

ERG Occasional Paper

**Monitoring Donor Support to Poverty Reduction
Strategy
in Bangladesh**
Rethinking the Rules of Engagement

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Preface

This paper is the outcome of a study jointly sponsored by the Commonwealth Secretariat (London) and Economic Research Group (Dhaka). The study is part of a project of the Commonwealth Secretariat titled "Monitoring support for Commonwealth PRSP countries". The purpose of the project is to provide independent monitoring of how the PRSP process - especially donor support for it - is working, as seen from the perspective of recipient countries. The findings of the study were discussed in the Commonwealth Finance Ministers' Meeting held in Colombo during September 12 -14, 2006. Valuable inputs for the study have been provided by Dr. Bishakha Mukherjee of the Commonwealth Secretariat and Iftekharul Haq of East-West University. The report benefited from interviews with a large number of government officials, political and business leaders, officials of donor agencies, NGO personalities and researchers, and from detailed comments on the draft report made at the seminar held in Dhaka on August 5, 2006 (a list of interviewees and commentators is given in the annex; the written comments can be seen at www.ergonline.org/cws/comments.htm). Active support and encouragement was received from Dr. Indrajit Coomaraswamy of the Commonwealth Secretariat and Dr. Sajjad Zohir of ERG. Other ERG associates provided various help. The author alone is responsible for the views expressed in the paper.

Abbreviations and Acronyms

ADB	Asian Development Bank
ADP	Annual Development Plan
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
DANIDA	Danish International Development Assistance
DFID	Department for International Development
DSC	Development Support Credit
ERD	Economic Relations Division
ERG	Economic Research Group
FY	Fiscal Year
GDP	Gross Domestic Product
GED	General Economics Division
HNPSP	Health, Nutrition and Population Sector Programme
HPSP	Health and Population Sector Programme
ICPD	International Conference on Population and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
LCG	Local Consultative Group
LGED	Local Government Engineering Department
MDG	Millennium Development Goal
MMR	Maternal Mortality rate
MTBF	Medium-Term Budget Framework
NGO	Non Government Organization
PEDP-II	Primary Education Development Programme II
PKSF	Palli Karma Shahayak Foundation
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
REB	Rural Electrification Board
SAPRI	Structural Adjustment Participatory Review Initiative
SBA	Skilled Birth Attendant
SEDF	South Asia Enterprise Development Facility
SME	Small and Medium Enterprise

SOE	State-owned Enterprise
SWAp	Sector-wide Approach
TA	Technical Assistance
TBA	Traditional Birth Attendant
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
WHO	World Health Organization

Overview

The World Bank and the IMF have linked their assistance to low-income countries with the preparation of a Poverty Reduction Strategy Paper (PRSP). This is intended to promote national ownership of a pro-poor development strategy. The PRSP process is also increasingly being accepted as providing a basis for support from other international aid agencies and bilateral donors. In the Paris Declaration of March 2005, the developed countries made the pledges (a) to align aid efforts according to the country-owned PRSP, (b) link aid to partner country's PRSP implementation and refrain from aid conditions that are not consistent with PRSP, and (c) to have mutual accountability between donors and the partner country.

The purpose of this study is to examine how the donor agencies in Bangladesh are responding to the new aid ideas and redefining their rules of engagement in support of the PRS process. At the moment, almost all monitoring and evaluation of donor assistance in Bangladesh is by donors themselves, raising the question: who will monitor the donors? The Economic Relations Division (ERD) of the government, which is supposed to be the gatekeeper for the aid inflows, has very little capacity for such monitoring.

The preparation of the PRSP in Bangladesh has been directly linked to accessing the Bank-Fund programme assistance under a medium-term policy framework. Thus, although the PRSP is the result of an entirely home-grown effort, its policy agenda is likely to have been pre-empted to some extent by the Bank-Fund supported policy framework. However, given the long tradition of state planning in the country in the form of Five Year Plans, there is likely to be a political demand for the PRSP, even if the demand may in part be of a populist nature. It is almost certain that an incoming government will have little option but to adopt the PRSP process in some form or another.

Ownership, however, is a complex issue. There is a crucial difference between ownership of PRSP preparation and that of its implementation. For example, is the participatory approach and openness to be continued beyond PRSP preparation to implementation? Will the government commit to a transparent and accountable process of monitoring? The reluctance of the government to do away with the existing Official Secrecy Act casts some doubt about how far the government will be willing to open up its budgetary operations for independent monitoring. Given the powerful vested interests that tend to lose from improved governance of public spending, support for PRSP monitoring may be wanting as implementation proceeds.

The PRSP emphasises the need for improving the institutions of economic and political governance and puts forward a wide-ranging policy agenda in this regard. There seems to be, however a lack of specificity and prioritization in the proposed governance reforms, suggesting that ownership needs to be broadened within the government. It is noteworthy that the PRSP puts the enactment of law regarding right to information only under “future priorities”. Again, while the PRSP advocates for improvement of government procurement procedures, its policy agenda do not include compliance with procurement regulations to be monitored “through independent annual procurement review” and through civil society surveillance, as is proposed in the recently released World Bank’s Country Assistance Strategy for Bangladesh.

The Paris Declaration emphasises the need for translating the PRSP into “prioritised results-oriented operational programmes” and relating these programmes to annual medium-term budget frameworks (MTBF). At the time of the presentation of the national annual budget for FY07, the Ministry of Finance prepared a MTBF document containing an analysis of the “medium term budget strategy” for the period FY07 – FY09 as well as the budgetary plans of 10 line ministries for the same period. But, it is doubtful whether the ministries have the capacity and manpower to prepare plans according to the PRSP. A key element of PRSP monitoring will be to strengthen the budgetary accounting mechanisms relating to auditing, public procurement and the tracking of expenditure to show the use of funds. Among other things, this would need “timely, transparent and reliable reporting on budget execution”, to quote from the Paris Declaration.

The development partners generally agree about the need to align their overall support to Bangladesh on the basis of the PRSP approach. There is much less agreement about how to achieve such alignment, particularly when it comes to the details of aid modalities. One overriding concern of the donors is about the perceived low “aid absorptive capacity” of the country due to weak governance. There are frequent aid cancellations and a large part of committed aid remains unutilised. Thus, helping Bangladesh to overcome the governance-related constraints has become at least as important a donor concern as meeting the resource needs for actual investment programmes.

The coordination of aid at the national level is undertaken in Bangladesh by a Local Consultative Group (LCG). While in principle government’s participation is welcome, aid co-ordination remains very much donor-driven; government representation in the consultative process is generally weak and ineffective. More recently, a framework of collaboration between the government and donors, called *Bangladesh Harmonization Action Plan*, has been prepared to implement the pledges of the Rome and Paris Declarations, but its implementation remains a far cry.

The perception of weak governance and widespread corruption inhibits donors to rely on government systems for procurement, financial reporting and programme monitoring. This hugely increases the cost of aid delivery and creates a large administrative burden on the government. In 2003, a new procurement regulation was introduced by the government following the guidelines of the multilateral donors; but donors still think that further improvements will be needed to plug the loopholes. As a result, the government has to still comply with a multiplicity of donors’ procurement regulations. Adopting a multi-donor sector-wide approach - such as the health and population sector’s HNPS or the primary education sector’s PEDP II - also does not always help. The PEDP II has to comply with six different procurement rules. In the health sector’s HNPS, there is provision for setting up a number of project support units, which would be tantamount to running a parallel administration bypassing the government systems.

In recent years, the Economic Relations Division (ERD) of the government received about 250 missions annually. Different donors have often fielded parallel missions for the same purpose. Consultations with donors take up an inordinate amount of time of government officials. To reduce such

burden, possible approaches tried elsewhere include: establishing a regular and well spaced annual cycle of consultation meetings and declaring “quiet” periods in the year; avoiding parallel missions and sharing of the results of mission findings among relevant donors; specialisation among donor representatives according to expertise so that all donors need not be represented in the same meetings particularly in the case of sector-wide programmes

In preparing the recent country assistance strategies, donors have apparently attempted to align their strategies and policies with the PRSP. That does not necessarily mean that the implementation of the PRSP will require donors to do things differently. Since project aid accounts for the bulk of all aid, what really matters is how the strategies and policies are translated into projects and programmes. The officials of the donor agencies complain that the government agencies do not have the competence to articulate the country’s aid needs and prepare aid-worthy project proposals.

While it is largely true that the government agencies lack capability, the way donors prepare their project proposals often leaves much room for improvement. Donor-designed projects, like most government projects, usually have a top-down approach that is inadequately informed by local knowledge of what works and what does not. Often donor agencies tend to push the aid agenda of their headquarters or apply global templates in designing projects without adequate feedback about local cultural traditions and institutional characteristics. An unpublished completion report on the World Bank’s Country Assistance Strategy (FY01 – FY04) found that most of the aid cancellations had been due to the need for project restructuring, pointing to the fact that the original project designs had lacked realism and did not take into account ground level realities.

The response to the governance problem varies among donors. The small bilateral donors have the option to shift to another country. Their aid headquarters go by the overall governance signals coming out of the country; in this respect, Bangladesh’s being repeatedly ranked as the most corrupt country by the Transparency International has not helped. For example, Bangladesh used to be the largest recipient of Danish aid worldwide in the early 1990s, but since then Bangladesh has been relegated to the 6th or 7th position. The large donors such as the “big four”- the World Bank, ADB, Japan and DFID - tend to have different perspectives. Because

of their relatively large aid portfolios, they have a larger stake in the country's overall economic performance and they can exercise enough leverage in effectively engaging with the government regarding policy reforms.

The World Bank's volume of assistance to Bangladesh has gone through troughs and highs, which has much to do with the shifts in the Bank's strategy of how to deal with the country's governance problem. Thus, immediately before the Development Support Credits (DSCs) could be provided to Bangladesh in FY03, the Bank's aid pipeline to the country had become thin because of the Bank's increasing disengagement from a large number of sectors including infrastructure and energy, where progress in policy reforms had been lacking. More recently, however, the Bank has shifted its stance in favour of working from within critical sectors rather than disengaging from them and waiting for reforms to occur.

Donor support for improving the institutions of governance can hardly be effective unless the government is a willing partner and is committed to achieving the goals. There are over one hundred donor-supported projects that are being currently implemented covering areas such as police, justice or anti-corruption. While donors' support towards good governance is encouraging, the effectiveness of the above types of projects needs careful scrutiny.

There have been frequent cancellations of aid to on-going projects and premature termination of projects. Public monitoring of "mutual accountability" would be greatly served if donors and the government could agree to make the reasons of such actions public.

Some donors have preferred the NGO route of aid delivery; the USAID currently delivers almost 90 percent of aid through NGOs, European Union 45 percent and DFID 25 percent. The donors face here a dilemma. On the one hand, given the inefficiencies of the government machinery, NGOs can be used for effective delivery of basic services. On the other hand, this approach is liable to have a disabling effect on the donors in engaging in the governance debate regarding public service delivery. There is also an increasing recognition of the need for government-NGOs partnership and for ensuring better accountability of the NGOs, such as through strengthening local governance. It is important that donors coordinate their efforts in this area and do not act at cross purposes.

There has been a more recent shift of donor emphasis in promoting human rights and good governance through NGO-led community mobilisation. Donor funding has undoubtedly played the key role in enabling NGOs to deliver effective services in such areas as basic health, informal education and microcredit. Whether donor-funded NGO initiatives can be equally effective in the above new areas of emphasis is yet to be tested. It is difficult to find measurable indicators to monitor the success of such initiatives; and this makes the problem of NGO accountability even more difficult. Moreover, since such activities can often take on the character of campaigns of political nature, the funding by donors may become a contested issue.

There is no easy answer regarding how to do aid in a governance-challenged environment such as exists in Bangladesh. It should be noted, however, that in spite of governance-related constraints, Bangladesh has achieved notable success in accelerating GDP growth and reducing poverty. Even far more impressive have been the improvements in social and human development indicators, particularly in respect of infant and child mortality, female school enrolment and the adoption of birth control. It remains a puzzle how Bangladesh could make such remarkable progress in social development despite widespread poverty and poor governance in public service delivery. The early gains from the adoption of easy low-cost solutions, the contribution of NGOs towards raising public awareness, favourable budgetary allocations and donor support have all helped. However, sustaining the positive trends in poverty reduction and human development may become increasingly difficult without larger social spending and a further acceleration in GDP growth. It needs also to be noted that the gross aid received by Bangladesh is much lower compared to the average of low-income countries both as a proportion of GDP and in per capita terms; and this disparity has been increasing over the years. Yet, the country's aid-worthiness remains high in terms of the potential contribution of aid in removing poverty. It thus poses a challenge to the donor community to find ways of helping Bangladesh to achieve its development goals.

I. Introduction

In recent times, there has been increasing recognition of the need to improve aid effectiveness through enhancing country ownership of reform programmes and better alignment of donor support behind effective country strategies. In the absence of such country ownership, the leverage of aid conditionality alone is found to have been often inadequate in bringing about sustained economic reforms. There is also a renewed emphasis on making aid more effective in reducing poverty while promoting economic growth.

In response to these aid ideas, the World Bank and the IMF have adopted the so-called “Poverty Reduction Strategy” approach in providing development assistance to low income countries. The PRS process involves the preparation of a Poverty Reduction Strategy Paper (PRSP) in order for a country to remain eligible for Bank-Fund assistance, that is, concessional loans. The PRS/PRSP process is also increasingly being accepted as providing a basis for support from other international aid agencies and bilateral donors. In addition to promoting country ownership, the new approach is also expected to result in a lowering of transaction costs of delivering aid through a realignment and harmonisation of donor policies and practices.¹

The process of preparing a PRSP was seriously undertaken in Bangladesh after a new government with a strong parliamentary majority was elected in October 2001. An interim PRSP (I-PRSP) entitled “A national strategy for economic growth, poverty reduction and social development” was finalised in March 2003 (GOB 2003). Earlier, an initial draft of the I-PRSP had been made available for discussions with various stakeholders including Bangladesh’s development partners.² A much more extensive process of consultations was involved in moving from the I-PRSP to the full PRSP, a

¹ The new aid consensus was embodied in the Paris Declaration of March 2005 which was a follow up to the Rome Declaration 2003.

² The draft I-PRSP was posted on the government’s website in April 2002.

draft of which was produced in December 2004. Further rounds of consultations followed and the final version of the PRSP, titled “Unlocking the potential: national strategy for accelerated poverty reduction” was produced in October 2005 (GOB 2005).

The timing of the finalisation of I-PRSP was significant. Immediately following the preparation of the I-PRSP and its joint assessment by the World Bank and the IMF (World Bank 2003), the government successfully applied for the IMF’s programme lending under the so-called PRGF and the World Bank’s Development Support Credit (DSC) under the PRSP umbrella. Both these credit programmes were negotiated under a medium-term policy framework involving disbursements of funds in series of instalments.

Subsequently, the full PRSP was also given a general nod of approval by the Bank-Fund joint assessment (World Bank 2005). All other development partners including the UN agencies, the Asian Development Bank (ADB) and bilateral donors have in principle accepted the need for aligning their aid operations along the PRS approach, while also pursuing their agency-specific goals. This is reflected in the recent donor policy statements as articulated in the World Bank’s *Bangladesh Country Assistance Strategy 2006 – 2009*, the ADB’s *Bangladesh Country Strategy and Program for 2006 – 2010* and the *United Nations Development Assistance Framework in Bangladesh 2006 – 2010*, the latter being a joint document of the government and the UN agencies in Bangladesh. The bilateral donors have also agreed more or less to follow the lead.³ At the same time, donor agencies have also taken initiatives for harmonising and coordinating their aid operations in the country. Thus, at least in terms of their outward stance and declared policies, donors would appear to have committed themselves to the PRS process.

The purpose of this study is to examine how the donor agencies in Bangladesh are responding to the new aid ideas and redefining their rules of engagement in support of the PRS process. The focus is not on the PRSP

³ For example, DANIDA, the Danish aid agency, reportedly had delayed the preparation of its aid programme document, *Bangladesh-Denmark Partnership: Strategy for Development Cooperation 2005 – 2009*, until the final PRSP was made available (Ministry of Foreign Affairs of Denmark, 2005).

itself, but its preparation and implementation is discussed to the extent that it helps to understand the imperatives of the emerging aid modalities. Section II discusses the quality of the PRS process in Bangladesh in terms of its country ownership and policy contents. Section III first looks at the government's initiatives for PRS implementation and monitoring and then examines donors' response to the PRS process. Section IV examines what donors can do differently in light of the lessons learnt from past experience and given a governance-challenged environment as exists in Bangladesh. Section V provides some concluding remarks.

II. The Quality of the Poverty Reduction Strategy

Ownership and Participation

It is an undeniable fact that the government has undertaken the task of preparing the PRSP in order to remain eligible for soft loans from the World Bank and the IMF. Ironically, thus, the issue of country "ownership" itself has arisen as a matter of aid conditionality. While this is generally true of the PRSP process worldwide, the preparation of the I-PRSP in Bangladesh has been directly linked to accessing the Bank-Fund programme assistance under a medium-term policy framework. This is likely to have worked against policy ownership at the very beginning of the PRSP process, since the policy agenda in the full PRSP is likely to have been pre-empted to some extent by the Bank-Fund supported policy framework.

However, Bangladesh has had a long tradition of preparing Five Year Plans, the latest one being the Fifth Five Year Plan for the period 1997-2002. It is true that the enthusiasm for such Plans have gradually eroded because of their increasing lack of relevance in a market-oriented liberalised policy environment with reduced role of public investment. In fact, the Fifth Five Year Plan represented an attempt to shift from quantitative investment allocations to strategic and policy planning.⁴ Even when the idea of Five Year Plans were no more fashionable in the wake of the rise of economic neoliberalism, expert opinion in the country was in

⁴ Cf. The Report of the Panel of Economists on the Draft Fifth Five Year Plan, General Economics Division, Planning Commission, 1997; reproduced in Mahmud (2002), Chap. 20.

favour of having a well-articulated medium-term development strategy.⁵ In the absence of the Five Year Plans, the PRSP process has therefore a good chance of being seen as a continuation of a nationally owned planning process. Given the long tradition of state planning in the country, there is also likely to be a political demand for the PRSP, even if the demand may in part be of a populist nature.

Ownership, however, is a complex issue. There is ownership by officials in the government ministries; ownership by those responsible for implementation at the local level; national ownership as endorsed by the elected government and the Parliament; ownership by the stakeholders such as civil society and the business bodies; and ownership or at least a degree of understanding of the strategy among the general population. There is also a crucial difference between ownership of PRSP preparation and that of its implementation. For example, is the participatory approach and openness to be continued beyond PRSP preparation to implementation? Will the government be willing to commit to a transparent and accountable process of monitoring? Clearly, the test of the government's commitment will be in implementation.

The ownership of PRSP has been enhanced by the fact that the government has managed the process of its preparation entirely on its own, using local expertise and involving a participatory process. The I-PRSP was drafted by competent local experts from outside the government, but extensive consultations with various stakeholders had preceded its preparation.⁶ The transition from the I-PRSP to the full PRSP, however, involved far more extensive and structured consultations at national, regional and local levels involving the grassroots poor, non-government and community organisations, the private sector, trade unions, academia, research organisations and other community leaders.

The analytical inputs for the PRSP were provided by a number of thematic groups that included researchers, development practitioners, government

⁵ CPD (1995), Chap. 2, p. 72.

⁶ The government did indeed approach the UNDP for assistance in the preparation of the I-PRSP, but eventually preferred not to accept the UNDP's offer of using the services of one of its staff members based in New York.

policymakers and donor representatives.⁷ The incorporation of these inputs made the full PRSP take a more comprehensive and wider approach to its developmental strategy compared to the I-PRSP. The formation of an inter-ministerial Steering Committee under the Chairmanship of the Principal Secretary for the overall supervision of the PRSP process helped to ensure “buy in” of line agencies of the government. Thus, while it is not easy to remove the perception that the PRSP is primarily linked to the provision of external support, there is clearly an effort to establish it as the central national framework for growth and poverty reduction. This was signalled by shifting the “home” of the PRSP from the Economic Relations Division (ERD) to the General Economics Division of the Planning Commission.

While the PRSP was officially approved by the government, it was not debated in the national Parliament, nor formally endorsed by it. Given the quality of debates in the Parliament, such as on the annual budgets or other economic issues, it may be argued that not much in terms of substance has been lost by this lapse in national ownership. Some discussions on the PRSP among the MPs were arranged under a UNDP-sponsored project. While some donors pushed for parliamentary discussion on the PRSP, it would appear that the government did not want to expose the PRSP to the country’s confrontational party politics for pragmatic reasons. While it is difficult to deny the importance of parliamentary endorsement of the PRSP, at least for its symbolic value, it is unlikely that an incoming government will not accept the PRSP process in some form or another.

The participatory approach adopted in the preparation of the PRSP is not new in Bangladesh. Back in the early 1990s, the Planning Commission undertook a huge task of preparing a perspective plan for 1995 – 2010 using consultations at various levels including grassroots-level participation.⁸ Again, Bangladesh was one of the participating countries in the *Structural Adjustment Participatory Review Initiative* (SAPRI) which

⁷ The thematic groups were in turn provided with consultancy services by the researchers of Bangladesh Institute of Development Studies (BIDS).

⁸ The outcome of the exercise was several district-wise plan documents as well as a national document called *Participatory Perspective Plan 1995 – 2010* (Government of Bangladesh 1995).

was launched in the late 1990s jointly by the World Bank, the national governments and a global network of civil society organisations.⁹

A participatory approach can give useful insights in assessing development policies and strategies, but it has also many limitations. Such an approach can not be a substitute for solid hard analytical work needed for economic policymaking. Economic policy reforms and their outcomes often involve inherently complex and interlinked processes, and uninformed discussions on these may often lead to economic populism rather than rational choices. For example, the articulation of economic needs does not often relate to the resource constraint. However, the process can be beneficial in creating awareness about economic choices to be made and in getting insights from people's perceptions about ground-level realities. Some of the policy priorities of the PRSP, such as regarding need for better criminal justice, improved sanitation or maternal healthcare may have arisen out of the insights gained from grassroots consultations. The greatest potential role of a participatory approach, however, perhaps lies in its use as a mechanism of public accountability in the actual implementation of the poverty reduction policies and strategies.

The PRSP proposes many policies particularly for improving the quality of governance, the implementation of which will be politically difficult. This problem is amply demonstrated by the discussion about how to find possible "entry points" for solving the governance-related problems. The PRSP thus at times gives an impression of telling what the government should do rather than what the government actually proposes to do. This is to some extent inevitable in a document like this. The government is not monolithic, it has many faces. The PRSP, or for that matter any such public document, relates to the part of the government that represents its so-called "benevolent social guardian role", not the part that represents vested interests. The PRSP process, in that sense, is itself an entry point.

The Poverty Reduction Strategy Itself: Is There a Consensus on a Development Agenda?

⁹ For the results of this exercise, see Bhattacharya and Titumir (2001); also see Mahmud (2002), Chapter 1.

The preparation of the PRSP has benefited from the vast amount of literature available on the development experience and prospects in Bangladesh. The development agenda of the PRSP is built on the policy triangle of pro-poor growth, human development and governance. It takes into account that the poverty impact of accelerated growth in per capita income since the early 1990s has been compromised to some extent by a worsening of income distribution.¹⁰ Thus, while the focus of the PRSP is on private-sector-led development, it seeks ways of making development more inclusive and pro-poor. For example, its emphasis on supporting the development of a dynamic “meso-economy” derives from the evidence of the potential role of rural towns or “growth centres” in generating productive employment opportunities in the informal and unorganised parts of the non-farm economy.

Although the scope of the present study does not permit any detailed analysis of the envisaged development strategy of the PRSP, it is of interest to see how far it conforms to the standard Bank-Fund policy agenda. While giving a general nod of approval to the PRSP, the Bank-Fund joint assessment of it is also mildly critical about its certain aspects (World Bank 2005). Thus, according to this assessment, the PRSP emphasises agricultural and rural development but lacks a prioritized plan of actions within the resource and capacity constraint; it does not give enough prominence to the role of foreign direct investment; it proposes to provide direct support to private enterprises although there are not many examples of such sector-specific promotion strategy having worked; and it does not reflect the government’s own roadmap for financial sector reforms including the corporatization and eventual privatisation of nationalised commercial banks as already agreed under the Bank-Fund programme.

There may be, however, other credible criticisms of both the PRSP and its assessment by the Bank-Fund staffs. For example, the budgetary deficits are pre-fixed in the PRSP’s medium-term macroeconomic framework presumably to restrain the government from overspending, but this ignores

¹⁰ During the 1990s, the average annual growth in per capita income accelerated to above 3 percent compared to the 1.6 percent of the earlier decade, while poverty incidence by the head-count estimate declined by about 1 percentage point a year. However, more recent poverty estimates available since the preparation of the PRSP show that poverty incidence has declined by almost two percentage points a year between 2000 and 2005.

the importance of a flexible blending of fiscal, monetary and exchange rate policies in light of evolving circumstances. Also, the concerns about budgetary deficits seem entirely to do with maintaining fiscal sustainability and macroeconomic stabilisation, although there is also an important issue involved here regarding an ideal mix of public-private investment. Again, while proposing further trade liberalisation through tariff reductions, the potential role of an industrial and trade policy to promote pro-poor growth is ignored. This role arises from the fact that the impact of tariff reforms is bound to vary across industries and sectors having varying potential for growth and poverty alleviation, so that if there is no well-devised industrial policy, there will be one by default.¹¹ As regards an appropriate state-market mix, the prevailing consensus seems to be that it should be decided not by pre-conceived ideas, but on the basis of evidence regarding what works best in the specific situations; but there is less agreement on what that evidence is. The upshot of all this is that the PRSP should not give an impression, even if inadvertently, that there exists a consensus on a unique development roadmap; instead, its value should lie in its capacity to generate healthy debates on development alternatives facing Bangladesh. This will indeed be a test of ownership of its development agenda.

The PRSP has a very detailed set of what it calls policy matrices, covering macroeconomic management, sectoral policies and many cross-cutting development themes like governance, environmental sustainability, food security and women's rights. Each of the policy matrices shows the PRSP policy agenda for FY05 – FY07 along with future priorities under different strategic goals, the actions already taken or underway and the implementing government agencies. These policy matrices were a useful addition in moving from the I-PRSP to the final PRSP as these represent an attempt to translate the PRS into a concrete action plan. As a tool for engagement with donors, the importance of such a policy agenda cannot be overemphasised. The Paris Declaration stipulates that “donors draw aid conditions, whenever possible, from the partner’s national development strategy” and that “other conditions would be included only when a sound justification exists” to act otherwise.

¹¹ For a discussion on this, see Ahmed and Mahmud (2006), Chap. 2, pp. 40-43.

At the risk of simplification, the numerous items in the policy agenda for 2005-07 can be divided into some generic categories (only some illustrative examples are given):

- *Specific actions for improved governance and improved investment climate that may be politically resisted:* improving public procurement process such as through online tendering¹², separation of judiciary from the executive, reducing the role of the Members of Parliament in the development spending of the local government bodies (e.g. *Union Parishads*), setting up a Human Rights Commission, reforming labour laws to prevent politicisation, establishing a private sea-port. It may be noted that enacting a law regarding right to information is included only under “future priorities”.
- *Reiteration of qualitative assertions for improving governance without indicating how the goals will be achieved:* making the Anti-corruption Commission effective and credible and generally strengthening the watchdog bodies, enhancing efficient use of fiscal resources, enhancing reforms for revenue mobilisation, minimising SOE losses, improving the management of ports and customs clearance procedures, strengthening agricultural extension, improving the efficiency of safety-net measures. While some specific administrative measures are suggested, such as establishing a framework for fiscal reporting and control, the effectiveness of such measures remains an open question.
- *Programmes involving institutional innovations that will need further probing about what works and what does not:* promoting private industrial estates, setting up joint venture investment financing company under government sponsorship, setting up loan recovery agency, cost-effective designing of safety-net programmes, improving rural financing of non-farm activities, ensuring community input in designing local projects, support to agricultural marketing, and development of more efficient irrigation, helping the growth of small-scale industries, creating

¹² This item is specially mentioned in the policy agenda for Roads and Highways, besides being included under the policy matrix for governance.

an enabling environment for women to fully participate across a whole range of economic activities.

- *Setting up committees, conducting studies or collating results from piloting projects* regarding various development issues such as technology development and transfer, women entrepreneurship, small and medium enterprise development, and agricultural diversification.
- *Vague or unrealistic policies lacking the rigour of a strategic approach* like providing access to electricity to 90 percent of the population, substantially increasing budgetary allocations every year for poverty alleviation and agricultural development.
- *Policy agenda already agreed under the on-going Bank-Fund programme lending*: reforms of state-owned banks through management contracts, rationalising power tariff, modernisation of the central bank. Much of the policy agenda for health and population and for primary education is pre-empted by the on-going donor-supported programmes based on a sector-wide approach (SWAp).

A few observations may be made about the above characteristics of the PRSP policy matrices. A basic thrust of the policy agenda is about finding an appropriate role for the government regarding how it can effectively help an essentially privet-sector-led development process and how the quality of public services can be improved. There will be a need for a continuing assessment of that role; and this will need expert help from within and outside the government as well as ground-level feedback. Some of the deficiencies of the policy matrices have arisen from the fact that these have been prepared by different Ministries somewhat on an *ad hoc* basis, almost as an afterthought, whereas the text of the PRSP has benefited from inputs from several “thematic groups” that included experts and researchers from outside the government. Not surprisingly, while the text of the PRSP articulates the issues well, the Policy Matrices that outline the action plans for implementation are not always consistent with the text and are often rather vague. There is clearly a need for constituting advisory groups in the line of the thematic groups in order to institutionalise the process of mobilising professional expertise in further articulation and implementation of the PRS.

Reiterating the governance-related agenda (the first two of the above categories) is important in terms of the government's ownership, even if the feasibility of their effective implementation remains doubtful. In this regard, having a long "wish list" may not help unless some priorities are indicated. This is also true for the desirable economic reforms that are likely to be politically resisted. It is the government, and not the donors, which can make judgement about how to best practice the "art of the feasible". By the World Bank's own admission, one of the lessons learnt from its experience of aid operations in Bangladesh is that more attention needs to be given to the political realities of the country.¹³ This is one of the ways the World Bank is proposing to do aid differently in Bangladesh. A prioritised agenda of reforms under the PRS can thus help to avoid unrealistic aid conditionality as well as promote policy ownership.

As mentioned above, the PRSP policy agenda is likely to have been pre-empted to some extent by the policy framework agreed under the Bank-Fund programme lending. There is also a question of mindset of the government policymakers, namely, their perception about what is expected of the PRSP. After all, the PRSP had to be approved by the Bank-Fund's respective Boards. An illustrative example is provided by the PRSP policy matrix for the power sector. In line with the World Bank's general reform agenda, the policy matrix has avoided proposing the creation of any additional power generation capacity in the public sector. It is the World Bank which has now reassessed its policy stance in this regard and has recently agreed to provide an IDA loan of \$ 275 million to set up a power plant under government ownership. A power generation company will be set up for this purpose and the plant will be run initially under management contract given out through international bidding. The Bank has come up with this idea particularly in view of the country's severe power shortage and the government's apparent lack of capacity to attract independent power companies. Ironically, the Bank appears to be more proactive than the government policymakers in deviating from its own professed privatisation policies and finding an innovative state-market mix.

The above comments are not intended to imply that the PRSP policy matrices are not useful. In fact, a broad-based consensus exists about the

¹³ World Bank's (2006) *Bangladesh Country Assistance Strategy 2006 – 2009*, p. 63.

desirability of most of the proposed programmes and policies. A particular contribution of the policy matrices is to point out that many development challenges need multi-pronged actions requiring inter-agency cooperation. The policy matrices also represent a useful stocktaking of the on-going development activities of the government. But much more work is needed to translate these policy matrices into what the Paris Declaration calls “prioritised result-oriented operational programmes.”

III. Implementation and Monitoring of the PRS: Government’s Initiatives and Donor Response

Monitoring Mechanism for PRS Implementation

The PRSP document gives a detailed account of the proposed systems of monitoring and evaluation regarding the implementation of the national development strategies. In fact, monitoring has been regarded as one of the eight strategic agendas of the PRS as it is seen to be performing multiple roles related to “implementation, accountability, result-orientation and progress statement.” Like the policy matrices, the PRSP also includes monitoring matrices that show a detailed set of outcome or impact indicators related to input indicators (e.g. public spending or policy change) under various strategic goals. However, the list of indicators are said to be only “a suggestive one and will need to be refined in the actual process of monitoring”.¹⁴

If monitoring has to serve multiple purposes, it has to be based on different approaches that cannot be always translated into a uniform format of input-outcome indicators as shown in the PRSP. The broad development indicators such as those related to poverty reduction or human development are important to assess whether enough progress is being made towards achieving the overall PRS goals. To ensure accountability, the emphasis

¹⁴ See Chapter VIII of the final PRSP, Government of Bangladesh (2005).

needs to be on reviewing public financial management and budgetary accounting mechanisms. On the other hand, there are various impact assessment methods for evaluating the effectiveness of particular policies or programmes.

It is not easy to develop “simple-yet-comprehensive” assessment tools and methodologies that will satisfy all participants. Fortunately, there are plenty of studies already available regarding the impact of various development programmes in Bangladesh, and it will be helpful for PRS monitoring to have a stock-taking of these studies to start with. For example, many programmes have a track record of successfully targeting the intended beneficiaries, such as rural works programmes, for which the monitoring emphasis should be on how to prevent the alleged leakage of funds. The programmes for providing mother-and-child healthcare have been found to have a beneficial pro-poor impact, but the monitoring of their effectiveness needs to focus on whether the uptake of the services can be improved, possibly through more effective awareness campaigns.¹⁵ Again, the evidence already gathered from many existing piloting programmes can be used to conduct *ex ante* impact assessment for the replication of such programmes on a larger scale. This kind of evidence can also be used to incorporate in-built monitoring mechanisms into the project design, such as through community participation and surveillance.

The Paris Declaration emphasises the need for translating the development strategies into “prioritised results-oriented operational programmes” and relating these programmes to annual budgets and medium-term expenditure frameworks”. This is a tall order of things, both conceptually and in practical terms. The PRSP has a medium-term macroeconomic framework which consists of a 3-year rolling plan. Unlike the previous Five Year Plans, the idea of a rolling plan provides scope for annual reviews for making the necessary adjustments in macroeconomic management. In addition, the Planning Commission is to see that the projects and programmes included in the rolling plan can “act as a vehicle for operationalising the PRSP”.¹⁶ At the same time, the line ministries are to be given more autonomy to align their programmes to the PRS under a Medium-Term Budget Framework (MTBF). Accordingly, at the time of the presentation of the national annual budget for FY 07, the Ministry of

¹⁵ See Osmani (2006), World Bank (2003), p. 55.

¹⁶ Cf. the final PRSP document, Government of Bangladesh (2005), p. 187.

Finance prepared a MTBF document containing an analysis of the “medium term budget strategy” for the period FY 07 – FY 09 as well as the budgetary plans of 10 line ministries for the same period (Government of Bangladesh 2006).

While the above arrangements look promising on paper, there are several risks. The size of the Annual Development Plans (ADPs) is revised downward almost routinely towards the end of every financial year, for reasons of both resource shortfall and problems of project implementation. Besides adversely affecting development spending priorities, this also results in time and cost overruns in project implementation. The same problem may persist in the implementation of the MTBF as well. It is also alleged that the ministries have no incentive to implement the MTBF as they would lose their existing discretionary authority. There is lack of expertise in the line ministries for implementing the MTBF; on top of it there is the problem of retaining the trained personnel (the latter is cited as a major problem in donors’ effort to assist the training of government officials). The Planning Commission also does not have the expertise to scrutinise projects according to the PRS priorities, which would have been a demanding task to perform anyway even with properly skilled manpower. On top of it, there are well-known adverse political incentives that are liable to distort public spending priorities.¹⁷ While a number of co-ordinating committees are already in place to oversee the implementation of the MTBF, the effectiveness of these committees has yet to be tested.¹⁸

Budget monitoring is generally not effective in Bangladesh because of the weakness of the accounting and auditing procedures, delays in expenditure reporting and the ineffectiveness of the Public Accounts Committee of the Parliament. A key element of PRS monitoring will, therefore, have to involve a strengthening of the budgetary accounting mechanisms relating to auditing, public procurement and the tracking of expenditure to show the use of funds. Among other things, this would need “timely, transparent and reliable reporting on budget execution”, to quote from the Paris Declaration.

¹⁷ For a detailed discussion of the political economy of public development spending in Bangladesh, see Mahmud (2002).

¹⁸ Cf. Government of Bangladesh (2006), pp. 2-5.

An analysis of the trends in the broad budgetary allocations in Bangladesh over the years shows that the pattern of public spending have been generally in concordance with the government's declared development strategy, namely, to promote private-sector-led growth while also attempting to alleviate poverty and promote social development (Mahmud 2002). Thus, not only the proportions of public spending in social sectors like health and education have increased, but also the emphasis within these sectors is found to be on those expenditures that have a relatively pro-poor impact, such as on essential healthcare and primary education. However, the problem with public development spending starts to appear only when one looks at the quality of project design and implementation. It is generally recognised that there has been a huge wastage of public resources due to poor project implementation and allegedly large leakage of funds.

The weakness of the budgetary process arises to a large extent from its often piecemeal and fragmented approach without being linked to a strategic framework. It is in this respect that the effective implementation and monitoring of the PRS will have to make a difference. There is an acute shortage of expertise as well as lack of incentive in the ministries and planning agencies to prepare well-designed development projects. A centralised technocratic approach without any mechanism of feedback through beneficiary participation has also been found to be a major impediment in making the project outcomes beneficial to local communities. There is little incentive or demand within the government system to come up with well-designed projects or programmes. A recent evaluation on rehabilitation of some of the projects of the Bangladesh Water Development Board shows that the original purpose of the projects were vindicated by more than 80 percent of the people in the respective localities, but only one out of the 35 projects could be successfully rehabilitated. Among many problems, neglect of the details of local circumstances was found to be the main cause of failure (Mahmud 2002a).

An elaborate institutional framework has been proposed to monitor PRS implementation. The existing National Steering Committee formed to overview the PRSP preparation will also be responsible for reviewing the progress of PRS implementation. In addition, a National Poverty Focal point has been established at the General Economics Division (GED) of the Planning Commission for the necessary documentation relating to PRS implementation. A Technical Committee composing of the top officials from the Planning Commissions and other related ministries as well as

technical experts will monitor the consistency of projects and programmes with the PRS goals.¹⁹ A number of working groups consisting of government and donor officials, experts and practitioners have been formed around the ministries in the line of the PRSP's thematic groups. Finally, the government has recently formed a high-profile independent advisory committee consisting of experts, researchers and civil society leaders to provide guidance and advice and to commission studies for an annual assessment of the progress made towards PRS implementation and the attainment of MDGs.

Concerns have been raised about lack of capacity and manpower in the ministries to do the additional work of monitoring and evaluation. Involving outside experts and research organisations is, therefore, seen to be a key element of PRS monitoring, but the effectiveness of such an arrangement will depend to a large extent on the political will of the government and its "ownership" of the PRS process. It is one thing to involve the independent experts through the so-called thematic committees to prepare the PRSP, it is altogether another thing to involve such experts in the actual project design or in scrutinising the project implementation process. The reluctance of the government to do away with the existing Official Secrecy Act casts some doubt about how far the government will be willing to open up its budgetary operations for independent experts to monitor. Given the powerful vested interests that tend to lose from improved governance of public spending, support for PRSP monitoring may be wanting as implementation proceeds. It may also be seen from the above discussion that monitoring involves different kinds of activities at different levels and thus needs a multi-track approach; relying on a single monitoring architecture, however elaborate, may not be adequate on its own. Further, there is a risk that the monitoring exercise is geared primarily only to satisfy the donors.

Donors' Response in Supporting the PRS Process

¹⁹ This committee will have representation from the Implementation, Monitoring and Evaluation Division (IMED) of the Planning Ministry, which is the agency responsible for the regular monitoring of the implementation of development projects.

As indicated earlier, the development partners generally agree about the need to align their overall support to Bangladesh – country strategies, policy dialogues and development funding programmes – on the basis of the PRS approach. There is much less agreement about how to achieve such alignment, particularly when it comes to the details of aid modalities. One overriding concern of the donors is about the perceived low “aid absorptive capacity” of the country due to weak governance. There are frequent aid cancellations and a large part of committed aid remains unutilised.²⁰ Thus, helping Bangladesh to overcome the governance-related constraints has become at least as important a donor concern as meeting the resource needs for actual investment programmes. Whether there is any consensus among the donor community about how best to do aid in such a governance challenged environment is another matter (to be discussed later in this report).

The coordination of aid at the national level is undertaken in Bangladesh by a Local Consultative Group (LCG) which organises plenary meetings and includes a number of sector-specific sub-groups. While in principle government’s participation is welcome, co-ordination remains very much donor-driven; government representation in the consultative process is generally weak and ineffective. To strengthen the quality of implementation of donor-funded development activities, an Aid Governance Initiative was launched in 2003 by the donor agencies in partnership with the government, which subsequently resulted in the adoption of some new policies, particularly in respect of government procurement procedures. It is noteworthy that the initiative was in response to the donor’s concerns regarding the government’s accountability and efficiency of aid utilisation, and was not primarily about coordination of donors’ own aid modalities.²¹

²⁰ Despite recent progress, for example, the World Bank’s country portfolio continues to have a large undisbursed amount, totaling \$ 1.5 billion at the end of FY 05. This implies a disbursement ratio of 23 percent. The disbursement ratio of ADB’s aid to Bangladesh is even lower at about 13 percent at the end of the calendar year of 2005, which is because the ADB’s assistance is largely provided as project lending rather than budgetary support. The disbursement ratio shows the ratio of disbursements during the fiscal year to the undisbursed balance at the beginning of the fiscal year.

²¹ This initiative followed the global trend for aid harmonisation as laid down in the Rome Declaration 2003, and the recommendations arising out

More recently, a framework of collaboration between the government and donors, called *Bangladesh Harmonization Action Plan*, have been prepared to implement the pledges of the Rome and Paris Declarations: promoting the implementation of country-owned PRS, harmonisation and alignment of aid to PRS, results-orientation of aid, and mutual accountability. The Action Plan appears impressive as it lays out in detail time-bound actions and desired outcomes towards achieving the above goals; but a closer look at its contents also reveals the difficulty of implementing it. Its value perhaps lies more in the diagnosis of the problems than in finding ways of solving them.

One goal of aid harmonisation is to rely more on the government's systems, such as regarding procurement, financial management and reporting and adopting joint supervision strategies. One major problem lies in harmonising the reporting and auditing requirements. In 2003, a new public procurement regulation was introduced by the government following largely the guidelines of the World Bank, which is to be uniformly used across all public agencies. Donors still remain sceptical about its effectiveness and think that further improvements will be needed to plug the loopholes. As a result, the government has to still comply with a multiplicity of donors' procurement guidelines. Even when government systems are used, these are not relied on and are often supplemented by additional work. The ADB and the World Bank, for example, uses in some cases local private firms to audit their projects. The auditing standards required by different donors vary to a large extent, thus giving confusing signals.²² Even adopting a sector-wide approach (SWAp) does not help; the on-going SWAp in the primary education sector, called PEDP-II, is known for its reliance on the country systems; even then it has to comply with six different procurement rules.²³

The perception of weak governance and fiduciary and other risks inhibits donors to use country systems, leading to the creation of parallel

of it were made available for the Bangladesh Development Forum Meeting held in May 2003.

²² For example, the Canadian aid agency (CIDA) does not apply its procurement rule if the procurement is from a Canadian company.

²³ It should be noted though that over 80 percent of the PEDP-II expenditures follow the local procedures of the government.

implementation structures and excessive fragmentation of donor activities. Adopting a multi-donor programme-based approach also does not always help, as will be seen in the later discussion on the health sector's SWAp. Donors complain about the difficulty of finding enough capable or trustworthy officials within the government agencies to set up a programme with ownership. The lack of trust leads to a tendency for donors to try to micro-manage the aid-financed projects and field too many project appraisal and performance review missions.

The *Bangladesh Harmonisation Action Plan* mentioned above does recognise the need for reducing the administrative burden on the government by reducing the number of donor missions. It also proposes to field missions in line with the government's monitoring requirement and to simplify the annual portfolio review processes. In recent years, the Economic Relations Division (ERD) of the government received about 250 missions annually.²⁴ Donors have often fielded parallel missions for the same purpose. Repeated donor missions in recent years for studying the development problems of Chittagong Hill Tracts (an area which has the largest concentrations of tribal populations) is a case in point.

Consultations with donors take up an inordinate amount of time of government officials. To reduce such burden, possible approaches tried elsewhere include: establishing a regular and well spaced annual cycle of consultation meetings and declaring "quiet" periods in the year; avoiding parallel missions and sharing of the results of mission findings among relevant donors; specialisation among donor representatives according to expertise so that all donors need not be represented in the same meetings, particularly in the case of SWAps; and for the government to be able on occasion to say "no" to aid of the wrong kind or offered in the wrong modalities.

All donors have taken the official position of aligning their aid operations to the PRSP. As mentioned earlier, this position has been explicitly stated in the country assistance strategies of the multilateral and major bilateral donors and the UN agencies. These country assistance strategies have also been agreed with the government, and in the case of the UN agencies, produced jointly with the government. Further, as a step towards donor

²⁴ This excludes the DFID missions, which are conducted by the local office.

coordination and harmonisation, the World Bank has prepared its new CAS jointly with ADB, DFID and Japan (*Bangladesh Country Assistance Strategy 2006 - 2009*). These four development partners – the “big four” or “the gang of four” as they are referred to by the smaller donors – together currently deliver \$1 billion to \$1.5 billion annually in gross aid to Bangladesh, well over 80 percent of all development assistance. In addition to the joint CAS of the World Bank, each of the other partners has their own separate strategy document as well.²⁵

An important part of the World Bank’s joint CAS is an “outcomes matrix” showing the expected outcomes and intermediate indicators or milestones together with all the interventions supported by the four CAS partners relating to a given outcome. This implies a common assessment of the PRSP by the four partners based on an agreed common set of outcome indicators and a common understanding of the strategies needed to deliver these outcomes.²⁶ The strategies relate to the PRSP’s longer term development agenda, while the outcomes have considerable similarity with the PRSP’s policy agenda matrices discussed earlier. As expected, however, the PRSP covers a much wider range of strategies and policies than the CAS does, and the time-frame is also a bit different - the PRSP’s medium-term policy agenda is for the 3-year period of FY 05 – FY 07 while the “outcomes/milestones” of the CAS refers to the four-year period of FY 06 – FY 09.

While the alignment between the joint CAS and the PRSP appears promising, most of the PRSP strategic goals are broad enough for a range of policy agenda to fit in. It is also not clear that in every instance the policy agenda in the CAS is guided by that of the PRSP and not the other way round. As discussed earlier, there is a degree of disjoint between the text and the policy matrices of the PRSP and that some of the policies may have been pre-empted by the on-going Bank-Fund programme lending.²⁷ Most of the policies relating to governance and the investment climate are

²⁵ This is mainly required to meet the respective aid agencies’ internal requirements on form and format.

²⁶ The “joint strategy outcomes by partners” is a continuing exercise in which donors other than the big four are also invited to join.

²⁷ The common policy agenda includes such actions as establishing a private seaport, introduction of e-governance for procurement and rationalization of agricultural subsidies.

also common to both the documents; so they share some of the shortcomings of the PRSP policy agenda discussed earlier: either they are specific actions without prioritisation in terms of political feasibility or they are of qualitative nature without enough clues about what actions will actually be able to deliver and what will not.

In some key governance issues, however, there are some apparently minor but significant differences between the PRSP policy agenda and the CAS milestones. Both include enactment of law regarding right to information, but the PRSP puts it only under “future priorities”. Again, regarding the improvement of government procurement procedures, both go for almost similar actions including the introduction of e-procurement; but the CAS agenda goes one crucial step further to include compliance with procurement regulations to be monitored “through independent annual procurement review” and through civil society surveillance (World Bank 2006, p. 107).

While the output indicators in the PRSP monitoring and evaluation matrices are of qualitative (and admittedly tentative) nature, the joint CAS has in some cases more concrete outcomes or milestones; but this only shows the complexity in the choice of an appropriate outcome indicator. Thus, one of the milestones in the strategy of providing greater access to health services is to raise the share of the poorest 50 percent of households in the delivery of essential health services from 55 percent to 65 percent (World Bank 2006, p.101). This is only a partial indicator, if at all, in making health service provision more pro-poor. Since essential health services (including mother–child health care) are the only part of the public healthcare which is found to be pro-poor, increasing the uptake of such services even with an unchanged pattern of benefit incidence will definitely be a pro-poor policy (Osmani 2006, World Bank 2003).²⁸ This is only illustrative of the much bigger problem of agreeing to a result-oriented modality of aid arrangements.

Looking at the broad strategies or qualitative policy directions does not tell one much about whether the implementation of PRSP will require donors to do things differently. These strategies are mostly broad and non-specific enough for the usual donor-funded projects and programmes to be able to

²⁸ Such an indicator may be supplemented by information on the quality of service.

pass the test anyway. What really matters, besides specific policy reforms, is the way these projects and programmes are conceived, designed and implemented.²⁹ So far as project aid is concerned, this is where lies the key to the issue of improving aid effectiveness through promoting “ownership”, and the situation in this respect is far less encouraging. As one donor official admitted: the effect of PRSP on donors’ mode of operation in this respect is minimal, it is business as usual. The criteria for judging the effectiveness of budgetary support, such as provided by the World Bank’s policy-based lending, are of course a different matter and will be discussed later.

Project aid, which accounts for the bulk of all aid, has in recent years accounted for about one-third of the government’s total development spending under the Annual Development Plan (ADP).³⁰ The proportion of allocations to the aid-assisted projects is of course much higher because of the use of local funds in these projects. And this proportion will increase with the introduction of more SWAps.

The officials of the donor agencies complain that the government agencies do not have the competence to articulate the country’s aid needs and prepare aid-worthy project proposals.³¹ There is even less capability to prepare projects so as to fit into an overall or sectoral strategy framework. The result is various donors doing various things resulting in aid fragmentation. Donors often do not know what to do with their funds.³² When the donor agencies come up with some projects or programmes in areas that need a co-ordinated approach by many agencies – like the development of SMEs or supporting the rural non-farm sector – they even face difficulty to find a “home” for their project in the government. The

²⁹ The outcomes matrix of the joint CAS does show the specific projects of the four donor partners that relate to the broad strategies.

³⁰ This is based on the actual utilization of aid and the actual spending under the Annual Development Plan as estimated by the IMED.

³¹ According to a top Bangladesh government official, “there is little incentive within the government to prepare aid-worthy projects, because the officials are used to spoon-feeding by the donors.”

³² The Australian aid agency was recently interested in providing funds in certain development areas, but did not know what to do as the ministries allegedly could not help them to prioritise the use of funds.

nature of the challenge in solving these problems has already been discussed in relation to PRS implementation.

What can the donors do on their part to improve the situation? While it is largely true that the government agencies lack capability, the way donors prepare their project proposals often leaves much room for improvement. Donor-designed projects also usually have the characteristics of a top-down approach that is inadequately informed by local knowledge of what works and what does not (this problem will be discussed in detail later). Often donor agencies tend to push the aid agenda of their headquarters or apply global templates in designing projects without adequate feedback about local cultural traditions and institutional characteristics. The extent of the problem depends on the complexity of the project and on the analytical capability and the autonomy of the local offices of the aid agencies.

The World Bank, for example, has arguably the best analytical capability and has the strongest local presence, but it has elaborate project implementation procedures involving the staffs at its headquarters or even regional offices. The DFID and the ADB have competent local staffs as well as a fair degree of autonomy. The options for the smaller bilateral aid agencies are perhaps to pool resources with other donors within SWAs or pursue relatively simple projects with a proven record. As it will be argued later, hiring expatriate consultants can hardly compensate for having in-house analytical capacity. As for the UN agencies, they normally pursue projects in line with their global mandates and using their worldwide experience, but their projects may be handicapped where adaptation to local conditions are needed (see the later examples).

It is now recognised that donors can improve their aid efforts by engaging with the civil society and by getting inputs from local expertise. Donors usually engage in consultations with various local stakeholders to get feedback on their country assistance strategies.³³ These consultations, however, are not usually meant for getting inputs for the design of specific

³³ See, for example, the World Bank's joint CAS (World Bank 2006, p. 63). This is true also in the case of the donors other than the "big four". The Swiss SDC, for example, uses the CPD, a local thin-tank, as a platform for consultations. The results of local consultations were included in an in-depth evaluation of the Netherlands' development programme in Bangladesh; see Netherlands Ministry of Foreign Affairs (1998), Reports 1,2 and 3.

projects. One of the “lessons learned” as mentioned in the World Bank’s CAS is the need for a “good local fit” for projects based on knowledge of local institutional capabilities and other ground realities (World Bank 2006, p. 63). Local experts could predict much ahead of donors that the SWAp in Bangladesh’s health sector, called HPSP, would not work because it was over-designed in terms of both institutional arrangements and resource needs (Mahmud and Mahmud, 2000). An unpublished completion report on the World Bank’s CAS (FY01 – FY04) found that most of the aid cancellations had been due to the need for project restructuring, pointing to the fact that the original project designs had lacked realism and institutional contextualisation.³⁴ There is a clear need for much deeper probing than is possible through the routine consultations of the usual format.

There are some examples of how such probing can help project design. The World Bank’s recently approved project for community-driven local governance – a theme much emphasised in the PRSP - is one such initiative.³⁵ Local governance has been on the priority list of reforms for a long time and the UNDP and other donor agencies have been piloting some projects in this area, providing the building blocks for larger-scale replication. The World Bank’s project has been designed to place block grants at the disposal of the *Union Parishads* to be spent through community participation. The risks are there, particularly regarding fiduciary accountability and capture by local elite; but the risks are being sought to be addressed by designing the project carefully through intimate interactions with the implementing government agencies, stakeholders and knowledgeable persons, as well as by taking advantage of the experience of the previous pilot projects. In doing so, getting feedback, say, through some brainstorming sessions and involving some civil society leaders in the design and monitoring of the project can do much more than setting up an elaborate formal structure of project support unit manned by expatriate experts. And this consultative process should continue into the project implementation phase as well, so that there is a learning-by-doing process in place and a visible mechanism of public accountability. Designing such a

³⁴ Interestingly, only 2 percent of the aid cancellations had been due to misprocurement, as reported in an unpublished annex to the Bank’s 2006 CAS document. For a discussion on the quality of the Bank’s portfolio performance in Bangladesh, see World Bank (2006), p.69.

³⁵ The project called Local Government Support Project will be funded by an IDA credit of about US\$ 100 million.

project, of course, requires a lot of initiative and imagination on the part of donor officials.

Another example is the proposed DFID-led project called PROSPER, which is aimed at supporting the development of micro-enterprises – again an area of emphasis in the PRSP.³⁶ The project will provide funds for scaling-up of micro-enterprises, thus trying to fill in the so-called “missing middle” between microcredit and formal bank lending. This is a challenging task involving risks and the project proposal has been revised several times through consultations among local aid officials and key stakeholders, policymakers and practitioners in this field. In contrast, an IFC-funded initiative, called SEDF³⁷, which is aimed at supporting SME development, has yielded very little tangible results beyond holding high-profile seminars and workshops; this is a project run by expatriate consultants with little effective interactions with local stakeholders. Its current mode of knowledge management seems unsuitable for the task given to it: finding effective institutional arrangements for promoting private sector development. However, the World Bank Group has now launched a multi-donor project for private sector development (the PSD Support Project) which looks more promising because of its close attention towards interacting with government agencies, building local capacity and understanding stake-holder interests and positions.

While donors can improve their project design by incorporating the insights of local experts and practitioners, the process can be taken even one step further, namely, by offering assistance to the government agencies for preparing the projects themselves. The government agencies can thus get access to the same sources of expertise and knowledge, including the expertise of the donor agency officials, and this will be in line with the true PRSP notion of “ownership”.

One problem in such an arrangement is incentive incompatibility within the donor agencies. The donor agency officials taking the initiative may not like to be denied their claim on the “ownership” of the project idea. This only confirms the complexity of the notion of ownership. On the government’s side, there is the usual reluctance or lack of initiative to use

³⁶ PROSPER stands for “promoting financial services for poverty reduction in Bangladesh”; this is a multi-donor project involving US\$ 73 in grants.

³⁷ South Asia Enterprise Development Facility.

expertise outside the government to prepare innovative project design. Another problem is that although the reform-minded agencies and elements within the government would welcome certain reforms that involve deviations from prevalent official practices, they cannot either put it into the project design without going through a lengthy process of government approval or would not want to be seen to be the advocates of such reforms.

However, there are ways for both sides to meet halfway. Donors can help the government agencies to propose the projects, leaving aside some difficult reform components; donors can then add these components during their appraisal as conditionality or “assurances” to be given by the government (the SWAp in primary education, PEDP II, has 33 such assurances). On the other hand, the government officials can put forward some aspects of the project design which they genuinely believe to be beneficial for the project, but about which donors need to be convinced. This arrangement has the added benefit of the donor agency officials being able to apply better judgment and more flexibility in interpreting the guidelines of their headquarters, because they are only reacting to a proposal of the government.

At the moment, almost all monitoring and evaluation of donor assistance in Bangladesh is by donors themselves, raising the question: who will monitor the donors? One of the key commitments made in the Paris Declaration is about “mutual accountability” between donors and the partner country. The Economic Relations Division (ERD) of the government, which is supposed to be the gatekeeper for the aid inflows, has very little capacity for such monitoring; they look into only some general rules and procedures for aid negotiations and do not have the confidence and capability to demand what frameworks or modalities for aid negotiations will suit the country’s needs. The government needs to have complete picture of donor activities in the country (which involves reporting obligations on the part of donors) and should be able to provide leadership in harmonising and co-ordinating donor practices and procedures. Any exchange of experiences of systems and procedures established in other developing countries could be helpful and the government could perhaps learn more from other beneficiary countries in this respect than from the development partners.

According to the Paris declaration, donor countries need to link their aid programming to partner country’s performance assessment frameworks, refraining from requesting the introduction of performance indicators that

are not consistent with the PRS. In this respect, the effectiveness of the proposed PRSP monitoring process will be crucial. While the annual or periodic reviews of progress in PRSP implementation will be primarily needed for the sake of managing the country's overall development efforts, such reviews can also be a basis for result-oriented aid negotiation. The newly established Poverty Monitoring Unit at the Planning Commission can also act as a depository of knowledge regarding the donor activities, particularly since there is a lack of institutional memory on the part of donors in this respect.

IV. What Can Donors Do Differently and How?

Changing Aid Ideas: Doing Aid in a Governance-Challenged Environment

Aid ideas have changed over the years, partly in line with changing aid faddism, but partly in response to genuine assessment regarding aid effectiveness. The concern for making aid as a vehicle for poverty alleviation has been always there, even when aid was primarily viewed primarily as a means for resource transfer to support economic development. But the experience of stabilisation and structural adjustment in the 1980s raised concerns about possible marginalisation of the poor and led to a reassessment of the role of the state, at least to give a "human face" to the market-oriented economic reforms. Subsequently, a broad consensus on goals for poverty alleviation and social development emerged in the 1990s in the form of the Millennium Development Goals (MDGs). Simultaneously, there was an emphasis from quantity to quality of development assistance arising from the belief that much of such assistance in the past had been wasted by the recipient countries. This new emphasis fits well with the "modified" version of the so-called Washington consensus that now incorporates institution-building and good governance as essential ingredients of the reform agenda. The PRSP initiative can be seen as the latest addition to these evolving aid ideas, particularly in respect of the emphasis on country ownership of reforms.

Development assistance to Bangladesh over the years has also been largely affected by these changing aid ideas. Thus the emphasis of aid has shifted to service delivery for the poor and infrastructure provision for rural development (Mahmud 2002a). Notwithstanding this shift in the aid portfolio, the overriding donor concern regarding Bangladesh is how to best

assist the country address its governance challenges. The underlying assumption is that the weaknesses of the institutions of economic and political governance reduce the country's aid absorptive capacity and keep economic performance below potential.

However, the response to the governance problem varies among donors in spite of their efforts to give uniform signals. Small bilateral donors have very little leverage in demanding better governance, while their aid headquarters go by the overall governance signals coming out of the country.³⁸ Moreover, they have the option to confine their aid operations to relatively narrow areas of their choice or can reduce the size of their country aid portfolio and shift aid funds to another country. For example, Bangladesh used to be the largest recipient of Danish aid worldwide in the early 1990s, but since then Bangladesh has been relegated to the 6th or 7th position.

The large donors such as the "big four" (World Bank, ADB, Japan and DFID) tend to have a different perspectives. Because of their relatively large aid portfolios, they have a larger stake in the country's overall economic performance and they can exercise enough leverage in effectively engaging with the government relating to policy reforms. But, their approaches have hardly been consistent over the years. The World Bank's volume of assistance to Bangladesh, for example, has gone through troughs and highs, which have much to do with the shifts in the Bank's strategy of how to deal with the country's governance problem. Thus, immediately before the Development Support Credits (DSCs) could be provided to Bangladesh in FY03, the Bank's aid pipeline to the country had become thin because of the Bank's increasing disengagement from a large number of sectors including infrastructure and energy, where progress in policy reforms had been lacking. More recently, however, the Bank has shifted its stance in favour of working from within critical sectors rather than disengaging from them while waiting for reforms to occur.

To determine performance-based allocations of IDA loans, the World Bank uses a numerical country rating system based on its Country Policy and Institutional Assessment (CPIA). Overtime, the assessment criteria have

³⁸ In this respect, local donor officials admit that Bangladesh's being repeatedly ranked as the most corrupt country by the Transparency International has had an adverse impact.

shifted from a largely macroeconomic focus to include more and more governance-related indicators; as a result the governance factor has now become the predominant determinant of country allocations. The CPIA has been criticised by experts for its excessive weight of governance that puts countries like Bangladesh at a disadvantage. But in spite of its low ratings, Bangladesh has not been able to fully access its IDA allocations because of the problem of identifying enough “viable” projects.³⁹ The challenge for the Bank officials and the government lies in finding aid modalities that can enable the country to fully utilise the allocations, while also trying to improve the country’s CPIA rating. Contrary to common perception, the Bank’s portfolio performance in Bangladesh is in fact found to be better than the average of South Asia (or that of IDA-only countries) in respect of the percent of project at risk or of completed projects with satisfactory outcomes.⁴⁰

By providing budgetary support through the DSCs, the World Bank has now been able to engage with the government across a much wider range of policy reforms. From the donors’ point of view, the logic of providing budgetary support in a governance-challenged environment rests on the premise that the risk of misuse of additional funds will be more than compensated by the improvement in the overall quality of resource management. But there is a danger of underestimating the political constraints while proposing a long list of reforms. According to the World Bank’s own assessment, the three-year reform programme proposed in the DSC did not reflect a realistic analysis of institutional constraints and implementation capacity, which made it unlikely that the programme could be followed through completely.⁴¹

In proposing governance-related institutional reforms, donors need to be patient and opportunistic in stead of having a preconceived ideal design. This needs flexibility in the donor-supported reform agenda, particularly in determining the time-bound “milestones” or indicators of progresses. As rightly pointed out in the PRSP, there needs to be a continuous search for

³⁹ Even then, Bangladesh remains one of the largest recipients of IDA loans; in FY 03, for example, it was in fact the largest IDA-only recipient and second overall after India.

⁴⁰ This refers to FY 05; see World Bank (2006), p.68, Table 6.

⁴¹ The assessment was undertaken by the Bank’s Quality Assurance Group (QAG).

finding appropriate “entry points” for bringing about incremental but strategic changes in the governance systems. For example, the enactment of laws for making public procurement more accountable or for promoting the right to information can potentially make a big difference across the board, although their initial effectiveness may be compromised by the vested interests trying to get around the laws. Many donor-supported institutional reforms could produce some results only after a prolonged period of experimentation. One such example is the recent reduction in power pilferage following the corporatisation of Dhaka’s power supply authority.⁴²

Donor support for improving the institutions of governance can hardly be effective unless there is a local demand for such support. Donor support can only be complementary to the government’s own efforts in implementing the reforms in governance, such as those proposed in the PRSP. Lessons should be learnt from the over one hundred donor-supported projects that are being currently implemented covering areas such as police, justice or anti-corruption. While donor support towards good governance is encouraging, the effectiveness of the above types of projects needs careful scrutiny.

The record of donor’s effort to build or support good sector-level institutions has been largely disappointing, excepting a few “islands of excellence” such as in microfinance (PKSF), rural infrastructure (LGED) and rural electrification (REB). In each of these cases, there was a confluence of many factors contributing to the success of the respective institutions such as strong leadership along with autonomy and ownership that provided a kind of “ring-fencing” from adverse outside interferences. There is also no guarantee that the so-called islands of excellence will continue to remain so. The REB, for example, has recently suffered serious setbacks because of politicisation of its rural co-operatives; but the rot is alleged to have really started from the top with changes in its leadership.

Appropriate designing of projects is important in addressing governance concerns. One such way is to build into project design mechanisms of accountability such as through contracting out services to the private sector,

⁴² While previous attempts to reduce the very high electricity pilferage failed to produce results, the recent performance of Dhaka Electricity Supply Corporation (DESCO) appears promising.

fostering collaboration between government agencies and NGOs and encouraging beneficiary participation; there are recent examples of applying these mechanisms successfully in Bangladesh. Donors face a problem of “moral hazard” in project design in trying to reduce aid delivery cost by relying on government systems while also addressing their legitimate concerns about leakage of funds due to corruption. An appropriate balance may be achieved sometimes by emphasising the mitigation of the fiduciary risks (through auditing and financial reporting) while avoiding micro-managing the projects through too many project support units.

There have been frequent cancellations of aid to on-going projects and premature termination of projects. Public monitoring of mutual accountability would be greatly served if donors and the government could agree to make the reasons of such actions public. It would help to create more awareness about the factors adversely affecting aid effectiveness and could thus better inform public discourse on the subject. After all, it is the ordinary people of Bangladesh who stand to lose most from any act of malfeasance in aid utilisation.

Some donors have preferred the NGO route of aid delivery, given the strong presence of NGOs in Bangladesh and their long experience in service delivery and community-based activities. For example, the USAID currently delivers almost 90 percent of aid through NGOs, European Union 45 percent and DFID 25 percent. While total grant aid to Bangladesh has been declining, the share going to the NGOs have increased very rapidly – from 11 percent out of US\$ 938 million in 1990-91 to 45 percent out of US\$ 690 million in 2003-04 (Bangladesh Bank 2006, p. 151). The donors face here a dilemma. On the one hand, given the inefficiencies of the government machinery, NGOs can be used for effective delivery of basic services. On the other hand, this approach is liable to have a disabling effect for the donor agencies in engaging in the governance debate regarding public service delivery. There is also an increasing recognition of the need for government-NGOs partnership and for ensuring better accountability of the NGOs, such as through strengthening local governance. It is important that donors coordinate their efforts in this area and do not act at cross purposes.

The changes in aid ideas, discussed earlier, have not always been entirely beneficial to aid effectiveness. The shift of emphasis to poverty alleviation

may have given rise to a kind of “aid populism”: aid has to be *seen* to be used for poverty alleviation. As directly targeted poverty interventions including service delivery for the poor were emphasised, investments in key areas like infrastructure, energy and technology development remained under-funded. While this shift was clearly visible in the World Bank’s global aid portfolio, this was accentuated in case of the Bank’s operations in Bangladesh for reasons mentioned above. This was, however, compensated to some extent by the two other big donors, the ADB and Japan, continuing to remain engaged in the above sectors.

There has been yet another more recent shift of donor emphasis in promoting human rights and good governance through NGO-led community mobilisation. Donor funding has undoubtedly played the key role in enabling NGOs to deliver effective services in such areas as basic health, informal education and microcredit. Whether donor-funded NGO initiatives can be equally effective in the above new areas of emphasis is yet to be tested. It is difficult to find measurable indicators to monitor the success of such initiatives; and this makes the problem of NGO accountability even more difficult. Moreover, since such activities can often take on the character of campaigns of political nature, the funding by donors may become a contested issue.

Using Local Knowledge More, and Technical Assistance Discriminatingly

The importance of incorporating local knowledge in project design has already been discussed. The fact that aid-funded projects and programmes remain primarily donor-driven and are prepared by donor agencies often limits the scope of their benefiting from intimate and grassroots level knowledge of local conditions. This is a major problem in making aid programmes more locally relevant, institutionally feasible, and cost-effective. A few examples from Bangladesh’s recent experience in this regard can amply illustrate this point:

- Donors may have a tendency to go for the universally accepted ideal technology, ignoring a lower-cost intermediate technology that is more readily adopted by local communities. For improving rural sanitation in Bangladesh, the Public Health Engineering Department was supported by the UNICEF to promote water-sealed fully sanitary latrines.

However, a lower-cost but usable technology of ring-slab latrines promoted by local entrepreneurs, combined with creating awareness about the value of better hygiene, has proved to be a much more effective means of improving sanitation in the initial stage. This is a solution based on the knowledge of what can be best achieved in the local conditions.⁴³

- The programme supported by UNFPA and WHO to train young women as skilled birth attendants (SBAs) is cited by many local experts as a case of policy failure.⁴⁴ This programme is alleged to have bypassed the task of technically upgrading the more culturally experienced traditional birth attendants (TBAs) located within the communities. The result is that the newly trained inexperienced SBAs find very little demand for their services.⁴⁵
- The UN agencies like UNFPA and UNICEF allegedly tend to ignore the importance of low-cost local solutions for reducing the maternal mortality rate (MMR) because of their global mandate for using the services of skilled birth attendants. Survey results, for example, show that there is ample scope for creating awareness about utilising the existing institutional capacities for antenatal care as a means of screening potentially complicated delivery, thereby reducing the MMR;

⁴³ This example has been mentioned in the PRSP document. See also, Rahman, Hossain Zillur (2006), p.15.

⁴⁴ Rahman, Hossain Zillur (2006), p.16.

⁴⁵ This, however, remains a contentious issue between local experts and UN officials; see the UNFPA's response to the draft version of this report and the comments by Dr. Zafrullah Chowdhury of Gono Shasthya Kendra (GK) at www.ergonline.org/cws/comments.htm. The UNFPA response mentions about the strong statistical relationship between MMR and the proportion of births attended by SBAs, as derived from cross-country comparisons. Such an estimated 'average' relationship is certainly useful, but there will be country-specific deviations from this relationship that are not necessarily due to random factors, but due to local factors. That is why results derived from cross-country data need to be combined with country-specific judgments.

and creating awareness for low-cost solutions is one thing in which Bangladesh does very well (Ahluwalia and Mahmud 2004). But the UN agencies often neglect to apply such country-specific insights.⁴⁶

- When lack of local knowledge is combined with donor ideas that are currently in vogue, it can lead to project design that cannot be implemented or can be even counterproductive. According to the “inclusion” agenda in the SWAp for primary education (PEDP II), indigenous or tribal children are to be given education through the medium of mother tongue (an internationally recognised best practice). However, there are about 30 tribal groups in Chittagong Hill Tracts, besides the *Chakmas*, who do not have a written language. Even those tribal groups who have their own scripts often prefer their children to be taught in Bengali, even though they would like their language and culture to be preserved.
- Another donor-supported item in the “inclusion” agenda of the PEDP II is to promote mainstreaming school enrolment of children with disability or special needs with other children. The ministry officials think that this is not a socially acceptable idea in Bangladesh and there are also practical problems related to provision of infrastructure suitable for physically handicapped children and the extra demand on teaching.⁴⁷ Even internationally accepted idea of “best practice” in this respect has shifted back and forth. Yet another “inclusion” agenda of the PEDP II is to attract to school children from poor and vulnerable groups; and the exact mechanism for achieving this objective is left for the expatriate consultants to find out (the project has provision for appointing such consultants).

⁴⁶ According to the results of the *Bangladesh Demographic and Health Survey 2004*, 63 percent of women do not know about the benefit of antenatal care and another 13 percent are not aware of the existence of the service. One successful home-grown programme for reducing maternal mortality is that of the Ganashasthya Kendra (GK) - Bangladesh’s world-renowned healthcare NGO. The programme uses the services of trained TBAs along with referral to the public health facilities.

⁴⁷ Under same-school enrolment, children with disability are found to drop out frequently because of teasing and bullying.

The above examples seem to give at least some credence to some of the common misgivings about the way aid agencies work. Donors are often accused of offering what they want to give, not what the poor can use. They design projects based on “right ideas”, without considering the country-specific institutional context. When no readymade institutional arrangement is found for achieving the project goal, the task is left for expatriate consultants, as if such consultants can readily transplant solutions from abroad. In the case of the PEDP II, the ministry officials, in fact, had no illusion about what the expatriate consultants could achieve. Instead, they have taken initiatives on their own to devise appropriate institutional arrangements to solve the above problems by using the expertise of their own officials and locally hired consultants.⁴⁸

There are, however, examples of successful innovative ideas coming from donor agencies. The World Bank’s recently launched project of community driven local governance has already been mentioned. Another example is the ADB’s Urban Primary Healthcare Project. It has built on the knowledge gathered from the ADB’s long experience in working with the problems of the urban sector in Bangladesh. The project is based on a partnership between NGOs and local government bodies (city corporations and municipalities) for improved delivery of primary healthcare including reproductive health.⁴⁹ Under the project, the service delivery is contracted out to NGOs through a bidding process; the corporations/municipalities provide physical facilities, medicines and equipment while the contracted NGOs provide service through recruitment of medical staff. There is both cost recovery and special targeting of the poor. The project has been so successful that it is now being expanded to more municipalities and the ADB has been joined by several other donors.⁵⁰

There are a few lessons to be drawn from the experience of the above project. The project was initiated on the basis of assessment that there was

⁴⁸ The ministry officials are considering, for example, the idea of school feeding to attract children from poor communities and setting up of boarding schools in the Hill Tracts region where the remoteness of settlements is the main constraint to schooling.

⁴⁹ The SWAp in health sector (HNPS) does not cover urban areas.

⁵⁰ The project started as a pilot for 2000-2005 and has now entered the second expanded phase.

both need and capacity for such a project and that there was strong support from the government. It could also successfully avoid some pitfalls. The original project design stipulated that the recruitment of NGOs would be through international bidding - a totally misguided policy for a country having such a strong presence of NGOs with experience in primary healthcare delivery. The donor officials were subsequently persuaded to go for local bidding. This crucial change in the original project design was possible only because of the pro-active role of some staff members in the ADB's local office and headquarters, who were familiar with Bangladesh. As a result of this change, the cost of the project came down significantly – since contracting out to foreign NGOs would have involved high overhead cost for management. Also, the project made very little use of expatriate consultants. There were two expatriate consultants both of whom performed very poorly, and one of them was subsequently replaced by a local consultant, which was possible only because of the flexible attitude taken by the concerned ADB officials. According to the current practice, changing or replacing consultants financed by external resources is beyond the authority of government ministries or agencies⁵¹

Lessons can also be drawn from the experience of the SWAp in the health and primary education sectors, mentioned earlier. The Health and Population Sector Programme (HPSP) was the first SWAp in Bangladesh - a World Bank-led multi-year programme (1998-2003) which was designed almost as a blue-print of the ICPD Programme of Action.⁵² It aimed at integrating family planning and reproductive health and promoting rural healthcare by setting up an extensive network of community-driven rural health centres across the country. The programme looked perfect on paper, but was unworkable. It lacked ownership and was clearly over-designed in terms of resource needs and the institutional arrangements, such as restructuring the entire health administration and mobilising community participation. Different donors promoted different issues, and exotic but mostly unworkable ideas were introduced by expatriate consultants.⁵³ At the end, thousands of newly constructed health centres remained unused,

⁵¹ See World Bank (2006), p.82, endnote 3.

⁵² The so-called Cairo Declaration of the International Conference on Population and Development held in 1994.

⁵³ Some academics, however, saw this as a merit of the project; see, for example Jahan (2003).

domiciliary family planning service was withdrawn without its being replaced by integrated reproductive healthcare, and both administrative restructuring and community participation proved unworkable.

A new SWAp for the health sector, called HNPSP (N added for nutrition), has recently been launched to cover the period 2005 – 2010. It is claimed that there has been more local participation in its project design, but it still appears to lack effective ownership. There is provision for setting up a number of project support units, which would be tantamount to running a parallel administration bypassing the government systems. The system of centralised bulk procurement through international bidding is found to be time consuming, and burdensome for small local purchases. As in the case of the HPSP, the choice of appropriate project managers remains a problem due to a strong doctors' lobby.

The design of the other SWAp in primary education led by the ADB (PEDP II to be implemented during 2003 – 2009) looks more modest and locally owned. It uses almost entirely the existing administrative set-up, with a much more sparing use of expatriate consultants (notwithstanding the problems discussed earlier). Interestingly, the donors' own progress report comments that the programme design does not have a sufficiently large team of international experts to turn the design into implementation. The ministry officials do point to the extra burden of work for implementing the programme, but they in fact claim to have bargained successfully with the donors to reduce international consultancy. In contrast to the health sector's SWAp, the procurement is decentralised and mostly local, although parallel procedures of the government and the donors have to be followed. The programme has the government's strong support along with a dedicated team of ministry officials that allows avoiding some governance problems through "ring-fencing" of its activities.

There are still some anomalies or ambiguities in the design of the PEDP II. The milestone indicators for evaluation, for example, remain contentious. The intermediate indicators like the increased numbers of trained teachers or the number of newly built classrooms or even the increase in enrolment may not fully capture the attainment of the ultimate goal, namely, the quality of learning. That goal may be compromised by the governance-related problems such as teacher absenteeism. This problem has recently surfaced in discussion on the effectiveness of the World Bank's worldwide

lending operations in promoting basic education.⁵⁴ The PEDP II proposes putting some funds at the disposal of the headteachers without providing for accountability. Regarding school construction work, however, the ministry officials have devised on their own a simple mechanism for ensuring accountability: public displaying of information regarding the construction work and permanent engraving of the name of the contractor and the date of construction.

The lesson learnt thus far is that, in spite of the many potential advantages of a SWAp, implementing such an approach is a very challenging task, particularly for the lead donor. Given the multiplicity of donors with their respective policy agendas and the weaknesses of the implementing government agencies, the efforts for coordination and harmonisation may prove difficult. Even in the case of the relatively modestly sized PEDP II, which really deals with a sub-sector (i.e. primary education), there are conflicts over reporting, disbursements and fiduciary requirements. Each donor seeks visibility for their own domestic reasons. There were 55 donor representatives in one mission, excluding the local donor officials, with the government fielding an equally large negotiating team to match the strength of the donor mission. The individual donors brought their own consultants even though the SWAp had been intended as a pooled arrangement. The success of SWAps in Bangladesh in the future will depend on more effective coordination among donors and avoiding the overdesign of programmes.

Even individual donor-funded projects may also sometimes be over-designed and too ambitious. In contrast to homespun institutional arrangements, set up by insiders in response to concrete needs, these projects seek to introduce grand social engineering that seldom works. The worldwide experience of such donor-driven projects is extensively discussed in a recent book by Easterly (2005). An example is the DANIDA's previous flagship project in Bangladesh known as *Noakhali Rural Development Project* implemented during 1978 – 1992. It was one of the largest projects implemented by DANIDA anywhere in the world and was at that time considered an excellent example of integrated rural development – an approach that was in vogue in the 1970s and 1980s. An in-depth ex-post impact study of the project by DANIDA found that

⁵⁴ See Banerjee, Cole, Duflo and Linden (2005).

although the project have had some beneficial effects on the region's economy, most of the goals including sustainability remained unfulfilled. Among the weaknesses specifically cited by the study were too much reliance on expatriate advisers and a top-down set-up bypassing the government systems.⁵⁵ More than 60 long-term expatriate advisers – most of them Danish – worked 2 -3 years each on the project.

There are other contemporary examples of donor-funded projects aimed at institutional innovations. With the change in aid ideas, the focus of these projects have of course changed to such areas as SME development, support for the livelihoods of the extreme poor and improving service delivery to the poor. The projects are certainly well-intentioned, but the key to success lies in finding sustainable ways of supporting homegrown ideas. Too many donors working in the same field in an uncoordinated way can also create problem by working at cross-purposes, and not in a way that reinforces the impact of one another. The DFID's *Chars* Livelihoods Programme, for example, is an ambitious approach to help the extreme poor. The DFID admittedly has long worldwide experience in such projects (DFID 1999). It is, however, not clear if this programme is being coordinated with other such programmes and whether there is not excessive reliance on expatriate consultancy.⁵⁶ Experience in Bangladesh shows that donor organisations can design projects better if they can draw up on in-house expertise instead of hiring consultants, perhaps because of the difference in the "reputation" incentives involved.

The foregoing discussion should not be taken as making a case against technical assistance (TA). In fact, setting an arbitrary upper limit to the proportion of project expenditure to be spent on TA, as is practiced by the ERD, may be counterproductive. There are very genuine needs for TA in Bangladesh in many areas, such as infrastructure development, product standardisation, technology transfer and export facilitation. Unfortunately, instead of being demand-driven, TA has been largely misused in the past.

It is understandable why donors often have to rely on expatriate consultants in their effort to micro-manage the projects. Even if this serves some immediate purpose in safeguarding project implementation, it creates

⁵⁵ See Ministry of Foreign Affairs, Danida (2002); pp. 33-34.

⁵⁶ The programme has allegedly a very large technical assistance component.

problems of sustainability by creating parallel structures. It is also most likely that the government agencies which need technical support most are also the ones who lack expertise in supervising the work of the external consultants and demand appropriate services from them. However, the effort to train local staff can be potentially very beneficial, and this aspect of TA needs careful consideration. In this respect, donors have genuine concerns about the deficiencies of the government's policies regarding training of officials, which render such training largely ineffective. One of the main issues raised in the Aid Governance Initiative of 2003, mentioned earlier, was the effectiveness of foreign-assisted training.

While there are areas where TA is genuinely needed, much of it has been intended to support the kind of social engineering that can hardly be achieved without home-grown ideas. At times, TA has been offered even to help the institutional development of microcredit in Bangladesh (which is like *carrying coal to Newcastle* or even worse). It may be noted though that the World Bank's large credit programmes for supporting the PKSF – Bangladesh's highly reputed organisation that fund microcredit operations of NGOs – have had never any provision for expatriate consultants. It is worth studying whether the aid industry built around TA has something to do with the white-colour job market and the employability of the potential consultants in their home countries.⁵⁷

V. Concluding Remarks

The report attempts to contribute to the development debate in Bangladesh by highlighting various aspects of recent aid experience relevant to the PRSP process. It advances certain propositions regarding the existing aid modalities by way of citing some rather randomly selected examples and cannot, therefore, claim to provide any comprehensive account of the issues covered. It is also admittedly “a snapshot of a moving target” – to quote from the comments by a donor official⁵⁸ - since these aid modalities have been undergoing significant changes in recent years.

⁵⁷ Griffin (1996, pp. 11-13) discusses how developing countries have received technical assistance that they neither wanted nor needed.

⁵⁸ See the comments by David Wood, country representative of the DFID in Bangladesh (www.ergonline.org/cws/comments.htm).

Since the mid-1980s, Bangladesh has had the experience of embarking on wide-ranging market-oriented policy reforms under fairly rigid aid conditionality.⁵⁹ Changing to a new mode of aid relationships based on policy ownership, result-orientation and mutual accountability will not be easy. Above all, it will require a change in the mindsets of both donors and the government. For example, until recently, one of the major donor concerns was how to provide *additional* funds to (donors') priority areas, since the government might divert its own funds to less-priority areas in response to the availability of foreign funds – the so-called problem of *aid fungibility*.⁶⁰ According to the PRSP process, the concern is now apparently the other way round, that is, whether donor support is sufficiently aligned to the country-owned public spending priorities. Even if the aid conditionalities now reappear in other forms, this represents a significant change at least in the outward form and format of donor engagement.

The true worth of the proposed new rules of engagement will be tested by how far the PRSP can go beyond the donor-driven agenda and whether the PRSP is seen as genuinely representing an overall national development strategy or merely as a vehicle for mobilising foreign assistance. These are also questions related to the “ownership” of the PRSP process. The aid dependence of Bangladesh has been declining fairly rapidly over the last two decades – with the ratio of gross foreign aid to GDP declining from around 8 percent in the late 1980s to the recent level of about 2 percent. The PRS process has thus been initiated at a time when committing to a national development agenda does not make enough sense if the purpose is to satisfy donor concerns alone.⁶¹ As the leverage of aid conditionality weakens, donors also need to look for other modalities of engagement. Increasingly, it will be difficult to assume that the *tail* of outside development assistance can wag the *dog* of domestic political economy. Viewed in this way, there are incentives on both sides for making the PRS process an effective one.

⁵⁹ Mahmud (2001), Chap. 3.

⁶⁰ In fact, one of the stated rationales for introducing the sector-wide approach in the health sector (the HPSP 1998 - 2003) was to ensure that an appropriate proportion of total public health spending would go to primary health care.

⁶¹ In this view, assessing progress in aid effectiveness can be seen as only a part of monitoring the implementation of the overall development strategy.

Moreover, Bangladesh has already gone through the initial phases of economic liberalisation and market-oriented reforms; the reform process has now entered a stage of learning-by-doing, where looking at the actual outcomes is at least as important for policymakers as understanding the ex ante rationale for reform. It is no coincidence that donors are now increasingly concerned about finding a “local fit” for their projects and programmes, while also taking advantage of their global experience.⁶² This calls for moving from predetermined aid conditionality to result-orientation – a move that is in line with the PRS process. It also calls for donors to be more accountable and to be able to benefit from lessons learnt from past experience.⁶³

Donors are also taking steps towards aid harmonisation. The effectiveness of such initiatives needs to be judged in the light of their actual contribution to reducing aid delivery costs or increasing aid effectiveness. It is well-known that donors do not always speak with one voice and they have different agendas to pursue. A single framework of conditions in a multi-donor approach can even be counterproductive by reducing flexibility in pursuing various developmental ideas and in resulting in too many conditions. The success of aid harmonisation efforts thus depends to a large extent on donors’ genuine commitment, along with finding trustworthy partners within the government.

There is no easy answer regarding how to do aid in a governance-challenged environment such as exists in Bangladesh. It should be noted, however, that in spite of governance-related constraints, Bangladesh has achieved notable success in accelerating GDP growth and reducing poverty.⁶⁴ Even far more impressive have been the improvements in social and human development indicators, particularly in respect of infant and

⁶² As part of this effort, some donors report that they are increasingly relying on local expertise in designing their projects and programmes: see the comments by Hua Du, Country Director at the Bangladesh Resident Mission of the ADB (see www.ergonline.org/cws/comments.htm).

⁶³ According to a donor official, the seminar to discuss the draft version of the present report was itself an example of “local mechanism” for ensuring joint donor-country accountability; see the comments by Christine I. Wallich, Country Director of the World Bank (see www.ergonline.org/cws/comments.htm).

⁶⁴ See the previous footnote no 10.

child mortality, female school enrolment and the adoption of birth control. It remains a puzzle how Bangladesh could make such remarkable progress in social development despite widespread poverty and poor governance in public service delivery. The early gains from the adoption of easy low-cost solutions, the contribution of NGOs towards raising public awareness, favourable budgetary allocations and donor support have all helped.⁶⁵ However, sustaining the positive trends in poverty reduction and human development may become increasingly difficult without larger social spending and a further acceleration in GDP growth. It needs also to be noted that the gross aid received by Bangladesh is much lower compared to the average of low-income countries both as a proportion of GDP and in per capita terms; and this disparity has been increasing over the years.⁶⁶ Yet, the country's aid-worthiness remains high in terms of the potential contribution of aid in removing poverty. It thus poses a challenge to the donor community to find ways of helping Bangladesh to achieve its development goals.

⁶⁵ On this, see Ahluwalia and Mahmud (2004) and Mahmud (2003).

⁶⁶ According to the World Bank's World Development Indicators, gross aid as percent of GNP in Bangladesh was 2.8 percent in 1998 compared to the average of 4.7 percent for all low-income countries excluding China and India; in 1993, the figures were 4 percent and 5.2 percent respectively.

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Annex

List of persons interviewed and those who provided comments on the draft report

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WAHIDUDDIN MAHMUD is Professor of Economics at the University of Dhaka and Chairman of Economic Research Group. He has held teaching and research appointments at Cambridge, IDS at Sussex, IFPRI and the World Bank. He is Chairman and a founder of the PKSF, an apex institution for funding the microcredit programmes of NGOs in Bangladesh. He has led many government committees including those for bank reforms and national income revision, and currently chairs a government-appointed independent committee for monitoring and evaluation of Poverty Reduction Strategy (PRS) and attainment of Millennium Development Goals (MDGs). Since 1993, he has been on the Board of Directors of Bangladesh Bank, the country's central bank. He was a member of the Caretaker Government of Bangladesh in 1996 in charge of the Finance and Planning Ministry. He has published on a wide range of topics in development economics.

