insurance, Shipping, telecommunications, airlines, and power generation; and liberalising investment and foreign exchange regulations'. (Anonymous; 1992)

Considering the experiences of SAP in developing countries, it has been found that there is some positive and negative impact. This is also under question that where the main agenda of World Bank is poverty alleviation but the structural adjustment program is going against the alleviation of poverty. Sanford, Jonathan E (1988) explained the new role of World Bank, 'Since the early 1980s, the World Bank has assumed the following new tasks in addition to its regular development finance function: 1. Preventing economic collpase in borrower nations, 2. helping heavily indebted nations cope with their international payments difficulties, 3. encouraging basic economic policy reform and structural adjustment in developing nations. Many critics worry that the Bank has lessened its concern about poverty. The Bank and its friends assert that poverty alleviation remains a central element of the Bank's agenda, but the world situation has changed since the 1970s, and new kinds of actions are needed. The World Bank belives that economic reform and structural adjustment programs are crucial to a modern antipoverty program. Many critics contend that structural adjustment programs may seriously harm the poor. There is a fundamental disagreement about whether the new modes of Bank lending and the Bank's policy emphasis will have a positive or negative effect on the poor'.

Development planners of Third World countries have been made to believe that the World Bank, IMF- sponsored SAP package is a model to make a breakthrough for economic efficiency and growth of their respective economies. In the light of the experiences of developing countries, the World Institute for Development Economics Research (WIDER) has examined the questions of efficiency and effectiveness of SAP prescriptions. The results of the study (Banuri 1990) suggest that:

- High economic growth or supervisor adjustment performance is correlated with better governance rather with economic openness of the trading regime, while financial openness is associated with poor growth and greater vulnerability to shocks.
- Superior governance is built upon a proper blend of economic policies with economic, (e.g., the nature of labour and financial markets), social and political institution (e.g., bureaucratic efficiency and cultural and historical factors).
- The crucial problem for many Third Wlorld countries is not liberalization, but the construction of what the fishdow (1990) calls the "developmentalist state", i.e., a state whose institutional and organizational features will enable it to pursue its policy goals effectively.

Similarly, other studies also indicate that although SAP has become an important "development agenda" to bring about substantive changes in the socio economic structure and processes of developing countries, it could not show any significant promise. Examining the experiences of some selected least developed countries; a UNCTAD study (UNCTAD 1989) noted the following adverse implications of SAP:

- Initial changes in SAP recommended policies have caused distress to disadvantaged groups.
- SAP adjustment measures overtly stress demand management, which often leads to lower growth and availability of goods and services.
- Exchange rate adjustments, a common feature of the stabilisation and adjustment programs, seem to have had limited effects in export promotion.
- The strong emphasis given by the adjustment programs to redirecting resources from public bodies to private entrepreneurs is of questionable efficacy, as LDCs generally have a poorly developed entrepreneurial class and depend heavily on public institutions to sustain development.

Lack of managerial autonomy, revenue pilferage, over staffing, abuse of the payment of over time, pay and lower prices and tariff have been pointed out by the World Bank report as major reasons for the staggering poor performance of the public sector enterprises in Bangladesh (World Bank 1992). Under these circumstances, the World Bank therefore strongly emphasised the need for immediate restriction and reorganization of the major losing public enterprises and departments. (Aminuzzaman, 1994).

Privatisation: The implementation of the SAP has been followed by massive privatization. A series of decisions have been undertaken to disinvest a large number of public enterprises. At the beginning, the privatization process has effectively reduced the share of the public sector in fixed industrial assets from 85%in 1980-81 to 40% in 1985-86 (World Bank, 1992).

Involvement of NGOs: At the institutional level, one of the direct impacts of the SAP is the rapid expansion of Non-Government Organization (NGO) operations in Bangladesh. In line with the SAP propositions, donors strongly advocated the expansion of NGOs as development agents. The 1980s witnessed a rapid expansion to the NGO movement, manifested in an increased geographical coverage and higher intensity of operation. An estimate made by the Association of Development Agencies of Bangladesh (ADAB) claims that the NGOs have already been able to serve one-tenth of the country's 110 million people (ADAB 1989).

Retrenchment Plan: SAP advocated the reduction of the size of public sector enterprises. It also recommended the abolition of losing enterprises. Meanwhile one public corporation, namely, Bangladesh Jute Corporation (BJC) has been abolished. Nine public sector jute mills have been closed, while four large jute mills under the Bangladesh Jute Mills Corporation have been downsized. In addition, the Ministry of Industries has also instructed all public sector enterprises to cut down at least 10% of their labor force by a comprehensive retrenchment plan. Bangladesh Agricultural Development Corporation (BADC), one of the largest public corporations serving primarily the farmer and rural people has also been downsized a good number of employees.

Golden Shake Hand Scheme: One of the significant aspects of the SAP is the so-called Golden Shake Hand Scheme (GSHS) under which a substantial number of public sector Employees have been sent to voluntary retirement with a lump sum incentive package.

Withdrawal of Subsidies: The withdrawal of subsidies from agricultural inputs is another controversial component of SAP recommendations. In spite of vehement protests from members of Parliament, political parties and the farmer groups, subsidies for agricultural inputs like fertilizer and irrigation equipment have been gradually withdrawn starting in fiscal year 1985.

The SAP and its policy components have imposed a challenge to the Bangladesh public administration structure and system. The rapid expansion of NGOs and the massive retrenchment program have both exerted an added pressure on the performance and moral of public sector employees. Although many of the Public Sector Enterprise (PSE) staff have taken the benefits of the Golden Shake Hand Scheme, a closer look reveals the fact that, in reality, it is only the skilled and relatively efficient staff with better chances of getting reemployed elsewhere, who have taken advantage of the scheme. The exit of skilled PSE staff thus has created a "skill gap" in the already losing public enterprise sector. The most significan positive impact of SAP is that public sector managers have become more conscious about performance and productivity issues, which had previously been a matter of less concern to them.

VIII. Conclusion: Bangladesh, like many other developing countries, is still struggling with the traditional adiministrative system which never come out with desired objective. Bangladesh being a typical Third World country is practically over loaded with reforms. In fact, it is one of the first nations in the South Asian region which accepted the SAP reform packages as early as the 1980s. As a matter of fact the success of any reform process depends on the commitment of the political government. Only commitment can ensure the rate of success. But one cannot ignore the responsibility and sincerity of the officials those who are involved in the reform process. Their efficiency, dedication and integrity is very important. While the most people would agree that developing countries need to create great efficiency in systems of government and in the provision to the public services to the citizens, there is much less agreement on what kind of state this implies: should we be seeking to reduce the size and scope to the state, or should we be seeking to strengthen State capacity and powers? It is interesting to note that the World Bank for the first decade or more a proponent of NPM ideas, in its most recent Annual Report reaffirmed the significance of the state in achieving developmental activities, asserted a clear relationship between 'good government' and levels of economic growth, and endorsed a strategy to 'raise state capability by reinvigorating public institutions' (World Bank, 1997, p-3), while describing the minimalist state approach as 'an extreme view'. If this call for a reinvigoration of the state is echoed by other aid donors, the millennium may see a return to the main idea of the 1960s: the developmental state. (Minogue 1998,p-34).

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Commercialisation of CSOC and Relevant Strategic Management Issues

Mohammad Zakir Hossain*

Introduction: Managing the complexity of high technology is very important for a high technology organisation. One of the consequences of this high complex environment of business leads to the drastic increase in the R & D spending of the competitive firms of the world. This heavy increase of R & D spending is greatly influencing the global business strategies. Galbraith, J.R. (1990) has mentioned that the ramifications of the increase in resources devoted to technology are to drastically alter the nature of competition, the role of governments, the types of business strategies, and therefore the kind of social organisation needed to conduct economic activity today and in the future. In fact, one of the glaring outcomes of these ramifications is the commercialisation of the R & D of many organisations of the world. NASA is one of such organisations, which has undertaken the policy of commercialisation of its infrastructure.

NASA's commercialisation initiative comes from its space operations streamlining initatives. The space operations streamlining review of National Performance Review, NASA Zero Base Review and Congressional Budgetary Review have emphasised on the consolidation, contracting and outsourcing of NASA infrastructure for cost reduction[1]. For example, in one estimate it is seen that the annual amortisation of government connection cost (based on 13 million minutes/year) would be reduced to $5/miniute from $35/minute if NASA outsources the National Relay System from commercial owner rather than owning it[2]. So the driving force behind the commercialisation initiative of NASA is the need to streamline and consolidate its operations emanating from its high technology environmint with the objective of cost reduction. With this objective in mind, NASA had floated its Consolidated Space Operations Contract (CSOC) and Lockheed

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1 www.space.edu/public/seminars/oneill/iec1110/sld004.htm

2 www.space.edu/public/seminars/oneill/iec1110/sld007.htm

Martin Space Operations Company was awarded the contract. The CSOC consolidates seventeen different contracts across five NASA centres for ground operations. The contract has started on january 1st 1999 and is worth \$3.44 billion over 10 years.[3] Under the CSOC, the contractor will manage all of NASA's data collection, telemetry and communication operations supporting its Earth-orbiting satellites, planetary exploration, and human space flight activities[4].

This paper is an attempt to determine the goals that are to be proposed for Lockheeed Martin with regard to CSOC upon considering the Position Audit and Environment Research of the company. This is done in part 1 of the paper. In part 2 of the paper, the Strategic Management Issues coming out from such commercialisation will be taken care of.

Pssition Audit: Position audit shows where Lockheed Martin stands with respect to resource, capacities, profit source, investment and market share.

Resources: It is necessary to assess the resources of a company to identify its potential for establishing competitive advantage which is the sine-quo-non for the success of the business. According to Lewis et al (1999) resources include physical assets, financial assets, human skills, technology and reputation. Lockheed Martin is the prime contractor of CSOC and there are 40 other sub-contractors including Allied Signal, Booz-Allen & Hamilton, Computer Sciences Corporation and GTE Corporation. All these companies have strong base of resources with potential to spend more in the R & D, which is imperative for technical innovation.

Capacities: The CSOC industry team led by Lockheed Martin has wide reputation in the business of aeronautics, space, satellites, network communications etc. and as such has necessary expertise that is relevant to CSOC. For example, the prime contractor Lockheed Martin is one of the world's leading diversified technology companies. This company researches, designs, develops, manufactures and integrates advanced technology systems, products and services for government and commercial customers around the world. Its business areas span aeronautics, space, systems integration, and technology services[5]

Profit Source: The contractors' profit source is the CSOC contract value, which is worth \$3.44 billion over 10 years. Revenues are generated

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[3] www.commercializespace.com/

[4] ftp:ftp.hq.nasa.gov/pub/contract/1998/c98-p.txt

[5] www.imco.com/about/index.htm

through privatisation or initiatives with commercial companies and are offset against CSOC's contract value.[6]

Investment: There are two phases of CSOC. The contractors' investment is needed in phase 1 to develop Integrated Operations Architecture and in phase 2 to provide mission and data service and implement the Integrated Operations Architecture[7].

Speciality For Market: CSOC's space networks have provided a dramatic increase in Tracking Data Acquisition (TDA) coverage, from 15% to 85% per orbit of Low Earth Orbiting (LEO) spacecraft. Besides, they have increased CSOC's ability to provide broadband communication and network services access regardless of terrain, technology, or weather.[8]

Environment Research: Environment research shows what is ahead of Lockheed Martin with respect to user needs, competition, technology, economy and regulatory problems.

User Needs (Demand): Expected demand will be significant over time. CSOC has potential growth opportunities in telecommunications, data acquisition, distribution and analysis. CSOC will facilitate a new broadband multimedia satellite systems which will be largely in the new Ka-band freuencies and will seek to provide a range of digital satellite services at competitive data rates along with other emerging applications such as collaborative computing, distributed CAD/CAM, scientific visualisation, remote sensing data relay, messaging and navigational services.[9] These will create demand for new telecommunications networks. Major users of the CSOC services would be military, media and business.

Competition: The rapidly expanding satellite communications have broadly expanded the dimensions of the players in satellite communications. New entrants such as Brazil, China, India, Israel, Korea, Spain and Russia have become very significant in the space communications business, all of which have specific new plans for 21st Century space communications.[10] On the other hand, the pattern of business has also been changed. Commercial entities such as Motorola, Boeing, General Electric, Matra marconi, Alcatel etc. not previously involved in providing satellite communications have now

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6 www.commercializespace.com

7 www.space.edu/public/seminars/oneill/lec1110/sld012.htm

8 www.commercializespace.com/Home/Protfolio/Space-NetworK/space-network.html

9 www.absoluteauthority.com/satellites

10 Do

transformed into service providers.[11] So a competitive environment is ahead for Lockheed Martin.

Global Economic Outlook: According to Galbraith, J.R. (1990) immediate effect of investing in new technologies is to escalate global competition by forcing companies to seek world scale outside their domestic markets. There are many reports that review the status of satellite communications systems and temhnology research and development around the world. One such report reviews this status with particular focus on comparisons between the United States and other leading industrialisded countries. The conclusions of this report include the following[12]:

1. Many European and Asian governments are maintaining or increasing funding of commercial communications satellite R & D while the United States does not appear to be supporting R & D at the level necessary to maintain its leading market share position in this growing business.
2. The United States is the leader in the manufacture, insertion of new technology, and development and finance of new commercial communications satellites, but crucial new technologies, systems concepts and regulatory patterns will need to be developed to maintain this lead.
3. Commercial communications satellite services are rapidly becoming a large and global business, increasing from $ 11 billion in 1992, to $ 20 billion in 1996 and to a projected figure of $75 billion in 2005.
4. There is a critical need in the United States for long-term satellite and high frequency research. The continued U.S. leadership role in this industry is dependent on the creation of a strong, long-term R & D program to support future needs of new technology as the communications capability of the satellites improves.
5. Opportunities for international cooperation can facilitate the global development of new satellite technologies, systems and standards.

Regulatory Problems: The regulatory problems come from government intervention in the market forces. The global trend to open all telecommunications markets, including satellite communications, will continue, but barriers and obstacles such as restrictive allocations of new frequencies and landing rights, resistance to new spectrum allocations for Low Earth Orbit (LEO) and Medium Earth Orbit (MEO) satellite services, and

[11] Do

[12] www.absoluteauthority.com/satellites/

constraints related to national licensing of terminal equipment to operate with satellite systems will all remain constraints to free and open global markets[13].

Goals Proposed: Considering the position audit and environment research, the following goals are proposed for Lockheed Martin with respect to CSOC[14]:

1. Reduce cost of operations and management of NASA's ground systems and space communications infrastructure.
2. Privatise and commercialise NASA infrastructure.
3. Increase the level of service to NASA-cheaper, lighter, faster and better.

As Lockheed Martin has said that the above goals are proposed-"to help NASA focus on Space, not on Space Infrastructure".

Part2

Consideration and Analysis of the Strategic Managemint Issues regarding the Commercialisation of CSOC

Functional Strategy: The crux of the problem for the strategic decision making for a high technology organisation is to face the high velocity environments. The traditional decision making process is not workable in a high velocity environment. According to Eisenhardt, K.M. and Bourgeois, L.J. (1990) the key issue of strategic decision making in high velocity environments is quick maneuvering without making mistakes. The inductive study conducted by them has revealed that there are three paradoxes of strategic decision making in high velocity environment that the successful firms has to resolve. These paradoxes as mentioned by the above two authors are:

1. A quick, yet rational, strategic decision process.
2. A decisive, powerful CEO, yet an equally empowered top management team.
3. Bold yet safe decisions.

Lockheed Martin has to resolve these paradoxes of high velocity environments in the successful execution and completion to the CSOC for

[13] www.absoluteauthority.com/satellites/

[14] www.commercializespace.com/presentations/marketing/english/flat/sld003.htm

NASA. The world of satellite communications are subject to fundamental shifts in satellite architecture, applications and markets. These will constantly place Lockheed Martin in the above paradoxes. Lockheed Martin with its leading positions and technological capabilities will definitely be in a better position to resolve the above paradoxes with regard to the completion of CSOC.

Organisational Structure: High technology is a dominant factor in the new competitive environment of business, which plays the pivotal role in determining the strategies for companies. Galbraith, J.R. (1990) has mentioned that the response of Western companies to the new competitive environment has been a sequence of three strategic steps. These steps as mentioned by him are: (1) these companies act to recover the cost and quality competitiveness of their core businesses; (2) they extend these businesses globally, and (3) the priority shifts to the development of new sources of revenue. According to the same author, two forms of organisation that are of particular importance for high tech environment are: (1) Matrix Organisation and (2) Network Organisation. Among these two, network organisation seems appropriate or to work well for Lockheed Martin in its completion of CSOC because as mentioned by Galbraith, J. R. (1990) in network type of form each firm will perform only what it does best and link with others through sourcing arrangements, long-term contracts, alliances, minority investments, and joint ventures. To disintegrate vertically and expand globally are the prime objectives of network organisations. Lockheed Martin can apply this principle of network organisation with its commercial teammates in its CSOC venture.

To be a successful network form organisation one of the firms in the network must assume the responsibility for design and maintenance of the network. Galbraith, J. R. (1990) has called this firm as the hub firm, which has the broker role in the net work. He has also mentioned that the hub firm must design its international network to create a presence in all key markets worldwide. In the commercialisation to sell excess capacity and access to NASA assets under CSOC, Lockheed Martin being the prime contractor has to play the role of the hub firm. In this process it should adopt the strategy of vertical disintegration while still keeping in hand vertical control. As Galbraith, J. R. (1990) has mentioned that vertical control can be obtained by performing the dominant function. Besides, Lockheed Martin may also consider forming strategic alliances for the exchange of technology where applicable.

Marketing Strategy : Besides providing space operations services with the best customer service at the lowest cost to NASA, the major marketing task of Lockheed Martin under CSOC includes commercialisation of NASA infrastructure i.e., to move space operations services into the hands of commercial providers. In this marketing task Lockheed Martin has to reckon the imperatives of marketing in the high technology environment. It has to identify the sources of complexity in high tech marketing and evolve strategy to overcome such complexity.

Kosnik, T.J. (1990) has isolated the following seven sources of complexity in high tech marketing:

1. market uncertainty is higher.
2. Technological uncertainty is higher.
3. An ever-expanding set of new skills must be mastered.
4. Shorter product and technology life cycles imply that skills and wisdom quickly become obsolete.
5. Interfunctional and interim alliances are needed to pioneer new technology and enter unfamiliar markets.
6. High tech firms must manage global marketing efforts.
7. High tech implies a volatile pattern hypergrowth and slower growth that makes it difficult to build a marketing organisation.

The above seven sources of complexity have to be taken care of in the formulation of marketing strategy by Lockheed Martin. It has to understand the imperatives of the above sources and the consequent marketing strategy that should emerge from them. As Kosnik, T.J. (1990) has mentioned that the most fundamental requirement these sources place on the people and systems in high tech industries is the need for perennial renaissance, a constant renewal and rebirth of skills and structures as the markets, technologies, and problems change at breakneck speed. From this revelation he has suggested that the marketing in high tech setting must simultaneously be focused, flexible and future perfect. Besides, high tech industries should not indulge in vaporware, as it will have negative impact on the reputation of the company. Vaporware as mentioned by Kosnik, T.J. (1990) refers to products that have been promised to the marketplace but may never be completed or delivered.

Comparison and Control: This is where attention should be concentrated. Comparison and control should be ongoing continuous process in Lockheed Martin with respect to CSOC to trigger changes where necessary. The main feedback regarding CSOC comes from NASA. Besides, Lockheed Martin gets feedback from other enterprises in its commercialisation efforts of CSOC. This feedback is necessary for the successful implementation of the contract.

Compressed Time Frame and Risk: The key feature of a high tech organisation is that it has to work in a compressed time frame. Since high tech organisation has to work in a high velocity environment, there is always a risk of becoming outdated. There is a specific time frame for CSOC. Moreover, its privatisation efforts of NASA assets to commercial enterprises may be shattered by major technological change or innovation in the market. Lockheed Martin should have to reckon this in its completion of CSOC.

Conclusion: The position audit and environment research show that CSOC has a great potential in the commercialisation of NASA infrastructure. It will open the access to NASA assets and services for others. From this contract both NASA and Lockheed Martin will be benefited. NASA projected that CSOC would save its costs by $1.4 billion over the life of the contract[15]. For the successful completion of the project as per the contract, Lockheed Martin has to be very cautious in resolving the strategic management issues that may come in the way of completion of CSOC.

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Public Expenditure Management - Why CRUCIAL for the developing nations

Rahima Tasneem Rahman*

Introduction: Budget, the financial mirror of society's economic and social choices lies at the heart of Public Expenditure Management (PEM). *Traditionally,* society's collective choice for allocation of public money had been made through the machinery of budgeting. The contemporary approach PEM operates through budget decisions, but differs in two important ways from conventional budgeting. First, it supplements the conventional procedural rules with substantive policy norms. In PEM, it is not enough that governments apply the right procedures; it also is essential that they strive to achieve desired policy outcomes efficiently. Second, PEM covers a broad range of institutional and management arrangements, not just those traditionally associated with budgeting. PEM recognises that budget outcomes are not likely to be optimal if the public sector is poorly managed, or if the information given to policy makers and program managers impel them to act in ways that produce perverse results.

In many countries, the public expenditure is managed poorly though the systems seem to be in place. This focuses our attention to the institutional arrangements for PEM in those countries.

Institutions are best understood as rules and are thus distinct from the organisation that function under them. Institutions come in many different forms: legislation, delegation of authority, regulations, reporting requirements, procedural requirements, generally accepted principles and norm, behaviour and values. All of these dimensions have an impact on the quality of PEM. For example, institutional environment shapes the expectations of public officials. If there is a rule about the management of records in an organisation, then behavior will vary according to whether the offical believes the breaches of these rules will be punished. Expectations that policies are soon going to be reversed lead, at best, to secondguessing and at worst, to cynical disregard.

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It is thus, important to explore how institutions are changing in the developed countries. Transplanting the system and structures in one country unchanged into another is seldom possible because the efficacy of a system depends so much on the complementary structures. However, countries study and adapt systems and structures from other countries to fit their particular circumstances. Developing countries particularly adapting the reform agenda to their own circumstances can learn from what may be a best practice and thereby draw lessons.

Principles of PEM: The World Bank has grouped a number of the institutions into a set of principles of sound budgeting and financial managemet:

- Comprehensiveness and Discipline
- Legitimacy
- Flexibility
- Predictability
- Contestability
- Honesty
- Information
- Transparency

Fiscal Rules: i) Golden Rule: Over an economic cycle the government borrows only to invest and not to support current expenditure.

ii) Sustainable Investment Rule: Public debt as a percentage of GDP must be kept at a stable and prudent level.

IMF Code of Good Practices on Fiscal Transparency:

- Clarity of Roles and Responsibilities
- Public Availability of Information
- Open Budget Preparation, Execution, and Reporting
- Independent Assurance of Integrity

Institutional Framework of Public Expenditure Management: It deals with three levels of distinct but interrelated basic expenditure outcomes as proposed by the World Bank to help achieve each level of outcomes. They are:

i) **Level-1:** *To instill aggregate fiscal discipline:* The total amount of money that a government spends should be closely aligned to what is affordable over the medium term.

ii) **Level-2:** *To facilitate prioritisation of expenditures across programs:* Expenditures should be based on government priorities and on effectiveness of public programs. The challenge is to construct

- *Delegation of authority* over design and exceution of the budget to central budget agencies.
- *Unified and comprehensive* budget including all fiscal operations of government and excluding extra budgetary funding.
- *Hard budgetary constraints* - upwards and downwards-during budget execution.

ii) Strategic prioritisation:

- *A cohesive political executive* with a vision (where to take the country) must legitimise decisions made.
- *A forum* (e.g. Cabinet) given the resource availability over the medium term should decide on policies which have to compete with each other as ideas and for funding.
- *Capacity at the centre to assess* the appropriateness of decisions against the overall strategic policy objectives of government and their financial implication over the life of the policy. Use of objective criterion (e.g. cost-benefit analysis) and pragmatic decisions for budget formulation devolved to line ministries to enhance legitimacy of prioritisation.

iii) Efficient and effective allocation of resources:

- *The predictability of funding* from donors, both within the budget year and from one year to the next.
- *Contestability* (competition) in service supplies.
- *The increased delegation* to line managers to make financial decisions commensurate with the responsibility for producing outputs and achieving outcomes.
- Clarity of purpose (objectives to be achieved) and clarity of task (outputs to be produced) for managers. Setting up of performance based agencies within public sector and entering into formal contracts with these agencies.

- Meritocratic personnel practices; adequate compensation compared to the private sector.

Problems of PEM in Bangladesh: Before discussing the applicability of the contemporary institutional framework, an overview of the special problems and their impact on public expenditure control in Bangladesh might give more insight to the measures required. Managing public expenditure is an essential but difficult task for the government of Bangladesh as special problems may make the country an inhospitable venue for certain practices. They are:

i) *Poverty*-Lack of resources to respond to rising demands for public services.
ii) *Economic Instability*-Inadequate slack to 'ride out' cyclical and other shocks.
iii) *Low revenue Base*- Vulnerability to adverse shifts in commodity prices, terms of trade, and low access to capital markets.
iv) *Informal Market Sector*-Much economic activity is extra legal, in disregard of formal rules; weak enforcement of property rights and contracts resulting in relatively high levels of corruption.
v) *Informal Public Sector*-Formal rules concerning civil service, public expenditure and procurement tend to be ignored.
vi) *Low Political Mobilisation*-Inadequate development of interest groups to express public opinion and monitor government performance.

Applicability of the Institutional Framework for Bangladesh: Given the above special problems and the existing pre-conditions in Bangladesh, it can not implement many of the institutional arrangements. Moreover, even before applying any of the reforms proposed by the World Bank, Bangladesh needs to make its basics (preconditions) right to prevent further chaos. Under the present situation, measures applicable for Bangladesh are discussed separately under three levels of expenditure outcomes.

i) **Fiscal Discipline-** *Openness of financial markets* is the prime requisite to put limit on external borrowing on which the government of Bangladesh is heavily dependent for its Development Budget.

Medium-term Framework for setting the budget aggregates instead of a short term outlook, which treats budget, as an annual funding exercise not based on policy. The constraints should cover most aggregates; not just total spending or the deficit otherwise fiscal norms are not likely to hold in the face of spending pressures. Targets are not self-implementing; aggregate targets should include enforcement mechanisms, including in-year monitoring and out-year projections.

Formal Laws to establish constraints on budget envelope leading to control on spending and domestic borrowing. Hard constraint is a matter of degree and absolute prohibition against breaching the totals may be too rigid to withstand political pressure or economic necessity in Bangladesh at this stage.

Strong System of Parliamentary Controls through better accountability and transparency that impose political costs on politicians and bureaucrats for violating the rules of fiscal discipline.

Political commiments (e.g. the head of government, Cabinet, Party Leaders) should be reflected in the target which is realistic and achievable. Even when targets are externally imposed (e.g. IMF, WB), achieving them depends on political commitment. Unrealistic targets get ignored and manipulated by the politicians to their own advantage.

Effective linking among policy, planning and budgeting requires knowledge of development projects and their implications for revenue budget so that essential current expenditures can be anticipated and budgeted for. Setting up a single 'Budget Committee' in each ministry could help to integrate recurrent and capital budgets.

Other mechanisms include reconciliation between ex-ante and ex-post aggregate spending and deficits; sanctions against overspending; publication and dissemination of the results to the public; and integration of all financial components including off-budget outlays such as state enterprises borrowing from private banks.

ii) **Prioritisation-** *Flexibility for line agencies* to make intrasectoral allocations. *Process allowing feedback* from claimants that inform priority setting. *Use of objective criterion* such as cost-benefit analysis. *An expenditure planning process* linked to the achievement of affordable outcomes. The net margin established to meet the fiscal target thus, will be the unallocated money (the incremental resources plus savings from existing programs) available for new spending in a sector. *Reallocations* promoting program effectiveness by requiring departments to systematically evaluate their activities and report on outcomes. The scope of reallocation is greater when there are relatively few portfolios.

ii) **Efficiency-***External control* is needed on the input side of the budget, internal control for giving public managers some leeway in organising their works and managerial accountability that shifts the focus of control from input to output. Incentives regarding the compensation system and meritocratic recruitment and promotion are needed to facilitate operational efficiency.

Institutional Capacity building will gradually reduce the role of central government in planning and controlling expenditure programmes. Long-term concerted efforts are needed to develop local government capacity to administer, initiate and implement public expenditure programs. Devolving expenditure authority to line ministries or technical agencies operating separate from the central government (e.g. holding them accountable for outputs) would reduce the need to evaluate public expenditure programmes within the Ministry of Finance and the Planning Commission.

Strong Central Capacity as decentralised institutional framework will require a long time in view of generally weak institutional capacity and shortage of skilled professional in Bangladesh. Central government's ability (for the interim period) to analyse, plan, monitor and control public spending programmes is thus suggested. The Asian Development Bank supports efforts to strengthen the Finance Division's capacity to do policy analysis by means of economic modelling and programmes to improve project implementation and ex-post project evaluation by Implementation, Monitoring and Evaluation Department.

Conclusion: There are positive indications that government is broadening its reform horizons with initiatives such as the sector investment programmes and the strengthening of the C&AG Department. The Programme of Reforms in Budgeting and Expenditure Control (RIBEC) under the technical assistance of DFID, is with a purpose to improve government's financial management capacity. RIBEC's achievements include the new 13 digit budget classification system, the improved quality of financial information in terms of accuracy, consistency and timeliness, Management Accounting Units (MAUs) in ministries to improve the functioning of Budget Committees, development of IT infrastructure and skills through training. The availability of reliable financial data will be invaluable in guiding senior civil servants in the implementation of the required changes. The greater benefits will only materialise if the data is used to inform the policy debates where issues of effectiveness are predominant. In turn, this requires a politically driven public sector reform programme which is yet to materialise in a credible way.

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Why IT Implementations Fail: An analysis and some suggestions[1]

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Introduction: In this age of technological explosion, large amounts of funds are directed towards Information Technology (IT) based projects. But despite the enormous technological advances in the IT industry, there are still many failed and abandoned IT projects. Spending large sums of money on IT projects does not necessarily equate to money well spent. The failed IT projects are costing both public and private sector organizations a staggering sum of money. All these could better serve these organizations if more attention is focused on why these failures occur so that repeated mistakes could be avoided.

In this presentation, we will try to analyze the main reasons regarding why IT implementations may fail and how these can be addressed to ensure successful implementations. We will use related case studies, survey results and researches done in this field to present a clear picture.

Working Concepts: According to May, a failure is defined as any IT project with severe cost or schedule overruns, quality problems, or that suffers outright cancellation[1]. Karra defines Failure also in the same way, i.e. either the project was cancelled before its completion, exceeds the original budget; or takes more than the estimated completion time[2].

Background: Formulation and workability of any IT project requires going through at least four phases. Expert opined that highly technical works such as programming usually takes up less than 25 percent of building and maintaining IT systems. We will now discuss these phases one-by-one, as reasons for failure and ways to achieve success lie in the working of these phases.

Alter[3] defined the four life cycles of building and maintaining information systems as:

I. Initiation

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[1] This article is a revised and updated version of a paper undertaken for a Master's Program at the University of Ulster, UK.

II. Development
III. Implementation, and
IV. Operation and Maintenance.

Initiation arises due to the need to change an existing work system. Functionality or changes required in the new system are described in this phase and also identifying the people whom should be involved in deciding what to do. This may begin in either way, i.e. a user may request the IT staff or the management to study a particular business problem, or IT staff may aware of an opportunity to improve business practice and efficiency of the personnel/organization.

The Development phase produces detailed requirement analysis of acquiring and configuring resources, i.e. hardware, software and othe related resources needed to perform both the required IT related functions and functions not directly related to IT. This phase starts by deciding how the computerized and manual parts of the proposed system will operate and then goes on to acquire the needed resources. Regardless of how the hardware and software are acquired and worked upon, this phase includes creating documentation explaining how both the work and information system are supposed to operate and also about system testing.

Implementation is the process of putting the intended (IT) system into operation in the organization for which it was created. This phase starts from the point when the software runs on the computer and has been tested. Activities in this stage include planning, user training, and conversion to the new system and followup to make sure the entire system is operating effectively.

Operation and Maintenance start after the users have accepted the new system and can be divided into two broad areas. Ongoing operation and support is the process of ensuring that the technical system/hardware/software components continue to operate correctly and that users use it effectively. Maintenance is the process of modifying the information system overtime to take account of errors or simply enhancement to functionality.

Obstacles in application: Through the above-mentioned phases, IT projects can be implemented and can bring important benefits to organizations and clients. But if misapplied, they can waste tremendous amount of time, effort and money. We will now try to show some examples, one for each phase, taken from the real life case studies that proved as obstacles to applying IT successfully in the real world of business.

Initiation Phase: Staff participation in the initiation phase is vital for the success of an IT project. They must be convinced for the need of the system in the first place and have a sense of association with the project. London Ambulance Service undertook an IT project - Computer Aided Despatch (LASCAD)[4] - to automate many of the human-intensive processes of manual despatch systems associated with ambulance services in the UK. But the project failed and one of the main reasons was identified as staff factor. The appointed System manager was unsuitable, as he knew that he would be replaced and made redundant after the completion of the project. Moreover, ambulance crews had little involvement during preparation of requirement specification/analysis of the proposed system, and there was little consultation with the crews regarding the new method of working.

Development Phase : Care should be taken so that the proposed system doesn't become too complex nor too expensive. But when the Department of the Environment (DOE) of Northern Ireland signed a contract for a system from Systems Designers; DOE faced numerous difficulties that ultimately led to the failure of the project. DOE bought a large bespoke system to control virtually everything within its remit. The case facts revealed that there was a danger that the system and its functions would be out of date before they went into active service. Moreover the tool was a real constraint due to its highly specialized nature. So the department, had it not abandoned the project, would have been committed to software that only highly paid spceialists could maintain and develop. This would create a hostage situation. Thus, the desire to order an innovative high-risk system that proved unmanageably large led to a loss of £ 8.77m for DOE[5].

Inplementation Phase: Introduction of new system must not cause disruption to work. But in the case of a UK hospital, when the proposed IT systen went live, it became quickly evident that inputting orders taking twice as much time as writing them by hand. 2 out of 100 of a particular test could be ordered using the system for which extremely lengthy log-in procedure was needed. Other tests had to be ordered using hand written cards. Non-enthusiasm from the staff due to normal work disruption was pointed out as one of the reasons for failure of this particular project.

Operation and Maintenance Phase: Proposed system should be flexible enough to cope with changing business needs. But Idaps Australia Ltd. failed to fulfill the requirement of Westsub Discounts Pty Ltd., a video cassette rental firm, because of a subsequent increase of business from the time when the contract was entered. The system was not capable in handling the increase volume[6].

Why IT projects Fail : Generic Reasons: J R Karra[2], in his article, "Analysis of Software Projects Failures" pointed out several cause for IT projects failure:

- ▷ Poor project planning
- ▷ Poor requirement analysis
- ▷ Inadequate documentation
- ▷ Lack of key management involvement
- ▷ lack of inter-departmental support
- ▷ Development team's lack of understanding about business problems and procedures, i.e. should be business driven, not technology led
- ▷ Complex dependencies
- ▷ Never ending ambitious goals

Gregory Parker[7] in 'Visual Basic Project management Journal' pointed out that The Standish Group study found that the most common causes of project failure were incomplete requirements, lack of user involvement, lack of resources, unrealistic expectations, lack of expectations, lack of executive support, and changing requirements. He further pointed out that a study conducted by Pete Marwick of KPMG, Canada's largest professional services organization, found following causes of software runaways:

- ❖ Project objectives not fully specified (51%)
- ❖ Bad planning and estimating (48%)
- ❖ Technology new to the organization (45%)
- ❖ Inadequate/no Project Management Methodology (42%)
- ❖ Insufficient senior staff on the team (42%)
- ❖ Poor performance by suppliers of Hardware/Software (42%)

We can also add a few more related reasons as the causes of IT project failure:

- ➪ Poor Project management
- ➪ Non-Strategic approach to IT
- ➪ Hostility of staff to change, e.g. concern over jobs
- ➪ Poor risk management and contingency planning
- ➪ Difficulty in estimating time-scale and cost
- ➪ Lack of monitoring and control of the project
- ➪ Lack of expertise among staff
- ➪ System not sustainable due to too much reliance placed on external expertise

As we have pointed out some general causes, now we will discuss some of the pertinent points more elaborately

- **Unrealistic expectations:** Computer technology has always received more than its share of speculation and importance. Isaac Asimov wrote in one of his early 60s Science Fiction stories that after the invention of a Supercomputer it was asked whether there is a God. And it answered back- 'Now, there is'! Infomercial* 'by hardware and software vendors and also their claim about 'selling solution' often add fuel to the already existing confusion related to 'Computer is smarter than human'. But Real business problems require much more than introduction or changing IT system. It should be remembered that whether or not the (IT) system works is determined by how it is actually used in the organization. An organization may acquire a top-of-the line IT system, but if right people aren't there to manage the system and interpret the output, the investment may be wasted. Unrealistic expectations due to exaggeration and misstate of role of IT lead to poor requirement analysis and ultimate failure.
- **Organizational inertia and problems of change:** The positive and negative effects of IT system on any organization are inseparable. Introduction of IT system may mean that fewer employees are needed or that hard-earned skills are no longer important. Differences of opinion and uncertainties about the positive and negative impacts of proposed changes often contribute to the tendency to continue doing things in the same way and to resist change. IT systems are only a component of organizational operations and decision process. Just changing an information system may not have much impact unless other things are changed, such as the way work is organized and the incentives that are established for the participants.
- **Poor user input:** IT projects are likely headed for trouble unless informed end users are giving meaningful input during every phase of requirements elicitation, product design and building. The input needed by these users has less to do with issues like screen layouts than with how the system would be used in the field. Poor user input means the system isn't adequate for its environment.
- **Stakeholders conflict:** Seemingly Mutual and over-lapping interests of various stakeholders may induce them to agree on a single IT system. They start with the illusion that everyone is going to get everything that they wanted. But when forced to acknowledge deep incompatibilities among their interests and also failing to recognize the real stakeholder, the proposed IT system fails.
- **Poor cost and schedule estimation:** It is unfair to label an IT project a

failure if it fails to meet budget and schedule goals that are inherently unattainablel. Like all endeavors, every IT project has a minimum achievable schedule and cost. Attempts to gain advantage over a project's natural minimum limits will backfire.

❖ **Poor architecture:** Poor project architecture as a cause of failure has been given much less attention than the project management approach to analyzing failures. Tracking personnel and time alone will be useless if the system builders do not produce a stable architecture. The brittleness of the architecture is often the reason for project failures. Brittle architecture will lead to the system falling short of requirements. If the system falls short of strategic requirements, then the project will be a total failure[8].

❖ **The human factor:** The human factor is an important factor responsible for the failure of IT projects. There seemed to be a direct relationship between project failure and the human factor contributions. The larger the failure, the more the human factor contributed to that failure. The following aspects are contributors to human factor: (a) failure due to the low skill level of the team members, (b) uncommitted team members, (c) lack of knowledge and skill of the project team member seems to continue to be a recurring problem[9].

Project Success Factors: It can be logically hoped that knowing the causes and reasons of IT system failures mentioned above can help the decision-makers choose the right strategy for their success. The major reasons that IT project will succeed are:

- ✓ User involvement,
- ✓ Executive management support,
- ✓ A clear statement of requirements,
- ✓ Proper planning, and
- ✓ Realistic expectations.

There are other success criteria, but with these above-mentioned elements in place, the chances of success are much greater. Without them, chance of failure increases dramatically. Besides these, we can also look into the survey conducted by the Standish Group[10] on IT executive managers for their opinions about how projects succeed. Below are the detailed results of the said survey:

● Combination of information and commerce

Project Success Factors	% of Responses
1. User Involvement	15.9%
2. Executive Management Support	13.9%
3. Clear Statement of Requirements	13.0%
4. Proper Planning	9.6%
5. Realistic Expectations	8.2%
6. Smaller Project milestones	7.7%
7. Competent Staff	7.2%
8. Ownership	5.3%
9. Clear Vision & Objectives	2.9%
10. Hard-Working, Focused Staff	2.4%
11. Other	13.9%

Conclusion: For each IT Projects, an "Action Plan" is to be developed initially to mitigate the risks associated with a failure. This Action Plan may include:

- Business impact analysis
- Management responsibilities
- Specific Development Procedures
- Special staffing services
- Increased quality checks
- Sampling and verification of results

Besides, knowing the common underlying problems that cause most IT projects to fail will help to enlighten the decision-makers with techniques that work. Finding the causes of failure will provide insight and strategy for successful future IT project development. It is inevitable that history will repeat itself if the history is unknown. This may cause disastrous and costly consequences.

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