

POLICY NOTE¹

Efficiency in the Programming and Financing of Social Protection

BACKGROUND

To maximize the impact of social protection (SP) programs, it is critical to: (1) align the allocation of resources with national policies and strategies; (2) design programs that are able to reach their intended beneficiaries with adequate coverage and level of benefits; (3) ensure efficiency in programming and financing; and (4) ensure efficiency in the actual delivery of programs at the local level. This policy note analyses point (3), the processes of budgeting, programming, and reporting on SP budget, highlights areas where challenges remain, and proposes policy recommendations to address those (others are covered in other policy notes and in the main report¹).

There are several important questions which are critical to understand and assess the efficiency of programming. These include, but may not be limited to: How SP budgets are prepared? Who are involved in the preparation process? Who determines the allocation and number of projects to be included every year? What are the sources of financing? Who monitors program performances? Besides, a well-functioning SP system also calls for the existence of an integrated financial accounting and reporting system as well as auditing mechanisms. Ideally, a dedicated authority should be in place who can play a strong role in allocating resources, coordinate among different processes and agencies, and oversee program performances.

¹ The Policy Note series discusses key thematic findings and recommendations outlined in the 'Bangladesh Social Protection Public Expenditure Review (PER)' report. The series includes notes on the Allocative efficiency: Better Align Social Protection Resources with National Policy; Adequacy of Coverage, Targeting and Benefits of Social Protection Programs; Efficiency in the Programming and Financing of Social Protection; and Efficiency in the delivery of Social Protection Benefits and Services to Beneficiaries.

PROGRAMMING

Social protection in Bangladesh is characterized by a large number of programs. Multiple agencies implement numerous interventions. Over the last decade, the number of interventions has grown significantly (from 77 in FY2009-10 to 125 in FY2019-20). It is partly driven by interventions under the development budget which contributes to only about 20 percent of the total SP budget, but accounts to about 60 percent of the total SP programs and projects. Besides, the largest 31 programs account for more than 90 percent of actual expenditure, (and the top 10 account for 70 percent of the total, Table 1), while the smallest 100 programs represent only 10 percent. The plethora of interventions also represents significant challenges in coordination and efficiency. In addition, while small projects provide opportunities to pilot innovative approaches, many development projects are not designed to inform large scale programs.

Progress towards consolidation, as recommended in the NSSS, is slow. This could include consolidation along phases of the life-cycle, as well as the consolidations of large programs (for instance, consolidation of MoSW's WA and MoWCA's VGD programs into a Vulnerable Women's Benefit, or consolidation of all public workfare programs implemented by MoDMR and LGD into a single program).

Besides, involvement of multiple authorities in the programming and decision-making process of social protection programs often results in coordination challenges. For instance, the General Economics Division (GED) monitors, documents and evaluates the activities and progress on the NSSS. Based on GED's findings, Cabinet Division (CD) tries to coordinate programs and agencies. On the other hand, FD allocates resources, prepares the annual list

Table 1: Actual expenditures by largest 10 social protection programs (FY2013-14 to FY2017-18)

Program Name	Total (BDT billion)	% of social protection spending
1. Pension for Retired Government Employees and Their Families	534.25	36.0%
2. Honorarium for Insolvent Freedom Fighters (HIFF)	88.08	5.9%
3. Old Age Allowance (OAA)	77.17	5.2%
4. Food Friendly Program (FFP)	62.16	4.2%
5. Vulnerable Group Feeding (VGF)	55.49	3.7%
6. Vulnerable Group Development (VGD)	54.86	3.7%
7. Open Market Sales (OMS)	46.93	3.2%
8. Primary Education Stipend Project (PESP)	42.18	2.8%
9. Employment Generation Program for the Poorest (EGPP)	34.63	2.3%
10. My House My Farm	34.26	2.3%

Source: iBAS, Controller General of Accounts.

of social protection programs, and implements the Government-to-Person (G2P) payment scheme.

BUDGETING AND FINANCING

Budgeting process is long, rigid and top-down

The budget process has numerous steps, starting from the top, with the updating of the Medium-Term Macroeconomic Framework (MTMEF) and the estimation of the overall resource envelop; followed by the inter-sectoral allocation of resources (indicative budget ceilings for line ministries). Within social protection agencies, budget preparation draws from inputs from departments, but

ceilings largely determine allocations (bottom-up budgeting would result in unrealistically large demands). This is followed by tri-partite meetings are organized between FD, Planning Commission (PC) and line ministries and the meeting of the Cabinet Committee on Safety Nets. Allocations are communicated to field offices once approved. Such long process often makes it hard to propose innovations or reallocations.

Existence of dual budgeting system weakens strategic alignment and creates inefficiencies

Despite the move towards integrated budgeting, a dual system still prevails in Bangladesh, with separate processes for operating and development budgets. The dual budgeting approach entails different preparation processes and timelines and separate responsible agencies. A few elements complicate the process: The Annual Development Programme (ADP) is developed on an annual basis, and projects can be added outside the budget cycle, while the Medium-term Budgetary Framework (MTBF) has three-year cycles (figure 1). The multiplicity of processes also puts heavy demands on the line ministries. Multiple requirements can sometimes result in inconsistencies and weaken the link between budgets and policies.

Scope for enhanced role of the Cabinet Committee in budget allocation

The first time a line ministry is able to present and justify its demands for resources is at the tri-partite meeting with the FD and PC. While some adjustments in ceilings may emerge in favor of the line ministries from the tri-partite meetings, for major safety nets, the final, binding resource allocation decisions materialize from the Cabinet Committee on the Overall Supervision of Social Protection formed in 2014. The Committee is mandated to review the annual performance and make decisions on the budget allocation of 15 programs (including only 7 of the largest) covering only 40 percent of the total revised budget in FY2018-19 (excluding Government pensions). Other large, important programs are not included in the Committee's purview, limiting its impact.

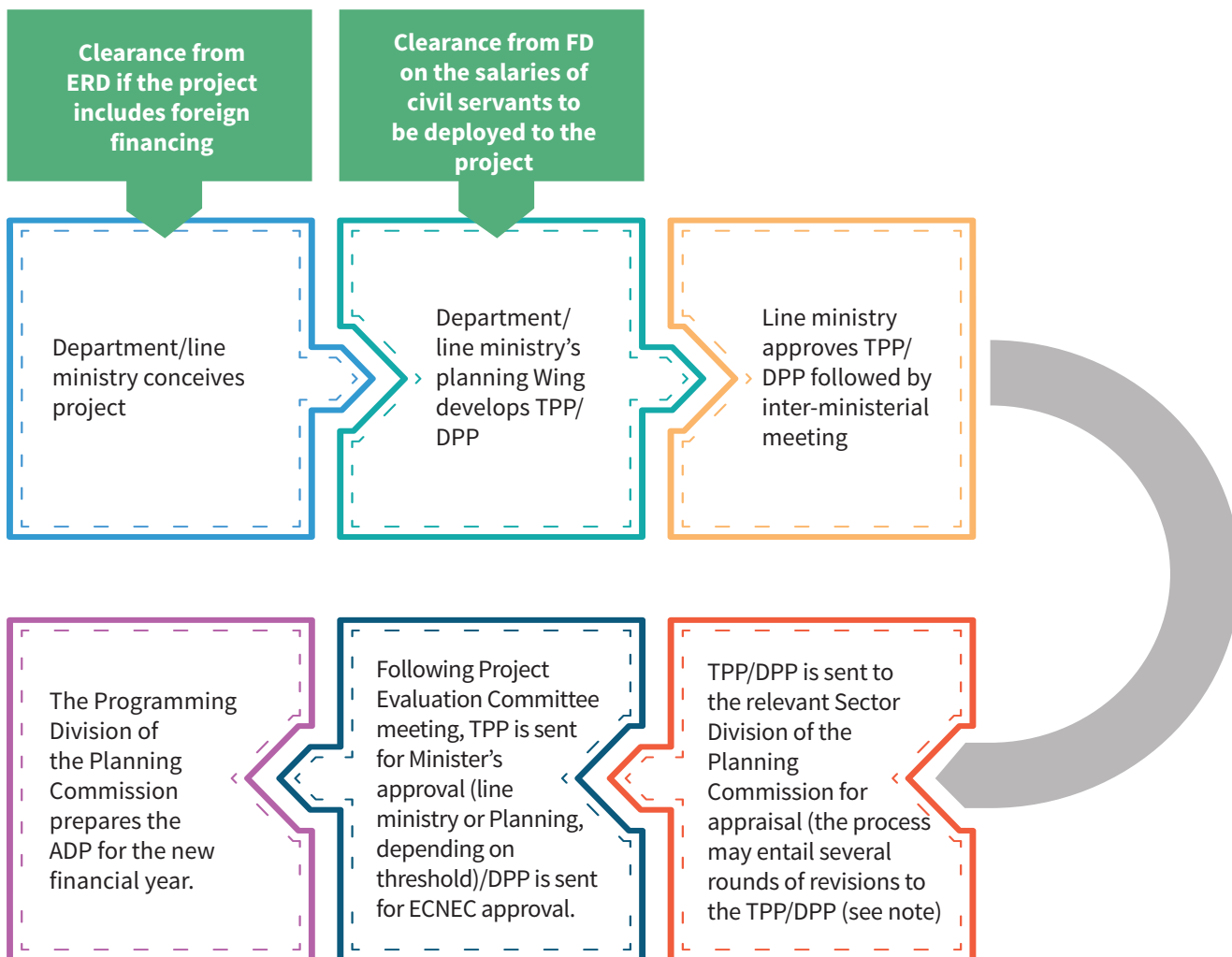


Figure 1: Development project approval process affecting development budget preparation.

UTILIZATION, REPORTING AND AUDITING

Budget utilization rate for social protection has been improving in recent years

There is some heterogeneity, with larger programs having on average higher utilization rates (almost 100 percent every year), due to their regularity. Other programs have more variable budget utilization, particularly those focused on disaster response and food transfers, and require a dedicated financing strategy. However, the development budget has historically been overprogrammed: As projects are approved throughout the year irrespective of resources available, allocations to older projects may be reduced and reallocated to newly approved projects that take time to get started. Delays often result from challenges in the formulation of project costs as part of the Technical-assistance Project Pro-forma (TPP) and Development Project Pro-forma (DPP), and rigidity comes from the complexity of the process of subsequently adjusting TPP/DPPs.

Scope for improvements in financial reporting

High utilization of SP budget every year (discussed above) may indicate weaknesses in financial reporting, limited use of iBAS and/or capacity constraints at the local level. A fund flow analysis carried out for the PER revealed that budget utilization for EGPP is reported to be almost full. However, in practice, since payments are conditional upon daily attendance at work, there can be some under spending. For instance, across a small sample of upazilas, during the second half of FY2017-18, 3.1 percent of wage allocations, 8.7 percent of non-wage allocations and 31.4 percent of labor leader allocations were not utilized.

Furthermore, as discussed in the first policy brief on policy alignment and categorization/classification that the use of iBAS is critical

for not only programming, but also for analysis and monitoring of SP expenditures. However, while central units use iBAS++ for budgeting and reporting, some local-level officials are yet to start using the system. For major programs, iBAS only records the first steps in a longer chain of transfers. While the use of the operating budget by design requires claiming expenses as reimbursements, transfers are in practice recorded as expenses without waiting for reconciliation with actual expenditure data. For instance, for EGPP, funds are transferred from the treasury to the ministry and then to upazila-level mother accounts. Funds are then transferred to union child accounts following selection of sub-projects, before transfers to beneficiary accounts (using lists verified by the Project Implementation Officers based on attendance records). For some other programs, for instance, for OAA, WA and DA, the use of iBAS is even more limited.

The audit of social protection programs is limited, which curtails opportunities for improvements

So far, the scope of audits focuses mostly on entity level transactions and do not delve into program expenditures and processes. Projects receiving international development assistance are audited by the Foreign-aided Project Audit Directorate (FAPAD), but their limited scale constrains the application of the Directorate's good practices. Besides, Office of the Comptroller & Auditor General (OCAG)'s recently established Directorate of Social Safety Net Audit covers seven ministries. The Directorate is carrying out the first financial audit of the MoSW's cash transfer programs. Deeper audits would help enhance fiduciary management, as well as efficiency of processes, resulting in greater impacts.

RECOMMENDATIONS

- **While improving the design of large programs for maximum impact, progressively consolidate or terminate small projects to reduce fragmentation.** In addition to improving large programs that can have systemic and sustainable impacts, the government could consolidate some programs, potentially around their functions or target population. For instance, consolidation efforts could merge programs for vulnerable women, or programs focused on early childhood support, or public works programs. In terms of development projects, the government should only finance those that test new approaches (e.g. labor market projects) and evaluate them before deciding on potential scale-up. All other small development projects, which don't contribute to the innovation agenda, should be progressively terminated. To operationalize this recommendation, rules and guidance will be needed on: (1) how to amalgamate various processes; (2) how to redistribute responsibilities for consolidated programs; and (3) how to consolidate programs financed from development and operating budgets.
- **Strengthen social protection coordination mechanisms and the link between policy and resources allocation.** The Cabinet Committee on Social Protection should play a more important role in linking allocations to policy priorities – both by broadening its coverage and by deepening its consideration of data on impacts, coverage and adequacy to make evidence-based budget allocation. To broaden its coverage, the Committee should review all core programs, financed from both operating and development budgets, analyze programs' alignment with core policies and objectives using core policy-relevant typologies. The Committee can also consider meeting earlier in the financial year, to make more effective contributions to the budgeting process of social protection.
- **Simplify and harmonize the budget process.** This could involve bringing the development and operating budget processes more in line, rationalization of the reporting requirements by central level ministries (e.g. FD, CD, PC), and reducing the number of back and forth on budget preparation. Simplifying and flexibilizing the TPP/DPP preparation and revision processes would boost implementation of development budget-funded projects.
- **Strengthen financial reporting and auditing to improve implementation and program management.** At the local level, capacity needs to be developed to use central reporting systems (including iBAS) and effectively report actual expenses (using bank reconciliation statements). This would also allow for more informed program management at the local level. Financial audit of social protection programs can help increase transparency of expenditures and processes and contribute to efficiency. Directorate of Social Safety Net Audit's practice of conducting financial audit for MoSW should also be emulated for other agencies' programs. In addition, performance audit by the Directorate can bring a holistic view of program performance.

ⁱ World Bank, 2021. "Bangladesh Social Protection Public Expenditure Review (PER)". World Bank Group, Social Protection & Jobs, Dhaka, Bangladesh.

ⁱⁱ World Bank, 2020. "Social Protection Fund Flow Analysis". Dhaka, World Bank.

ⁱⁱⁱ Administered by the UNO and Project Implementation Officer.

^{vi} Administered by the Upazila Social Service Officer and the Upazila Nirbahi Officer (UNO) or equivalent urban area officials where applicable.

^v Ministries include MoSW, MoCWA, MoDMR, MoFd, MoLE, MoLWA, and MoYS.

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