



Role of Foreign Aid in Funding the SDGs in Bangladesh: *A Governance Perspective*¹

Fahmida Khatun², Syed Yusuf Saadat³ & Md Kamruzzaman⁴

1. INTRODUCTION

Bangladesh is in the process of graduating from a least developed country (LDC) status to a developing country status. However, Bangladesh needs to deal with several challenges as it moves forward to make its growth sustainable. One such challenge will be mobilisation of finance for development (FfD) from external sources. Once graduated, terms of official development assistance (ODA) will change and external resources will be costly as the grant element may not be widely available. This could potentially put pressure on debt servicing. Though the share of ODA, as percentage of GDP has declined to 1.47 percent in FY2016-17, compared to 3.07 per cent in FY1996-97, the need for ODA in development activities of Bangladesh is still significant. The need for ODA will be felt more as the Government of Bangladesh (GoB) is committed to implement the Sustainable Development Goals (SDGs) by 2030.

Foreign aid is an important component of Bangladesh's developmental finance. Although the share of ODA in Bangladesh's GDP has declined over time, the need for ODA in financing development projects is still significant. About 37.1 per cent of development budget is supported by ODA (MoF, 2019). While there is a higher demand for more resources from the international sources, a paradoxical situation is observed. A large amount of foreign aid remains in the pipeline indicating that new funds do not necessarily guarantee their timely and full utilisation. This has implications for development initiatives. The challenges related to foreign aid are regime in Bangladesh twofold: (i) efficient disbursement, and (ii) efficient utilisation. This emphasizes the need for improving the governance of aid utilisation.

In view of the above context, it is obvious that as Bangladesh pursues the SDGs, the country will have to make the most out of the available resources. On one hand, new and innovative sources of foreign funds have to be explored in order to implement the vast agenda of the SDGs. On the

¹This policy note draws on the paper titled "Finance for SDGs: Addressing Governance Challenge of Aid Utilisation in Bangladesh" prepared by the authors. The paper was prepared under the programme "Moving on the Middle Income Path in the Era of the SDGs: Overcoming the Governance Challenges", implemented by the CPD in partnership with the Embassy of Denmark in Bangladesh.

²Executive Director, Centre for Policy Dialogue (CPD). fahmida@cpd.org.bd

³Research Associate, Centre for Policy Dialogue (CPD). saadat@cpd.org.bd

⁴Research Associate, Centre for Policy Dialogue (CPD). aman@cpd.org.bd

other hand, the absorption capacity of the country should be strengthened to benefit from the utilisation of these funds.

2. SDGS AND FINANCE: DYNAMICS OF FOREIGN AID IN BANGLADESH

Given its trend in economic and social progress and success in achieving the Millennium Development Goals, it is expected that Bangladesh will be able to implement the SDGs successfully, particularly in the areas such as poverty reduction, gender parity in school enrolment, and reduction in child and maternal mortality. However, the 2030 Development Agenda is vast and multi-dimensional. In addition to commitment at the highest political level, achievement of these goals will require addressing existing and emerging challenges. There are challenges of inequality, vulnerability to climate change, resource mobilisation, data deficiency, institutional weaknesses and lack of good governance. Indeed, strong institutions and good governance are the pillars of implementing the SDGs successfully which is captured in SDG 16. Thus, in one sense, smooth graduation to UMIC as well as developing country status is linked to the implementation of the SDGs. How Bangladesh can graduate smoothly to the UMIC and developing country status, and whether Bangladesh will be able to move forward towards a high income and developed country will hinge upon how the country performs in case of SDG implementation and how it ensures good governance through better accountability, predictability and transparency of development activities.

The GoB has estimated that an amount of USD 928.48 billion will be required for implementation of the SDGs at constant 2015-16 prices during the Fiscal Year (FY) 2017-30. This is 19.75 per cent of the accumulated GDP under the Seventh Five Year Plan (7FYP) of Bangladesh. The study has also identified sources of finance for SDG implementation, under broad areas such as public, private, public private partnership, external, such as foreign direct investment (FDI), foreign aid and grants, and non-governmental organisations (NGOs) (GED, 2017). This implies that Bangladesh will have to put effort to mobilise resources for its development from a host of sources such as taxation, private and foreign investment, export and remittances. This calls for much more efforts on the part of the government.

3. CHALLENGES OF AID UTILISATION IN BANGLADESH

During the period of the Millennium Development Goals (MDGs), the GoB managed to receive external support to implement the MDGs successfully. However, aid is still not fully utilised in Bangladesh. According to the Aid Management Unit (AMU) under the ERD, aid effectiveness in Bangladesh is performing less than its potential due to a number of interlinked and interdependent structural, procedural and capacity problems (ERD, 2011). This is reflected through lower implementation of the ADP each year. Major reasons for low ADP implementation include institutional weakness, delayed implementation, and cost overrun (CPD, 2010; 2018b). Procedural lapses of a project, incomplete proposal, illogical expenditure target, and inadequate feasibility study reduce the implementation of ADP. Due to procedural delays in land acquisition and procurement after approval, projects cannot take-off. By the time the project activities start, spending the allocation for the full fiscal year becomes difficult. In terms of ADP implementation, the following obstacles were identified: (i) recruitment of project director and acquisition of land;

(ii); recruitment of consultant/firm; (iii) preparation of work plan; (iv) recruitment of human resources (IMED, 2017).

Though the above observations were made a few years back, they are still relevant in the present circumstances. Review of existing studies and discussions with experts reconfirm the issues related to aid utilisation in Bangladesh. Some of the key factors for low aid utilisation are discussed below:

Project design and implementation

Difficulties in project implementation start from the designing phase of projects. One of the most important elements of project implementation is land acquisition. However, this does not receive due attention during the designing phase. It takes several years to settle disputes during land acquisition. As a result, project implementation period is extended.

Bureaucracy among donors and GoB

The recipient country and the donors have their own policies regarding the use of funds. Hence, there is a lot of reluctance on the part of the donors to align their policies with the recipient country's policies. Irrespective of aided or non-aided projects, there are significant cost overruns in Bangladesh because projects take a long time to be completed. With time, the costs escalate making potential benefits more expensive.

Project management

Government officials involved from the beginning of a project are rarely able to complete projects as they are transferred to other departments or ministries. To deal with complex procurement and other project related issues, experienced and trained officials are required. Though they are provided training on public administration, practical skills related to project management cannot be taught as it is specific to the sector. Since the officials are transferred from one ministry to another, they cannot utilise their training and contribute towards effective project implementation.

Conditionalities and misalignment

Due to conditionalities attached to aid, utilisation of aid to its full potential becomes difficult. Because of donors' procurement policies, which require floating tender and securing final approval from their offices, a significant amount of time elapses. This delays project implementation. Besides, there are also problems with regard to alignment and harmonisation of the roles and activities of the line ministries and Economic Relations Division (ERD) of the GoB.

Capacity constraints

While the capacity of project implementation related activities is supposed to improve after repeated exposure to such activities, unfortunately absorptive capacity of the country continues to remain low. There is a lack of aid utilisation within the government. Those who develop

expertise through experience are often transferred to other ministries. Only those officials who are in the economic cadre have remained more or less within the designated ministries.

Country systems

Although the use of technology has improved the country systems, complicated processes exist in some cases, which is time consuming. Delay in bill payment to contractors can complicate the process if payment is not made within the specified fiscal cycle. It requires extensive paperwork. Then again, bureaucratic procedures delay the disbursement of the money.

Achievement of key performance indicators

Most donors have a three or four year plan which gives an indication of the likely allocation over the next three years or so. In preparing that plan, there is also some consultation with GoB officials. But disbursement is a problem and it has not improved much. This is also related to the administrative incompetence of the GoB officials.

Monitoring and evaluation

Implementation Monitoring & Evaluation Division (IMED) has traditionally been monitoring monetary flows. However, IMED has to perform a bigger role in terms of monitoring the quality and timely delivery of work. In order to do that, IMED's technical capacity has to be improved. In the short term, such limitations can be overcome through hiring consultants with competence in project evaluation and implementation.

Transparency and accountability

Overtime, transparency and accountability in project implementation have improved mostly due to pressure from donors. However, there are scopes for improving transparency in case of audit and evaluation reports. There could also be periodic reviews of completed projects. The problem lies with the incentive mechanisms. Capable officials with sound technical and administrative knowledge should be assigned for the job. They should also be rewarded with appropriate incentives.

4. CONCLUSIONS AND RECOMMENDATIONS

Bangladesh has been able to reduce its dependency on foreign aid through improved macroeconomic performance driven by increased international trade and higher remittances. In other words, higher integration into the global economy has played crucial role in advancing Bangladesh's economy. However, the role of foreign aid in addressing some of the crucial issues cannot be undermined. More specifically, support towards areas such as health and education have been very useful for Bangladesh. Indeed, such support was crucial for meeting several MDGs by Bangladesh, such as universal primary education, reduction in child mortality and improvement in maternal mortality. In case of SDG implementation external support including aid will become even more important because of the vast nature of the SDGs.

Moreover, despite much improvement in economic front, Bangladesh still needs to address a few critical issues including creation of employment opportunities for a large number of unemployed youth, reduction of rising inequality, tackling the impact of climate change and ensuring basic needs to all. The main ethos that the SDGs hold is tackling various dimensions of poverty, addressing inequality and ensuring justice to all in the society. Through committing to deliver the SDGs, the government is also bound to ensure the objective of “Leave no one behind.” However, the capacity of the government to mobilise domestic resources remains low. Therefore, foreign aid will continue to be an important source for delivering the SDGs for poor countries.

Since Bangladesh will be graduating from the LDC category by 2024, it will have to take four broad approaches in the coming days with respect to resources for SDG implementation. First, till 2024 Bangladesh should explore more aid from its development partners. Over time, there has been changes in types, composition, sectoral focus and sources of aid. However, Bangladesh should identify its own requirement for aid and should be involved in aid supported projects from the designing phase to the completion phase. Aid should be used in sectors based on citizen's demand. Since the SDG implementation calls for partnership, aid supported projects should involve local people who can identify their own problems and also get suggest local solutions. Local people should also be involved in assessing the outcome of donor supported projects to ensure accountability. Second, Bangladesh should more actively explore other sources of external finance including blended finance and south-south cooperation. Third, it needs to strengthen its domestic resource mobilization through increasing tax-GDP ratio by appropriate regulatory framework and technological upgradation. Fourth, the capacity of human resources, particularly those who are associated with designing and implementing foreign supported projects needs to be enhanced. This will improve the absorptive capacity of the country in terms of utilising foreign aid at a higher rate and help reduce the volume of aid in the pipeline.