



Recalibrating Development Cooperation Strategies of Bangladesh: Role of the ERD in the Evolving Landscape of Official Development Assistance (ODA)

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Disclaimer: The views and opinions expressed in the article are of the author and should not be construed as representing positions of the GOB and the Economic Relations Division (ERD) on matters relating to external economic cooperation.

Introduction

Bangladesh's growth and development journey during the last decade has been nothing short of phenomenal and awe-inspiring. The so-called phenomenon of "Bangladesh development paradox" is referred by many to explain the country's chequered development progress. After independence, many Cassandras started calling for a hopeless future for the country that just got its independence in 1971 after a glorious liberation war but lacked resources and favourable conditions - low physical and human resources, low income, large population with high density, natural calamities - to rapidly develop itself. Some people in the west even portrayed Bangladesh as a basket case with no chance to survive as a respectable nation. Defying all the odds and doomsday projections, Bangladesh has held its head high in the comity of nations with remarkable achievements in economic growth, social sector development (education, immunization of children, reducing maternal mortality during birth), quadrupling of cereal production in 4 decades, women empowerment, phenomenal export growth, and a strong labour force participation by the women. This remarkable tale of a nation's journey from hunger, death, extreme poverty and hopelessness in the immediate aftermath of independence war to achieving a per capita income of USD 2,554 in 2021 (using FY 15-16 as the new baseline for estimation) and the likely exit from the LDC group in 2026 speaks volume about the resilience and strength of the economy and people of Bangladesh.

Bangladesh received the UN MDG Award for its commendable progress on achieving the MDG goals, particularly for reducing child mortality. The country is also doing its utmost to attain the relevant SDGs by the year 2030 with strong political commitment of the top leadership. The development partners have worked closely with the GOB to embed the relevant SDGs in the national development plans as also supporting implementation of the same. A high-level body, headed by the SDG Coordinator of the Prime

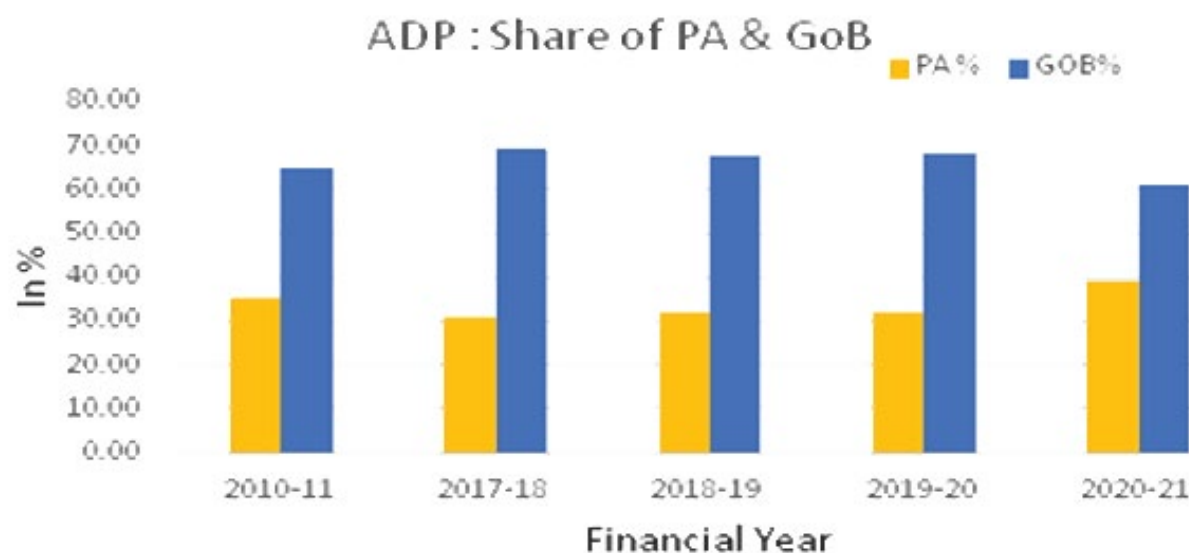
Minister's Office, is there to monitor implementation progress of SDGs. Bangladesh is aspiring to be in the leagues of Upper Middle-income Countries and Advanced Countries by the years 2031 and 2041 respectively. These are bold and ambitious goals, particularly reaching the developed country position with at least per capita income level of over USD twenty thousand in twenty years' time, given the need for huge structural transformations, economic diversifications, and technological prowess for such a transition to occur. The GOB has adopted a Perspective Plan (2021-41) which outlines the strategies and policies for making the desired transitions to higher development paths. Strengthening of institutions (economic, political and legal) to make them effective, inclusive and accountable, augmenting domestic supply capacity, development of human resources, technological upgrading, and enhanced administrative capacity will be critical to realize the dream of Bangabondhu Sheikh Mujibur Rahman, the Father of the Nation. The Development partners of Bangladesh -bilateral and multilateral- are required to be strategic partners in this endeavour.

Bangladesh's stellar development performance in terms of high GDP growth of nearly 7% in the last decade in conjunction with policies for social and economic inclusion of the poor enabled rapid reduction of extreme poverty to 11.3% in 2018. This is remarkable for a country when in the early 1970s poverty was widespread with head-count poverty hovering around 80%. To make the economic growth more inclusive and sustainable, Bangladesh would need to pay more attention to poverty-focused public expenditure that creates greater opportunities of social mobility for the poor and underprivileged groups. Climate proofing of the development pathways through investing at scale in climate change adaptation and mitigation investments is an imperative that will need support from both domestic and external sources. Inability to mobilize domestic resources at a level commensurate with the country's growth performance has had the effect of engendering a constricted fiscal space for the GOB. The Covid19 induced economic disruptions have also negatively affected revenue collection. Limited fiscal space is preventing public investment at scale on technology development, physical infrastructure, and social sectors that are needed to reach the Middle-income Country and Developed Country positions by 2031 and 2041 respectively. Debates about contributions of foreign assistance in boosting economic and social development of Bangladesh and its future role in a post-LDC world, where growing reliance on exports and remittances are expected to play catalytic roles as drivers of growth, remain as intense as ever.

Foreign Assistance and National Development

The role of foreign assistance in promoting development in developing countries has historically been a subject of intense debate. Globally, the train of thoughts on the role of foreign assistance in national development ranged from "development pessimism" (Milton Friedman, 1960; William Easterly, 2008) to "growth optimism" (Jeffrey Sachs 2012). The importance of and necessity for foreign financing of socio-economic development efforts is also a hot button issue in political, social, and academic circles in Bangladesh. The general "perception" of foreign assistance as serving the interest of providers and its small contribution in financing budget deficit relative to the size of the GDP (1.6% of GDP in FY 2019-20) predisposes some people to view foreign assistance as having a limited role in national development of Bangladesh. But, a considerable group of thinkers and researchers think that in the presence of low domestic resource mobilization, foreign assistance, willy-nilly, has enabled investments in physical and social sectors laying the foundation for future growth. Figure-1 shows the relative shares of foreign and domestic resources in the Annual Development Program (ADP) of the Government of Bangladesh (GOB). The rising trend of foreign financing of ADP is evident as it reached forty percent in the FY 2020-21.

Figure- 1 Share of domestic (GOB) and external financing (PA) of the Annual Development Program (ADP)



Source: Foreign Assistance Budget Accounts (FABA), Economic Relations Division, MOF

Foreign Assistance: Boon or Bane?

From Deification of Foreign Assistance to Disparagement of Assistance

In the absence of strong empirical data, it is difficult to draw definite conclusions on the growth-promoting role of external financing for socio-economic development of Bangladesh. One empirical study (Khatun, F, Sadaat SY, and Kamruzzaman, 2019) finds no strong links overall between growth and foreign assistance in Bangladesh. But a disaggregated analysis showed that social sectors, particularly health, have benefitted immensely from external financing in the presence of a tightened fiscal space for the GOB. It is true that foreign assistance in Bangladesh has not been able to help bring fundamental shifts in the ways institutions function in the country which needs engagement with powerful actors in multiple domains and levels over a long period of time. As a rule, development assistance programs don't get entangled with political economy aspects of national policies and programs and are content with demonstrating results that are visible and earn laurels for good performance. This modus operandi of the DPs does not justify the required prolonged engagements in socio-political and cultural areas required for bringing the desired changes in the working of the institutions in Bangladesh.

Institutions (economic, judicial, law enforcement, and bureaucracy) embody formal and informal rules, norms, and cultural behavioural patterns that influence actions of the actors in a particular context. There may arise discrepancies between formal rules and regulations (form) and the actual workings (substance) of an institution when the former collides with the entrenched world view, values, norms, and beliefs of the dominant forces and the institutional actors in the society. Changing the institutional dynamics to make them open, transparent, accountable and transforming weak capacity into bureaucratic effectiveness will require a long-term engagement. The objective should be to stimulate demands for better institutions and governance. Expanding education and encouraging people's participation in the governance process at national and local levels have been found to be effective in building the right kinds of institutions in developing countries like Bangladesh.

Lower priority given to institutional dynamics in program designing has created a gap between the stated program objectives and actual implementation. Two such examples consist of funding for capacity building of civil servants amidst an institutional setting that rewards groupthink, don't encourage strong links between job description and job specifications, and career paths remain unpredictable. The second example relates to programs and projects to encourage participation of the poor and marginalized groups in local development efforts without influencing the power dynamics, the balance of power between the groups, and the cultural values of the elites. As a result, participation in local decision-making has happened in form only but not in substance implying that empowerment of marginal groups in the society could not have taken deeper roots.

Development partners, particularly, the IFIs, insistence on policy conditionality for budget support/sector program support in the 1980s and 1990s also could not be sustained since the imposed conditions and the actions required to fulfill those conditions in most cases went against the dominant institutional values and cultural norms of the political, bureaucratic, and social actors. Moreover, limiting and steering those initiatives only through a handful of senior political and administrative leaders without taking the front-line bureaucrats on board (who are responsible for implementation) could not generate much enthusiasm for implementation of those reform proposals.

Development partners should also take some responsibility for supporting the assistance effectiveness agenda in Bangladesh in a desultory fashion. Harmonization of donor activities, alignment of donor policies and practices with the national system (procurement and public financial management), and establishing effective national ownership of the development agenda and over the foreign assistance delivery system are still a far cry from the principles agreed globally at various forums. Another issue - the problem of attribution- also complicates any rigorous assessment of impacts of foreign assistance on socio-economic growth including on poverty reduction. This is mainly because foreign assistance constitutes only a part of resource flows, others being GOB resources, local government investments, as well as private investments for health, education, skill development and entrepreneurship, that go into shaping the outcomes of the programs and projects for poverty reduction, income growth and socio-economic development.

Swings and Roundabouts of Foreign Assistance :

Benefits of Foreign Assistance outweigh the Cost: the Case for Effective Utilization in Priority Sectors

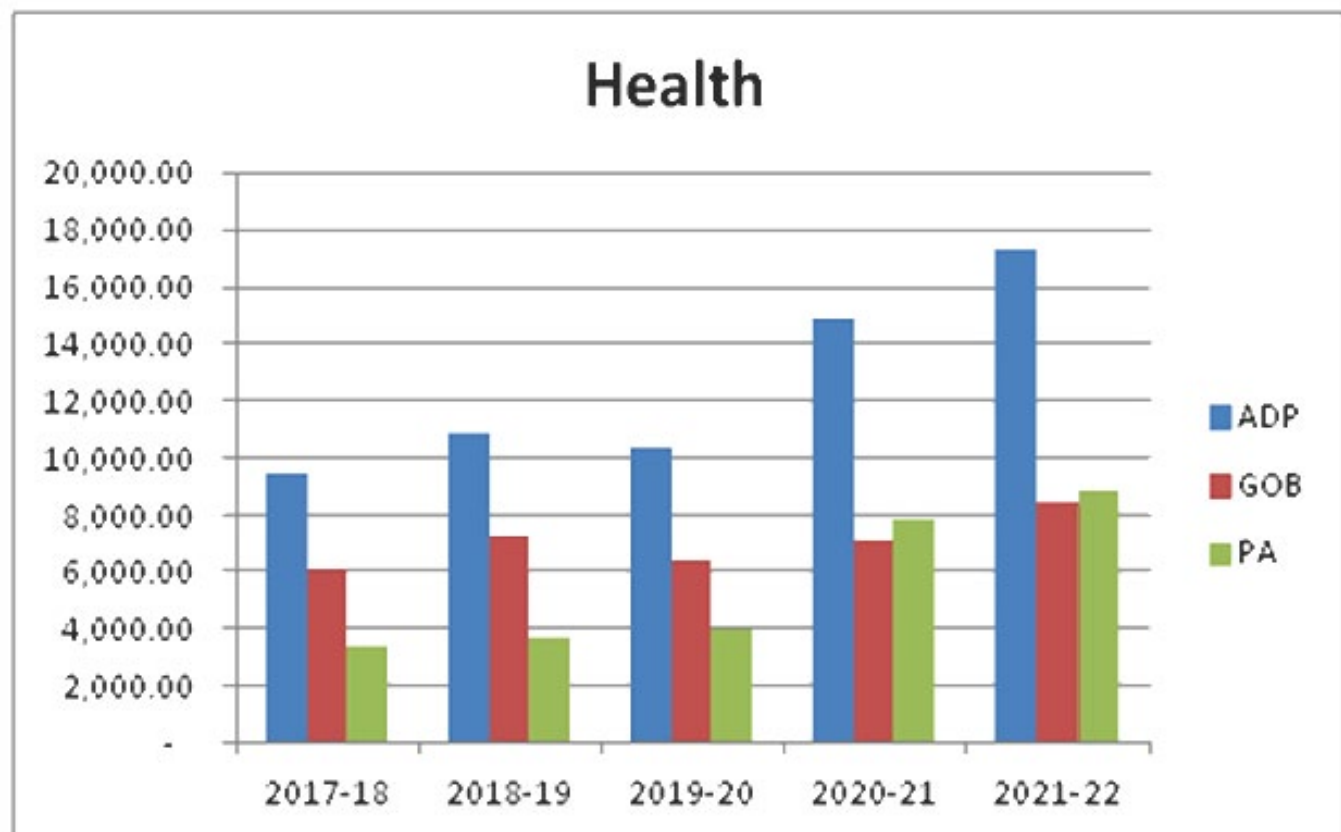
Despite some of the shortcomings that permeate the foreign assistance regime in Bangladesh, it is evident that the benefits accruing to the country from foreign financing far outweighs the gaps mentioned above. In addition, inadequate mobilization of domestic resources that compel public borrowing from different sources makes the current debate over foreign assistance's role in Bangladesh somewhat anachronistic. The discussion below will help to gauge the true import and contribution of foreign assistance broadly termed as Official Development Assistance (ODA) to the national development of Bangladesh.

Foreign assistance

(i) has tended to fill the gaps in the domestic resource mobilization that has enabled critical investments in some of the important areas of the economy. This is evidenced by the fact that during the last 10 years (FY 2010-11 to 2020-21) the average share of development support by foreign partners constituted 32.54 % of the ADP. Like it or leave it, the fact remains that nearly one-third of the yearly development expenditure of the GOB in the last decade has been financed through ODA provided by the development partners.

(II) Foreign assistance has been used for the critical sectors, among others, in roads, bridges, power generation, transmission and distribution, development of ICT infrastructure, health, education, social safety nets program, and budget support for the GOB. Figure- 2 below shows contributions of foreign financing of the health sector in Bangladesh. Foreign assistance has bankrolled significant parts of public expenditures in the health sector and contributed nearly 53% of public expenditure in FY 2021-22 ADP. Foreign funding of the primary education sector program of the government has supported expanding education opportunities for the children from poor and marginal groups. Technical and vocational education has helped to focus attention on skill development by exploiting the linkage between the accumulated skills and job market demands.

Figure- 2 Share of foreign assistance in Health Sector Expenditure of Annual Development Program, FY 2021-22



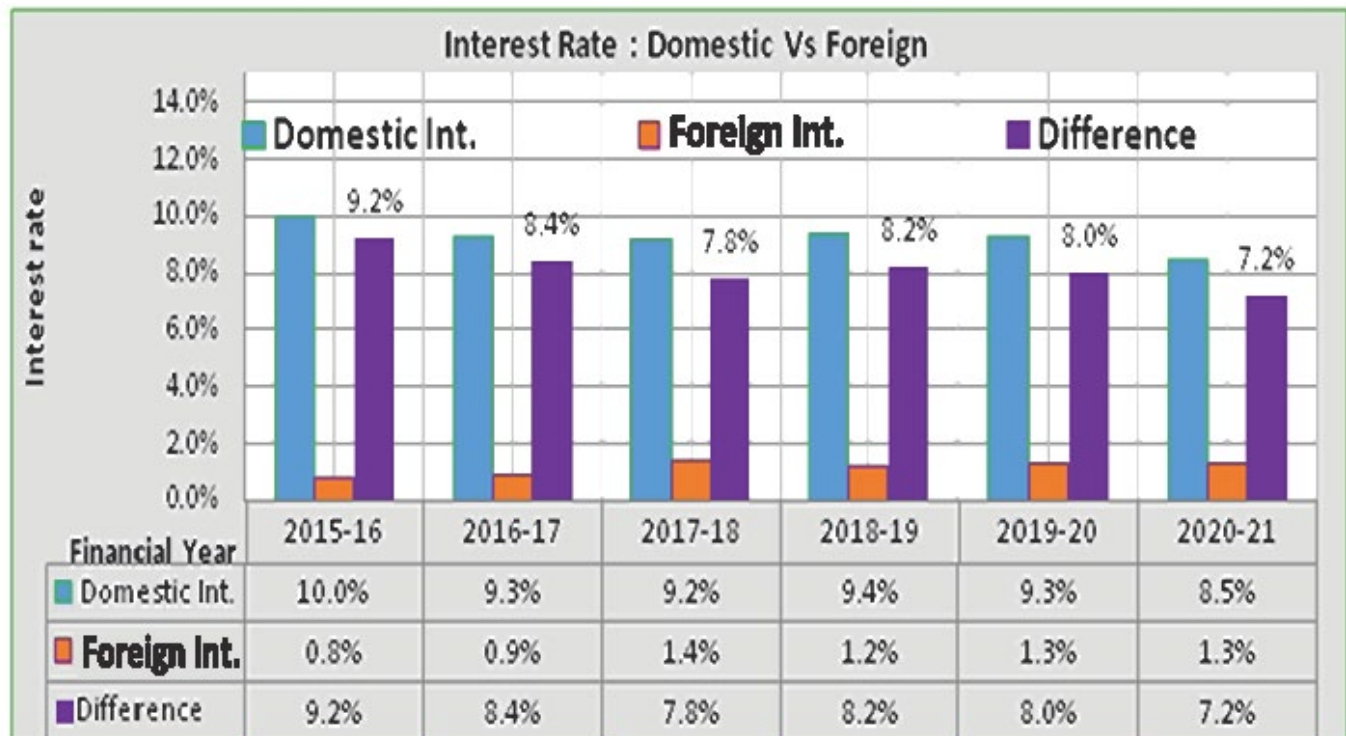
Source: FABA Wing, ERD, Ministry of Finance

Although issues regarding efficient and effective utilization of the allocated resources for the sectors, both foreign and domestic, are valid concerns and need to be resolved, there can be no denying the fact that access of the poor and marginalized groups to these social services have increased which will help to reduce opportunity gaps in the society.

(III) Till recent times, Bangladesh mostly received grants and highly concessional loans from its development partners though that scenario has started to change somewhat with the country's entry into the World Bank's Lower Middle-income Country (LMIC) category in 2015 from a Low Income Country based on per capita income criterion. The cost of borrowing for investment and consumption has important implications for prudent management of the public debt. Borrowing from foreign sources (ODA) is much cheaper for the GOB compared with borrowing from domestic sources, particularly from non-banking sources. While the weighted average of borrowing cost is 1.3% for foreign funds, it is 8.5%

for the GOB for loans and advances from domestic sources. The total share of interest payment reached 14% of the yearly budget in FY 2019-20 with domestic and external sources shares reaching 13% and 1% respectively. The Figure-3 gives a clear picture about the relative cost of borrowing from domestic and external sources.

Figure- 3 Cost of Funds for the GOB Borrowings from Domestic and Foreign Sources



Source: FABA Wing, ERD, Ministry of Finance

(iv) Foreign assistance has, in the absence of a well-functioning revenue and tax generation machinery, helped to limit government borrowing from banking sources thereby offsetting the crowding out of the private sector for investment funds.

(v) A spill over effect of ODA and other types of fund flows is the services of technical experts that accompany financial transfers. Countries like China, India, Rwanda, and Vietnam have taken advantage of the presence of technical advisors and experts to build domestic capacities. Sitting atop a huge pile of foreign currency reserves, China still borrows from external, mainly multilateral sources, to build domestic capacity in specific areas. Bangladesh needs to do more to effectively avail the services of international experts in various fields, especially in sectors like roads, bridges, ICT, power sector, and technical and vocational curriculum and skill development.

(vi) Foreign assistance does also help to make immediate responses to natural and man-made disasters. UN system organizations, particularly WFP, UNHCR, UNDP, IOM, and WHO have always been the first responders to help the victims of any major natural and man-made disasters that hit Bangladesh. A few years ago, UNDP helped to mobilize in record time a team of top technical experts from around the globe to support GOB's efforts to clean up oil spillage from a capsized coastal vessel that had threatened to damage the biodiversity of the Sundarbans, a world heritage site, in the southwest part of Bangladesh. Development partners' current support to the GOB for handling the Rohingya refugee crisis is also noteworthy.

The Changing Context of Foreign Assistance

Weakening of the Good Samaritan Ideal : Decline in grant and highly concessional resources

One clearly discernible trend in foreign financing is the marked decline in the flow of grant and highly concessional resources from bilateral and multilateral sources. While the share of grant resources in total ODA in the mid-2000s was between 20% and 25%, it has come down to 5% in FY 2020-21. Although the actual amount of grant resource has remained more or less stable in the last few years, its low share in relation to the overall flow of ODA is due to recent uptick in the flow of non-grant resources from some of the bilateral sources. In addition, some of the traditional grant providing countries, notably, Scandinavian countries, Canada, France and the Netherlands, have scaled down their program portfolio in recent times due to changes in their assistance program priorities. Bangladesh's commendable socio-economic growth of the last decade might also have played some role in this regard. At about the same time, supply of highly concessional resources from the regular International Development Association (IDA) resource envelope of the WB (which carries a flat 0.75% of service fee) continued to fall as Bangladesh, based on its per capita income level, has become eligible to receive loans from IDA on blend terms (higher rates than IDA regular but still reasonably concessional) and from the Scale Up Facility (SUF) with floating interest rate which is risk bearing. The latter window has a higher interest rate and a shorter tenor. Noticeably, under IDA-19 Bangladesh has had to borrow a good amount from its World Bank country portfolio from the SUF although the country has not officially been cleared to borrow on floating loan terms. These resources, however, are still cheaper than borrowing from the money markets. Bangladesh should be ready to selectively use these kinds of resources for high priority programs/projects that can generate future income, growth, and improvement in productivity. But recent allocation of some of these relatively costly funds for the social sector, particularly for the health sector returns from which would accrue to the economy over a longer period of time, is a cause for some concern.

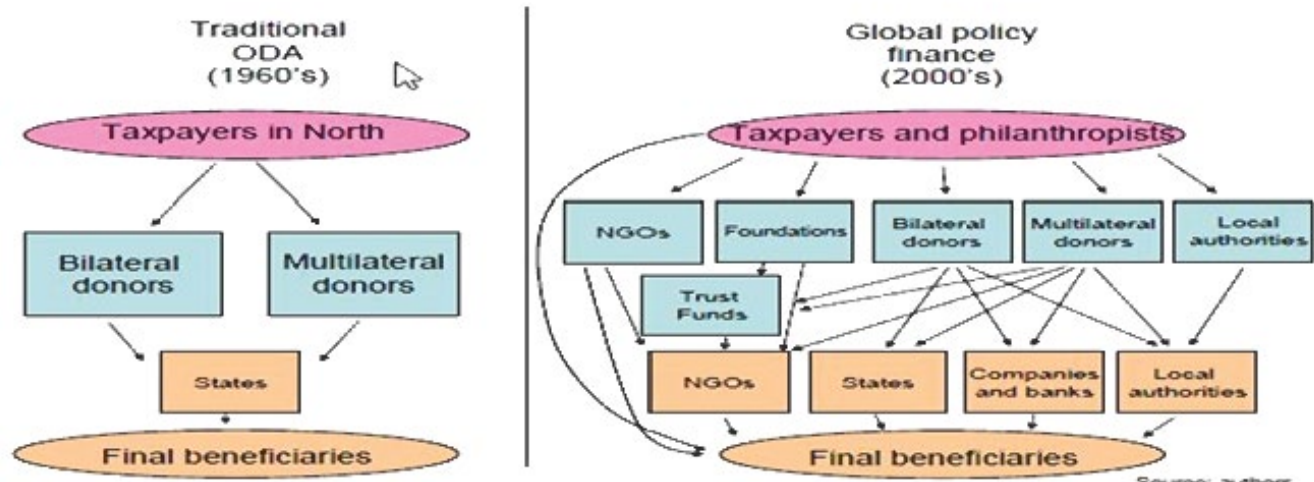
Triple Revolutions in Goals, Actors, and Tools : Boost in Bilateral Cooperation

Three concomitant revolutions in international development cooperation (Severnino, J-M and Ray, Olivier, 2009) in goals (multiple goals being pursued), actors (increasing number of providers), and tools (project assistance, program approach, sector-wide approach, budget support, risk guarantee, blended finance, development linked indicators, and the like) have made managing assistance a complex undertaking for most developing countries including Bangladesh. Managing relationships with thirty development partners/organizations and overseeing three-hundred and sixty-six currently active projects/programs spanning a wide range of fields pose difficult challenges for the ERD in assistance coordination. Enhancing synergies and complementarities between foreign assistance and the national development goals and objectives in a crowded field of development partners require the GOB to engage intensively with requisite knowledge and skills for negotiations with the development partners. The ERD has the mandate to lead this process on behalf of the government. The nature, role, and assistance profiles of bilateral cooperation have also undergone substantive changes in Bangladesh over the last decade.

Bangladesh used to receive bilateral support mostly in the form of grants from development partners for food assistance, commodity assistance, and project assistance. Countries in North America, Europe, Scandinavia, Middle East, and East Asia (Japan, Korea, India, and China) were the major bilateral partners who provided grants and a mixture of grants and highly concessional soft loans. This has been the trend in bilateral resource flows till the year 2010. However, starting from the early 2010, this pattern started to change as large resource flows from bilateral sources like China, Russia, India, and Japan came in. Instead of grants, these newer resources are a mix of non-concessional loans, highly concessional state credits, and ODA. Operationalization of the single-purpose vehicles (vertical funds) - Green Climate Fund, GEF, LDC Fund, Adaptation Fund, GAVI, GFATM, and the like- have added new complexities in

assistance management for Bangladesh. Due to their very nature, these newer vehicles for assistance delivery have made additional demands on time and the scarce knowledge resources within the relevant Ministries and Agencies, including on ERD to respond to various requirements of the development partners. Figure-4 below delineates the current complexity of resource flows from multiple sources in global assistance.

Figure- 4 Multiple Actors, Varying Objectives and Complex Channels for Assistance Deliveries



Source : Adopted from Severino J-M, and Ray Oliver, CGD WP -218, June 2010

Uptick In Market-based Commercial-type Variable Interest Rate Loans

As mentioned earlier, Bangladesh as an LDC country mainly received grants and highly concessional loans from bilateral and the International Financial Institutions (IFIs) that included very soft loans from IDA and Asian Development Fund (ADF) windows of the World Bank and Asian Development Bank (ADB) respectively. Starting in the early 2000s ADB also experimented with allocating small chunks of Ordinary Capital Resource (OCR), a LIBOR-based loan with a spread and commitment fees, to Bangladesh for financing infrastructure projects. But with a rising per capita income and Bangladesh moving to the Lower Middle-Income Country (LMIC) category for program lending purposes, a growing trend towards supply of relatively costly loans (market-based loans with higher rates and shorter tenor) appears to be gradually taking hold.

Rising per capita income level of Bangladesh (US\$ 2500+ in 2021) along with the likely exit from the Least Developed Country (LDC) group by 2026 have created strong grounds to provide costlier loans by the IFIs. The GOB now borrows from the IDA at "blend" terms with a lower grant element compared with the regular resources. Recent borrowings from the Scale Up Facility of the IDA-19 and a few other guaranteed external borrowings by SOE's on market-based commercial terms to finance infrastructure building (power, satellite, and ports) are noticeable departures from the past. Needless to say, if these costlier loans are not used effectively and efficiently to strengthen foundations for transformational growth and to generate future incomes, these loans could turn out to be burdensome for Bangladesh in future.

Perceptible Rises in Cost of Funds and Interest Payments on Foreign Loans.

As a result of recent increase in variable rates commercial-type loans, the cost of funds from external sources for public investment has gone up. The weighted average interest rate on foreign loans that are being mobilized through official channels has increased to 1.3% in FY 2021 compared with 0.8% in FY 2015-16 (Medium Term Macroeconomic Policy Statement FY 2022-24, MOF, GOB). The relative shares of interest payments in the national budget on account of domestic and foreign borrowings can be seen in Table -1.

Table-1 Interest Payments as share of Budget against Domestic and Foreign Loans

Interest Payment	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Share of Budget						
Domestic	13.1	12.5	11.8	11.7	13.0	10.9
Foreign	0.7	0.7	1.1	0.9	1.0	1.0

Source: Medium Term Macroeconomic Policy Statement, Finance Division, GOB, June 3, 2021

As a result, debt servicing costs are likely to go up noticeably in the near future. Large amounts of budget support from the IFIs in recent times on LIBOR-based variable rates to the GOB for procurement of Covid-19 vaccines, provision of health services, and for social sector programs will likely further increase the long-term interest rates of foreign assistance. Although there is no immediate threat to external debt sustainability for Bangladesh, the upward movement of interest rates on foreign loans could complicate matters in future. In the absence of appropriate skill and expertise to monitor the global financial markets, and unwillingness to avail upfront the debt swap instruments to minimize risks, borrowing on market-based variable interest rates may become a curveball adversely affecting the external debt management in future. One way to counteract the concerns regarding future hike in debt liabilities would be to act prudently in allocating these costlier loans mainly for projects/programs that have higher rates of economic and social returns. Reforming the institutional features to improve public financial management and particularly program/project implementation capacity will be key to efficient and effective utilization of high-cost foreign resources.

The repayment burden for these market-based loans will remain tolerable as long as the LIBOR or any subsequent globally accepted benchmark rate(s) remain low, preferably below 1%, which is the case now. The movement of benchmark rates depend on demand and supply of money in the global financial market. The US economy has started to gather steam following the infusions of large tranches of money into the economy to offset the economic downturns due to Covid-19. Consumer prices have started to rise noticeably as a result of higher demand for durable goods, rising cost from Covid-19 related supply chain problems, and inflation expectations following the infusion of stimulus package for economic recovery in the USA. The Federal Reserve in the USA has indicated a tapering off of corporate bond buying by June 2022 (reversing its policy on quantitative easing) due to inflationary pressures. Europe, Japan, and China are also expected to see their economic growth rates rising in the medium term along with upward pressures on the general price levels.

The LIBOR/benchmark rates are likely to go up with the expected rise in demand in the global economy in the coming months. History of movements in 6 monthly LIBOR rates show that there can be big swings in the LIBOR rates. For example, the 6 monthly LIBOR rate hit 10.75% in 1990 and 7% in the year 2000.

In the event of an upward movement of the current low LIBOR rates in future, the apparently low-cost borrowing for the social sector in Bangladesh may turn out to be costly due to higher debt servicing costs. Benefits from investment in the social sector are indirect in nature and usually take a longer time to materialize. There is a need for constant review of the trends in global financial and currency markets so that mitigation measures can be taken to offset any adverse impacts on external debt.

Shift from input-process-output focus to outcome-and-result orientation

The criteria used for assessing the overall contributions of foreign assistance to national development in beneficiary countries have undergone fundamental shifts in the post-cold war era. With diminishing weights being given to geopolitical and foreign policy objectives, foreign assistance has become an instrument to address humanitarian crises and national emergency, and to promote socio-economic development. The UN Conferences on Financing for Development (FFDs), the last of which in 2015 adopted the Addis Ababa Action Agenda, and the OECD patronized Paris Declaration on Assistance Effectiveness (2005) are some of the recent efforts to realign foreign assistance with socio-economic development goals of recipient countries, promote harmony and coordination among assistance givers, encourage national ownership of the development process and to focus on impact of foreign assistance.

Breaking from the past traditions, foreign assistance regimes began to stress on “what” is being provided and the results achieved along with “how” assistance is being delivered by provider countries and multilateral organizations. A number of techniques are in use to tag supply of foreign assistance with a set of pre-agreed result metrics. The Millennium Challenge Account (MCA) of the USA applies the Foundational Approach that considers funding only after eligible countries submit plans, programmes, and strategies prepared domestically by them for use of the fund. Another approach, known as “cash on delivery”, will deliver money only after satisfactory achievement of pre-agreed development outcomes. The use of ‘reimbursable Project Assistance (RPA) and “Development Linked Indicators” (DLI) in Bangladesh by the development partners are attempts toward imparting result orientation to their project/program portfolios.

The GOB, represented by the ERD, took active part in these global forums and instituted a number of measures - a well- functioning Local Consultative Group (LCG) for assistance coordination and mutual accountability for results- that have received international recognition as evidence of good practice in development effectiveness. Bangladesh is also an active participant in the Global Partnership for Effective Development Cooperation (GPEDC), a platform dedicated to optimize development effectiveness, and is currently holding the Vice-Chairpersonship. Although a lot of grounds are needed to be covered to make foreign assistance more effective in general and particularly to make the assistance delivery systems more responsive to country needs, the GOB through the ERD of the Ministry of Finance has implemented a number of measures to ensure assistance coordination, country ownership of development agenda, and mutual accountability for development results.

A Stronger Negotiating Position

Given the strong economic growth, and large increases in foreign exchange earnings from exports and remittances, the significance, role, and flow of external financing through the public channel is currently undergoing fundamental changes. Foreign assistance constituted only 1.6% of GDP of Bangladesh in FY 2019-20, which was much higher in the 1980s and 1990s, when the GOB used to rely on foreign funding for implementing a significant part of its ADP. However, Bangladesh’s growing economic strength, large forex reserve and strong balance of payment position currently provide a stronger foundation for negotiating the terms and conditions of development cooperation from a position of strength with provider countries and institutions. The situation was very different in the past when stark economic realities compelled the GOB negotiators to acquiesce to many harsh and impractical assistance conditions in order to access foreign funds for the country.

Re-purposing ERD's Assistance Mobilization Strategies

It should be clear from the discussions in preceding sections that strategies to mobilize external resources by the ERD in the current context would have to be significantly different from the past. Strategies, by their very nature, are dynamic in character and should be calibrated in the context of the objectives to be achieved in a given setting. Development assistance mobilization strategies to be followed by the ERD will depend on the long-term national development objectives, state of domestic resource mobilization, negotiating capacity of the GOB and ERD along with qualities of public institutions that determine bureaucratic effectiveness, resource absorption capacity and application of skills for program implementation. The evolving global architecture for international development cooperation along with future protocols for managing global public goods – pandemic and climate change-would also exert strong influence in the formulation of foreign assistance mobilization strategies by the ERD in a post-LDC scenario. The following are a compendium of indicative strategies that ERD may consider while planning external resource mobilization going forward.

Attention to quality as well as quantity of assistance mobilization is needed

Historically, importance has been given in Bangladesh on the amount of foreign assistance that could be mobilized and disbursed each year. However, optimum utilization of low-cost foreign resources didn't receive as much attention. There are both internal and external reasons for failing to get the big bang for the buck. Not in the distant past, the success or failure of assistance efforts of the GOB used to be measured by the amount of assistance commitment that Bangladesh could get at the Paris Consortium Meeting for Assistance to Bangladesh in the 1980s and 1990s. The press conference by the Finance Ministers on his arrival back home used to be filled with much anticipation and excitement for the journalists covering the event! Success or failures of the Assistance Consortium Meetings were measured based on the amounts of resources committed- higher or lower than the previous year- by the development partners in a particular year. While the total quantity of foreign resources being mobilized is important, giving attention to "assistance quality" deserves equal, if not more, attention from the policy makers in government in general and ERD. Addressing the issue of foreign assistance quality may consider following aspects -

(a) (i) Prioritizing allocations for and aligning foreign assistance with sectors identified in the 8th Five Year Plan (FYP) and the Perspective Plan (PP) 2021-41 as critical for transition to an Upper Middle-Income Country (UMIC) by 2031. Priority should be given to mobilize external financing that support infrastructure development, leverage public funds to spur private sector investment (EZs and transfers of financial and technical resources for efficient and climate friendly production), human resource development (a tech savvy generation), economic diversification through skill formations and technology up gradation, and improving health and social protection.

(b) (ii) Mitigation and adaptation funding to tackle adverse effects of climate change, support for Research & Development, and SME sector development need to be mobilized at scale. Mobilizing political and financial support for institutional regeneration (neutralizing elite capture, and increasing transparency and accountability) through institutional mapping, awareness raising, and coalition building will hold the keys to furthering development effectiveness with adequate attention to economic growth with social justice, empowerment (economic, social, and political) of vulnerable groups and climate footprints of development interventions.

(c) It is important that while engaging with development partners, the GOB and in particular the ERD pursues measures for improving national ownership of the development agenda, assistance delivery process, and result measurement. Ensuring country ownership, however, would be contingent upon the GOB entities acquiring skills, capacity and freedom to decide on the program/project components for

intervention based on problem definitions and implementation prospects. This should also mean giving opportunities for defining and assessing the outputs, outcomes, and impacts based on data availability and situation on the ground.

(d) Low transaction/administrative cost for programs and projects selected for implementation should be a recurring theme in all development cooperation negotiations.

(e) Avoiding redundant consultancy services and encouraging deployment of local experts (where available) in place of costlier international experts should be given due importance in program/project negotiations. Promoting domestic knowledge services is crucial not only for value-for-money in foreign-assistance-led projects but also to encourage skills development in the country.

(f) Taking the cue from the 8th Five Year Plan, a Joint Result-Based Monitoring and Evaluation (JR-BME) system covering critical sectors should be put in place at the earliest. The practice of having a joint framework for defining and evaluating results for programs and projects should be mainstreamed as an integral component of foreign assistance management in Bangladesh.

Preventing Unwanted Bulging of the Foreign Assistance Pipeline

All needed steps should be taken to make sure that the assistance pipeline remains dynamic. One main reason for excessive accumulation in the pipeline is delays in program/project implementation. Project start-up delays due to lack of advance planning and preparation for implementation, long and duplicative processes involved in approval of program/project documents, delays in procurement of goods and services contribute to build up of foreign finance in the pipeline. Intense monitoring and follow-up of project implementation by ERD through bi-partite and tripartite review meetings have been proved useful to speed up implementation. But this step alone would not be enough to move the needle to accelerate foreign resource utilization. Some structural and procedural changes indicated below may also be considered in order to make the pipeline more robust and copacetic.

(i) Following a decision by the Cabinet Committee on Economic Affairs (CCEA), a gazette notification issued by ERD on 07 March 2017 titled Fund Allocation and Management Guidelines for Project Formulation and Preparatory Works authorize the ministries to use a maximum Tk. 50 million from GOB budget (excluding land acquisition), subject to clearance by an inter-ministerial committee in the Finance Division, for project start-up activities. The fund can be used for some specified purposes, such as, preparation of feasibility report, economic and technical studies, environment and social impacts assessment, formulation of draft DPP/TPP, preparation of bidding documents, etc. For land acquisition, any amount can be spent with prior approval of the appropriate authority. Completing preparatory works can permit the GOB Ministries/agencies to start substantive project work soon after the approval of the DPP/TPP. Evidence shows that most programs/projects spend the first year of the project implementation time to complete these functions. Availing this opportunity can significantly reduce the incidence of cost and time overruns of program/projects during implementation. Unfortunately, there seems to currently exist apathy towards using this facility that can facilitate faster and timely program/project implementation and by implication ensure value-for-money in public expenditure. The ERD should engage with the GOB entities to uncover the reasons for low interest and take steps to revisit the issue.

(ii) UN system organizations and other bilateral and multilateral partners may also be allowed to spend up to Tk. 50 million for program/project preparatory activities which can be subsequently added to the project cost. An inter-ministerial Standing Committee headed by ERD may be formed to examine joint fund requests by Ministries/DPs for authorizing spending for project preparatory works as specified in the GOB order. The order issued by the ERD of GOB will require some amendments to permit advance spending of DPA funds by development partners. ERD would be well-advised to take this matter with

both Cabinet Committee on Economic Affairs and the Executive Committee of the National Economic Council (ECNEC) for obtaining high level political directives for immediate operationalization of the project preparatory funding facility of the GOB. Judicious and systematic application of the preparatory funding facility in GOB-financed and foreign-assistanceed programs and projects can significantly enhance the effectiveness and efficiency of resource use by the GOB entities through checking cost and time overruns during implementation. It can also be a means to remould the foreign assistance pipeline by decongesting any current or future build-up of resources.

(iii) ERD should continue its efforts to bring further simplifications in the Development Project Proposal (DPP)/Technical Project Proposal (TPP) approval processes of the GOB. Steps may be taken to create a ring-fenced fast track process for approval of grant-funded projects since delays have been found to create frustrations among grant-fund providers for obvious reasons. Further amendments to the current guidelines for processing of DPP/TPP should be made for reducing the multiple layers of authorities within the GOB Ministries/Agencies charged with responsibilities for reviewing and clearance of the same program/project documents. Digitization of the process is a crying need of the hour to enhance transparency and cut down on the time currently being taken to clear DPP/TPP by the Planning Commission.

Re-invigorating Local Consultative Group (LCG) and the Working Groups (WGs) to check assistance fragmentation, ensure donor coordination and mutual accountability for results through a Joint Results Frame (RF)

The platform created by the LCG and the sectoral and thematic Working Groups formed under the LCG allow providers of external finance and the GOB to coordinate efforts with a view to achieving agreed development results in various sectors. Re-energising and re-vitalizing the activities of the LCG and the WGs should be a priority for the ERD for better foreign assistance management and for constructing a poverty-focused, private-sector led, gender-balanced, climate-resilient and result-oriented development architecture for Bangladesh. The operationalizing of the LCG and the WGs forums in Bangladesh for coordination of development cooperation and ensuring accountability for results has been recognized by global forums, such as, UNDESA and Global Partnership for Effective Development Cooperation (GPEDC) as constituting good practices in development and assistance effectiveness.

It appears that out of the 14 WGs, only half of them are still active to some degrees. Steps should be taken urgently to revitalize the functioning of the WGs for getting better development results and to ensure national ownership of the development cooperation program in Bangladesh. It is also important to bring representations from civil society in these forums and also to persuade China, India, Japan and Russia, four major bilateral development partners for Bangladesh, to join the LCG and WGs to make these two bodies more inclusive and effective.

Prudence and Circumspection in contracting market-based variable interest rate loans

Bangladesh needs larger volumes of investment to create necessary infrastructure facilities for boosting economic growth. The current level of investment for infrastructure development falls far short of the needs for such investment for a country aspiring to be an Upper Middle Income Country and a Developed Country by 2031 and 2041 respectively. The present mismatch between the huge need for resources for physical and social infrastructure investments and a limited fiscal space for GOB will necessitate borrowing non-concessional resources from external sources until such time as the domestic resource mobilization has been improved. Borrowing at relatively high costs for a sustainably growing economy like Bangladesh should cause little concern in the policy circles as long as these costlier resources are used for projects with high economic returns. Since market-based commercial type loans have shorter maturity periods with market-determined variable interest rates, it would be advisable to

exercise caution while using them for social sector investments - health, education, social safety nets- because of the longer time horizon over which the actual returns to the economy from these investments tend to kick in.

The GOB needs to take strong policy decisions at the earliest to earmark areas and sectors for which such non-concessional loans should be taken by taking into consideration the investment needs and available borrowing options. A strong policy action is needed in this regard to contain sharp increases in future foreign debt servicing cost. A careful monitoring of non-concessional borrowing by the GOB is desirable till such time when marked improvements in domestic revenue collection would come to pass. To put this contention in perspective, it may be observed that within a span of five years, the share of interest payment on foreign loans in the national budget increased from 0.7% in FY 2015-16 to 1% in FY 2020-21. The decision by the Bangladesh Bank to create the Bangladesh Infrastructure Development Fund (BIDF) with an initial amount of US\$ 5 billion from its reserve to support growth-enhancing infrastructure projects is a step in the right direction. This mechanism for financing transformative domestic infrastructure projects from the surplus reserves of the central bank is likely to have a salutary effect on external debt management since the cost of funds is supposed to be relatively lower for investment.

Formulating a National Policy on Development Cooperation (NPDC)

Bangladesh has not yet been able to formulate a national policy or any credible guidelines on mobilization of external resources and their effective utilization. Ensuring that foreign assistance is managed and used with highest degrees of efficiency and effectiveness has become more important now than ever before given the increases in the number of providers with diverse interests and gradual increases in market-based commercial type loans. Formulation of a NPDC is also necessary to coax the development partners into following some of the globally agreed principles relating to assistance and development effectiveness. Concerted efforts should be taken for enhancing national ownership, alignment with national plans and programs, program harmonization, use of treasury for assistance delivery and national procurement system, and transparency and joint accountability for results from development interventions.

Such a policy is also required to guide GOB Ministries and Agencies that receive foreign assistance on how to strengthen national ownership over development and the prevailing development cooperation ecosystem to ensure value for money from public expenditure programs. The ERD in the past took some initiatives towards developing the NPDC in collaboration with the development partners. The consultation process appears to have moved into a state of ‘suspended animation’ for some reasons. The ERD should take steps to jump-start the stalled consultations with development partners as well as with GOB Ministries to finalize the unfinished work of articulating a NPDC which should address the needs of Bangladesh in the post-LDC situation. Needless to say, full support and agreement of the high political leadership would be necessary for such an initiative to succeed.

Turning ERD into an Intellectual Powerhouse on International Economic Cooperation and Development Effectiveness: Need for Enhancing Technical Expertise, Negotiation Skills and Human Capacity of the ERD

International cooperation architecture for Bangladesh in the 2020s would be a fundamentally different one than what ERD had dealt with in the past decades. Multiplicity of assistance providers with different objectives require skills on the part of GOB officials - primarily for ERD- to forcefully check assistance fragmentation to channel external resources to desired sectors at scale. Bangladesh’s gradual transition from being a recipient of grant and highly-concessional external resources (ODA) to a “blend country/IBRD” (according to WB categorization) requires a different set of negotiation skills for the officials of ERD. Moreover, operationalization of single-purpose vertical funds - Green Climate Fund,

Global Environment Facility, GAVI, GFATM- has further accentuated the need for infusion of greater degrees of professional knowledge and negotiation skills to deftly handle the technical and financial issues involved. Specialized knowledge and skills are needed by the ERD officials to perform works related to innovative financing, managing market-based commercial types of loan portfolios, south-south and triangular cooperation, and climate change adaptation and mitigation interventions. Putting the 'right people in the right place' and ensuring retention of skilled and professionally qualified officials in ERD for a reasonable length of time should be given due considerations.

To infuse greater professionalism in assistance mobilization, the ERD should consider organizing its work based on sectors/ thematic areas in the long run. This will mean moving away from its present development partner-centric resource mobilization set up. As an interim measure, some of the knowledge-intensive areas of work - climate financing, south-south cooperation, borrowing on commercial terms- may be handled by designated Wings of ERD staffed with required skills for handling these critical areas of work. As an alternative, several "thematic expert groups" (maximum 3 members per group) may be formed to provide technical backstops to different Wings in the designated sector/theme areas.

Forging Stronger Links with the Universities, Think-tanks, Experts, and Research Organizations including Reinforcing Horizontal Coordination with other Ministries

Building and sustaining an effective and responsive foreign economic cooperation ecosystem in the post-LDC Bangladesh to undergird its high development aspirations has got to be knowledge intensive. Creating platforms for gathering, updating and using knowledge resources on issues impinging on national development should be given highest consideration. Following up of the issues relating to global economic and trade policies, national development issues, trends in financing of regional and global public goods, climate financing, and international financial markets will stand the GOB/ERD officials in good stead while negotiating external financing for the country. It is also critical to do empirical research on assistance-financed programs and projects to gather hard evidence on effectiveness of programs in the specific socio-economic and political context of Bangladesh. It will be difficult, if not impossible, to make all the desired knowledge resources available within the government and in the ERD in near future.

Many developing and advanced countries make use of the strong links that they forge with individuals and organizations from outside the civil service to bridge the knowledge gaps. The ERD should consider establishing a Policy Advisory Committee (PAC) under the Chairpersonship of the Finance Minister to leverage the knowledge resources from outside to complement its work. Representatives from academic institutions, research organizations and eminent persons with professional knowledge can be made members of the committee. This will allow complementing the existing professional knowledge in the GOB in order to formulate prudent public policies in general and specially for crafting effective strategies for foreign assistance mobilization and implementation. The proposed PAC should be formed immediately and made functional to assess the implications of some of the recent decisions taken at the G-20 and Glasgow Climate Conference (to reduce methane, a major element of natural gas, by 30% by 2030 and to phase down coal production) on energy security, food security and future flows of external financing for Bangladesh. In the context of recent developments in the external environment, thorough discussions and consultations with experts in a forum like the one proposed above can help the ERD to craft appropriate and effective strategies to mobilize foreign financing at scale for national development. In order to ensure a whole-of-government approach to its assistance mobilization strategies, the ERD should also ratchet up horizontal cooperation and coordination with other relevant GOB Ministries, particularly with the Ministry of Foreign Affairs.

Concluding Observations

Bangladesh will need to rely for some more time on external financing from official channels to support its socio-economic development programs. But the significance, role, and scale of foreign economic assistance in the coming days would depend largely on three factors. First, success in attracting private flows from domestic and foreign private sectors for investment; second, building of a comfortable fiscal space for the GOB by substantially enhancing domestic resource mobilization; and third, the administrative capacity to absorb and utilize allocated resources in efficient and effective ways. Transforming the economic and bureaucratic institutions to make them more open, inclusive, effective and accountable to the citizens is a sine qua non for catalysing positive movements in all three areas mentioned above. Bringing higher levels of expertise in the civil service is necessary to make it an effective instrument for prudent policy development, better implementation of policies and programs, and to engage effectively with bilateral and multilateral partners at national, regional, and global levels to protect and promote the genuine interests of the country.

Foreign financing can play critical role in this journey provided the development partners can rectify some of the anomalies and shortcomings of the foreign assistance architecture (so-called the seven deadly sins of donors)¹ that has been established in the wake of WW-II (Nancy Birdsall, 2005). With a per capita income level exceeding USD 2500, Bangladesh should be prepared to use market-based commercial types of loans to create conditions for transformative growth (physical and technological infrastructure development) which will be needed for augmenting supply side capacity and improvement in productivity, two important conditions for transition to an UMIC country by 2031. Reducing income and opportunity inequalities will need large dollops of social sector investments by the GOB - health, education, technical skills and social safety nets- for the poor that should preferably be undertaken from its own resources. Adequate fiscal space shall have to be created by the GOB through substantial improvements in domestic resource mobilization for scaling up investments in pro-poor programs.

Foreign financing can have positive contributions to the national development efforts of Bangladesh if national ownership can be established over the assistance agenda through building administrative capacity and by proactively engaging with the development partners for achieving the desired development outcomes. Bangladesh can only occupy the catbird seat to steer the foreign assistance regime to support transformational growth through increased professionalism of the bureaucracy. Bangladesh's dream of reaching the higher development states will be difficult to realise without having a competent and professionally managed civil service that can operate with consummate skills and acumen to tackle the complex development challenges in the post-LDC period. While a competent and effective civil service is an imperative for effective management of foreign assistance regime in the country, the development partners also to do their part. There are needs for pooling resources for joint programming, prioritizing support for economic diversification, productivity improvement, and by engaging over a longer time horizon to promote changes in the institutional dynamics to foster greater inclusion. Agreeing on results and their measurements, using more local resources and capacity, and promotion of greater transparency and mutual accountability should become a recurrent theme of foreign economic cooperation management in post-LDC Bangladesh.

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(Footnotes)

¹ *Seven sins are: (i) impatience with institution building, (ii) Envy (collusion and coordination failure), (iii) Ignorance (failure to evaluate), (iv) Pride (failure to exit), (v) Sloth (pretending 'participation' is enough for 'ownership'), (vi) Greed (unreliable and stingy transfers), and Foolishness (underfunding of global and regional public goods).*