

# The Economics and Governance of NGOs in Bangladesh

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# Study objectives

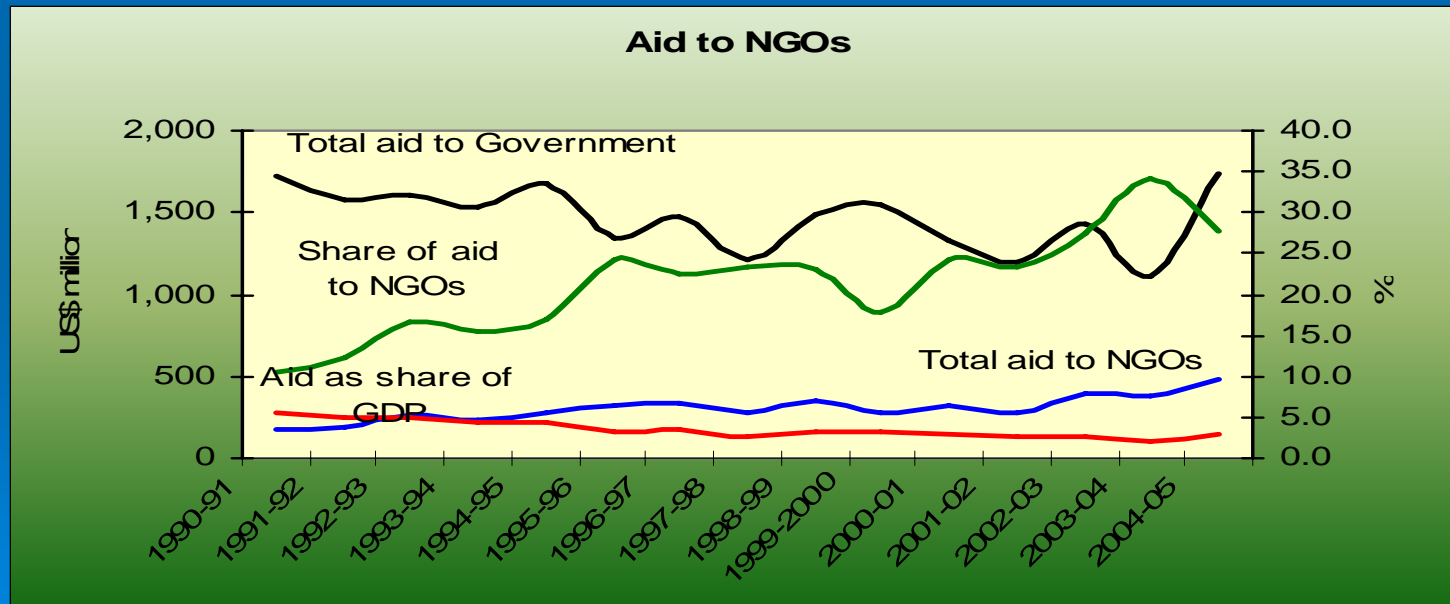
- Improve knowledge, and reduce misperceptions, of the NGO sector within Bangladesh by providing facts on key services and advocacy activities
- Examine public policy role (regulatory framework, taxation, subsidies) and internal structures (corporate governance, staff incentives) that have contributed to current scale of NGO sector
- Explore trends and implications of different ways of financing NGOs (donor aid, Government resources, micro-finance interest income, NGO commercial enterprises)
- Suggest steps that Government, donors and NGOs could each take to strengthen the development impact of NGO activity

# Conceptual framework

- Public Expenditure Review of NGO sector to lay out key facts by looking at
  1. Aggregate fund flows / structure of sector
  2. Inter and intra sectoral prioritization
  3. Operational efficiency
  
- WDR 2004 service delivery framework to examine the reasons for current scale/structure, relationships between Government, NGOs, donors and communities and future directions

# The aggregate picture

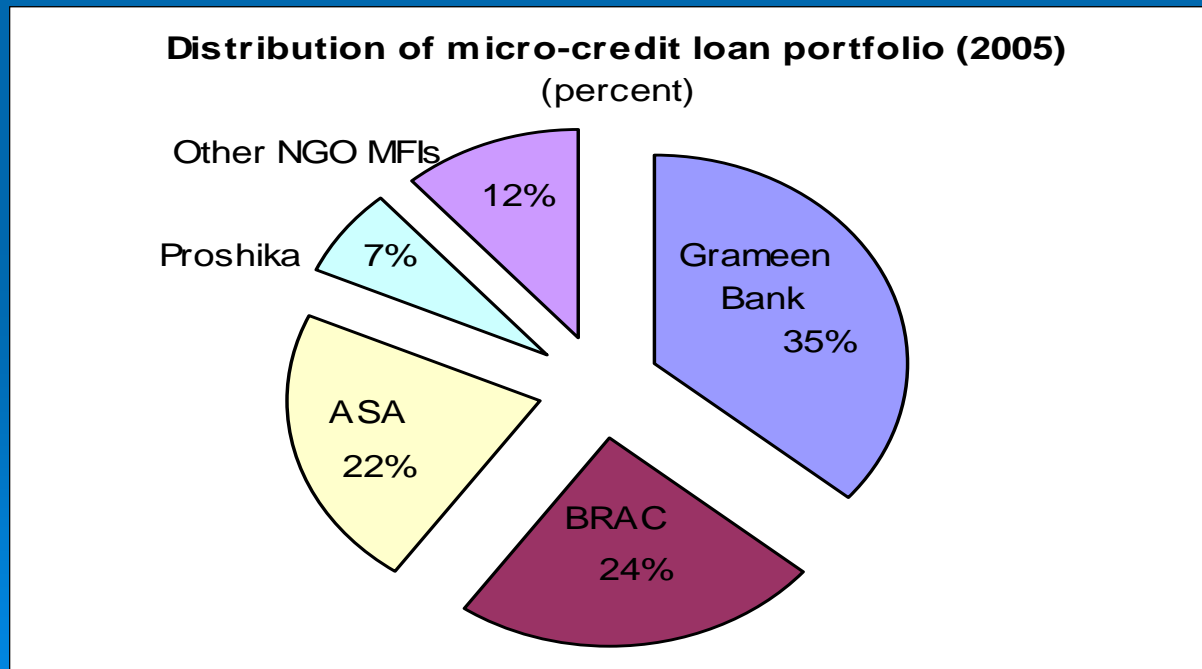
- Around 2000 “development NGOs”, most operate in less than 5 districts. Proportion of rural communities with at least one NGO program almost doubled 1995-2000 (HIES 2000)
- Total aid to NGOs has remained stable at around 0.7% of GDP – this is during a period when total aid to Bangladesh has fallen from 5% of GDP (1990-95) to 3% of GDP since 1995.



- Foreign aid constitutes 34% of total NGO expenditure (including micro-finance) but as high as 88% of non-microfinance programs
- Interest income on micro-finance main source of internal finance for NGOs. Private charitable contributions have not been tapped by development NGOs.
- Corruption has plagued Government financing of NGOs in social sectors. However in micro-finance (PKSF) and solar energy (IDCOL) contracting has been successful.

## A high degree of concentration...

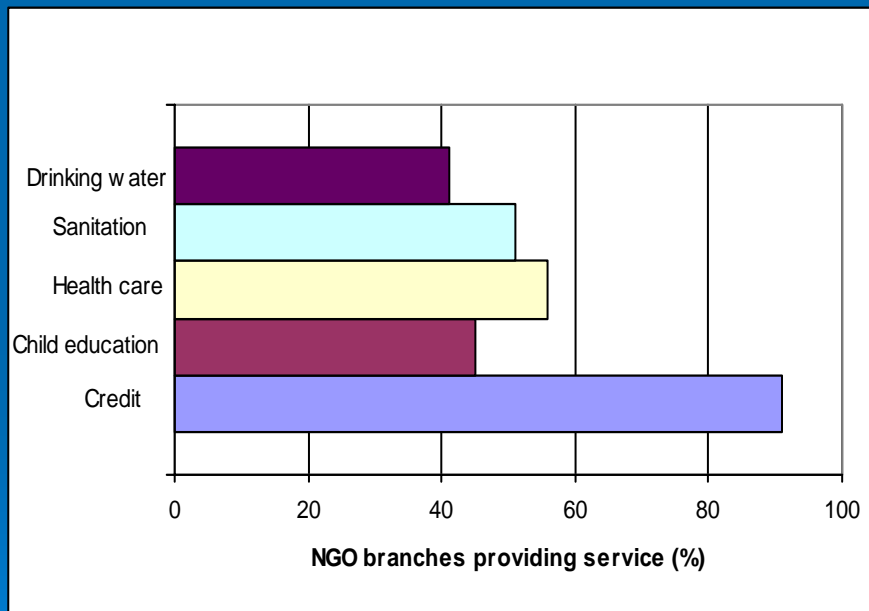
- Around 8% of total primary enrolment are in NGO schools – of these 75% are in BRAC schools
- 81% of total micro-credit loans outstanding are spread among 3 institutions



# Inter sectoral priorities

- A World Bank survey of 300 NGO branches in 2003 shows that the most common services provided by NGOs (micro-credit, health, sanitation and education) are in line with community preferences

Table 2.1: Focus Group Rankings of Community Priorities May 2003

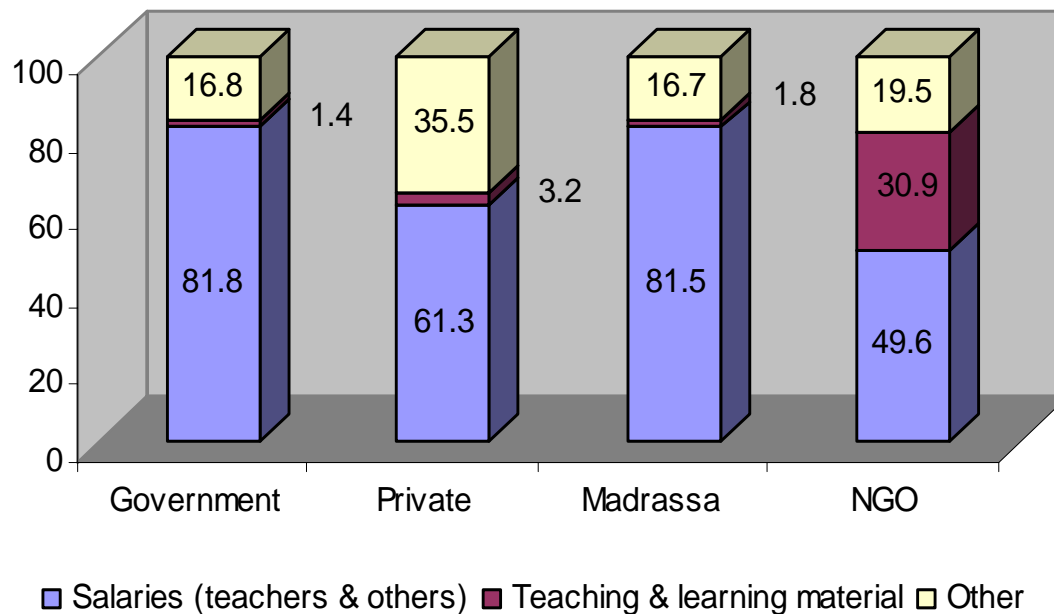


Source: World Bank NGO survey 2003

Service	Groups that mentioned it as a priority	
	Count	Percentage
Access to credit	251	81%
Health care	224	72%
Safe drinking water	210	68%
Employment Generation	182	59%
Non-formal Child Education	181	58%
Good sanitation (waste disposal)	156	50%
Agricultural training for adults	96	31%
Roads Construction/repair	87	28%
Non-Formal Adult Education	79	25%
Electricity System	69	22%
Other (specify)	49	16%
Transportation services	46	15%
Land rights/tenure	35	11%
Telephones/ other communications	13	4%

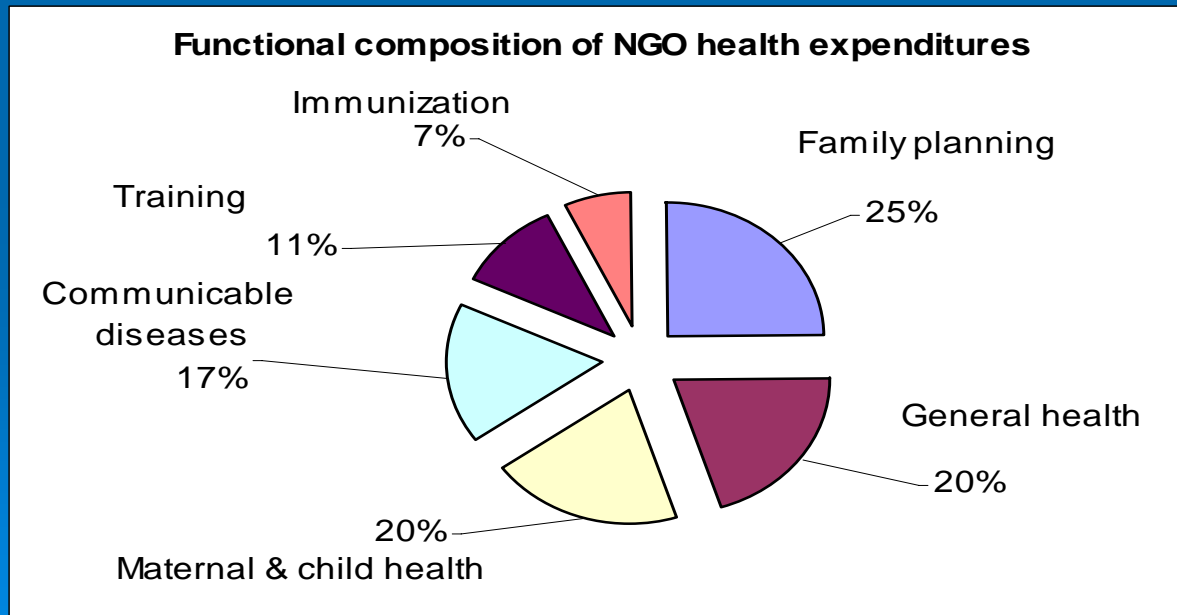
# Intra-sectoral priorities: share of non-salary expenditure far higher in NGO schools...

**Economic classification of primary education expenditure**  
(percent)



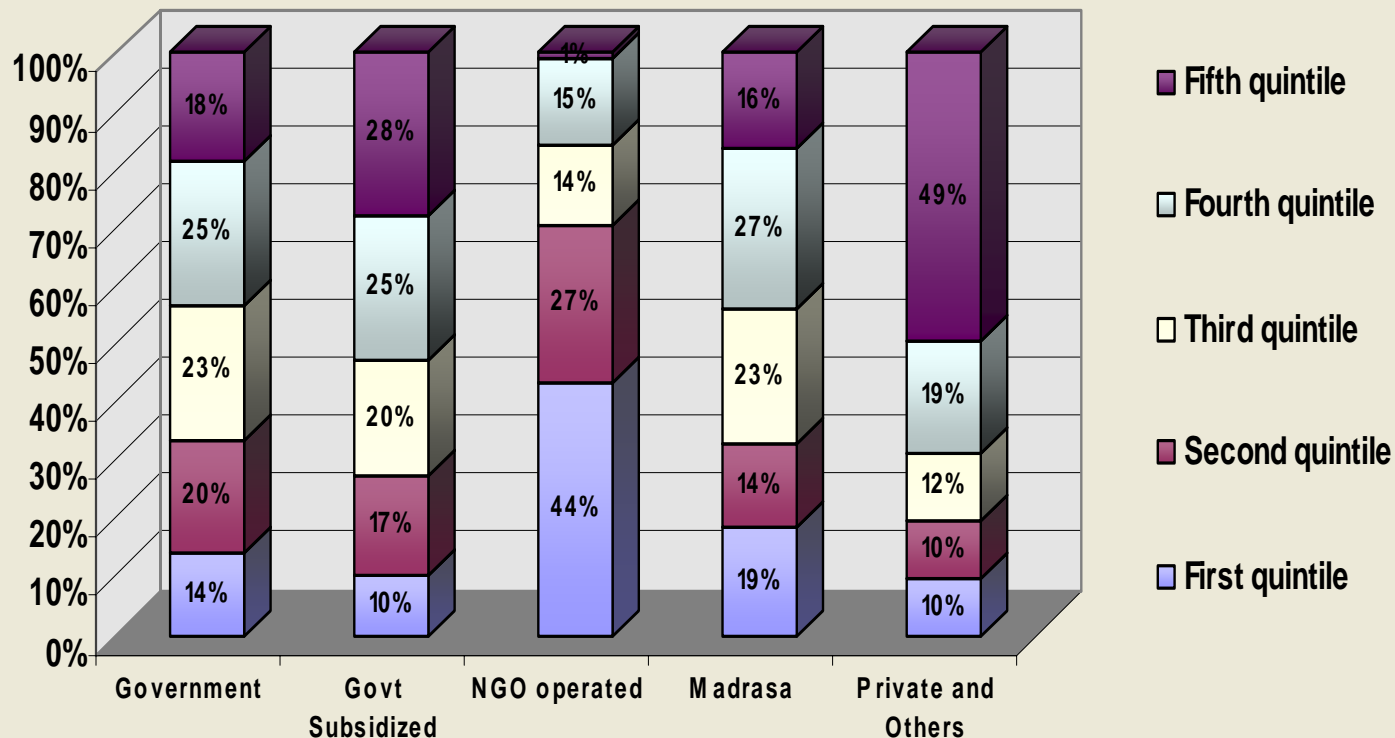
# Intra-sectoral priorities - health

- Certain health programs have nationwide reach through community health workers but health facilities are surprisingly scarce (e.g. only 4% of women obtained post-natal care from NGO facilities)
- Almost half of NGO health expenditures go to reproductive / maternal and child health care



# 'Operational efficiency': Reaching the poor

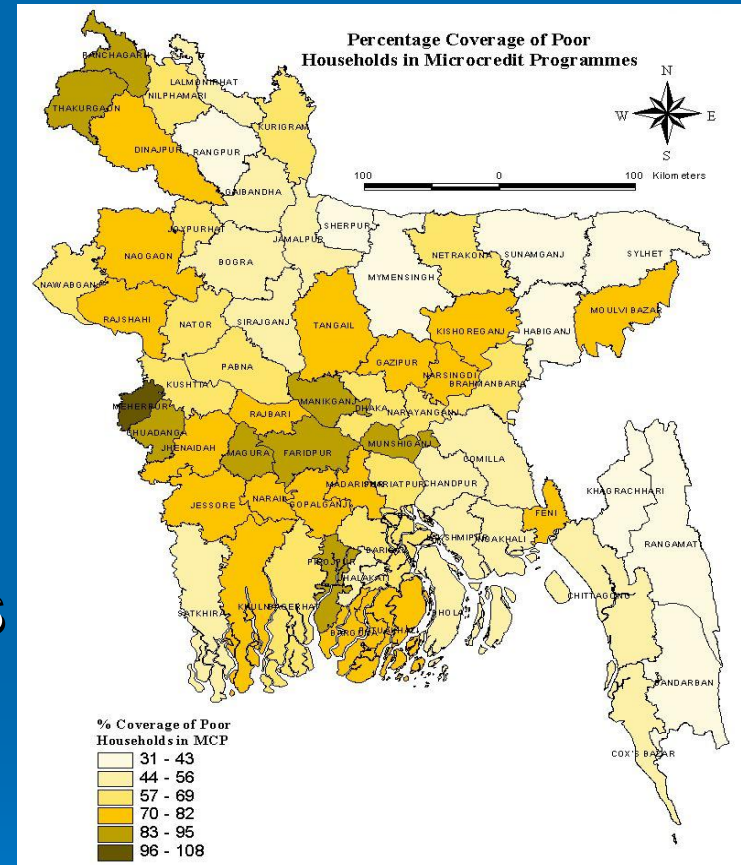
- NGOs are reasonably successful in targeting services to the poor (small share of non-poor get benefits)
- Primary education is a good example (HIES 2000)



# Reaching the poor

With 16.4 million borrowers, micro-credit reaches around 70% of poor households, and 43% of total households.

However, geographical coverage of poor households is uneven



Source: PKSF 2003.

# Operational efficiency: household impact

- On individual and household level benefits there is clear evidence of positive NGO impact on a range of key outcome goals
- Household consumption fluctuations are 50% lower for micro-credit borrowers compared to a control group.
- NGO presence in a village reduces the probability of being underweight among the poor by 13% controlling for other factors.
- For instance impact of NGO schools on test scores is highly significant (compared to girls who don't go to school, NGO girl students have 22% higher reading scores compared to 8% higher for GOB schools)

# 'Success factors': pay and incentives

- Several factors have led to unparalleled size and development impact (leadership, funding, geographical/social homogeneity).
- Internal incentives for staff performance rests largely on close supervision of staff attendance, easily monitorable targets, ability to dismiss workers easily and reasonably participatory decision-making. Performance-linked pay in certain programs help.
- On other hand frontline NGO worker pay is on average lower than GOB counterparts, compression ratios similar resulting in high staff turnover in certain professions e.g. doctors. Moreover staff altruism is over-rated especially for “second generation workers.”

# 'Success factors' : an understated GOB role

- Compared to other countries GOB has provided far greater space for NGO activity.
- Macro-economic stability and sustained growth has contributed to the success of micro-finance. Fiscal policy has been supportive.
- Partnership programs in key sectors (e.g. total sanitation, TB) have explicitly involved NGOs, PRSP confirms this.
- Recent tensions need to be seen in this broader context, though clearly there is more that can be done to improve GOB-NGO coordination (e.g. revival of GNCC), contracting (see later) and space for advocacy on contentious issues

# **‘Limiting factors’: Regulatory framework and financial accountability**

- Legal framework (registration, oversight, tax) outdated and the multiple implementing agencies lack capacity.
- Laws relating to internal governance, accounting, disclosure and transparency are rudimentary
- NGO Boards face similar corporate governance problems as corporate sector (family members, lack of term limits, lack of role clarity)
- Quality of external audits and public access to reports vary significantly

# Improving the regulatory framework and financial accountability

- Regulatory focus should be on improving financial accountability rather than micro-managing foreign funds
- Uniform accounting standards, oversight system for audit quality and public access to audit reports are important
- An Independent NGO Commission could replace existing regulators
- Certification bodies, as in Philippines and Pakistan, can screen out fly by night NGOs
- Harmonization of donor financial reporting required

# The case for a focused scaling up

- NGOs have made a difference for their clients but the macro impact of NGO programs is limited by the 'micro' nature of some of these interventions (e.g. growth impact of micro-credit, less than 10% of primary enrolment, few facility based health services).
- Strong case for a **focused** scaling up of NGO activity through a mix of enhanced direct provision and facilitating (local) Government and community provision so that accountability relationships are strengthened
- A 'strategic compact' between GOB, donors, NGOs and clients where each improves certain aspects of its current practices could further enhance development impact of NGOs

# Scaling up through a strategic compact

- GOB part of compact could be
  - (i) to strengthen the regulatory framework while not impairing NGOs ability to innovate
  - (ii) withdraw from direct service provision where NGOs have comparative advantage (e.g. micro-credit)
  - (iii) strengthen procurement and budgetary practices to improve contracting and evaluation of NGOs
  - (iv) revive GOB-NGO Coordination Council
  
- Donor role in 'compact' could be to support NGOs while ensuring that accountability of NGOs to Bangladeshi stakeholders is enhanced. As contracting processes improve more donor funds to NGOs, for social services, could go via Budget. Advocacy needs to be funded directly by donors to NGOs.

# Scaling up through a strategic compact

Contd...

- NGO part of the compact could include
  - (i) strengthening financial management and corporate governance
  - (ii) improving transparency and active publicity about activities and finances
  - (iii) carrying out strategic reviews to determine scaling up or down of programs/enterprises
  - (iv) strengthening middle management and succession planning
  
- Clients can contribute to the compact by actively exercising their power as consumers (eg vouchers), by monitoring service quality and demanding information