

Attaining positive contribution from partnership

External assistance in the context of sustainable development—2

SUBJECT OF THE DAY



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External debt management: The government of the Peoples Republic of Bangladesh from day one determined to treat external assistance as a mere tool to augment the deployable resources to ensure the required level of investment for ensuring the desired growth in the gross domestic product (GDP) for achieving the higher level of welfare of the people.

It adopted the policy to generally accept grants and predominantly concessional assistance preferably of the united type so that the national development priorities would not have to be compromised.

Due to the sky high goodwill generated throughout the world during the glorious war of liberation fought on the rock solid foundation of justice and legitimate aspirations, Bangladesh has been able to translate the will of its founding fathers to access grants to the maximum extent.

A firm resolve dictated by the father of the Nation was that of making payments of the interest charges and the principal amount due to be paid for the year in full and in time. This country installed one of its first test rest computers in the country in the then External Resources Division (ERD) primarily to keep track of the hundreds and thousands of credits / loans plus their terms along with the repayment dates and amounts.

The country has firmly implemented the policy of 'never to default' on external debt servicing. Bangladesh perhaps has the most creditworthy borrower ranking,

As a result of the prudent debt management policy adopted in Bangladesh the grant element in the external assistance was more than 80 (eighty) percent in 1972-73, it is still more than 10 (ten) percent of the total.

It is quite remarkable that approximately 45/46 percent of the total external assistance stock of Bangladesh (\$22.09 billion) consists of the highly concessional 'as if' grants from the IDA and ADF.

One underlying reason deterring an loan undertaking is to complement resources on a temporary basis to enable the loanee achieve self reliance. In external assistance, there are two distinct features that are very helpful even necessary.

There should be a breathing period during which time the loaned amount is utilized to enhance capacity helping additional production of goods and services. This is the reason for a grace period which may be co-terminus with the gestation period of the project using the external assistance.

Another requirement is the transformation of the domestic production capacity to producing tradable goods and services which will no doubt, either generate foreign exchange in exports revenue or save foreign exchange in imports substitution.

One missing element in the external assistance policy in Bangladesh is a failure to realize that loan liability created in the projects which produce goods or services which are predominantly or solely sold in the domestic currency without much import substitution, project incurring foreign exchange liability that creates problem including for the

For instance, a rail, a bridge, a telecom or a brick manufacturing company producing services or goods, that are sold for taka will have to be given the extra benefit by the state for the conversion of their local currency profit operating surplus into the appropriate foreign currency to pay for the dividend or interest charges and the principal to the foreign equity holder or the creditor as the case may be.

By contrast, a food grains production augmenting project with external assistance shall from the incremental output either generate import substituting foreign exchange savings or earn exports

proceeds to service the external assistance.

In the four decades of an independent Bangladesh, significant improvement has taken place in most of the areas of its economy.

Food production has more than tripled signifying an outstanding success in agriculture. Despite a doubling of the population, per capita income in US Dollars has increased more than four times.

Life expectancy at birth is 65 years and infant mortality rate has reduced to 39 per thousand live births. Literacy rate has peaked to above 60 percent although there is a lingering doubt about quality of education, particularly at the secondary level.

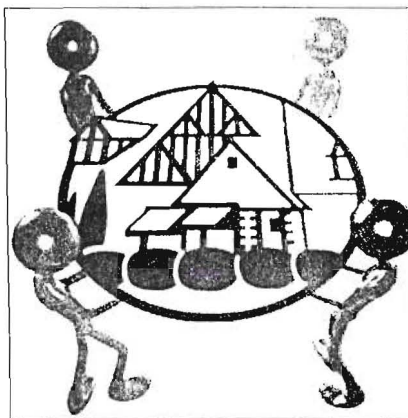
Against the standard of 20% of exports proceeds as DSR,

human development in Bangladesh is a positive one.

It has not only helped achieving the economic growth through additionality of resources but also given higher access to better technology and capability to design, formulate, implement, monitor and evaluate development projects.

In the market force dominated world where the strong same voices for regulation are often ignored to the detriment of global prosperity, bridging the savings investment gap also has helped integrating the Bangladesh economy with the world economy including helping to market access.

Bangladesh is a major user of external assistance and it has an excellent reputation as a recipient host country.



Bangladesh has it below 5 percent. Two relevant factors of concern, however, have to be noted. One is (a) phenomenal rise in remittances (11% of GDP) and (b) a rising outflow of foreign exchange resources for servicing private commercial loans including Foreign Direct Investment.

Whereas (a) is boosting the exports revenue in a big way; (b) is outside the official DSR. When payments and/or annual dividends obligations on account of the short term commercial loans and FDI are accounted for, the annual outflow of external resources will be to the range of \$1.6 billion or so which may be quite near the annual inflow level of ODA.

The overall assessment of the contribution of external assistance to the sustainable

Experience of Bangladesh in utilizing external assistance for accelerating sustainable human development: In the last four decades, there has not been much lacking of harmony between the recipient and the provider of external assistance, as development partners.

But certainly as expected in long and often difficult journey, there had been irritants and differences of opinion.

Professor Rehan Sobhan has, in the first ever analytical book on external assistance entitled "Crisis of External Dependence" (1992) has observed: In the 1980s Bangladesh GDP ratio was in the range of 10 per cent or higher whilst contribution of aid in financing the Annual Development Programme (ADP) budget was close and at times over 100 per cent.

He further observed that despite the high leverage of the partners due to Bangladesh's dependence on external assistance, they did not attempt to introduce the political consideration into the policy discourse.

The first discord between the points of view of the development partners and Bangladesh arose in 1973 when in the First Aid Group Meeting (held in Dhaka rather than the usual site of such meeting in Paris) IBRD/World Bank insisted that further aid commitment to Bangladesh would be halted unless it had accepted a part of an aid stock liability of Pakistan.

The second dispute arose in 1973 when, the US government then under President Richard Nixon insisted that Bangladesh should stop jute export to Cuba.

"These two incidents merit mention after all these years because the politicalization of aid commitments imposed severe political and economic costs on Bangladesh which served as a cautionary tale to subsequent GOB's not to place themselves in a confrontational position with our DPs even when they may feel that the country's political sovereignty is being compromised" observed Professor Rehan Sobhan in an article "Revisiting Foreign Aid" A Review of Bangladesh's Development published by the Centre for Policy Dialogue (CPD) and the University Press Limited in 2003.

Mr. M. Syduzzaman, in his article entitled Aid and Policy Reforms, published by CPD and UPI, in 2003 has made a chronological listing of the evolution of the external assistance policy in Bangladesh in deference to and consultation with the development partners. The major steps have been:

(i) at 1975-85 moves to improve the efficiency of the state sector through exchange rate, trade policy, fiscal, budgetary, financial sector and pricing reforms.

(ii) 1985-95 Growing disillusionment with the state sector leading to:

(i) moves towards private sector development
(ii) privatization of state owned enterprises
(iii) induction of the private sector into the area of infrastructure development
(iv) induction of NGOs into the area of micro credit and services delivery, particularly in

the rural areas.

1995 onwards: Emphasis on political issues in relation to the state of confrontation between political parties, the malfunctioning of parliament, the issue of hartals and political violence, human rights violations and security related concerns.

2000 onwards: Emphasis on political issues in relation to the state of confrontation between political parties, the malfunctioning of parliament, the issue of hartals and political violence, human rights violations and security related concerns.

Some development partners induced activities such as PRSP without much national ownership and the commercial banks' term lending to development commercial projects cause discomforts to many. There are opinions in the country that feel that the jute sector reforms at the instance of the development partners have caused some national harm. Some also feel that, "righting the price" as per the development partners philosophy, if applied without the necessary safeguards may hurt the idea of a welfare state.

In the long period of cooperation in a very long volume of external resources flows, there have been a surprisingly a low number of cancellation of projects under assistance. Most notable are the Health sector and Power sector assistance cancelled by the IBRD/IDA in the first part of the last decade.

The most recent temporary halting of the process of IDA Assistance of \$1.2 billion, the largest ever assistance to the country for the Padma Multilateral Bridge (PMB) due to some policy differences, if and when resolved and resumed, will once again demonstrate the maturity of the country despite its much lower aid dependence below two percent of GDP to accept the best quality resource both in terms of the most productive infrastructure project of Bangladesh.

This will also be an expression of high value that the development partners put the cooperation with Bangladesh.

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The writer is a former Governor of Bangladesh Bank

