BEYOND ALLOCATION

REFORMING FISCAL GOVERNANCE FOR EFFICIENT PUBLIC SPENDING IN BANGLADESH

MD. DEEN ISLAM, Ph.D

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DACCA INSTITUTE OF RESEARCH AND ANALYTICS

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1. INTRODUCTION

Bangladesh's FY2025–26 Budget, totalling Tk 7.9 trillion (≈12.7 percent of GDP), represents a bold fiscal exercise against a backdrop of constrained revenue mobilisation (~9 percent of GDP) and rising debt servicing costs. Although fiscal discourse often focuses on allocations to education, health, infrastructure, and social protection, there remains a universal challenge: compressing long-term development goals within a very narrow fiscal envelope. The burden of servicing domestic and international debt — currently absorbing approximately 3.6 percent of GDP in interest payments — means that any increase in welfare or capital expenditures must come at the cost of further deficit expansion.

Beyond this macroeconomic squeeze, there is a structural inefficiency in the execution and oversight of existing budgets — both in the large revenue budget (used for salaries and operational expenses) and the Annual Development Programme (ADP) (representing capital investments). These inefficiencies — not shown upfront — result in visible wastage, misallocation, and redundant spending. Corruption and poor maintenance culture further diminish the value for money (VfM) of public investments.

This paper examines these often-ignored dimensions, drawing on official fiscal data, procurement outcomes, and feasibility analyses, to argue that improving efficiency and VfM provides the only viable pathway to improve service coverage and effectiveness within existing and future budgets.

2. LIMITED FISCAL SPACE AND RISING DEBT PRESSURES

One of the most critical challenges facing the fiscal management of Bangladesh is the structural constraint posed by limited fiscal space. Despite a growing GDP and expanding economic base, the government's capacity to increase investments in public services — such as health, education, infrastructure, and social protection — remains severely restricted. This is due to a combination of persistently low revenue collection and a steadily rising burden of debt servicing, which together squeeze out discretionary spending and limit the scope for pro-poor fiscal policy. The proposed budget for FY2025–26 highlights this issue acutely, as it aims to fund ambitious development plans while being constrained by systemic inefficiencies in revenue mobilisation and mounting obligations to repay public debt (Ministry of Finance, 2025; The Daily Star, 2025).

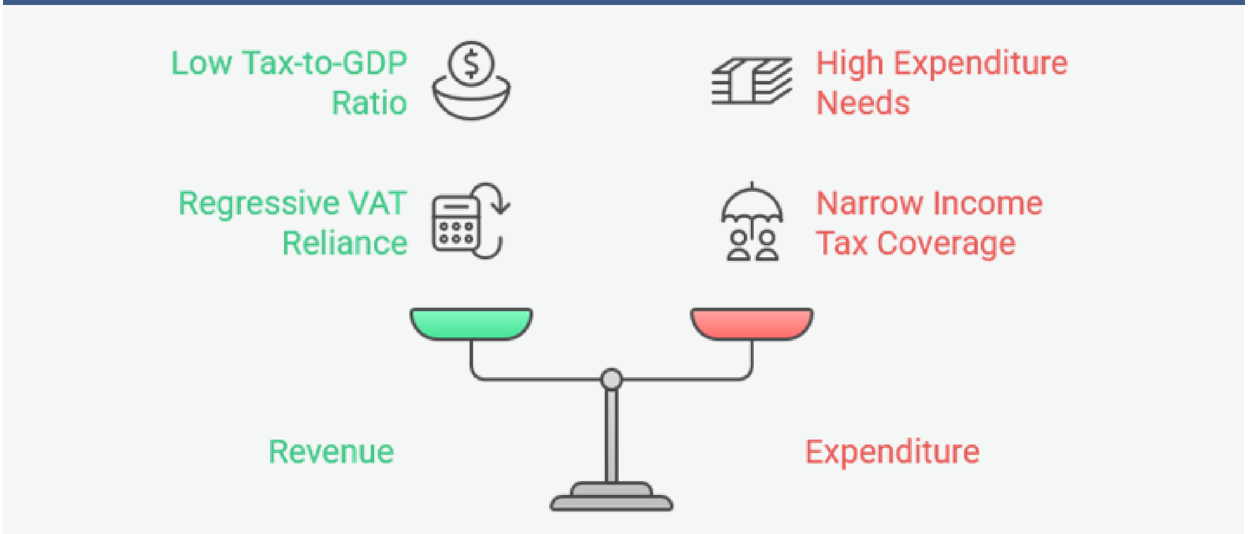
2.1 REVENUE CONSTRAINTS

Bangladesh's tax-to-GDP ratio — currently hovering well below 10 percent — remains among the lowest in South Asia and far below the average for lower-middle-income countries, which stands closer to 15 percent (IGC, 2023). This persistently weak performance in domestic resource mobilisation reflects both structural and institutional limitations within the country's revenue collection system (Razzaque et al., 2025)

At the heart of this shortfall lies the underperformance of the National Board of Revenue (NBR), which has struggled to modernise and expand its tax base. The tax system remains overly reliant on indirect taxes — particularly the Value Added Tax (VAT) — which are inherently regressive and place a disproportionate burden on lower-income households (Razzaque et al., 2024). Moreover, a large share of potential revenue is lost due to widespread exemptions, concessions, and discretionary waivers, many of which benefit politically connected firms or sectors (Task Force Committee, 2025).

The income tax regime also suffers from narrow coverage and poor compliance. A significant portion of the economy — especially the informal sector — remains untaxed or undertaxed. The result is a chronic gap between the government's expenditure ambitions and its revenue-generating capacity. In FY2024–25, for example, while total expenditure was projected at over Tk 7.9 trillion, NBR revenue was expected to contribute only about Tk 4.8 trillion, leaving a substantial deficit to be financed through borrowing (Ministry of Finance, 2025).

FIGURE 1: BALANCING REVENUE AND EXPENDITURE CHALLENGES



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Efforts to reform the tax administration and broaden the revenue base have encountered strong resistance from vested interests, including powerful business groups and sections of the bureaucracy that benefit from the status quo (The Daily Star, 2024b). Moreover, institutional weaknesses — such as lack of digital integration, inconsistent enforcement, and low taxpayer trust — continue to undermine attempts at tax reform (IGC, 2025).

Consequently, the government finds itself in a fiscal bind: on the one hand, it cannot easily raise taxes without triggering political backlash or harming consumption; on the other, without increased revenue, it cannot meaningfully expand or even maintain investments in vital sectors like education and health. This structural mismatch is at the core of the country's fiscal fragility (Figure 1).

2.2 EXPANDING DEBT SERVICING

A steadily increasing debt-servicing burden further exacerbates the fiscal pressure. In recent years, Bangladesh's reliance on borrowing — particularly domestic borrowing — to bridge the budget deficit has grown markedly (Figure 2). While the country's overall debt-to-GDP ratio remains moderate by international standards (around 40.3 per cent), the composition and cost of this debt have become increasingly problematic (IMF, 2025).

In the FY2025–26 budget, interest payments alone are projected at Tk1.22 trillion, accounting for over 15 per cent of the total budget and more than a quarter of revenue receipts (Ministry of Finance, 2025). This means that over 80 per cent of the government's collected revenue is already pre-committed to paying civil service salaries and servicing debt, leaving precious little room for financing new programmes or responding to emergent economic shocks (Ministry of Finance, 2025).

FIGURE 2: FISCAL CHALLENGES IN BANGLADESH

Characteristic	Interest Payments	Domestic Borrowing	Mega-Projects
Impact	Tk 1.22 trillion (15% of budget, 25% of revenue)	Crowds out private investment	Cost overruns
Debt Level	N/A	Debt-to-GDP at 40.3%	Raises sustainability risks

Source: Generated by the Author

The bulk of new borrowing is sourced from the domestic market, including commercial banks and non-bank financial institutions, at relatively high interest rates. This trend has several implications. First, it crowds out private sector investment by reducing the availability of credit and driving up lending rates. Second, it increases the cost of borrowing for the government itself, thereby creating a self-perpetuating cycle of higher debt and higher servicing costs.

The reliance on debt-financed capital expenditure also introduces long-term sustainability risks. Many infrastructure projects, although politically expedient, do not generate immediate or sufficient economic returns, making it more difficult to justify the debt incurred to finance them. In the absence of strong project evaluation mechanisms or ex-post audits, many of these expenditures become fiscally and economically inefficient (TIB, 2024).

Furthermore, as global financial conditions tighten and concessional financing becomes increasingly scarce, Bangladesh may face greater challenges in rolling over its external debt or securing low-cost development loans (Sharma et al., 2025). This scenario would necessitate even greater reliance on domestic borrowing, thereby exacerbating the current fiscal space squeeze.

Taken together, the country's limited revenue generation and growing debt obligations represent a serious challenge to its medium- and long-term fiscal sustainability. Unless these issues are addressed through comprehensive tax reform, prudent debt management, and rigorous public expenditure oversight, Bangladesh risks entering a debt-driven fiscal trap, where increased borrowing merely serves to pay off past debt, without enabling meaningful economic or social development.

3. WEAKNESSES IN THE REVENUE BUDGET

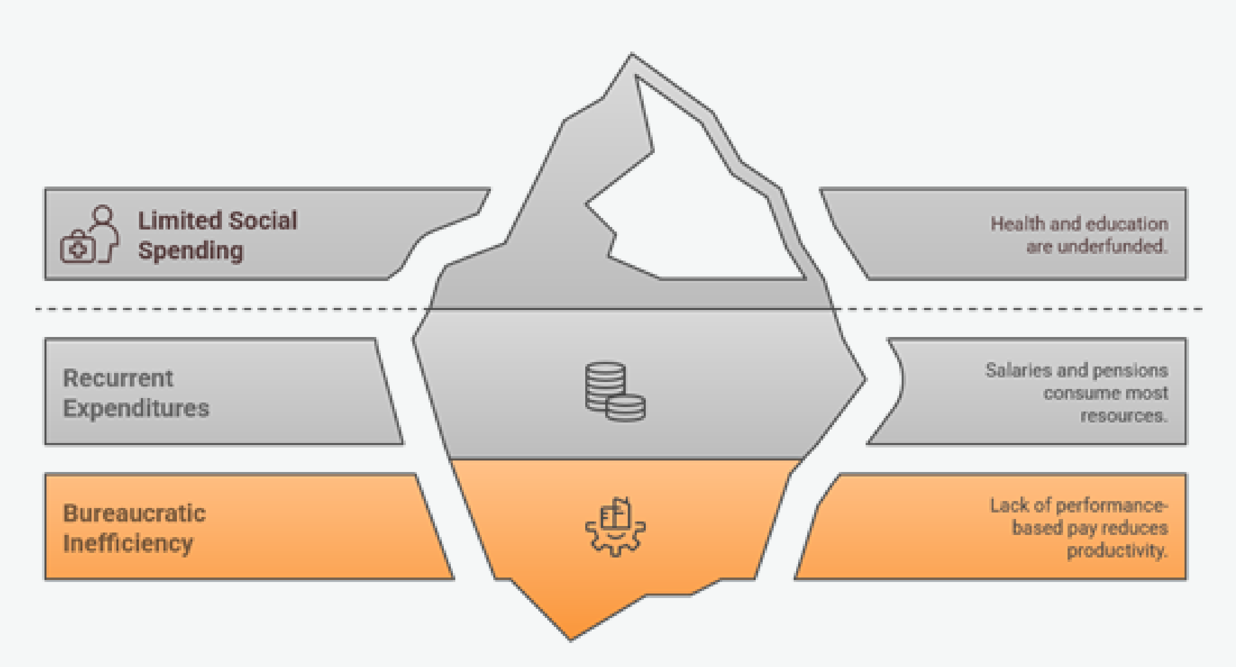
The revenue budget of Bangladesh for FY2025–26, estimated at Tk5.35 trillion, reflects structural inefficiencies that significantly limit the government's ability to reallocate resources toward productive and socially impactful sectors. Two of the most critical concerns in this regard are the excessive dominance of salary-driven operational expenditures and the persistence of redundant infrastructure spending across ministries and departments. These inefficiencies are not only a drain on scarce fiscal resources but also perpetuate institutional inertia and weaken the potential impact of public investment.

3.1 SALARY-DRIVEN OPERATIONAL SPENDING

A disproportionate share of the national revenue budget is consumed by recurrent expenditures, especially salaries, pensions, and administrative overheads. In FY2025–26, most of the total revenue spending has been earmarked for personnel-related costs and general operations (Ministry of Finance, 2025). This has left very limited fiscal space for scaling up investments in essential services such as education, healthcare, or climate resilience. The growth in the public sector wage bill is not entirely due to inflationary pressures or organic institutional growth. Rather, it is increasingly driven by politically motivated headcount expansion, including ad hoc appointments and the creation of non-essential posts across ministries. In recent years, successive recruitment drives in the education and health sectors have occurred without significant improvements in service outcomes (Udechukwu et al., 2023).

Moreover, Bangladesh's public administration lacks a robust performance evaluation framework that links salary increments or promotions to efficiency or output-based indicators. The absence of such systems has resulted in a public service structure where compensation grows irrespective of institutional performance or productivity levels (Figure 3). This has led to a situation where ministries with large bureaucracies often have very few measurable achievements relative to their budgetary allocation. Reports from administrative reform experts and governance think tanks highlight the high ratio of support staff to frontline service providers, particularly in sectors such as agriculture extension and public health (The Daily Star, 2025).

FIGURE 3: FISCAL IMBALANCES HINDER SOCIAL PROGRESS



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Furthermore, bureaucratic layers in decision-making continue to expand rather than contract, slowing down the implementation of development programmes and inflating administrative costs. Comparative analyses with more efficient public sectors in Southeast Asia, such as Vietnam, reveal that despite a similar number of public employees per capita, Bangladesh lags in delivering outcomes like export facilitation, urban service delivery, and digital governance (ARK Foundation, 2025). These inefficiencies highlight the urgent need for civil service reform to rebalance expenditure from payroll expansion toward output-enhancing service delivery.

3.2 REDUNDANT INFRASTRUCTURE EXPENDITURES

In addition to personnel costs, revenue budget inefficiencies also manifest in the form of overlapping and often duplicative expenditures on infrastructure operation and maintenance. Ministries and agencies with overlapping mandates frequently carry out similar projects within the same geographic areas. For instance, it is not uncommon for both the Roads and Highways Department (RHD) and the Local Government Engineering Department (LGED) to undertake separate road repairs within the same district, funded through different line items of the budget. This results in duplication of efforts, inconsistent construction standards, and inflated maintenance costs (New Age, 2025).

The problem is compounded by poor coordination across institutions and the absence of a centralised planning system that could streamline investments and prevent redundancy. Governance structures in Bangladesh tend to operate in silos, where line ministries and their subordinate agencies seldom engage in cross-sectoral planning. This fragmentation is particularly visible in sectors like transport, public health, and urban development, where responsibilities are often dispersed among multiple stakeholders without clear accountability (ARK Foundation, 2025).

Moreover, the logic behind the classification of budget items often lacks clarity, leading to confusion between routine maintenance, capital repair, and entirely new infrastructure development. This results in repeated maintenance of the same assets, such as roads, drainage systems, and public buildings, without addressing underlying structural deficiencies. Reports have documented that in many urban and peri-urban areas, roads and water pipelines require significant repair every two to three years due to substandard materials and lack of proper oversight during implementation. Consequently, long-term costs for infrastructure lifecycle management are increased by up to 40 percent (New Age, 2025).

FIGURE 4: ELIMINATING REDUNDANCY AND IMPROVING ROAD MAINTENANCE CAN SIGNIFICANTLY REDUCE COST

Source: Generated by the Author

Such inefficiencies not only waste public funds but also erode public trust in government services. Without a clear framework to assess value-for-money in maintenance and operational expenditure, and without strict enforcement of project evaluation standards, these expenditures will continue to underdeliver on service quality. Therefore, structural reforms to introduce inter-agency coordination, digital project tracking, and expenditure rationalisation are essential to improving the effectiveness of the revenue budget (Figure 4).

4. CRISES IN THE ANNUAL DEVELOPMENT PROGRAMME (ADP)

The Annual Development Programme (ADP) serves as the primary instrument for public capital investment in Bangladesh. It is the most visible arm of the government's development strategy, comprising allocations for infrastructure, sectoral development, and capacity-building initiatives across ministries and agencies. However, despite its pivotal role, the ADP has been marred by persistent inefficiencies, poor execution rates, repeated maintenance spending without durable outcomes, widespread corruption, and vulnerabilities associated with large-scale infrastructure projects. These systemic challenges have not only undermined the value-for-money of ADP allocations but have also contributed to the erosion of public trust and institutional accountability.

4.1 UNDERWHELMING EXECUTION

One of the most chronic and visible shortcomings of the ADP in Bangladesh is its persistently poor execution rate. As of May 2025, only 41.3 per cent of the total revised ADP allocation for the fiscal year had been utilised—a record low in the past 12 years (The Daily Star, 2025). This figure represents a significant decline from the already modest execution rate of 49.3 percent in the same period of the previous fiscal year. Alarmingly, the pace of implementation has lagged behind even the COVID-19 years, when logistical and supply chain disruptions were at their peak. The government development spending in the first 10 months of FY25 was Tk 31,890.85 crore lower than the same period last fiscal year, which totalled Tk 1,07,612.45 crore in FY24. According to IMED records since FY2011-12, this is the lowest ADP implementation for any fiscal year to date (New Nation, 2025), indicating that early fiscal momentum was virtually absent.

These underwhelming figures have serious implications for fiscal discipline and development outcomes. Low execution during the first half of the fiscal year typically results in a rushed disbursement during the final quarter. This phenomenon, often termed "last-quarter syndrome," encourages hasty procurement, compromises project quality, and raises susceptibility to misappropriation of funds (Figure 5). Numerous studies, including those by the Implementation Monitoring and Evaluation Division (IMED), have documented a consistent pattern of poor planning and delayed tendering, which causes bottlenecks in project mobilisation. Moreover, the rigid bureaucracy and cumbersome approval processes further delay implementation. As a result, capital expenditure, which should ideally drive economic growth, often becomes a source of inefficiency and cost inflation (Financial Express, 2025).

4.2 REPEATED MAINTENANCE WORK

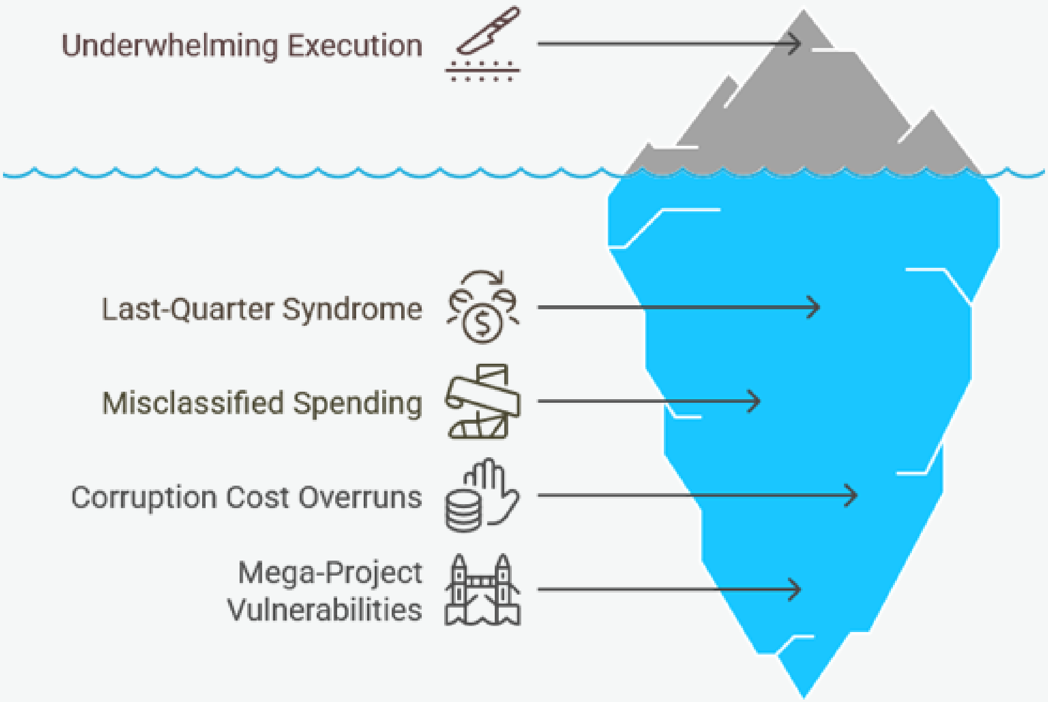
Another critical weakness in the ADP framework is the misclassification of expenditures, particularly the conflation of capital investment with recurring maintenance. A substantial proportion of ADP allocations are routinely spent on the "restoration" or "repair" of existing infrastructure rather than the creation of new assets. For instance, road resurfacing, drainage upgrades, and water pipeline repairs are frequently undertaken every two to three years, highlighting the absence of sustainability in the original construction (New Age, 2025).

The recurrence of maintenance work suggests two underlying problems. First, initial project quality is often compromised due to substandard materials and poor oversight. Second, the lack of rigorous cost-benefit analysis or value-for-money (VfM) frameworks in project selection leads to inefficient allocation. Without proper life-cycle costing, agencies find it more expedient to undertake short-term patchwork rather than invest in durable solutions. This cycle of repetitive maintenance inflates long-term public spending and displaces potential funding for transformative investments in sectors like renewable energy, health infrastructure, or digital connectivity.

4.3 CORRUPTION-DRIVEN COST OVERRUNS

Corruption in public procurement remains a pervasive issue within the ADP structure. Transparency International Bangladesh (TIB, 2024) has estimated that between 11 and 14 per cent of public project costs are routinely lost to corrupt practices. Specifically, 5–6 per cent is paid in the form of bribes to project implementation teams, while an additional 6–8 per cent is siphoned off by inspectors and supervisory officials (TIB, 2024). These figures align with earlier studies by the World Bank and the Centre (World Bank, 2011) for Policy Dialogue (CPD) (Prothomalo, 2019), which have documented systemic corruption in road construction, education infrastructure, and power sector projects.

FIGURE 5: A LOW LEVEL OF ADP IMPLEMENTATION HAS BECOME A REGULAR PHENOMENON BECAUSE OF DEEP-ROOTED CAUSES OF CORRUPTION AND BUREAUCRATIC INEFFICIENCY.



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This endemic graft inflates project costs, reduces construction quality, and delays completion timelines. The absence of competitive bidding, collusion among contractors, and weak enforcement of procurement guidelines exacerbate these problems. Even when irregularities are identified, enforcement agencies often lack the capacity or political backing to pursue legal action. As a result, corruption becomes embedded within the institutional fabric, making budgetary reform both technically and politically challenging.

4.4 MEGA-PROJECT VULNERABILITIES

Bangladesh's recent emphasis on mega-projects—ranging from the Padma Bridge to the Rooppur Nuclear Power Plant—has raised questions about the cost-effectiveness and risk profile of such large-scale investments. While these projects are often presented as symbols of national progress, they are also particularly susceptible to cost overruns, mismanagement, and political capture. For example, the Padma Bridge, initially estimated at US$3.6 billion, eventually exceeded US$7 billion after the World Bank withdrew funding due to corruption allegations (World Bank, 2012). The cost escalation had to be borne domestically, putting pressure on public finances and diverting resources from other development needs. Similarly, the Rooppur Nuclear Power Plant has faced delays related to regulatory compliance, skilled labour shortages, and disagreements with foreign contractors. The Dhaka Metro Rail project, another high-profile initiative, has encountered significant cost adjustments due to land acquisition issues and currency depreciation.

The inherent risks in mega-projects are magnified by weak project appraisal systems and limited institutional capacity to manage complexity. Cost–benefit analyses are often optimistic, overlooking environmental and social risks. Moreover, the lack of transparency in financing terms — especially for projects involving foreign credit or public–private partnerships — further complicates fiscal forecasting.

In summary, the ADP in its current form suffers from execution delays, ineffective expenditure prioritisation, corruption, and poor governance of high-value projects. These systemic issues compromise the transformative potential of public investment and underscore the urgent need for institutional reforms to restore fiscal credibility and public trust.
s of Waste and Inefficiency

5. SYSTEMIC DRIVERS OF WASTE AND INEFFICIENCY

While fiscal constraints and poor ADP execution reflect immediate budgetary shortcomings, the root causes of Bangladesh's inefficiencies in public spending lie deeper in systemic governance and institutional failures. These include widespread corruption, the absence of Value-for-Money (VfM) auditing systems, and historically weak procurement frameworks. Each of these issues undermines the productivity of public investments and perpetuates a cycle of resource leakage, substandard delivery, and fiscal erosion.

5.1 CORRUPTION AND BRIBERY

Corruption remains a pervasive obstacle to efficient public financial management in Bangladesh. In the 2024 Corruption Perceptions Index published by Transparency International, Bangladesh scored 23 out of 100, ranking 151st out of 180 countries globally — indicating a severe lack of transparency and accountability in public institutions (Transparency International, 2024). Corruption in Bangladesh is systemic, cutting across virtually all sectors of governance, including procurement, land administration, licensing, judiciary, taxation, and public utilities.

A study by Transparency International Bangladesh (TIB) in 2023 estimated that citizens paid over Tk 2.8 lakh crore in bribes between 2020 and 2024 across 17 key service sectors, including law enforcement, education, health, and local government (TIB, 2023a). Within public procurement specifically, bribes typically range between 5–10% of the contract value. These payments distort market incentives, inflate project costs, and displace more efficient or honest contractors. The lack of deterrent mechanisms and weak institutional responses have allowed corrupt practices to become entrenched (Figure 6).

Furthermore, political influence over project selection, fund allocation, and contractor appointment has created opportunities for rent-seeking behaviour and patronage networks, which in turn compromise the integrity of development spending. As a result, projects frequently fail to meet deadlines or quality benchmarks, leading to cost overruns and the need for rework, as evidenced by recurrent maintenance in sectors like roads and water supply.

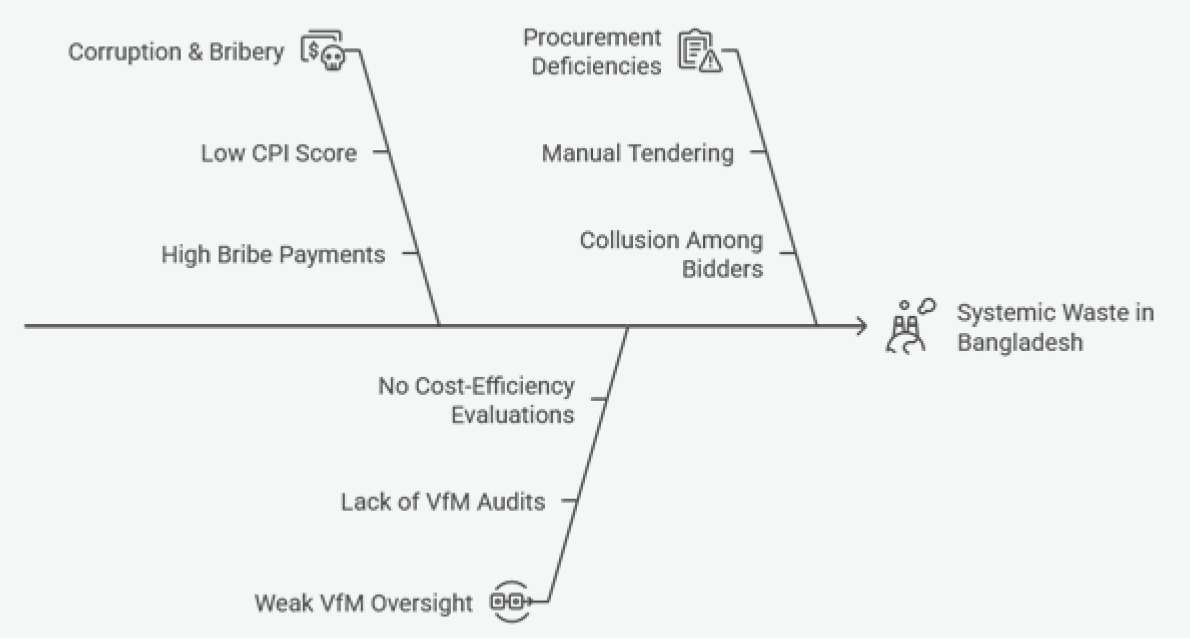
5.2 WEAK VALUE-FOR-MONEY OVERSIGHT

A major contributor to fiscal inefficiency is the absence of a formal Value-for-Money (VfM) auditing framework within Bangladesh's public expenditure ecosystem. VfM refers to the optimal use of resources to achieve intended outcomes. In OECD countries, VfM assessments are an integral part of budget evaluation and project appraisal, ensuring not only financial compliance but also economic, efficiency, and effectiveness audits (OECD, 2021).

In Bangladesh, however, budgetary allocations are rarely subject to outcome-based scrutiny. There is no dedicated institutional unit for conducting VfM evaluations in the Ministry of Finance, the Planning Commission, or the Comptroller and Auditor General's (CAG) Office. Most performance reviews are limited to input-based metrics, such as fund utilisation rates, without linking expenditures to service quality or social returns.

The absence of VfM audits hampers accountability in both recurrent and capital budgets. For instance, many ministries routinely allocate resources for infrastructure repairs without comparing life-cycle costs or evaluating whether previous investments delivered their intended outcomes. This undermines public trust, deters donor confidence, and weakens the overall development impact of fiscal policies.

FIGURE 6: SYSTEMATIC DRIVERS OF WASTE IN BANGLADESH



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5.3 PROCUREMENT DEFICIENCIES (PRE-REFORM)

Public procurement, which constitutes over 70% of the Annual Development Programme, was historically one of the most opaque and inefficient components of Bangladesh's budgetary process. Before the roll-out of the electronic Government Procurement (e-GP) system in 2011, procurement practices were riddled with inefficiencies, delays, and corruption. Manual tendering procedures were vulnerable to manipulation, and the award process often took more than 100 days due to red tape and bureaucratic hurdles (Islam et al., 2023).

Bid participation was extremely low, averaging just four bidders per tender, largely due to collusion, lack of transparency, and political interference. Pre-qualification criteria were often used to favour specific firms, and contract awards lacked public visibility, making it nearly impossible for external actors to challenge unfair practices. Additionally, monitoring of contract execution was weak, and deviations from original contract terms were common.

These deficiencies not only inflated costs but also compromised the quality and timeliness of infrastructure delivery. A study by the World Bank noted that prior to e-GP, procurement inefficiencies added 7–15% to overall project costs and contributed to a high incidence of project revisions and delays (World Bank, 2020). Although the introduction of e-GP has significantly improved procurement efficiency and transparency, many legacy contracts and practices continue to suffer from these entrenched problems, especially at the local government level, where digital infrastructure remains limited.

6. OPPORTUNITIES THROUGH PROCUREMENT REFORM AND DIGITALISATION

In response to long-standing inefficiencies and corruption in public procurement, Bangladesh has undertaken a series of transformative reforms anchored in digitalisation and institutional capacity building. At the centre of these efforts lies the electronic Government Procurement (e-GP) platform, a comprehensive digital system that has significantly improved transparency, competition, and efficiency in the public procurement landscape. These reforms have not only enhanced fiscal accountability but also created pathways for broader governance improvements.

6.1 E-GP ACHIEVEMENTS

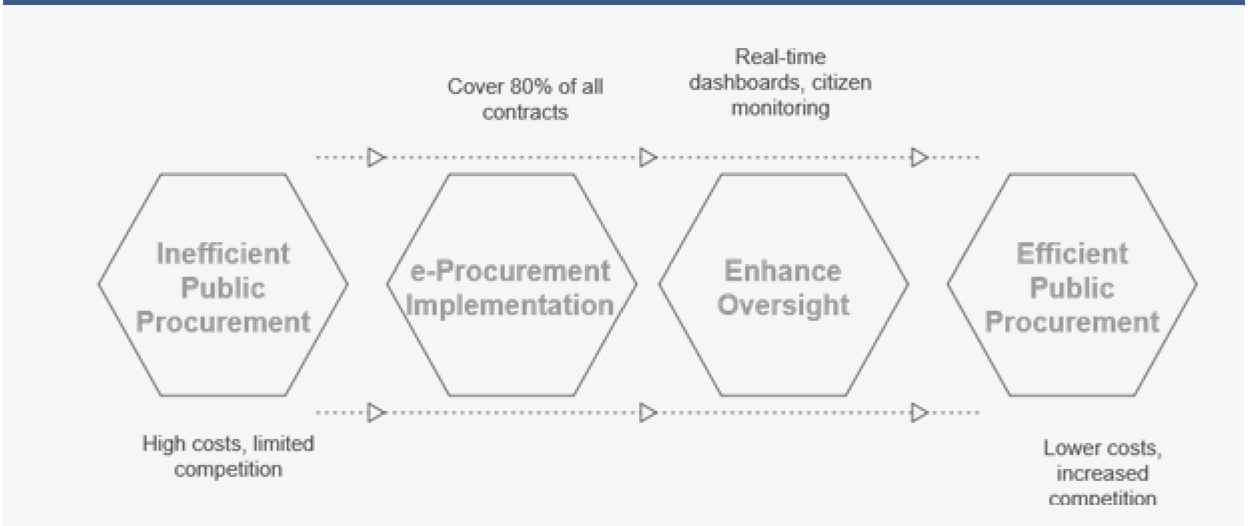
Launched in 2011 and progressively scaled through the Digitising Implementation Monitoring and Public Procurement Project (DIMAPP), the e-GP platform has become the backbone of public procurement in Bangladesh (World Bank, 2017). As of 2024, over 80 percent of all government procurement is conducted via the e-GP portal, encompassing more than 1300 procuring entities and nearly 100,000 registered bidders (World Bank, 2023). This digital transition has been lauded for delivering measurable cost savings, estimated at between 7 to 13 percent of contract values, which translates to approximately US$600 million annually (World Bank, 2023).

One of the most significant gains has been the reduction in the average tender award time — from over 100 days in pre-digital systems to approximately 57 days under e-GP (World Bank, 2022a). Furthermore, the platform has markedly increased competition, with the average number of bidders per tender rising from around 4 to more than 24, thereby enhancing value-for-money outcomes and curtailing collusive practices. According to independent evaluations conducted by the Implementation Monitoring and Evaluation Division (IMED), the adoption of e-GP has also led to improvements in procurement planning and documentation, reducing opportunities for manipulation and fraud.

The system's scalability has allowed for integration with other platforms such as the Integrated Budget and Accounting System (iBAS++), contributing to real-time monitoring and improved financial tracking. The automation of procurement workflows has also reduced bureaucratic delays and provided ministries and agencies with analytical tools for better project design and vendor management.

Notably, the ongoing reform momentum has been reinforced by the Institutional Reform and Public Expenditure Rationalisation Commission formed under the interim government of 2024–25. This commission has prioritised structural overhauls in public financial management with procurement at its core. In its preliminary reports, the commission acknowledged the gains achieved through e-GP and advocated for further decentralisation of procurement powers, mandatory performance audits, and integration of procurement outcomes into annual ministerial accountability frameworks. Moreover, it recommended creating procurement transparency indices at the upazila and district levels to benchmark efficiency and public satisfaction. These policy proposals are being gradually integrated into the planning architecture through collaboration with the Planning Commission and CPTU.

FIGURE 7: STREAMLINING PROCESSES VIA DIGITAL TRANSFORMATION



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6.2 OVERSIGHT ENHANCEMENTS

e-GP platform is further reinforced by complementary oversight innovations aimed at bolstering transparency, accountability, and citizen engagement. One such initiative is the electronic Project Monitoring Information System (e-PMIS), which provides real-time dashboards on procurement progress, geotagged visual evidence of project sites, and automated audit trails. These features enable not only internal scrutiny by oversight bodies but also public access to key data points, enhancing participatory governance (World Bank, 2017).

Grievance redressal mechanisms have also been strengthened through dedicated portals, enabling suppliers and citizens to report irregularities and track resolution status (Figure 7). Moreover, red-flagging tools have been deployed to identify anomalies such as single-bid tenders, unusually high bid prices, or repeated contract extensions. These data-driven alerts are reviewed by internal audit teams and the Central Procurement Technical Unit (CPTU), contributing to early detection of malpractice.

The government has also implemented citizen monitoring frameworks in 48 upazilas, allowing local communities to participate in project oversight. Trained citizen groups monitor construction quality, contractor performance, and compliance with timelines, providing real-time feedback to implementing agencies. These grassroots mechanisms have helped improve project ownership and reduce the likelihood of ghost infrastructure or substandard delivery (World Bank, 2022b).

Institutional reforms have further standardised procurement practices. Framework agreements for frequently purchased goods and services have improved procurement efficiency, while ISO 9001 certifications have been introduced to benchmark process quality. Additionally, procurement officials are now required to undergo mandatory certification programmes administered through the Public Procurement Technical Assistance Centre (PPTAC), enhancing technical capacity across the public sector.

The findings of the Institutional Reform Commission and the Public Accountability Task Force under the current interim government have also emphasised the importance of linking procurement efficiency with broader public sector performance reforms. Their mid-term review highlighted that while digital procurement systems are necessary, they must be paired with civic oversight, fiscal transparency, and enforcement of procurement ethics codes to truly curb leakages.

Collectively, these digital and institutional innovations—bolstered by the reformist agenda of the 2024–25 interim administration—have helped establish procurement reform as one of the most successful governance interventions in Bangladesh's recent fiscal history. Independent evaluations by international organisations such as the World Bank and the Asian Development Bank (ADB) have noted substantial improvements in value-for-money, efficiency, and public trust. As a result, the Bangladesh model is increasingly being cited in international development circles as a replicable case of digital reform driving institutional transformation in low-and middle-income countries.

7. POLICY RECOMMENDATIONS

To improve fiscal governance, enhance the efficiency of public expenditure, and restore public trust in government operations, a suite of institutional, technological, and legal reforms is urgently required. The following policy recommendations offer a roadmap grounded in empirical evidence, global best practices, and recent reform experiences within Bangladesh. These reforms aim to institutionalise accountability, boost procurement efficiency, and reorient fiscal priorities to support sustainable, inclusive development.

7.1 INSTITUTIONALISE VALUE-FOR-MONEY (VFM) AUDITS

A critical reform priority is to embed Value-for-Money (VfM) auditing mechanisms into the design and implementation of all large-scale development projects. It is recommended that all Annual Development Programme (ADP) projects exceeding Tk 50 crore be subject to mandatory pre-project economic appraisal and post-project VfM assessments. These should assess not only cost efficiency but also the economic, social, and environmental impacts of public investments.

Currently, only a fraction of development projects undergo post-implementation review, and these evaluations often lack rigor or independence (World Bank, 2022a). Establishing dedicated VfM units within the Implementation Monitoring and Evaluation Division (IMED) and linking their assessments to future budgetary allocations will introduce fiscal discipline and disincentivise wasteful or politically motivated projects. Countries such as Malaysia and South Africa have successfully implemented VfM auditing through integrated performance-based budgeting systems, which Bangladesh can adapt.

7.2 SCALE UP E-GP AND WORKFLOW DIGITALISATION

While the electronic Government Procurement (e-GP) platform has made substantial strides, its full potential remains untapped. To maximise benefits, e-GP should be scaled up to include 100 percent of procurement activity across all government tiers, including service and consultancy procurement. Particular emphasis should be placed on incorporating real-time dashboards, geo-tagging of project sites, and artificial intelligence-enabled tender analytics to detect anomalies.

The current fragmentation between procurement systems and other financial databases, such as iBAS++ and the Public Investment Management platform, limits transparency and monitoring. A fully integrated digital ecosystem will not only streamline procurement workflows but also enhance data-driven policymaking. For example, India's Government e-Marketplace (GeM) has saved approximately USD 1.5 billion annually through automation, bulk procurement, and real-time visibility (GeM, 2023).

7.3 RATIONALISE SALARIES AND MAINTENANCE SPENDING

Reforming the public wage and maintenance structures is critical to curbing unproductive recurrent expenditure. The current salary system is characterised by rigid increments and limited accountability. Introducing performance-linked budgeting — where resource allocation is tied to service delivery metrics — can improve efficiency.

A hiring moratorium on non-critical government posts should be enacted until a workforce rationalisation study is conducted. Moreover, the implementation of a digital asset registry, covering all government-owned infrastructure, will improve transparency and facilitate predictive maintenance planning. Outcome-based maintenance contracts—used successfully in Kenya's road maintenance programme—should replace time-bound contracts that encourage frequent rework without sustainable quality.

7.4 STRENGTHEN ANTI-CORRUPTION LEADERSHIP

The effectiveness of anti-corruption institutions remains constrained by political influence, legal ambiguity, and limited resources. It is essential to enhance the Anti-Corruption Commission's (ACC) legal autonomy by amending the ACC Act to allow for independent prosecutions and to insulate appointments from political interference (TIB, 2023b).

Additionally, major contracts, particularly in infrastructure and energy, should be subject to integrity pacts co-monitored by civil society watchdogs. This model, pioneered in Latin America and endorsed by the OECD, has proven to reduce bribery and favouritism in high-risk procurement environments. The ACC should also institutionalise asset declarations, whistleblower protection, and real-time reporting of high-value tenders, leveraging its newly launched digital investigation tools.

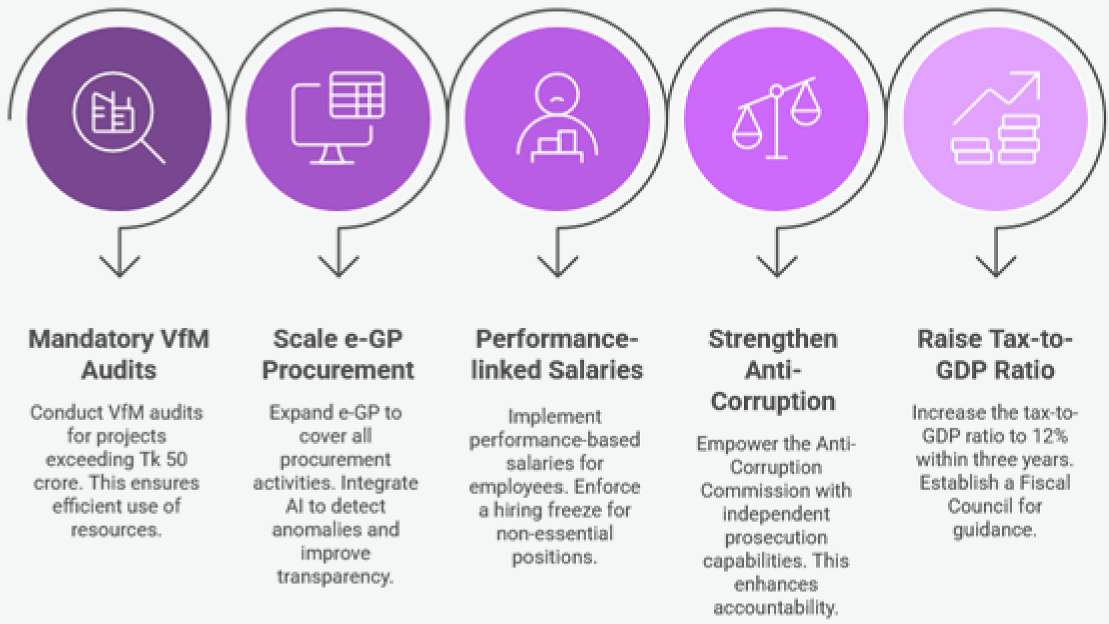
7.5 ESTABLISH A MEDIUM-TERM FISCAL REFORM PATHWAY

Bangladesh's current tax-to-GDP ratio—below 10 percent—is among the lowest in the region. To address this, the tax base must be expanded through improved compliance, digital tax administration, and removal of discretionary exemptions that erode the VAT base. A realistic medium-term target would be to raise the tax-to-GDP ratio to 12 percent within three years (IMF, 2023).

Simultaneously, public expenditure must shift from politically attractive but low-impact projects to long-gestation, productivity-enhancing investments such as education, digital infrastructure, and healthcare. This reallocation should be guided by cost–benefit analysis and social return metrics. Moreover, fiscal dependence on short-term domestic borrowing must be reduced through debt sustainability analysis and proactive liability management.

Finally, establishing a Fiscal Council under parliamentary oversight could provide independent analysis of budget proposals, macroeconomic, and public debt risks, thereby enhancing fiscal credibility and public trust.

FIGURE 8: SUMMARY OF POLICY RECOMMENDATIONS



Source: Generated by the Author

8. CONCLUSION

Bangladesh's FY2025–26 budget arrives at a defining moment, where the choice is no longer merely between increasing allocations or maintaining fiscal restraint. The core issue is not simply about how much the government spends, but how effectively and transparently it does so. The country faces a fiscal paradox: while public expectations for education, healthcare, and infrastructure investment continue to rise, the capacity of the state to meet these expectations is increasingly constrained by limited fiscal space, mounting debt obligations, and deep-rooted inefficiencies in expenditure management.

Rather than pursue short-term fiscal expansion through unsustainable borrowing, the government must commit to a reform-driven expenditure strategy that prioritises efficiency, accountability, and long-term impact. The evidence presented in this analysis suggests that meaningful development gains can be realised not by increasing the volume of spending, but by improving the quality of fiscal governance. Institutionalising Value-for-Money audits for major public investments, scaling up the use and scope of the e-GP platform, and linking salaries and maintenance spending to performance indicators are not just technocratic fixes — they are foundational measures for restoring public trust in the budget process.

Moreover, tackling corruption through empowered anti-corruption bodies and increasing citizen engagement in procurement oversight will ensure that scarce resources are directed to those most in need. A renewed focus on rational tax reform and medium-term fiscal planning, underpinned by independent oversight institutions such as a Fiscal Council, will help address structural revenue deficits without compromising developmental goals.

In sum, Bangladesh stands at a fiscal crossroads. The country must now pivot from an approach that has prioritised allocation volumes to one that emphasises spending quality, outcome-orientation, and institutional accountability. Without this shift, increased allocations will continue to leak through systemic inefficiencies, eroding both fiscal credibility and development potential. Conversely, by embracing comprehensive expenditure reforms and governance modernisation, Bangladesh can make its budget a more effective instrument of equity, resilience, and inclusive growth.

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