

PART 2: COUNTRY STUDIES

3 *Bangladesh*¹

APPLYING TECHNICAL COOPERATION TO HEALTH AND FINANCIAL REFORM

Introduction

Bangladesh is one of the largest recipients of official development assistance (ODA). Average ODA was around \$1.5 billion for the period 1994-1999, although total ODA receipts, as a share of GDP, have declined in recent years and in 1999 were about four percent of GDP. Technical cooperation (TC), sometimes referred to as technical assistance (TA), constitutes about one-sixth of ODA, again making Bangladesh a major recipient. This chapter evaluates the performance of TC during the 1990s in order to identify the factors behind success and failure. Technical cooperation here refers to assistance intended to enhance the capacity of institutions and individuals, so that they are better able to undertake tasks and improve performance. Technical cooperation covers a wide range of activities, including consultancy services, workshops, training and the supply of equipment. Significant amounts are also provided under the umbrella of so-called project aid.

Following a brief economic background section, this chapter provides an overall picture of ODA and TC in Bangladesh. Thereafter, it focuses on two case studies – one

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in the health sector and the other in the area of economic reform, where a considerable amount of TC was provided during the 1990s.

Technical cooperation to the health sector was initially provided through projects. Since 1997, TC has been provided within the framework of a sector-wide strategy through the Health and Population Sector Programme (HPSP). This approach has permitted a greater level of coordination among donors and the Government in a sector that is critical to the welfare of the country. A significant component of this TC is investment-related.

The second case study on economic reform deals with free-standing TC provided to the Ministry of Finance. The programmes implemented in the Ministry are directly linked to the wider process of economic reform that is being undertaken in Bangladesh, in cooperation with the country's development partners and within the framework of the Consultative Group process.

Economic Background

Bangladesh is a Least Developed Country. With a population of 123 million, its average GDP for the years 1997-1999 was about \$36 billion, which converts into a per capita GDP of around \$300. This same period witnessed a GDP growth rate of around five percent. There has been considerable progress in macroeconomic stability, and the rate of inflation has been low – below 10% – for most of the last decade. An important achievement is a sustained increase in exports, rising from \$1.7 billion in 1990/91 to \$5.8 billion in 1999/00. Meanwhile, ODA as a share of exports declined from 104% in 1990/91 to 28% in 1999/00. This is an appropriate illustration of the respective roles of aid and trade.

Despite improvements in performance on the Human Development Index – Bangladesh's HDI value improved from 0.335 in 1975 to 0.478 in 2000 – the country remains in the low human development category, at 145th place out of 173 countries ranked on the HDI. In 2000, life expectancy for the average Bangladeshi was 59.4 years, just below the South Asian regional average of 62.9 years. According to data from 1999, the country performs well below the regional average in adult literacy (41.3% against 55.6%) and combined enrolment ratios (37% to 53%). Average income per head in 2000, at \$1,602 (PPP US\$) is also well below the regional average of \$2,404.

Trends in ODA and TC

Official development assistance has played an important role in Bangladesh's development scenario in four principal forms: food, commodity, and project aid (which includes investment-related technical assistance), and free-standing TC. Commitments totalling nearly \$44 billion in ODA were made between 1971/72 and 1999/00, of which \$36 billion was disbursed. In the 1990s, the amount of ODA disbursed was \$16 billion.

Table 3.1 shows declining ODA disbursements for the period 1990/91-1999/00. Disbursements dropped from \$1,733 million in 1990/91 to \$1,251 million in 1997/98,

but registered a modest rise in subsequent years, to \$1,588 million in 1999/00 (in connection with post-flood relief and rehabilitation support).

Official development assistance disbursements, as a percentage of GDP, revenue, expenditure and exports, experienced a declining trend over the last decade. From 1990/91 to 1999/00, the share of ODA in GDP declined from 7.4% to 4.3%; government revenue as a percentage of GDP increased from 9.56% to 11.42%; government expenditure (as a percentage of GDP) increased from 16.1% to 20.3%; and the share of exports (again as a percentage of GDP) increased from 7.14% to 15.5%. These trends indicate that the domestic capacity to finance expenditure through greater domestic resource mobilization has risen over the last 10 years.

Disbursements exceeded commitments in 1990/91, 1994/95, 1995/96 and 1999/00; in other years, more aid was committed than used. This provides a crude measure of the deterioration in the absorptive capacity for foreign aid, and explains the large volume of unutilized aid. More than \$5 billion, mostly in the form of project aid, remains untapped in the pipeline.

Commitment and disbursement figures of ODA and its components show a fall in aid commitments, with the exception of fiscal years 1993/94 and 1997/98. The increase in 1998/99 is most likely a reflection of additional aid commitments for post-flood rehabilitation projects. The volume of food aid was \$160 million in 1990/91, but dropped to \$50 million in 1999/00. Commodity aid declined from \$431 million to \$174 million over the same period.

The same trend did not apply to project aid. Many development activities in Bangladesh are undertaken within the context of projects, and project aid is an influential factor in national development. In 2000, the amount of project aid committed was \$1,250.74 million, which makes up 84.79% of ODA. Project aid contains an important TC component, generally ranging from five to 10%.

Technical cooperation is integrated into the Annual Development Programme (ADP) through the budget for publicly funded projects, including those underwritten by foreign assistance. Table 3.2 shows that from 1990-91 to 1999-00, the total ADP allocation was \$24,739 million, \$11,308 million (45.7%) of which was for PA. Some \$894 million was allocated to TC.

The share of TC in the ADP has seen a declining trend. It was slightly more than three percent between 1990/91 and 1995/96, rising to 4.2% and 5.1% in the following two years, before falling back to 2.7% in 1999/00. The total amount of TC declined from a high of \$126 million in 1997-98 to a low of \$81 million in 1998-99. It rose again to \$89 million in 1999-2000, which is still below allocations in every year from 1993 to 1998. The share of TC in project aid grew until 1997/98 to a peak of 11.16%, and has since fallen back quite sharply.

Free-standing TC has two components. One is the government component (consisting of matching funds, overhead facilities or some personnel cost), and the other

TABLE 3.1: KEY ECONOMIC DATA, 1990-2000

Year	(US\$ millions)		As share of GDP (%)			
	GDP	ODA	ODA	Govt Revenue	Govt Expenditure	Exports
1990-91	23,372.32	1,732.58	7.41	9.56	16.10	7.14
1991-92	23,767.75	1,611.47	6.78	10.50	16.60	8.01
1992-93	24,218.00	1,675.01	6.92	11.67	18.27	9.84
1993-94	25,759.13	1,558.64	6.05	12.12	16.37	9.84
1994-95	29,110.61	1,739.09	5.97	12.11	17.82	11.93
1995-96	31,855.75	1,443.75	4.53	11.49	16.66	12.19
1996-97	32,857.00	1,481.23	4.51	12.22	16.80	13.47
1997-98	34,062.03	1,251.37	3.67	12.38	17.46	15.18
1998-99	36,394.01	1,536.06	4.22	11.26	16.74	14.63
1999-00	37,153.58	1,587.95	4.27	11.42	20.30	15.51
Trend growth rate (%)	5.87	-1.77	-1.77	7.30	7.03	14.55

Source: Economic Relations Division (ERD), Ministry of Finance.

TABLE 3.2: ANNUAL DEVELOPMENT PROGRAMME (ADP) ALLOCATIONS AND DISBURSEMENTS (US\$ MILLIONS)

Fiscal year	Allocations			Disbursements		Shares of TC (%) in allocation	
	ADP	Project Aid	TC	ADP	Project Aid	TC in ADP	TC in Project Aid
1990-91	1,714.57	1,029.85	63.65	1,476.16	832.63	3.71	6.18
1991-92	1,874.67	1,061.88	71.37	1,579.44	889.38	3.81	6.72
1992-93	2,074.86	1,080.60	68.44	1,673.56	865.51	3.30	6.33
1993-94	2,400.00	1,090.00	90.68	2,245.88	1,024.50	3.78	8.32
1994-95	2,773.63	1,154.23	95.12	2,562.93	1,072.18	3.43	8.24
1995-96	2,556.78	1,091.53	94.56	2,451.22	968.19	3.70	8.66
1996-97	2,740.05	1,153.10	113.64	2,585.71	991.33	4.15	9.86
1997-98	2,463.70	1,124.95	125.56	2,427.85	926.97	5.10	11.16
1998-99	2,860.65	1,179.81	81.73	2,555.99	953.21	2.86	6.93
1999-00	3,279.67	1,341.68	89.11	2,827.55	1,127.27	2.72	6.64
Total	24,738.58	11,307.63	893.86	22,386.29	9,651.17	3.61	7.90

Source: Implementation, Monitoring and Evaluation Division (IMED), Planning Commission.

TABLE 3.3: TECHNICAL COOPERATION BY SECTOR, 1990/91-99/00

Sectors	Allocation			Utilization		
	GOB-TA	PA-TA	Total	TA	As % of total allocation	As % of total utilization
Agriculture	9.36	83.77	93.13	30.69	32.95	13.39
Industry	3.01	65.21	68.22	11.18	16.39	4.88
Health, Pop. & Family Welfare	22.5	64.99	87.49	23.69	27.08	10.34
Family Welfare	1.76	50.05	51.81	6.65	12.84	2.90
Social Welfare, Women's Affairs & Youth Development	0.79	10.98	11.77	3.86	32.80	1.68
Labour, Manpower	0.72	4.11	4.83	0	0.00	0.00
Power	3.18	22.07	25.25	9	35.64	3.39
Oil, Gas, Natural Resources	2.49	26.09	28.58	9.05	31.67	3.95
Water	42.44	199.04	241.48	50.39	20.87	21.99
Phys. Plan, Water Supply & Housing	4.41	35.87	40.28	5.12	12.71	2.23
Rural Development & Institutions	1.27	38	39.27	10.61	27.02	4.63
Transport	8.59	66.03	74.62	22.22	29.78	9.70
Communication	0.32	3.52	3.84	0.58	15.10	0.25
Mass Media	0.62	1.99	2.61	1.36	52.11	0.59
Public Administration	15.13	90.28	105.41	25.35	24.05	11.06
Education & Religious Affairs	3.23	28.83	32.06	19.4	60.51	8.46
Science & Technology Research	0.32	5.39	5.71	0	0.00	0.00
Sports & Culture	0.09	0.46	0.55	0.03	5.45	0.01
TOTAL (1990/91-1999/00)	120.23	796.68	916.91	229.18	24.99	100.00

Source: Economic Relations Division (ERD), Ministry of Finance; and Implementation Monitoring and Evaluation Division (IMED), Planning Commission.

is the foreign aid component under project aid. Table 3.3 shows TC disbursed directly through the budget and as a component of PA for the period 1990/91-1999/00, categorized under 18 ministries.

Total TC allocation over the decade was \$916.9 million. The largest portion went to the Ministry of Water Resources (\$241.5 million), followed by the Ministry of Public Administration (\$105.4 million), Agriculture (\$93.1 million), Health, Population and Family Planning (\$87.5 million) and Transport (\$74.6 million).

The level of TC disbursements, however, was much lower than the allocated amounts. TC utilization was only \$229 million, or about 25% of the total. Technical cooperation use by the respective ministries was highest for Water Resources (22.0%),

followed by Agriculture (13.4%), Public Administration (11.1%), and Health, Population and Family Welfare (10.3%).

The major TC donors are the World Bank (International Development Association), the United Kingdom, the Netherlands, Germany, UNDP and the Asian Development Bank. Table 3.4 shows commitment data by donor, and their preferred sectors.

In sum, TC trends in Bangladesh depict an overall declining trend that is expressive of both the restrictive supply-side situation, as well as improved demand conditions. Flows of TC slowed with falling ODA disbursements. Improvements in human and institutional development indicators, along with mixed results from past TC, also contributed to low “off-take”.

Process Analysis of TC

Technical cooperation projects in Bangladesh theoretically evolve through long, multi-layered consultation. Donors talk to implementing agencies first to identify needs and priorities. They then consult the administrative ministries to ascertain whether the needs and priorities named by the implementing agencies are consistent with government policies. In the formal sense, the Planning Commission comes in at a much later stage for approval. Donors, implementation agencies and the ministries consult the Planning Commission earlier, however – even if informally – to avoid rejection or protraction of the process at the approval stage. Once donors and implementation agencies reach agreements on priorities and preliminary design – and the concurrence of the Planning Commission has a high probability – formal steps to “process” the project commence.

The donors and the Government then hold programming meetings wherein they formally agree to the types of assistance to be provided, and the time frames, which are generally longer than 12 months, and usually for three years. If the changes called for under the proposed programmes are major, i.e. fundamentally changing sectors and institutions, a review of previous programmes is generally undertaken. Donors also produce feasibility studies and other pre-project analysis before they can commit resources.

Once agreements have been reached, government agencies prepare Technical Assistance Project Proforma (TAPP). The Planning Commission examines the proforma and submits it to the Executive Committee of the National Economic Council (ECNEC), headed by the Prime Minister, for approval. It is rare for the Planning Commission or the ECNEC to reject a TC project, though they may raise objections that need to be addressed by the ministries and the implementation agencies.

The donors also prepare their own documentation, which generally resembles the proforma with respect to objectives, technical specifications, implementation arrangements and budget, but differs in terms of format and structure. Differences between the Government and donors, and within the Government itself, lie in details and procedures, and hardly ever on issues of substance. Once agreement on fundamental issues is established, TC project articulation and documentation formalizes the commitment.

TABLE 3.4: TA BY DONOR ALLOCATION (US\$ MILLIONS)

Donor/source	Main Sectors	Allocated Amount in 1991-00
ADB	Agriculture, Water, Transport	27.21
BELGIUM	Power	0.23
CANADA	Water	9.59
DENMARK	Water	2.88
E.E.C.	Water	2.63
F.A.O.	Agriculture	2.154
F.R.G	Agriculture, Communication	13.54
FRANCE	Natural Resources	4.06
GERMANY	Finance, Education, Water	21.31
IDA	Transport, Physical Infrastructure	141.10
INDIA	Education	1.72
JAPAN	Education	1.19
NETHERLANDS	Water, Health, Physical Infrastructure	90.85
NORWAY	Finance	1.60
RUSSIA	Power	4.88
SAUDI ARABIA	Health	2.03
SWEDEN	Health, Population	1.42
UK	Health, Oil, Gas & Natural Resources	155.70
UNDP	Public Administration, Education, Family Welfare, Water	56.36
USA	Public Administration, Finance	15.00
TOTAL		555.45

Source: Economic Relations Division (ERD), Ministry of Finance.

TABLE 3.5: TC AND TA TO HEALTH AND FAMILY PLANNING, 1991-2003 (US\$ MILLIONS)

Period	Total Dev. Exp	TC	TC as % of Total Dev. Exp	TA under loan
1991-98	1,241.1	415.5	33.5	40
1998-03	1,875.2	432.1	23.0	120

The External Resources Division (ERD) of the Ministry of Finance plays a moderating role between implementation agencies, ministries, the Planning Commission and donors. Its concern lies in mobilizing external resources for sectors and ministries. In

cases where there are disagreements between implementation agencies and ministries or donors, ERD tries to narrow down or remove the difference. In the event that the Planning Commission raises objections, ERD sides with the ministry's judgment, and points to the need for external resources for the sectoral programme (and particularly the direct and indirect need for foreign exchange). For judgments on substantive contents and merits, ERD relies more on the relevant ministry and the implementation agency, which have a better grasp of the technical/ engineering contents of projects.

Aid is now being directed increasingly to institutional capacity building and reform – the so-called “software” of development. Analysis and design have become much more important and more complex in these areas. Judgments and value perceptions of donor and government functionaries play a crucial role in the “software” of aid and development.

Donors often expect more fundamental changes than the institutional capacity can deliver. On the other hand, accelerating development entails many of these changes – at least according to donors who base their recommendations on neo-classical economic theory and their own experiences in institutional and economic development. As long as the basic approaches to development are conditioned by this cognitive structure and the country is dependent on aid, the role of TC will remain important.

TC in Health and Family Planning Sector

This section examines TC support to the health sector, mainly with reference to the Fourth Population and Health Project (FPHP, 1990-97) and the Health and Population Sector Programme (HPSP, 1998-03). These were the largest aid programmes over the last decade, supported mainly by Australia, Canada, Germany, the Netherlands, Norway, Sweden, the United Kingdom, USAID, UNICEF, WHO and UNFPA.

The overall FPHP goals included reducing fertility, lowering morbidity and mortality in children under 5, reducing maternal mortality, reducing mortality from common poverty-related diseases and enhancing the nutritional status of women and children. The HPSP objective is to achieve improved health and family welfare among the most vulnerable women, children and the poor. It is intended to put in place a comprehensive system that ensures client-centred provision of primary health care and related services.

The figures in Table 3.5 show a comparison of TC disbursements between the 4th and 5th Government Plan periods (projected in the case of the latter period), which show sustained high levels of TC. The data on TC for the first period includes support to 64 FPHP projects. The Government adopted sector-wide approaches (SWAPs) in 1998, and the HPSP and the National Nutrition Project account for a larger share of total aid and TC to the sector. Technical cooperation associated with loans was also significant in both periods.

Ideally, all foreign support is pooled under a SWAPs arrangement that serves as the basis for identifying priority clusters of activities. There is, however, some resistance

from both donors and the Government to aggregating all aid programmes in the health sector under one head – on the part of donors because of a desire to establish their authority over the HPSP, and on the part of recipients because of concern that subjecting all expenditures to World Bank oversight norms might slacken the pace of implementation.

The nature and extent of government involvement in TC is a commonly debated issue. Officials complain about non-involvement in the formulation and implementation of programme activities associated with the HPSP, mainly where TC is not pooled.

More importantly, there is a sense that HPSP funds are spent on activities that do not reflect government priorities, leaving critical areas untouched. For example, despite substantial disbursements during the last decade, the Ministry of Health still does not have a serviceable personnel data base, a computerized MIS system, or a training programme focused on increasing clinical knowledge and skills. Important programmes such as English-language training for medical students have been dropped on grounds that cannot be linked to shortage of funds. Procurement is stalled because of a lack of skilled manpower, which is a deficiency that could be met through consultancy services financed by grants. Important research activities, such as epidemiological studies on a number of non-communicable diseases, remain uninitiated for lack of funds.

A significant amount of total aid to the sector – around one-fifth – is allocated to NGOs, largely at the discretion of donors. The involvement of NGOs in the sector is wholly appropriate, but there is no collective oversight of their activities, either by donors or the Government.

Expenditures for most activities financed under grant aid through the HPSP are controlled by bilateral donors, including direct disbursements for NGOs, consultancies, workshops and research. In contrast, when loan funds are used, programme details are legally required to be finalized in consultation with the stakeholder. Here also, recipients sometimes have to acquiesce to the will of the donor.

It is important to note that official opposition to donor-proposed consultancies, for example, does not necessarily mean such services are not needed. The Government may be averse to TC programmes that are likely to precipitate politically or strategically unpalatable change. Inhibitions towards integrating the Family Planning and Health departments and the introduction of user fees for public health services are examples of official resistance to donor-initiated reforms under the HPSP.

With respect to modalities of TC, available data suggests that expenditure on consultancies has tended to fall, while spending on training activities has increased. Again the trend appears appropriate, given the emphasis being given to primary health care and family planning, mainly for rural and disadvantaged populations.

There is also a general feeling that a significant part of TC is being channeled into “soft” management-related issues, where achievements are difficult to quantify and evaluate. Expenditure details and interviews with officials reveal that sector-wide

management, decentralization and planning are some of the areas that receive excessive attention and funds.

There is also concern about foreign tours and study visits by officials in the Health and Population sectors, much of which is redundant because of the rapid turnover in personnel. Support from concerned officials, however, ensures prioritization of such programming. Although it is difficult to estimate the extent of this 'padding', it is the opinion of the research team that rationalization would lead to significant economies, particularly under the HPSP.

As a management device, the sector-wide approach introduced by the HPSP has improved coordination. Related activities are clustered into line programmes. However, bilateral aid to the health sector that falls outside the pooled funds of the HPSP still continues to support activities under different line directors, who exert their own autonomy vis-à-vis the HPSP. Planning, management, human resource and MIS issues are thus dealt with by more than one line director, each unaware of the programmes implemented in other areas. This undermines the integrity of the HPSP.

HPSP discipline can be undermined for other reasons. Implementing agencies remain reluctant to become involved with the process of procurement and hiring out of fear of getting embroiled in complaints and accusations that could end with investigations by the Anti-Corruption Bureau. There is also the concern that expenditures will bring them within the purview of the national audit system, which scrutinizes all accounts according to national rules, even when the spending is done by the donors, in conformity with their own procedures.

The TC experience in the health sector raises a number of related issues.

Use of local consultants. Bangladesh has qualified local consultants in most sectors. More use could be made of them under the HPSP, since local experts are more familiar with national procedures and social conditions. In practice, while more local consultants are being used under TC than before, there are still marked differences in remuneration when compared with expatriate experts. Current competitive bidding systems tend to drive down compensation rates for local consultants, even though they are as qualified as expatriates.

It is proposed by the study team that the outcomes of consultancies, research, workshops and other TC activities be more widely disseminated to policy makers and civil society so that the professional competency of these services, and particularly those of more costly expatriate consultants, can be put under greater public scrutiny. Initial reviews of TC programmes indicate that this is rarely done, and that the lack of scrutiny probably helps to conceal substandard consultancy work within donor-funded TC.

Aid effectiveness and sustainability. Although it is clearly desirable for the Government to establish greater control over TC programmes, there are evident problems in realizing this goal, given prevailing governance practices. Effectiveness of TC can be compromised by the protracted nature of the consultant selection process

when the Government is responsible for recruitment, and when loan funds are used. Government regulations on co-financing can also be a hindrance. Training and workshop programmes, for example, require counterpart funds. Government rules, however, limit the amounts of funds that may be drawn, or the volume of 'imprest' funds made available to support such activities.

The sustainability issue of TC-related activities is of concern, particularly as foreign assistance begins to decline. There are both funding and capacity dimensions to sustainability. It is clear that the Government cannot continue funding programmes at the level realized under the HPSP from its own resources. Given the somewhat superfluous nature of some activities funded under TC, equivalent levels of funding may not be necessary if the reduced allocations are used more effectively. The Government will need to apply stricter priorities to its expenditures.

The permanent creation and retention of capacity is the other challenge arising out of the TC process. If recipient organizations are able to capture or retain capacity built up through TC, then dependence on such assistance is likely to decrease. In practice, however, a significant part of TC training and research is not directly targeted at enhancing the health sector's organizational capacity in designing and implementing its own programmes. Personnel retention is also a key problem. Frequent turnovers of civil servants trained under TC programmes and limited career prospects within the public service sector drain away knowledge and skills.

Accountability and cost-effectiveness. Any assessment of development expenditure, to be meaningful, requires that outcomes or benefits be evaluated against costs. Research studies and surveys indicate that there have been improvements in health indicators: a fall in infant and maternal mortality and total fertility rates, as well as progress in life expectancy and nutritional conditions. It is less clear how these improved health indicators are causally related to the HPSP. More studies relating component-specific expenditures to health outcomes are required. Here again, precise estimates of the HPSP's cost-effectiveness are not easily discernible, because data on expenditure broken down by activity are not readily available. The general conclusion is that the HPSP has been positive, but that the extent to which society has extracted value for money from the HPSP varies according to different components of the programme.

While the achievements in the health sector are encouraging, the sector continues to be a source of major developmental concern. In a country where even primary health care services are still fragmented and there is ample scope for improvement both in terms of coverage and quality of service, there is at the same time a parallel demand for providing specialist services for treatment of complicated diseases. As in the past, emphasis on primary health care has to be measured against the demand for tertiary care provided by better-trained medical personnel.

Enhancing TC Effectiveness in Health, Family Planning Sectors

Technical cooperation will continue to play an important catalytic role as Bangladesh strives for a better and more equitable health care system. Such support is financed through both grants and concessional loans from multilateral finance institutions, although the Government has a clear preference for grant assistance. If necessary, it should be feasible to shift some of the TC obtained as loans – especially when tied to investment projects – to sources that will provide TC in grant form. However, as discussed in the next section, grants are not necessarily a less costly source of aid.

It is also unclear whether grant preference works in the interests of capacity development. Since TC is largely provided in grants and is not considered a cost incurred by the Government, there is no financial incentive for closer scrutiny and control. Consultants are thus retained to undertake tasks that should normally be carried out by local officials. The Government also appears to accept TC for activities of low priority in the health sector, for fear of compromising opportunities for larger volumes of project aid.

A more purposeful Government with a greater understanding of expenditure priorities – which requires more than a fundamental change in attitude – would help to ensure a better use of aid resources. A more effective role for the Government can emerge from the sector-wide approach, but will call for major changes in institutions and procedures.

TC and Financial Reform

In the early 1990s, Bangladesh embarked on a large number of reform initiatives covering a wide range of public sector activities. The efforts of the Government were complemented by various donor-supported TC projects. Donors include the United Kingdom's Department for International Development (DFID), the World Bank (IDA) and the Asian Development Bank. This section focuses on macro-economic reforms carried out through TC and capacity development programmes in the Ministry of Finance during the period 1992-2001. The TC projects analyzed here addressed a broad range of issues in the areas of budgeting and expenditure control, revenue administration and macroeconomic policy analysis. The three TC programmes are summarized below.

Reforms in Budgeting and Expenditure Control (RIBEC) was implemented in three phases (RIBEC1, RIBEC2 – subsequently restructured as RIBEC 2A and 2B – and RIBEC2000), with a new phase in the offing. These three DFID grant-funded projects covered budgeting and expenditure control issues. In RIBEC1, two private consultancy firms – one from the UK and other from Bangladesh – carried out a diagnostic study. The report identified the weaknesses in budgetary and expenditure controls, with recommendations for reforms. RIBEC2 followed up on the report. Subsequent to a review, the activities of RIBEC2 were reduced to focus on a smaller number of issues. Phase 3 (RIBEC 2000) continues with various key tasks, especially focusing on strengthening the training functions of the Financial Management Academy and reforming government

audit processes and financial management capacities. The RIBEC programmes are indicated under Table 3.6.

Excise Taxes and Customs Data Computerization (ETAC) and its successor, the *Customs Administration Project (CAM₁)*, focused on computerizing the National Board of Revenue (NBR) and modernizing customs procedures. Both were funded through an IDA credit, and targeted improvements in revenue administration. ETAC was implemented through individual consultants, while a private consulting consortium is handling CAM₁. Expenditures under these programmes are presented in Table 3.7.

Institutional Support to the Ministry of Finance (ISMOF) and its follow-up project, *Efficiency Enhancement of Fiscal Management (EEFM)*, were funded by grants from the Asian Development Bank. The primary aim of these projects is to improve the Ministry's research and analytical capacities in fiscal, monetary and external economy policy. The programme has developed a computerized general equilibrium model to enable the Government to address key monetary and fiscal policy issues. These programmes are presented in Table 3.8.

The three TC projects identified above represent three different donors and two different types of financing (grants and credit). Out of the seven projects, RIBEC, ISMOF and EEFM are stand-alone TC projects, ETAC is a sub-project under an umbrella group of TC projects, and CAM₁ is one of the TC components of the broader Export Diversification Project. All the projects under review are ongoing in the sense that although one or more phases of the project have been completed, a successor project is in place or is being contemplated.

The projects exemplify a process by which TC projects originate, and the way donors are involved. RIBEC was created within the finance division of the Ministry of Finance, and DFID worked alongside national officials in developing the programme to improve budgetary processes and public expenditure management. The ISMOF/EEFM programme was driven by a Government push to improve capacities within the Ministry of Finance, with ADB support. There was a shared mutual interest between donors and the Government in designing and implementing these projects.

Key Issues in Design and Implementation

The three programmes in the Ministry of Finance – RIBEC, ETAC/CAM₁ and ISMOF/EEFM – would appear to have been successful in terms of capacity development. The RIBEC programme has brought about improvements in the quality of accounting, and enhanced capacities in financial management, particularly at the sectoral level. The ETAC/CAM programme has speeded up data transfer and reporting through computerization. Customs procedures and documentation are faster and more transparent. Finally, ISMOF/EEFM has improved research and analytical capabilities in the Finance Ministry – manifested by several series of regular reports – and has begun to strengthen capacities in domestic debt management and monitoring of state-owned enterprises.

TABLE 3.6: TC UNDER REFORM IN BUDGETING AND EXPENDITURE CONTROL (RIBEC) PROJECTS

Project	Duration	Amount (in £millions)			
		Local Consultants	Foreign Consultants	Other Costs	Total
RIBEC1	October 1992 - April 1993	NA	NA	NA	£2.14
RIBEC2	1 Year	£0.83	£3.46	£5.52	£9.81
RIBEC2A and 2B	September 1994 - March 1998				
RIBEC 2000	January 1999 - September 2001	£0.61	£1.58	£1.29	£3.48

TABLE 3.7: EXPENDITURES UNDER REFORMS IN BUDGETING AND EXPENDITURE CONTROL (RIBEC) PROJECTS

Project	Duration	Method of Implementation	Amount (in £millions)			
			Local Consultants	Foreign Consultants	Other Costs	Total
ETAC	June 1992 - June 1999	Consultants	NA	NA	NA	\$3.44
CAM1	June 1999 - July 2002	Consulting Firm	\$1.32	\$2.83	\$5.46	\$9.61

TABLE 3.8: TC UNDER ISMOF AND EEFM PROJECTS

Project	Duration	Method of Implementation	Amount (in \$millions)			
			Local Consultants	Foreign Consultants	Other Costs	Total
ISMOF	August 1995- September 1998	Consultants	\$0.08	\$0.17	\$0.40	\$0.65
EEFM	October 1998- March 2002	Consulting Firm	\$0.20	\$0.27	\$0.31	\$0.78

In all groups, challenges remain in order to ensure that the capacity gains are consolidated and made sustainable. The TC projects have highlighted a number of issues that have more general application.

Ownership. The Government can claim ownership of the economic reform projects, as they address its priority concerns. The donors themselves have attached priority to these issues and have supported the Government. There was strong commitment at the level of senior policy makers and administrators, as well as from the political leadership. Ownership can be claimed only when there is this degree of commitment. The projects were also designed after an extensive process of consultation between the Government and TC donors, which involved the participation of a wide range of stakeholders.

Institutional capacity building. Tensions can arise from integrating a TC project into the administrative practices of a ministry or organization. The existing organization has its mission, culture, and pattern of formal and informal relationships and work methods. If the project builds on what already exists and is largely compatible with the existing organization, integration does not pose a problem. However, if the project aims at changing existing structures more fundamentally, then it poses a challenge to managers and administrators. In the public sector, the tension can be more pronounced. Government is a large and complex set of organizations, and its parts interact with each other and with the whole in varied and complex ways. The introduction of new methods and values will always be resisted. Capacity development programmes, therefore, need to select strategic units that affect and influence other parts. The reform of financial management is strategic from that point of view.

One interesting innovation has been the creation of project implementing units (PIUs) within projects. Currently serving government officials with the requisite background have been recruited as consultants to these PIUs, and they are paid a higher remuneration than their normal government salaries through the project budget. The employment of these officials in this capacity has enabled projects to collaborate with related government offices during implementation.

Some of the potential impediments to successful integration and change occur when:

- new and higher levels of professional and managerial skills are required, but incumbents are unwilling to learn new skills and resist change;
- there are no incentives to help motivate employees (remuneration and prospects of career advancement do not improve with new skills);
- there is no innovation in decision making methods, and therefore no demand, reward or recognition for new skills; and
- the structure of administration and the civil service system, organized as generalist cadres, do not attach value to professional or higher levels of skills. (The functional cadres are also generalists in that they do not need pre-entry professional qualifications. The cadres with technical qualifications have a limited or little role in policy making, and when they attain senior positions in ministries, they rotate in the same way as generalist officers).

These problems cannot be solved within one project or a single organization in the public sector. To ensure productive and sustainable processes of capacity development, these systemic problems need to be addressed at a government-wide level.

Nonetheless, the RIBEC group of projects appears to have addressed, largely successfully, the problems of assimilating a project into the main structure of an administration, potentially ensuring its sustainability (though this is yet to be fully tested). The ingredients of success would seem to have been the following: the project originated from the Government; expatriate and local consultants, and retired and serving government servants worked together in designing the programme; government officials working as consultants provided a channel for transfer of knowledge; and there was sustained political commitment at top levels. The RIBEC experience may be treated as an example of a “good practice” and examined carefully to ascertain whether and to what extent it can be applied to other projects.

Grants vs. loans. As mentioned in the previous section, the Government depends on aid for TC for capacity building programmes, and has a strong preference for grants. This preference could reflect a perception that such programmes have low priority and should be implemented at no or lowest possible cost to the Government. This rationale does not seem justified by facts. Soft loans also contain a high grant element – in the range of 80% - 90%. Where the alternative is tied grant assistance, the procurement of goods and services with such grants is reportedly 20% - 30% higher. Allowing for the higher cost of tied grants and the expected efficiency of more competitive procurement, TC grants are not necessarily more cost-effective than soft loans. The Government should consider allocating adequate resources of its own for capacity development and for efficiency-enhancement interventions, and should not discriminate against soft loans.

Sustainability. Here there are more worries. Technical cooperation projects seem to lack a clear exit policy, implying that extensions have become inevitable. This absence of a phase-out is obviously beneficial to all parties involved, other than the real development stakeholders, i.e., the public. Expatriate consultants and firms get paid, irrespective of project performance, the donor portfolio is enlarged by the project extension, and local officials and consultants continue to benefit from training, travel and fees. This experience makes the case for more developmental, rather than merely intrinsic project accountability.

Information technology. The TC projects above have important components of technology, particularly IT. But the benefits that should accrue from implementing these components have not been fully realized for several reasons. Local staff are inadequately trained, and there is an aversion to IT among some public officials. There is also the problem of out-sourcing: IT activities are often contracted out to consultancy firms, which means capacities are not built up within government institutions. When the TC project is over, the Government cannot afford to continue paying for the consultancy services.

By whatever means it was done, the introduction of IT and computers should have led to more efficient management of government tasks. Even within the same ministry, however, there was no project interface: the ISMOF project, for example, failed to utilize the expenditure data developed under the RIBEC project. Also, RIBEC introduced a common classification for revenue and development budgets, but the integration of the two budgets was not attempted in order to prevent inter-ministerial conflict. (The revenue budget and overall resource programming rests with the Finance Division of the Ministry of Finance, while the Planning Commission is responsible for programming development expenditure.

Consultancy firms. In these projects, extensive use was made of consultancy firms, which reduce the administrative burden of project management for both the Government and donors. Several aspects of these arrangements need to be considered. Both multilateral and bilateral donors make only limited provision for local consultancy services. As noted in the previous section, there is plenty of opportunity for more extensive use of national consultants who possess internationally recognized qualifications. If this practice is widely adopted, it will make an important contribution to capacity building.

Enhancing Effectiveness of TC in Financial Reform

In sum, the TC programmes within the Ministry of Finance appear to have been at least partially successful, and have led to enhanced capacity in three areas of strategic management concern. The following are among the principal reasons for success:

- The Finance Ministry felt the need for capacity building in these areas, and programmes were designed with close involvement of officials who knew the problems and stood to benefit from the process.
- The recognition of this need for capacity building was not idiosyncratic in the sense that it was not confined to an individual civil servant or minister. This need was widely perceived and shared, and when individual civil servants changed, their successors continued to support the programmes. The programmes were thus embedded in the institutions.
- The projects lent support to the ongoing activities of the Ministry, which helped its integration into mainstream activities. This added to overall understanding of the benefits associated with programmes, and thus their acceptance.
- The projects employed local consultants, including individuals who had previously worked, or were currently working in government, and could thus tap local knowledge and informal channels of contacts. Many of the civil servants who worked on the project later occupied important positions in the Ministry. The projects thus became opportunities for learning new skills, and resulted in mechanisms for transmitting that knowledge to the mainstream organization.

The factors responsible for change have been identified above. If these factors are present, TC projects are more likely to be successful in capacity building. And for capacities to be sustained, it is crucial to have the following conditions: institutional recognition of need, incorporation of experiential knowledge in design, concurrent help to the mainstream activities of the institution, removal of the artificial barrier between projects and mainstream administrative systems, and integration of personnel from the earliest period.

Concluding Remarks

The TC assessment exercise and the two case studies provide some general observations about TC and its utilization in Bangladesh. These are summarized below.

Foreign aid to Bangladesh has undergone significant changes. During the 1990s, donors generally shifted from a project to a programme approach, but continued to exercise control over their respective TC programmes. This is evident in the case of TC to the health sector. Programmes often became management-intensive, with much of the TC going to “soft” areas. There was “overuse” of TC, substitution of local capacity, and a lack of interface between TC programmes despite the sector-wide approach.

From the recipient’s perspective, there is now a better understanding and demand for client-oriented TC, and there have been institutional changes in line with SWAps. There remains, however, evidence of an ambivalent operational approach: complaints about lack of transparency and ownership are expressed, even as TC-related perks and the absence of auditing systems pass muster.

A number of other changes have become apparent in recent years, including more involvement by local consulting firms and academics in bidding for TC projects, and more extensive use of local subcontractors for substantive work (at much lower cost). Foreign experts hired for projects are also increasingly being replaced by less expensive personnel.

In the health sector, the new programme structure and requisite managerial changes were initiated mostly from the donor’s side, while the Government’s response was divided with respect to the new changes. The agencies and relevant sections of the Planning Commission required to undergo change were against it, as it meant an erosion of their influence. The health sector programme did not achieve its objectives primarily because too many changes were proposed in too short a time, and because of bureaucratic resistance to diminished authority.

The Finance Ministry was more effective in using TC to meet its goals primarily because the motivation for change originated from Government. The project was split into phases, and designed or re-designed on the basis of the organization’s capacity for absorbing change. The distinction between project and mainstream personnel was eliminated by hiring permanent civil servants with higher remunerations. Finally, the activities of TC personnel were integrated into the work of the Ministry from the very beginning, and could thus be easily retained and utilized.

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