



## Aid and Conditionality – The case of Bangladesh

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W. Arthur Lewis in late 1971 on his David Owen Memorial Lecture on 'the evolution of foreign aid' said, '*There could be no policy conditionality on foreign aid since Southern countries would consider this as infringement of their sovereignty and would never accept it*'.<sup>1</sup>

But Lewis' statement did not move beyond the paper and the hopes of Southern countries were shattered and the impact of conditionality has been severe since the mid-1990s, surfaced through the crises in Mexico, East Asia and Argentina. There is a general conviction that crises in these countries, in fact, were exacerbated because of the faulty policies of the lending agencies which have been intruding the national policy sovereignty.

In September 17, 2007, the High Court of Bangladesh has issued a rule, asking government why it should not be prevented from negotiating with the IMF of its newly adopted Policy Support Instrument (PSI) agreement<sup>2</sup>. Consequently, the Fund has stepped back, saying it is not the right time to negotiate with government about the PSI<sup>3</sup>. The High Court rule came when the country was passing through severe macroeconomic instability with inflation popping up at the double digit – highest ever in more than last one and half decades, bleak investment scenario and dreary unemployment scenario, rising income-inequality and poverty routing in its abysmal level, as blamed by many, caused due to the unwarranted policy prescriptions imposed by the lending agencies. Meantime, while mass people are being affected, the business community including the civil society has become critical, asked government not to succumb with donor conditionality further<sup>4</sup>.

On this backdrop, it is indispensable to examine some of the questions: What are the implications of conditioned types of aid? And are they really a development promoting tool? Therefore attempt is made to analyse the link between the roles of the latest policy changes (with regards to government spending policy as well as central bank's monetary policy) and effective utilisation of aid in Bangladesh. Doing so, this opinion piece is divided into four sections: first section examines effects of aid conditionality and domestic accountability; the next section describes the aid conditionality debate and change in policy perspective in Bangladesh; the following section highlights the donor numbers and conditionality in Bangladesh and examine the existing approach to reduce donors number and conditionality, the last section addresses the functions of national CSOs/NGOs in a development financing regime which respects national ownership. Before analysing aid conditionality in Bangladesh with respect to the above four issues it is imperative to look into the nature of foreign aid and changing perspective of aid strategy of donors toward Bangladesh.

### Changing perspective of Aid Strategy of Donors towards Bangladesh

Bangladesh has emerged as a trade-dependent economy (trade-GDP ratio was 40.67% of GDP) from an aid dependent economy. Although aid is no longer as a dominant force as it used to be in the early 1990s, the fact of the matter is that aid continues to play a critically important role in the Bangladesh economy because aid still accounts for almost half of the annual development budget of the country. In some of the sectors such as health, education and infrastructure it constitutes sizeable proportion of total budgetary allocation. During the period of 1980s Bangladesh's aid-GDP ratio was about 10% whilst the contribution of aid in financing annual development programme (ADP) budget was close to 100 percent. After 1990s the composition has changed significantly. In FY 2005-06, total aid as a percentage of GDP was 2.53%, it reduced further (less than 2% of the GDP) in the following year but accounted for almost 50% of the ADP.

As far as donors' aid strategy towards Bangladesh is concerned, it is significant that during the period of high aid dependency donors did not introduce political consideration into the policy discourse. Given the growing importance of Ready-Made Garments (RMG) exports and remittance compared to aid in influencing Bangladesh's external balances, it would had been natural to see erosion of donor influence over the internal policy issue of Bangladesh. However, in reality the situation was opposite. Before 1990s most of the aid in Bangladesh has come in form of food aid and commodity aid. Conditionality of those aid were to induce the government to adopt overall reforms, such as deregulation, privatization etc. However after the 1990s and onwards amount of sector specific project aid has increased significantly which is tied with increased conditionality. Thus it creates space for more policy influence by the donors to Bangladesh as well as distribution of benefit of aid. The underlying cause is the ability of donors to use the trade as well as aid to leverage out policy and strategic options (Sobhan, 2003).

The changing nature of aid strategy over Bangladesh has been divided in four stages (Sayeduzzaman, 2003):

- 1975-85: moves to improve efficiency of the state sector through exchange rates, trade policy, and fiscal budgetary, financial sector and price reforms.
- 1985-95: growing disillusionment with the state sector leading to:
  - Move towards supporting private sector development;
  - Privatization of state owned enterprises;
  - Induction of private sector in the area of infrastructure development in such sectors as power generation and distribution, telecommunications, airlines, railways,

- provision of healthcare and education;
- Introduction of NGOs in the areas of micro-credit and service delivery, particularly in the rural areas.
- 1995 Onwards: increasing emphasis on governance related issues such as public administration reforms, decentralization of administration, reform of the judiciary, involvement of civil society in enforcing greater public accountability, issues of corruption, improvement of law and order.
- 2000 onwards: emphasis on political issues in relation to state confrontation between the political parties, the malfunctioning of parliament, the issue of hartals (strikes) and political violence, human rights violation and security concern.

## Effects of Conditionality and Domestic Accountability

Ownership and conditionality, as such in practice, are appeared as two mutually exclusive components in aid effectiveness i.e. if the latter exists than the former does not and vice-versa. Whereas ownership and domestic accountability are two interdependent components i.e. weak ownership undermines domestic accountability. Perhaps, because of the nature of the relationship between the aid effectiveness components the aid does not ensure optimal outcome in the recipient countries, undermining the domestic accountability. Thus traditional conditionality, as it is criticized, is often intrusive, corrosive and therefore undermining country ownership.

If conditionality, as it links financial support from donors to policy reforms and considered by them as critical for a country's development, could be linked in parallel to ownership then, perhaps, it would have been easier for the recipient governments to maintain upward accountability (with donors) and downward accountability (with citizens). For example, in Bangladesh, the just ended IMF funded Poverty Reduction Growth Facility (PRGF)<sup>5</sup> programme is owned by the government in pen and paper (According to the agreement, the overall programme is laid with national strategy and the authorities of government intend to pursue the objectives and policies of the programme during the three year period of the agreement)<sup>6</sup>. However, the problem arises at the implementation level: when the much needed investment is crucial to accelerate growth and thus reducing poverty, the IMF imposed condition on the central bank to pursue tightening the credit supply with rising interest rate in order to check inflation in early 2005 despite strong protest from the country's business community<sup>7</sup>. The resultant impact, at the end of 2007, is that inflation creeping up to double digits, but at the cost of investment, employment and GDP growth. Also since conditionality relates not only to donor goals but also the process for achieving these goals, the people of the recipient countries are victimized in the process, for example, de-industrialization programme in early 1980s and the closure of jute industry programme in mid 1990s had caused employment cut. Now the question is that government has become accountable to the donors by implementing the condition based programme; but what about its accountability to the people, who bear the brunt of higher inflation and reducing income, as well as face job cut?

Despite this, it is difficult to establish whether the

government takes policy reforms for its own interest that merely coincide with those of its donors or whether it accepts the dictation of the donors under the conditionality attached to the aid. For example, in a dialogue on Exchange Rate Policy held in 2003, the then country's finance minister expressed misgivings about Bangladesh accepting IMF advice to move from a fixed exchange rate to a floating one (Sobhan, 2003). Yet a short while later the GoB did move to a market-driven process whilst privately claiming that it was obligated to do so because of accessing an IMF loan under the PRGF. However, as and when the GoB publicly defended its change in exchange rate policy, it claimed to be doing so in the best interest of the country (ibid).

The first based solution is that there should be no conditionality. Like the words of A. Lewis if recipient governments are committed to good economic policies and comprehensive poverty reduction strategies, untied aid appears better able to support the countries economic and social development than aid allocated to targeted spending initiatives or to projects.

However, a general renunciation of conditionality – the conditions attached to funds – however, is not foreseen, a second best solution should, therefore, be sought for: the conditionality needed to be set in parallel to ownership in such a way that former does not weaken the merit of the later because strong domestic ownership is indispensable for an effective implementation of policy reforms. Shortcomings of traditional conditionality that weakens the ownership evolving around (i) infringement of national sovereignty (ii) ownership (iii) aid predictability (iv) multiplicity of donor conditions and fragmented donor systems and (v) content. Therefore, ownership of the recipient government is central to enhance local domestic accountability and to assure that the legitimacy of government is not called into question.

In addition, tying aid with pre/post conditions is not a problem but to impose conditions without considering the willingness of the recipient governments is becoming more of a threat than opportunity: increased aid wastages creates dependence, and reduces confidence. Thus conditions without realising the capacity of those who are involved in aid administration and implementation procedures affects efficient utilization of aid.

### Aid and Policy Conditionality Impacts

This section illustrates the key policy reform programme and its impact that GoB carried out since 1980s. The question that needs to be investigated is to what extent aid has influenced the policy reforms? Understanding this requires a close look at what kind of policy reforms have been undertaken, how these can be related to aid inflow and how far reforms have helped to realise the desired objectives. However, establishing one-to-one relationship between conditionality and particular outcome would require more rigorous analysis. But the general notion to the donor conditionality is that so far reform programme that were undertaken under the SAP, ESAP, PRSP and PRGF are predetermined path of economic reforms guided by the donors and were replicated in developing and least developed countries in Africa, Latin America and Asia without considering the ground realities and real problem of these countries. While donors studies reveal that key of aid effectiveness depends mainly on domestic ownership over policy reforms, this ownership is in marked contrast to the aid conditionality

that had been used to drive the policy reform process in Bangladesh and across the Third World during the era of Structural Adjustment reforms in the 1980s and 1990s (Sobhan, 2003). It is argued that the composition of aid, the terms of its disbursement, the design and modalities of the reform agenda imposed by the donors have significant implications for the political economy of Bangladesh. As a result, foreign aid as well as the policy conditionality associated with this aid influenced the distribution of income as well as the social balance of power and influence within the country. For example, under the Extended Finance Facility (EFF) adopted between July 1980 and June 1983, and the Structural Adjustment Programme between 1986 and 1988 the reform measures included reduction in public investment programme, upward revision of the public utility prices, reduction in subsidies to the public food distribution system and agricultural inputs, adjustment of exchange rate, liberalisation of export and import and so on. Some of the resultant impact of the reform measures were a decline of per capita income due to GDP growth down to only 0.9 %, inflation reached at a level in excess 16 %, public investment declined, the terms of trade deteriorated by one third, export earning declined by about 15%, oil import absorbed about 70% of all export earnings, import of raw material declined about by 20 percent, deficit financing reached about 4 % of the GDP and the foreign exchange reserves came down to about two weeks imports.<sup>8</sup> In 1989, under the Energy Sector Reform programme the government initiated the process of privatisation of the public utilities e.g. power sector in order to break the monopolisation of the public utilities and increase competition. Whether privatisation of the public utility is viable or not for a country like Bangladesh is different issue, but in order to encourage private sector to come in the donors have been pushing the government to increase prices of public utilities. As a result the prices of electricity and fuels have gone up substantially, affecting the people at mass in general and agricultural economy of Bangladesh in particular<sup>9</sup>. This together with reducing subsidy in agriculture has put the sector in dire straits. The implications are that concerns of food security and the problem of a food price hike become acute in recent days even within the government, let alone the livelihoods of million of farmers at the rural area<sup>10</sup>. Moreover, the recent policy conditionality of the IMF on money supply and credit growth under the PRGF including that on exchange rate has failed to maintain macroeconomic stability. Instead tightening money supply and credit growth through rising interest rate has increased the cost of investment thus has a negative impact on output and employment with higher inflation<sup>11</sup>.

### Effectiveness of aid conditionality

This section examines concepts that are pertinent to the issue of conditionality and their impact. It is often argued that donors often impose conditions that hardly match the implementing capacity of the recipient government and/or impose conditions before the committed fund is disbursed, as a mechanism to induce aid effectiveness.

Imposing condition on the project or program aid and that for policy reform restricts the capacity and/or sovereignty of the country; Bangladesh receives large amount of its aid in this form. Most often conditions imposed might not match the spatial and institutional aspects. Past

experience shows that the primary objective of the GoB is to conclude the loan agreement and that they are quite willing to make a large variety of paper commitments to the DPs to conclude the loan agreement. These commitments do not always take account of the actual capacity or institutional weakness of the executing agencies to implement these reforms (Sobhan, 2003). All these undermine the importance of aid to the country, affects aid effectiveness as it leads to increased aid fatigue.

Generally putting boundaries on the aid offered either on the process of aid allocation or implementation criteria or managing projects by expatriates increases the transaction cost of the aid (reduces aid effectiveness as greater portion of the money is used by the donors), undermines the technical capacity of the country; and retards domestic participation in development processes. It has been recognized that these criteria led to increase the total cost of the project than the expected benefits. Large sum of project money are always spent by the expatriates or consultants to maximize their benefits. For example, in 2003, the ADB in one of its project completion report of the capital market development programme says 90% of the loan spent for consultations.

General compositions of aid trends in Bangladesh since 1991, reveals hardly any project or program aid offered to the government with a full grant of owning aid allocation and administration rules. Commonly, aid provision and disbursement are guided by the government's willingness to accept the rules of donors and adoption of the internationally suggested policy strategies. Of these, policy reform is easier to structure into an agreement with the government who can quite easily make commitments to undertake reforms. Sobhan (2003) pointed out that individual loan covenants prepared by the World Bank tend to be quite voluminous and cover a whole range of both policy reforms and promises of administrative action by the concerned agency. The experience shows that the primary objective of the government is to conclude the loan agreement and that they are quite willing to make a large variety of paper commitments to the donors to conclude the loan agreement. These commitments do not always take account of the actual capacity or even willingness of the executing agency to implement these reforms. This misconceived agreement ends up in some projects not getting off the ground because the GoB could not even fulfil the pre-commencement conditions needed to make the loan effective. Other projects suspend disbursement after the first or second tranche due to failure to fulfil conditionalities written into the project agreement. This requires a close examination whether the conditionalities were themselves misconceived in relation to the known capacity of the implementing agency and prevailing institutional environment.

### National Politics and Aid Conditionality

In Bangladesh, politics has a dominant role in policy reform. Changing nature and perspectives of foreign aid has been influenced by the politics which by and large remains unstable throughout. If one looks at the chronology of politics, it shows that in 1975 an elected government was overthrown by a process of conspiracy and assassination and the country was governed by Martial Law from 1974 to 1978. Again in 1982 a constitutionally elected government was overthrown in a military coup and the country was ruled by Martial Law for four years up to 1986.

Between 1986 and 1989, the country remained under autocratic rule but with a façade of constitutionalism. During the next 15 years of democratic regime between 1991 and 2001, the democracy was largely in abeyance. Donors, either at multilateral or at bilateral level, however, made no significant political demands on the GoB to ensure political stability. Whilst the donors were willing to recognize that these political variables were impinging on governance and hence the sustainability of the reform process, the state of democracy was not recognized as a priority concern of the donors. The documentation in the 1995 BDF registered concern that political problems were compromising the reform process and that governance issue, including corruption, was a factor but these issues remained muted. It was recognized that reform process has been embroiled by the political instability, resulting in GoB not meeting the conditionalities.

Against this backdrop, whatever reform programmes have been taken place during the period, the decision was solely taken by the ruling government and guided by the donor partners, which lacks political consensus. Given the fact, if the policy and strategy were absolutely owned by the government and its commitment is strong, they are unlikely to be implemented if there were a lack of political harmony. For example, even though GoB intends to own the PRSP, the document hardly remains effective as far as poverty reduction is concerned; there is a general view that this document is nothing but the replication of the donors' previous models. In fact, old favourites such as import liberalisation and privatisation reappear in the PRSP though it could be argued that neither of these reforms has much to do with poverty reduction. If a recent comparison is made between the most recent Country Assistance Strategy (CAS) Paper for Bangladesh prepared by the World Bank and the PRSP, it will be found that virtually all the policy priorities presented in the CAS figure in the PRSP, reflecting that donor models and the GoB owned PRSP for poverty reduction are the same. Unfortunately, no discussion took place on PRSP in the parliament so far because of lack of political harmony and the document remains controversial. Not only the PRSP, there are hardly any discussion in the parliament about donors development programme and aid conditionality. When parliament is a premier institution to ensure government's accountability, government implementing policy reforms by ignoring the parliament cannot ensure accountability to anyone. Had there been a true democracy, accountability, transparency, credibility, a clear view of government's own goals would have been reflected through agreed policy programs.

### **Accountability, Conditionality and Financial Reporting**

Ensuring accountability of the use of development assistance is another main concern of the donors because of the misuse of these funds. Donors are by now quite aware of the fact that a significant part of their project aid does not reach the poor because of corruption elements involved in the process. The donors cannot do much to eliminate the corruption which is in-built in the aid process. Though they can and do carry out audits designed to capture such malfeasance and to seek punitive action by GoB. However, since action against corruption falls within the Jurisdiction of Bangladesh's law courts, donors have very little leverage over the actual agents of the corruption. All they can do is

penalise the government by withdrawing project funds or by seeking compensation for the misuse.

There is a presumption among the donors that if the projects are tightly structured with adequate conditionalities so that the scope for diversion of funds to other than the poor is minimised would ensure accountability of the recipient governments and therefore proper utilisation of the development fund. This means less resources going to consultants, to project overheads, to foreign study loans, and other such expenditure heads which will clearly not reach the poor. However, even where scope for reducing such transaction costs is minimised there may still be many ways in which corrupt and powerful intermediaries can siphon off aid resources for their personal or party benefit. The scope for such rent-seeking often causes conditionality failure albeit conditionality per se has other problems as discussed above.

It is imperative that ensuring adequate financial reporting would minimise such misappropriation. This can be encouraged through a collective donor effort to provide information about development spending and programme performance, and encouragement of consultation and discussion. This is especially important in resource poor countries as it can create opportunities for civil society and the entire public to exert pressure to ensure that their governments utilising development funds effectively and thus minimise the misuse of funds. However, if the rule of law remains dysfunctional, which open up the scope of corruption and rent seeking, neither adequate financial reporting nor the handful of conditionality alone cannot ensure the accountability of proper utilisation of fund.

### **Different Views on Donors Conditionality**

Past studies conducted on impact of giving conditioned type of aid have come up with different recommendations, implying that conditionality on aid effectiveness debates around the principles of giving tied aid falls into on two extreme cases. Proponents of aid with conditionality supports the package of giving conditioned aid; considered it as the best criteria to control miss utilisation of aid resources, while those who are against the conditioned it opposed the idea. Those who are in favour of conditions on aid offered to try to show aid conditionality as an appropriate mechanism not only as a criteria to improve efficient utilisation but also in terms of introducing new policies or other development programme in which the country would not have otherwise introduced or exercised. Where as those who are against conditioned aid indicate the draw back of ex-ant or ex-post aid conditions. According to them, conditionality is proved to be ineffective when it is imposed from outside. Moreover, when ownership is meant by donors to be made operational to ensure greater effectiveness in achieving the expected results while meeting the main concerns of all stakeholders, conditionality is viewed as to reduce space in national policy decisions thus limiting the objectivity of ownership in development strategy. This happens when donors make aid conditional on specific policy decisions by the partner governments, or attempt to impose policy choices on them. White and Lesink (2001) reveal that high level of aid inflows has negative returns. Aid conditioned with ex-ant or ex-post has not led to better results (White and Morrissey, 1999)<sup>12</sup>. As long as aid from many different sources is strongly linked to

a number of different administrative and policy conditions, which are not easily compatible with each other or with the system of the recipient countries, aid dependence will continue to have negative conditions (Lesink and White, 1999) and in most cases donors tend to favour projects that utilize goods and services (expatriates) from the donor country (White and Morrissey, 1996).

In most of the aid recipient countries including those in Latin America, Africa and particularly Bangladesh in South Asia, conditioned aid is becoming a burden to the government (the recent reflection of government towards IMF policy is the witness), business community, civil society, even to the individuals. For instances, in Bangladesh, donors often come up with policy packages on sensitive economic areas such as privatization, withdrawal of agriculture subsidy, trade liberalization, increasing administered prices of fertilizer, fuel, gas and electricity that by far had put country's agriculture and industrial sector at risk, making the livelihoods of many difficult. There are also views that aid conditionality could have a win-win impact between both the donors and recipient countries should the conditionality be fixed on the basis of balanced relations: donor-recipient agreement-commitment, which entails making comparisons on the cost and benefit of putting conditions on the aid offered.

While debate around the issue remains inconclusive and conditions relating to economic development with attacking poverty is the prime focus of any kind of aid availed by the recipient countries, other issues like environment, human rights and changing nature of democracy have emerged in the context of globalization. However, whether the letter will be applied as conditionality for development assistance is yet to be clear.

But whatever the conditions are, as the national interest varies from one to another with respect to the socio-economic and political condition of the respective countries, the formula of 'one-size-fits-all' may not be the appropriate as far as conditioned aid is concerned. Therefore it is imperative to take into account the view of the national actors. In order to come to the focal point of our argument, it is necessary to look at the changing perspective of aid strategy of Donors toward Bangladesh.

### **Issues of Governance, Institutional Weakness and Corruption**

The issue of governance entered into the aid policy after 1990s in the donors agenda. During that period many donors registered frustration with the GoB for its failure to implement many reform provisions that had been negotiated with the World Bank under various import program credits (IPCs) in the 1980s. After 1990s virtually all project loans of IDA were sector wise targeted. These loans were targeted to underwrite sectoral reforms designed to change policy and improve governance.

In 1999 BDF's meeting issue of corruption came under spotlight besides governance as in Bangladesh Development Forum meeting the cause of weakness in implementing financial sector reform was mentioned as presence of vested interest groups and corruption over the decades. At present, emphasis is now being placed by the Donor Partners (DPs) on policy and institutional reforms designed to improve macro-economic stability, public sector management, promoting private sector growth and

improving the quality of governance and the electioneering process. Donors' predominance in political interference has been conspicuous in recent past especially in the wake of the political crisis that led the country to a state of emergency.

In Bangladesh, state of (bad) governance, weak institutional capacities and, more particularly, corruption, are a major problem. Therefore, one can argue that these issues are some of the pitfalls as far as aid effectiveness is concerned and cannot merely be attributed to conditionality.

The state of bad governance, weak institutional capacities and corruption there of, did not arise all of a sudden, but was the effect of a continuous process. Today's situation was the resultant impact of concurrent aid ineffectiveness over the years (for whatever reason it may have); while the conditionality has its own caveat, the inappropriate policy conditionality might be one of the major factors responsible for such aid ineffectiveness. Most often than not inappropriate conditionality creates scope of rent seeking by executing agencies. Aid packages are designed in such a way that woos the actors of the executing agencies. In other words inappropriate conditionality and for that matter aid effectiveness has widened the scope of rent seeking among the domestic actors, like politicians, bureaucrats MPs, minister etc. These as a result are tempted to corruption and therefore weakened the institutions. For example, according to a report of the Transparency International, Bangladesh, the Local Government and Rural Development, which implements the bulk of the foreign funded project, has become the most corrupt institution within the government. In this connection, it is worth mentioning that while the World Bank has pursued GoB to adopt PRSP, they did not even bother to pressurize the government to take the paper to the parliament for a rigorous discussion till date. What the donors did is promote the local actors who were involved in the process for consultation, seminar, symposium, conference on PRSP outside parliament between 2001 and 2005<sup>13</sup>. This as a result created scope for rent seeking because the national strategy for poverty reduction has not been made accountable to the parliament, the largest institution in the country. Does not it mean that the donor driven PRSP undermines the institution of the country? This is one example of how the institutions are being weakened and creating scope for corruption and bad governance.

There is no denying that our own politicians and policymakers should bear the burden for such a bad state, but donors need to bear the sheer responsibility while imposing inappropriate policy conditionality and creating the scope of rent seeking. So improving governance and strengthening institutional capacities are not mere domestic homework but very much linked with aid effectiveness.

### **Issues of Human Rights, Environment and democracy**

In recent years the inclusion of human rights, the environment and democracy as potential conditionalities of cooperation in aid agreement evoked a debate between the donor communities and the national stakeholders. While development partners are of the view to integrate these issues in all the future course of action in development assistance, members of the civil society termed these issues as universal and global in nature, but they are to be maintained in accordance with the different conditions prevailing in different regions, countries and culture. For example, since the issue of human rights has diverse perspectives, the

question is whether the attitude towards the nature of human rights should be general in nature or be specific depending on particular culture and country. However, there are some universal standards to be maintained within the domain of these issues. For example, corruption is a case in point, which is something that no society should tolerate.

Similarly, democracy and the good governance, which is one of the highest priorities in donors' development assistance programmes, these are again universal in nature, the donors need to understand it in terms of specific region, country and culture. For example the notion of good governance in the UK is not the same as the one which would be applicable in the context of Bangladesh.

## Donors Number and Conditionality

General notion is that more donors that work in a country, the more likely it is that policy conditionality will increase as each donor pursues its own priorities. Often different donors are being involved with same kind of projects, with significant overlap resulting in waste of funds. This section sheds some light on the number of donors and conditionality as discussed above, and examines some of the existing approach to minimize the overlap of donors' projects and cost.

Bangladesh Development Forum (BDF),<sup>14</sup> means to promote country's development programmes, consists of 32 bilateral and multilateral donors. As mentioned above the donors have carried out a number of projects/policy reform programmes tied with a wide range of conditionalities over the years. One of the main criticisms of these projects is that many of them overlapped thus creating scope of misuse of funds. For example, in the health and population sector several donors had taken several projects on public health and population control, while ultimate goals remain the same.

In recent years, in order to reduce this overlapping and misuse of funds, the GoB in association with donors has adopted Sector Wide Approach (SWAp), an approach that is, theoretically, based on a programme led by the government to which all donors contribute funds in support of a single sector policy and programme of work. The GoB has adopted this approach in health and primary education sector. The objective is to reduce complexity of multi-donors participation in a particular sector and increases coherence in development programme. Two programmes, namely, Health, Nutrition and Population sector programme (HNPP) and Primary Education development programme II (PEDP II) have been incorporated through this approach. SWAp is a relatively new way of disbursing funds to development projects. It is meant to support a single policy and expenditure programme, under government leadership, and adopt a common approach across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability and it is perceived as a good way to reduce donor conditionality and increase country's ownership. Primary education development programme II (PEDP II) was initiated in 2003 under the leadership of the government. This six-year umbrella programme is the biggest programme so far taken on primary education in Bangladesh and the project supposed to end in 2009<sup>15</sup>.

There are as many as eleven donors are involved in this

project under the leadership of Asian Development Bank (ADB). However the donors are supposed to provide about 36 percent of total fund and the rest about 64 percent is the responsibility of the government of Bangladesh. Aim of the programme is to increase overall quality of primary education in Bangladesh.

One of the weaknesses of SWAps is that they are often led by donors and endorsed by government<sup>16</sup>. Although ADB's share of contribution to the programme is less than half of the GoB, it has an increasing influence to the project since its contribution to the project among the donors is the highest<sup>17</sup>. Criticism has been raised by the CSOs that being a lead donor in the project, the ADB has been pursuing its own priorities setting aside the national interests. Recently CSOs<sup>1</sup> in Bangladesh had undertaken an independent mid-term review under Commonwealth Education Fund (CIF). The review finds that procurement policy of this programme is not following the rules of sector wide approach. Instead of the expected one fund, three funds exist in the project and the government, the ADB and the pool of donors are using their own procurement policy. For example, remuneration of international consultants, salary of the teachers, stipend expenditure is being spent from other sources rather than the pool funding. UNICEF, JICA and AusAID are also expending in parallel for teachers' training and other activities. The review stated the procurement policy of the programme of PEDP II is very complex and ambiguous; it can neither be called coordinated nor collective. Absence of coordinated procurement policy has been causing misuse of funds and slow implementation of the programme and hence reducing the overall quality.

The donor organisations have been facing difficulties during implementation period of the project as their procurement policies differ from that of the recipient countries. Also the procurement policy varies from donor to donor. As a result the entire procedure has become cumbersome becoming less accountable.

There are two ways to solve this problem either implement a common procurement policy for all countries jointly by the donors or to take a joint procurement policy for a specific country which is coherent with the recipient countries own procurement policy. The former is, however, challenging as it is almost impossible to take all countries under one umbrella. Besides it goes against the norms of Paris Declaration of alignment of aid policy that is donors policy should be aligned with the countries own development policy. On the other hand the latter has some drawbacks as the donors may be reluctant to give away some of the benefits which is in their existing aid procurement policy (i.e. setting a certain standard which compel to buy goods from a company owned by the citizen of the donor countries).

## Role of Civil Society

Undeniably civil society has decisive role in promoting national development agenda. Their role has been receiving growing attention in international aid architecture. Since the role of civil society is a broader concept in development economics, this section tries to be specific only to address the functions of national CSOs/NGOs in a development financing regime which respects national ownership. In doing so it is also important to understand the dynamics of the activities of CSOs/NGOs at the country level.

Donors' perspective to aid recipient countries has been changing since past few years. They started supporting CSOs/NGOs than mere focusing on state with increasing realization that CSOs/NGOs have a significant complementary role in social welfare and poverty reduction. One of the objectives to support these organisations is reaching greater number of poor people. But the other objective is to advocate particular positions that the donors cannot impose directly to the government through policy conditionality.

Change in donors' strategy of providing aid has also given impetus to the growth of CSOs/NGOs in Bangladesh (Salehuddin, 2003). According to the NGO Bureau of Bangladesh, there are 2,320 registered NGOs/CSOs in Bangladesh that receive foreign funding support. The big 20-22 NGOs receive 90% of the total funding. According to a World Bank estimate in 2005, the total aid to CSOs/NGOs in Bangladesh that includes country supported programmes, rose from USD 232 million (0.7% of GDP) between 1990–1995 to USD 320 million (0.7% of GDP) between 1996 and 2004.

Initially the main focus of the NGO sector has been on social welfare activities. Their increasing involvement into mainstream national development programmes has been conspicuous in subsequent years. CSOs/NGOs are being recognized as important development institutions in the non-profit sector and are now acknowledged as partners in development. In countries such as Bangladesh external economic assistance plays a key role and part of this assistance has been channelled through development CSOs/NGOs with changing donors' strategy.

Allocation of such funds through CSOs/NGOs probably reflects the international context of aid regime. According to a study sponsored by the ADB in 1989, the majority of Bangladeshi CSOs/NGOs implemented programmes focusing on 'social welfare' accounting for 59%, while 38% implemented mainly 'development' programmes, meaning poverty alleviation and economic development, and another 3% focused on religion (ADB/IDSS 1989).

The non-profit sector is making inroads in different fields and many CSOs/NGOs are undertaking multi-sectoral initiatives. They are implementing projects parallel or complementary to government initiatives. Major areas of current involvement include: relief and rehabilitation, rural development, urban development, education, health and family planning, micro credit, women's development, environment, agriculture, livestock, poultry, fishery, legal aid, policy advocacy, consumer issues, infrastructure development, disability, research and communication, vocational training, sectoral networking etc.

The trend towards political democratization since the 1990s and the consequential weakening of authoritarian tendencies has made it more feasible for CSOs/NGOs to work with governments, and has in some cases made governments more flexible. Furthermore, the conditions of donors for realizing more efficient and accountable use of their aid through better governance has created a space for the CSOs/NGOs in the states' functions.

With very few exceptions, so far the CSOs/NGOs in Bangladesh generally have played a significant role in country's overall development. Moreover, one of the valuable contribution of these organisations is that they played a role to make people aware and informed of issues that are directly related to people's welfare such as the implications of aid conditionalities, donors' stand, the importance of the

terms and conditions of production sharing contracts in the energy sector, governance, human rights, international geo-politics and so on. Over time, the institutional capacity of these organisations has developed to a great extent and nowadays they are more organised than before. There are many CSOs/NGOs who have strong voices over these issues and have built up a standing that took them to a position where the government has to take their views seriously. For example, when IMF officials came to Bangladesh recently to convince the government to sign the PSI (Policy Support Instrument) agreement, the CSOs/NGOs have shown a strong standing against such an agreement and argued that it would hinder the policy sovereignty of the country. The arguments against PSI on why the government should not go for it were widely publicized and in the end, the IMF officials had to leave the country without signing the agreement. There are other incidences where strong voices of the CSOs/NGOs have contributed to the preservation of people's rights (For details see Salehuddin, 2003).

It is conspicuous that basic objectives of the GoB, donors and the CSOs/NGOs remain the same that is reducing poverty through economic development. However, the problem to look into is that more often than not the donors impose conditionality that might contradict with the national strategy, therefore, might not be feasible for the government to implement the donors funded project because of national interest and/or perhaps because of political reason. Since this conflict of interest has created space for the CSOs/NGOs to be the partners of donors, it is therefore imperative to investigate to what extent the CSOs/NGOs back the donors' conditionality and what is their role to protect national ownership. This is because the different national CSOs/NGOs have different interest and more often than not they are being used as a catalyst to serve the agenda of development agencies and international CSOs/NGOs. The task entails comprehensive research on the dynamics of the national CSOs/NGOs and their linkages to that of international development agencies and international CSOs/NGOs, which also deemed to be as donors to the aid recipient countries.

At the same time it is important to strengthen the fundamental relationship between the government and the CSOs/NGOs. Understanding this relationship is important as it shows the way that government chooses to engage with civil society in policy dialogue, the level of transparency with which information is shared, and the choice of CSO partners with which it chooses to engage. Therefore the principles of the government and CSOs/NGOs partnership should be to attain: (a) social justice and equity, (b) people's empowerment, (c) transparent and effective government, (d) sustainable and self reliant government, (e) structural changes (socioeconomic and political) within the constitutional and legal framework, (f) both the government and CSOs/NGOs should be accountable to the people, (g) they should agree on principles, policies, processes, programmes and projects, and last but not the least (h) there should be continuous dialogue between government and CSOs/NGOs.

For all these a strong democratic and institutional framework is vital. It is more likely that in a weak institutional framework and a fledgling democratic regime the relationship between the government and CSOs/NGOs tends to be fragile leading to a schism in the national interest.

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- <sup>5</sup> In early 2003, the IMF has approved a loan of SDR 347 million (about US\$490 million) under the PRGF programme with a view to support the economic reform programme in Bangladesh for 2003-06.
  - <sup>6</sup> Staff Report for the 2003 Article IV Consultation and Request for a Three-Year Agreement Under the Poverty Reduction Growth Facility IMF Country Report No. 03/205, June 2003
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  - <sup>8</sup> Bangladesh Revisiting Foreign Aid, A Review of Bangladesh's Development, 2003, Dhaka, CPD and UPL
  - <sup>9</sup> More than 60% of the total labour force are engaged in agriculture sector (Bangladesh Labour Force Survey (2004) and 75% of the total population live directly and indirectly on the sector.
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  - <sup>11</sup> IMF in Policy Making in Bangladesh, October 2007, Policy Brief Paper, Unnayan Onneshan, Dhaka, Bangladesh
  - <sup>12</sup> It is widely recognized that the world system favors advanced countries; ideas that are forwarded by the international organizations as working document for aid allocation or aid implementation have less chance of being discarded by the aid recipients.
  - <sup>13</sup> It is unfortunate that while the existing PRSP would mark its end in fiscal June, 2008 and the government is preparing for another PRSP for the next three years.
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