

# **Country Paper**

## **Aid Flow to Bangladesh and the Question of Accountability of CSOs at National Level to the People They Serve**

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Bangladesh, like other poor and less developed countries, has been a regular receiver of foreign aid or external assistance in order to lessen the gap between savings and investment and to mitigate the balance of payment deficit. However, there has been serious debate over the issues such as low performance in aid-utilization, donors' stringent and *one-size-fits-all* conditionalities and global aid politics that are believed to undermine the potential benefits that aid could have brought to the development scenario of the country. The apprehension over aid issues is felt in different countries around the world and also among the donors themselves. As a result, the idea of *aid effectiveness* has received increasing attention and importance in international discussions that generates hope that the international structure of aid would create sustainable development outcome for the poor countries.

This paper is divided into two parts. In the first part, a general description of aid flows to Bangladesh has been presented and in the second part, an attempt has been made to assess the donor support models for CSOs in managing aid at country level and the scope for ensuring their accountability to their primary constituents, i.e., the people they serve in Bangladesh.

### **A General Scenario of Aid flow to Bangladesh**

From 1972 to 30 June 2006, a total of about US\$ 53.93 billion of foreign assistance was committed of which about US \$ 44.83 billion of aid was disbursed. 44.74 percent of the disbursed aid was grants and 55.26 percent was loans. Aid is received from both multilateral and bilateral sources. The multilateral sources include World Bank (WB), Asian Development Bank (ADB), United Nations Development Programmes (UNDP) and other UN organisations. The bilateral donors include individual countries.

Bangladesh has received highest amount of its bilateral aid from Japan in terms of cumulative disbursement followed by USA. International Development Association (IDA) is the largest amongst the multilateral development institutions followed by the Asian Development Bank. From the following table it is evident that IDA contributed 32.27 % of the total aid disbursed between FY01-FY06, followed by ADB which contributed 14.95 percent over the corresponding period. Japan's contribution during that

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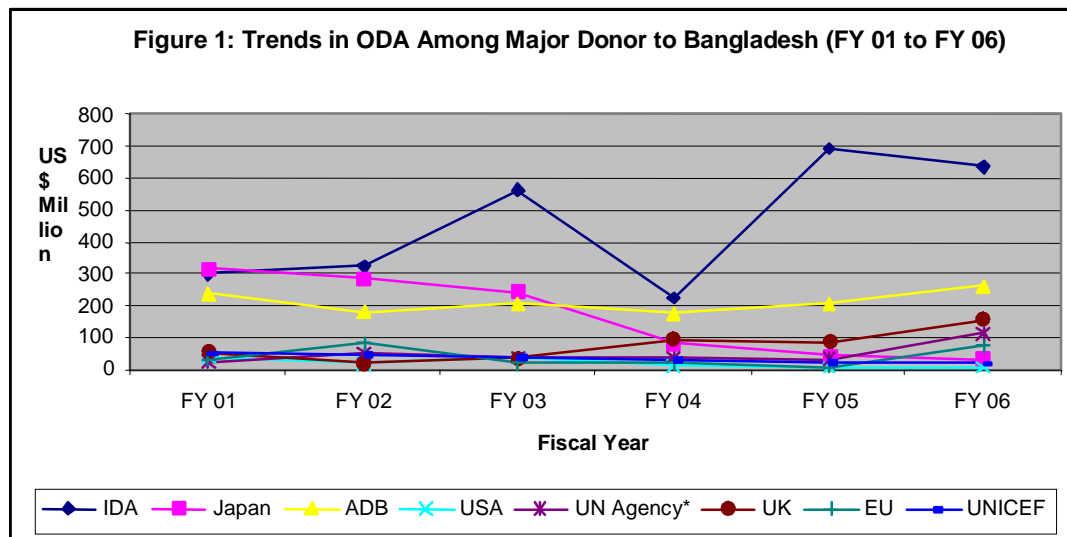
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period is 11.81 percent followed by UK (5.27%). However, from FY 04 UK has been the largest bilateral donor to Bangladesh (following figure and table).

Table 1 : Donor wise disbursement of Foreign Aid to Bangladesh

Donor	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	Total FY 01-06	% Of Total
IDA	298.82	323.39	560.88	225.22	696.34	635.33	2739.98	32.27
Japan	316.15	287.43	243.36	79.38	45.08	31.05	1002.45	11.81
ADB	235.68	182.01	207.12	171.97	208.28	264.56	1269.62	14.95
USA	39.28	19.49	34.7	12	7.75	3.95	117.17	1.38
UN Agency*	23.01	51.88	37.59	36.45	33.93	111.15	294.01	3.46
UK	53.29	17.57	40.46	93.81	85.21	156.8	447.14	5.27
EU	32.3	80.18	19.28	21.17	7.87	72.65	233.45	2.75
UNICEF	49.22	46.38	38.69	29.63	25.19	18.09	207.2	2.44
Total	1368.43	1434.99	1585.03	1026.9	1507.23	1567.64	8490.22	100

\*except UNICEF



Source: Bangladesh Economic review 2007

### Trends in Aid flows to Bangladesh

There has been a significant change in the composition of aid to Bangladesh over the years. The key features of the changing trend has been summarized below.

- **Grants and Loans** The Share of grants has been decreasing steadily over the past few decades. The share of grants which was 89 percent in 1971/73 has reduced to only 31.9 percent in 2005/06.

**Table 2**

Year	Grant as a share of total Aid Package
1971/73	89.0%
1979/80	53.2%
1984/85	55.4%
2005/06	31.9%

Source: ERD, Ministry of Finance,2007

The declining volume of grants resulted in a larger share of loans in the total aid package.

- **Bilateral Aid and Multilateral Aid** Bilateral aid has shown a declining trend whereas multilateral aid has increased positively over the years. Bilateral aid that was 75.4 percent of total aid in 1973/78 has declined to about 43.8 percent in 2004/05. Multilateral aid, on the other hand, has grown from 24.6 percent to about 56.2 percent in 2004/05.
- **Food Aid and Commodity Aid** The flow of food aid and commodity aid has shown a declining trend.
- **The Project Aid** The project aid has increased sharply from 1.3 percent of total aid in 1971-72 to 93.8 percent in 2005/06.

**Table 3**

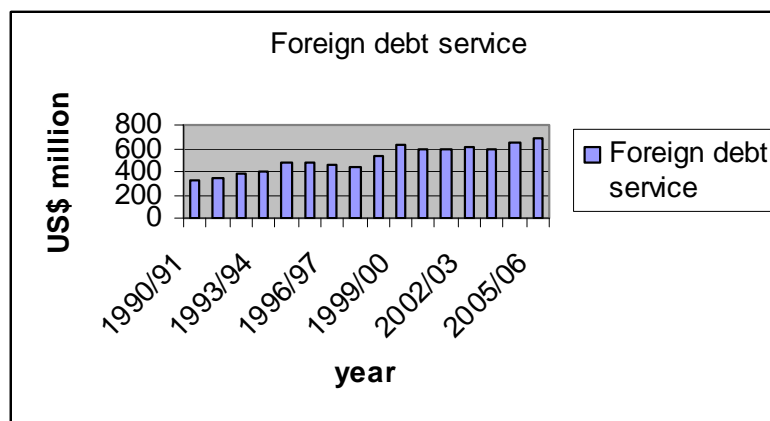
Year	Food aid as percentage of total aid	Commodity aid as percentage of total aid	Project aid as percentage of total aid
1971/72	47.9%	50.8%	1.3%
1977/78	21.3%	45.6%	33%
1984/85	19.5%	34%	46.5%
1989/90	10.4%	25.2%	64.4%
1994/95	7.9%	19.1%	73%
1999/2000	9%	17.8%	73.2%
2005/2006	6.2%	0%	93.8%

Source: ERD, Ministry of Finance,2007

- External Debt** As the ratio of grants in the total aid has been declining with respect to both commitment and disbursement, the aid flow is contributing to mounting external indebtedness. the total public sector external debt has increased from US\$ 973.8 million in 1974/75 to about US\$ 19.420 billion in 2005/06. The total debt service payments have increased considerably in the past ( as can be seen from the table 4 and the graph). The increasing external debt along with expiry of grace periods and unfavorable exchange rate movements has resulted in increased external debt service.

**Table 4**

Year	Foreign debt service
1990/91	317.2
1991/92	336.6
1992/93	374.4
1993/94	402.2
1994/95	467.9
1995/96	469.2
1996/97	463.2
1997/98	443.9
1998/99	538.9
1999/00	619.1
2000/01	596.6
2001/02	586.3
2002/03	608
2003/04	588.7
2004/05	655.3
2005/06	678.1



Source: ERD, Ministry of Finance, 2007

- Per capita debt obligation** of the country has risen from US\$ 6.59 in 1973/74 to US\$ 139.91 in 2005/06. The reduction of the share of the grants in aid package and the rise in the volume of external borrowing have contributed to the increasing growth of per capita debt obligation.

## **CSOs at Country Level – the Bangladesh Case**

The term ‘NGO’ is often used synonymously in Bangladesh instead of ‘CSOs’ in the literature and in verbal conversation. However, some say that there are differences between these two terms. They argue that social mobilisation for advocacy or for influencing the state either in terms of improving its institutional capacity or effectiveness of its policies is one of the key objectives of the CSOs. NGOs, on the other hand, are linked with activities or projects that are backed by donor funding and ‘professional’ management capacity in the organisations. However, nowadays, the broader definition of civil society covers a wide range of organisations including NGOs, universities, research organisations, labour unions and so on.

### **CSOs and Foreign Aid**

According to the NGO Bureau of Bangladesh, there are 2,320 registered NGOs in Bangladesh that receive foreign funding support and the big 20-22 NGOs receive 90% of the total funding. According to a World Bank estimate in 2005, the total aid to NGOs in Bangladesh that includes country supported programmes, rose from USD 232 million (0.7% of GDP) between 1990-1995 to USD 320 million (0.7% of GDP) between 1996 and 2004 while total aid to Bangladesh as a whole fell from 4.9% to 2.9%. The share of aid to NGOs as a portion of total aid to Bangladesh has hence increased from 14.4% in the first half of the nineties to 24.5% in the current years. During the past three years, the studies indicated that there has not been a significant change in aid flows to NGOs. This means that whereas the overall aid to Bangladesh, as a component of GDP has decreased, the proportion of aid that is provided through NGOs has remained the same. In other words, the decreasing proportion of aid to Bangladesh has not resulted in a fall of aid flow to the NGOs. Over the years it has been seen that the nature of donor support has been to support NGO activities as another mechanism for reaching greater numbers of poor people than focusing on the state.

With a very few exception, the CSOs in Bangladesh generally have played a significant role in country’s overall development. Moreover, one of the valuable contributions of these organisations is that they played a role to make people aware and informed of issues that are directly related to people’s welfare such as the implications of aid conditionalities, donors’ stand, the importance of the terms of production sharing contracts in the energy sector, governance, human rights, international geo politics and so on. Over time, the institutional capacity of these organisations have developed to a great extent and now a days they are more organised than before. There are many civil society organisations who have strong voices over these issues and have built up a standing that took them to a position where the government has to take their views seriously. For example, when IMF officials came to Bangladesh recently to convince the government to sign PSI (Policy Support Instrument) agreement , the CSOs have shown a strong standing against such agreement and argued that it would hinder the policy sovereignty of the country. The arguments against PSI on why the government should not go for it

were widely publicized and in the end, the IMF officials had to leave the country without signing the agreement. There are other incidences where strong voices of the CSOs have contributed to the preservation of people's rights. However, it is unfortunate that the donor support models for the CSOs that we have now in Bangladesh, do not have the inherent mechanism in them that can guarantee their accountability to the people they claim to work for.

### **The Issue of Accountability of the CSOs at Country Level**

The National CSO Policies are made to ensure accountability of the CSOs at the country level. A lot depends on how effectively these policies are implemented and how well they address the existing problems with respect to the accountability issue of the CSOs. Besides, to see how accountable the CSOs are to their primary constituencies, it is also important to look into the issue of how CSOs get donor funds in Bangladesh and see if there is any scope in these models to establish accountability of the CSOs to their primary constituencies.

### **National CSO Policy in Bangladesh**

The formation of NGOs are allowed in Bangladesh under *the Societies Registration Act of 1860, Trusts Act of 1882, the Companies Act of 1993 (amended 1994)* and several other laws that date back to 1962. Under these regulations, NGOs are mandated to register with either the Voluntary Social Welfare Agencies (if they are formal or informal organisations for providing services to youths and children) or the Foreign Donations Regulation (FDR) of 1977. The FDR bars the execution of any voluntary activity using foreign donations unless the NGO is registered with the NGO Affairs Bureau. It is further reinforced by the Foreign Contributions Regulation (FCR) of 1982 that covers every kind of contribution from abroad. The NGO Affairs Bureau (NGOAB) was established in 1990 in the Prime Minister's Office to implement the FDR and FCR for all NGO registrations and the approval of NGO projects which involves foreign donations or funding. This registration is valid for five years. However, it requires audited annual accounts every year. For each grant, the NGO has to submit the proposal (re-written into the forms that the NGOAB uses) and the letter of intent from the potential donor. However, studies show that regulatory framework often does not match with the reality of growth and changes in the dynamics of the NGO sector in Bangladesh. This creates inherent tensions in relations between government and NGOs. The NGO Bureau regulation, although acknowledged to be an improvement over the pre- 1990 practice where NGOs had to submit project proposals to all relevant government ministries, is not free from criticism. One problem with the present regulatory framework is that it does not allow the registration of intermediary organisations as NGOs. Only those organisations that directly work with the poor and disadvantaged people may have registration with the Bureau. That is, the intermediary organisations have to be registered under a separate act. This may have negative implications on the 'increasing outreach to a wider range of CSOs' aim of the Nordic+ donors. Furthermore, the Local

Consultative Group (LGC) of donors study on the legal and regulatory environment for NGOs in Bangladesh identified issues of political activities, income generating activities and lack of clear accountability and internal governance rules for NGOs as the major impediments to progress in the current regulatory environment. Capacity limitations of the NGO Bureau is also a problem since there is only one office in the country (in geographical terms) handling all NGO applications as well as monitoring the use of foreign funds in the actual implemented projects. Therefore, there should be branches of NGO Bureau at least at district level in order to reduce the transaction costs for NGOs based outside Dhaka.

### **Donor Support Models for Different CSOs in Bangladesh**

On the basis of the nature of donor support to different local NGOs/CSOs, the donor support models generally fall into the following categories -

- Direct Support-core funding
- Direct Support-Programme/ Projects
- Support through intermediary
- Joint Fund/ multi-donor support

Some of the key characteristics, advantages and disadvantages of these models identified by different studies are summarized below.

#### **Direct Support – Core Funding**

This kind of funding model is often used where the objective of the donors is to strengthen the CSOs with a good track record in research and advocacy. CSOs with credibility and good reputation usually get core funding since donor wants to take advantage of their reliability and their existing management capacity. Studies show that in Bangladesh, the big NGOs with which donors have developed long term relationships usually get this kind of funding. Transaction cost is comparatively low for both the CSOs and the donors due to direct interaction between them. CSOs usually enjoy flexibility in setting their own agenda and in the implementation of their programmes. From donor perspective, a long term relationship with a local CSO can be a good learning experience for them as well.

Core funding might give rise to complacent and elitist NGOs and the selection process may not be transparent from both donors and CSOs perspective. As a result, **this kind of funding does not guarantee CSOs's accountability to the people.**

## **Direct Support – Programme/Projects**

This kind of model allows direct promotion of CSOs around some themes such as gender. It can ensure high accountability to the donor if donors have the capacity to monitor. It is also found to be good for time-limit aspects of development programming.

However, the disadvantages of this model include

- High transaction costs for donors and also for small CSOs
- Mostly short term relationships that provide limited learning opportunities for both CSOs and donors
- there could be so many projects under one donor that lack coherent impact, unless the donor is strategic enough to design an effective policy.

**No direct mechanism to ensure accountability to the people**

## **Support Through Intermediary**

This model provides greater attention to inclusion of smaller CSOs through a banding approach to funding. Examples include *Manusher Jonno Foundation (MJF)*.

The advantages of this model include

- Capacity to offer a compact CSO/NGO servicing
- Detailed responses to CSO proposals that may allow incremental improvement in quality of grants
- Capacity development using tailor-made approaches suitable for different levels of CSOs and phases of projects.

However, the disadvantages of this model identified by studies are as follows

- This kind of model is prone to creating a bureaucracy since CSOs trying to get access to donors have to go through the intermediary
- Many CSOs can in fact lose their priority areas in an attempt to secure funding by relating to the thematic credibility criteria.
- Conflict of interest may rise among the intermediary and the CSOs if the intermediary is engaged in both capacity building and offering grants. Moreover, there is possibility that local foundation staffs become biased against or towards certain NGOs/CSOs

**The issue of accountability to the people has not been given a priority.**



### **Joint Fund/ multi-donor support**

This kind of funding model requires one report and one audit for all donors, with a few additional provisions for specific donors. Thus, it reduces CSOs' transaction costs. Studies found that it is conducive to coordination and harmonisation objectives of the donors. However, for CSOs, getting funding is exposed to risks as all donors have to be kept satisfied.

**Accountability to donors is guaranteed in this model. However, it does not guarantee accountability to the people.**

### **Conclusion**

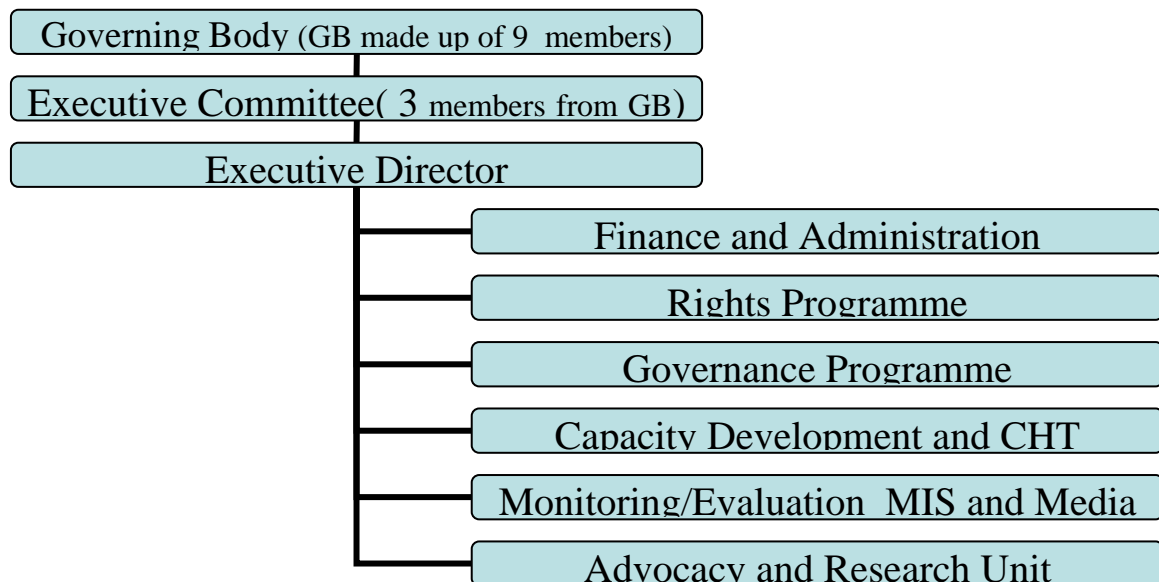
Neither of the donor-support models have the mechanism inherent in them that would make the CSOs accountable to the people they serve. The National CSO policies are also not effective enough to ensure accountability of the CSOs to the people. In order to ensure true accountability of the CSOs to the people, we need the formation of a democratic society where the parliament reflects the true representation of the people. Only in that case, the government would act in the interest of the citizens, would take pro-poor policies that are necessary for a poverty free and equitable society where people would have the chance to live a life that they have reason to value.

## Case Study: *Manusher Jonno* from Bangladesh

Manusher Jonno is a multi-donor intermediary organization. It started as a project funded by DFID in 2002 with the name Human Rights and Governance (HUGO). This project was developed as a local funding mechanism in order to support work on governance and human rights issues in Bangladesh. The fund was led by a consortium led by CARE. A steering committee used to supervise the funding criteria.

Manusher Jonno became an independent locally led institution in 2006 and registered with the Joint Stock Company as a company limited by guarantee. This time, it changed its title to Manusher Jonno Foundation (MJF). The steering committee became a Governing Board which aimed at providing guidance and oversight.

### The Structure of MJF



### Aim of MJF

According to MJF's 2006 Annual Report (published in 2007), the aim of MJF is 'to make poor women, men and children more able to achieve their civil, political, economic and social rights and to improve their security and well being'. As an intermediary organization it intends to achieve this goal

- by channeling funds to NGO partners
- by facilitating and providing technical support to networking and advocacy
- by monitoring governance and human rights viewpoint of the country
- by publishing information for public use

## The Unique Nature of MJF

MJF is unique in combining a traditional donor or funding role with that of an NGO in organizing the civil society around a specific development goal. As a donor, it provides two rounds of funding every year and applies stringent criteria with respect to content and financial eligibility. Proposals are judged on the basis of ten thematic areas (see table 1) and funding is organized in such a way that allows smaller NGOs to compete for funds.

Table 1: Programmatic Outreach of MJF as at June 2007

<b>MJF Support in Programmatic Areas</b>	
<b>Programmatic Areas</b>	<b>No. of Projects</b>
Violence Against Women	20
Rights of Marginalized and Poor	34
Worker Rights	16
Access to Justice	7
Child Protection and Development	14
Right to Information	7
Improving Local Governance	9
Governance Performing Monitoring	7
Socio Economic Development of Chittagong Hill Tract	9
Others including Corporate Governance	4
<b>Total</b>	<b>127</b>

MJF channeled about £ 13.5 million to CSOs as upto 2007. From 2007 MJF started to secure support from other donors such as Royal Norwegian Embassy.

### **Achievements so far**

Manusher Jonno had so far made valuable contribution to the society. Some of its achievements through its funded projects include

- submission of draft law on domestic violence to the Law commission
- settlement of legal claims of some marginal groups on government lands
- incorporating disability into the PRSP
- enabling marginalized people to access legal aid funds.

### **The Accountability Issue**

However, it is not clear how this organisation maintains its accountability to the people. So there should be studies on how we can develop mechanisms that can make intermediary organisations such as this one accountable to the people they serve.

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