

Sovereign Nations Face Hard Choices in Meeting

Demands from Donors

by M. Syeduzzaman
Special to the Star

In recent months, serious questions have been raised here by experts in both public and private sectors about conditions which are sought to be imposed on Bangladesh by aid agencies and donor nations in exchange of development assistance provided to this country. Are these conditions justified? Should Bangladesh disregard them? Here, in a two part series, a former Finance Minister of Bangladesh takes a look at the scenario and offers his answers to some of the questions raised in the media.

Monetary Fund, it deliberately agrees to accept certain rights and obligations. According to traditional thinking these might sometimes seem to call for a sacrifice of sovereignty. But we do not judge these voluntary decisions that way. Countries accept certain rules of the game, which are in their national interest.

Low income countries, even with the best of economic policies, are hardly able to make much headway without adequate external aid support. At all international fora, they urge the donor countries for more aid. These countries, including Bangladesh, also press donors, particularly bilateral donors, for more and more grant aid. We should not be under any illusion that such grant aid will be given free of any conditions—conditions about the manner in which the aid resources will be used. Usually grant aid is tied to the donor country for procurement of goods and services (except for the use of a part of grant aid to meet expenditure in the local currency of the recipient country), such procurement will usually be more expensive than buying on international competitive bidding. The recipient does not have the sovereign right to buy from the cheapest source. Aid conditionalities reflect aid policies of donor nations. If we want more grants, we have to accommodate these consequences through a process of negotiation and should not interpret the upshot as an infringement of our sovereignty. Aid from multilateral sources has advantage over some of the limitations under bilateral aid. It is available on highly concessional terms (for countries like Bangladesh), and can be used to buy goods and services internationally from the cheapest source. A substantial part of such aid can be used to meet expenditure in local currency. Therefore, it is more valuable to developing countries. Naturally, for proper and efficient use of such aid there will be conditions attached. If we look upon these as limitation on our sovereignty, we shall be mistaken.

The weaker a nation is, the more sensitive it is on the subject of sovereignty. If the incumbent Government also suffers from the weakness of limited legitimacy, it becomes all the more vulnerable to charges of sacrificing national sovereignty. A Government with a legitimate base and public support should be in a much better position to pursue a credible development policy and aid relationship with

donors. If the country is economically weak and is also excessively dependent on external aid, conditionalities for effective use of aid will be unavoidable. It will be worse if the country is also politically weak. Countries which are in debt, in addition, are in a much more precarious state.

A relevant question to ask in the context of conditionalities is: is aid given by a donor to the Government or to the people? Undoubtedly it is given to the country, for its people. However, under international convention, aid is given through the Government and transactions have to be with the State. The donor would therefore like to see whether the Government has the right type of framework for using aid for the long term benefit of its people. Questions will arise about priorities and rationality of economic policies for medium and long term structural changes in the economy. The recipient Government will have to determine its own economic priorities which are consistent with domestic realities. A convincing way would be to demonstrate that the government is making the maximum use of its own resources in support of the declared priorities.

Conditionalities are usually raised at three levels—project related, sector related, and macro-economic conditionalities. The first one may be termed as efficiency related conditionality, and the other two as policy conditionalities—though at times the distinctions may be somewhat blurred. Usually these conditionalities represent ascending scale of difficulties from the point of view of aid recipient. For project related conditionalities it should be possible to come to agreement without much debate. There should be no major difference of views about efficient implementation of projects, project design, administrative arrangements and maintenance after implementation etc. Developing countries at times argue and assert that the donors should not impose conditionalities for projects if the project loan is repaid on schedule. If the ultimate objective of aid is to ensure growth with eventual reduction in the level of dependence on aid, merely such assertions may not be enough. Efficiency at all stages of the project cycle will be called for—to ensure that benefits will flow as planned in the

design and objective of the project. If a sector is in disarray a project investment in that sector may not be successful. If large scale investments are planned in the energy sector such as for gas pipelines and power generation projects, there is no way in which discussions on energy pricing policy can be avoided. If gas pricing is not rational it will weaken the justification for investments in pipelines. It will lead to unrealistic pricing of power and fertilizer. This in turn will bring distortions in the pricing of these outputs and influence decisions on investments in the fertilizer industry and in power generation. If the gas and power generating authorities are not in a position to collect their revenues, it will be difficult to ask for more aid for gas projects and power project. Many of us would be familiar with the debate about having a railway on the proposed Jamuna Bridge. Within the past decade the railways became a losing concern with huge losses. Only a few years ago it was generating modest profits. Currently the railways are losing over Tk.100 cr. every year. We have ignored the need for making the railway sector viable for too long. But for this, debate between the Government and the donors which delayed decision on the Jamuna Bridge project could have been avoided. In short, without appropriate sector policies economic realism about investments is not possible. We are, however, not discussing a situation where a Government has significant revenue surplus, and as a matter of state policy decides convincingly to subsidize (for a time) gas and power consumption, and railway use by its citizens.

On policy conditionalities, there should be serious debate and discussions with donors. A necessary precondition is that the Government has a technically and professionally competent machinery to engage in such debate, not side-tracking serious examination of issues on the plea of sovereignty. Dr. Kholiqzaman's plea in these columns a few weeks back for strengthening the capacity of the Planning Commission is extremely relevant in this context. In fact, we need to strengthen the entire economic management apparatus—the Ministry of Finance, Bureau of Statistics, Govt. accounting, and the Central Bank included. Many low income countries are at a disadvantage in negotiations with international organizations because of incomplete and inadequate data and information. These relate to monetary statistics, national income statistics and other macro-economic statistics. Whether it is on domestic credit expansion, administered prices of public enterprises, exchange rate adjustments, or size of public investment programmes, good and reliable data base is a must for effective negotiation. Reliable banking statistics, data on domestic saving, savings rate, budgetary data relating to expenditure and timely production of accounts, data on GDP deflator, capital-output ratio etc. are critical in negotiating on macro-economic programmes. If data base is reliable the room for subjectivity in interpretation becomes limited. Another thing to keep in mind is that once a developing country enters into negotiations with an international agency, by implications it accepts their premises. These institutions operate on the premises of market based economic reforms and macro-economic adjustment. So, policy debate will centre around interpretation of data against these premises.

(End of Part—1)

Election in Nepal

We in Bangladesh rejoice at the prospect of Nepal returning to the democratic fold and getting a representative government after a long interval of 30 years. Our feeling of fraternity is all the more strong because Nepal, like us, had to wage a long and determined struggle to win this fundamental right of having an accountable government.

On 12th May 10.7 million registered voters will vote for 1,346 candidates contesting for 205 seats from 21 political parties. A large number of independents are also contesting the elections.

The popular mood is anti-monarchist. Nobody wants the continuation of the absolute rule of the King. During the pro-democracy struggle of last year, a strong wave of public resentment against the suppression of democracy over the last 30 years found expression in public demands for the abolition of Kingship. But the King's readiness to listen to the people's demands against, reportedly, the advice of the Queen, some members of the Royal family and a section of the armed forces, earned him some goodwill and may have saved his throne — at least for the time being. Following the understanding reached between the King and the opposition, an interim government — headed by the Nepalese Congress and joined by the United Left Front, composed of 7 left parties, independents and nominees of the King was formed with the task of holding the general election.

There are three key contenders in the May elections — the Nepali Congress, the Nepali Communist Party and the National Democratic Party, consisting of the supporters of the discredited Panchayat system which was overthrown by a mass upsurge last year.

The main reason for concern, at the moment, is the gradual falling apart of the coalition partners of the interim government who participated in the democratic struggle. The recent violent clash between the coalition partners does not auger well for the future of democracy in the Himalayan Kingdom.

For democracy to be effective and able to live up to the expectations of the people, what is necessary is a strong government that can provide stability to the country. It may be a case of over confidence on the part of the Nepali Congress to think that it will get the requisite two-thirds majority on its own and therefore it should abandon its coalition partner and fight the elections separately. The social and economic problems of Nepal are as enormous as they are varied. It is unlikely that any single party can solve all the problems. Therefore, the unity that defeated the anti-democratic forces should be kept alive to overcome the urgent national problems.

However, the urgent task of the moment is to hold a free and fair election without intimidation and violence. Here, Bangladesh may serve as an inspiring example to Nepal. Our performance in holding a free and fair election may help the same process in Nepal. Though the interim set up there is a coalition government and not a neutral one as was in Bangladesh still it does not lessen the responsibility of the interim administration to ensure that the elections are held in the most democratic and free atmosphere. It is most important that the process of election should not be vitiated in any way. Otherwise the credibility of the elected government will suffer.

The Disappearing Neem

Man may come and man may go, depletion goes on forever. In Bangladesh, or what it had been over the recent centuries, regimes came and went out, even nature of statehood changed more times than anywhere else — but depletion continued unhindered. So much so that it overtook processes of regeneration and overall growth in the diversity of living things and the volume and effectiveness of their mutual support systems. This is a sure way not only to ethnic decline — which is of paramount importance to man — but also to a wholesale death of the biosphere, the premonitions of which has still to worry man to any serious extent. Specially in the third world.

The Jeremiahesque doom-talk is prompted by yet another pointer to things threatened with extinction. So many species of plants and even animals are becoming extinct in Bangladesh — it is very difficult to keep track of that because there has never been a very dependably exhaustive inventory of them made in the last half of century. But that has failed to disturb man. For two main reasons. People in the upper socio-economic crust have little knowledge of any of these species. Secondly, people closer to the soil and to water and to the woodlands — know from intimate experience about the declining wealth of life in Bangladesh. But most of them do not take that as quite a bad thing to happen, specially in a overcrowded situation.

The latest pointer, as far as reflected in newspaper reports, to such suicidal indifference is an item on the disappearing 'Neem' tree appearing on Monday's The Daily Star. The two contributing factors to apathy as noted above hardly apply to the case of the Neem. It is a much valued and almost universally known tree — with the possible exception of the post-World War-II generation. Each Bengalee homestead used to feature at least one Neem tree over so many centuries of time precisely because every family knew its worth and as also how to benefit from it. Its leaves and fruits and twigs were items of everyday use — specially in times of bad health situation.

Neem is a real hardwood tree with its timber having very specialised use. And what a tree to have around your house — light shimmering on its frilly-edged silky soft and oily leaves and weaving all kinds of dreamy patterns! And people for over a thousand years have believed that it's a health-giving thing — and its mere presence is enough to rain health and well-being on a house.

Despite those very compelling reasons for having a Neem tree around and even helping it to flourish — it is very much on the way out. Why so? An easy but nevertheless good answer is all that constitutes, binds together and sustains a society — is coming unstuck and falling apart. Man here is becoming insensate to things that he must live in order that he himself survive—and incapable of relating to things necessary for his own existence.

The whole thing has to be reversed if humanity and life, government and society has to have any meaning. An effective attempt to stop the decline of the Neem — or nature as a whole — can be a very good starting point.

In his address to the Jatiya Sangshad, the Acting President, Justice Sahabuddin Ahmed reminded us of the country's precarious resource balance, with close to one hundred per cent of the funds for the public investment programme projected to come from external assistance this year.

Generally speaking, excessive aid dependence is a symptom of severe underlying distortions and drawbacks. The more a country is dependent on foreign aid, the stronger will be the need for hard adjustments, and corrective measures, and the tougher will be the conditions for the use of aid—whether it comes from multilateral or from bilateral sources. That does not mean that aid cannot be utilised by a recipient Government usefully to respond to national priorities and interests. To ensure this, Governments in developing countries striving for socio-economic uplift must have an economic policy which is rational, consistent, and realistic, realistic not only in respect of the basic domestic parameters, but also against the background of the international economic situation. The other aspect of realism should be the growing recognition of market forces and a decline of the direct role of the state in certain sectors of the economy practically everywhere in the world.

The issue of sovereignty has been frequently raised in the context of aid relationship in many developing countries including Bangladesh. At times, the issue has been blown up beyond what would be justified. Many developing countries, like Bangladesh, are heavily dependent on aid resources for financing their imports. This makes it necessary for them to engage in negotiations with donor countries and agencies which often result in high conditionality programmes unpalatable to many, who say that these programmes violate national sovereignty. What is not commonly realised is that they are also dependent on others for their exports.

All forms of international economic exchanges today impinge, to varying extent, on the traditional preserves of domestic policy. This affects developing as well as developed countries. We are not in a position to make sovereign decisions about our exports without relating them to the trade policies of an importing country, whether it is USA, Japan or China or Pakistan. We face restrictions in sending our exports—whether it is jute, jute-goods, tea, jamdani saris, frozen food or ready-made garments. Can one say that the USA, the EEC and Japan are in a position to make independent decisions about their exports, imports and other economic policies?

In a way, these are limitations on sovereign countries' economic decisions. But we should not mistake this for infringement of national sovereignty. Aid relationship with donors is in many respects similar to trade relationship. Aid relationships like international trade, call for a continuous exercise in give and take for mutual benefit. The important thing is that such transactions an decision making have to take place within a mutually beneficial and acceptable framework.

In today's interdependent world, the traditional concept of sovereignty stands modified to suit contemporary conditions. When a country joins the United Nations, the Commonwealth, the OIC, or the World Bank, the Asian Development Bank, the Islamic Development Bank, or the International

W H O E V E R followed Margaret Thatcher as prime minister of Britain was bound to find her busy shadow wherever he went. For John Major the shadow threatened to turn him into a pale prime minister.

He had all the makings. Not only did he once work for a bank; he looked every inch the archetypal bank manager. Much of his political life had been spent at the Treasury and no one could remember any memorable phrase falling from his lips.

The sudden arrival of Major as leader was quite a shock to the nation. After more than 11 years of Thatcher fireworks no one could be a greater contrast. Six months later people still find it difficult to believe they are no longer on the Thatcher roller-coaster.

From the outset Major found himself having to reassure everyone that he was his own man. Few people believed him, since he had served Thatcher loyally and was her candidate for the leadership. Today he has moved a remarkably long way out of the shadow, greatly helped by the crisis in the Gulf.

A common reaction comes from just about everyone who has dealings with 10 Downing Street these days. The tone, they say, has changed. The Thatcher abrasiveness and confrontation, which were the most unappealing features of those 11 years, have gone.

From day one John Major set out to introduce the politics of moderation and reason, and he did so without any apparent hesitation. A strong

The Shadow that Major may Not be Able to Cast Off

Derek Ingram writes from London

Six months after John Major took over as Prime Minister ending eleven years of Margaret Thatcher he has done much to prove that he is his own man. His latest success was to pick up the idea of safe havens for the Kurds and to sell it to the US and the UN. His performance during the Gulf war was much admired. Yet time is running out for him. He has at most little more than a year in office left. And the bickering in his party stoked up by the Thatcherites could lose him the general election whenever he calls it.



JOHN MAJOR
The tone has changed

pointer to the way he intended to go came immediately with the appointment of Chris Patten as chairman of the party.

Patten, former Overseas Development Minister and then Environment Minister,

had long been intellectual leader of the Tory left and as such had been kept out of the cabinet by Thatcher until 1989 when she could do so no longer. He is an extremely able man.

Major rapidly gathered round him a totally new team of young technocrats of the centre ground, and let it be known that his political hero was Iain Macleod, the leading Tory of the early Sixties whose brand of liberal thinking had long been anathema to the Thatcherites. At one time few in Tory circles dared breathe his name.

Major's changes quickly upset the right which began to apply words like ditherer, wimp and wobbly—the last a word particularly associated with Thatcher who, President George Bush later admitted, had at a crucial moment during the Kuwait crisis told him not to "go wobbly."

Major took over from

Thatcher before the coalition forces went to war with Iraq. He acted coolly and firmly throughout and kept the Labour and Liberal Democratic opposition onside in a way that would never have happened if Thatcher had still been in charge.

His performance did him a power of political good and his popularity soared in the opinion polls. He has given the Tories a fighting chance of winning the next general election. He has, however, not managed to stop the Tories fighting among themselves. And now time is running out.

On May 2 the die may be cast. The party goes into local elections still deeply divided over how much closer Britain should tie itself into the European Community and positively devastated by the effects of the new local tax reforms introduced by Thatcher, officially called the community

charge but dubbed by everyone the poll tax.

Never in modern times has a domestic issue been so disastrously handled by government and it will long remain the classic example of Thatcher's pigheadedness that she went ahead with the tax in the rest of Britain, even though it had already been tried in Scotland for two years and found to be quite unacceptable.

The poll tax is to go, but the damage it has done to the Conservative Party is perhaps something Major will not be able to repair in time for the general election, which must come by July next year at the very latest, but which would be highly risky to leave till then.

For Tory comfort he needs to call an election this June or October, the traditionally favoured election months. June looks to be out. Local elections on May 2 are unlikely to give the Tories any comfort.

Major's worst problem is

the divisions within his own party. For years it was always the Labour Party that was plagued by argument. Today, under Neil Kinnock and steered firmly towards the right, hardly a murmur of dissent is heard.

The Tories have split into groups galore, most of them taking their tune from Thatcherism, and there is every sign that the lady herself is playing a mischievous role.

Soon after stepping down as prime minister she became president of the Bruges Group, named after the place where she delivered a notorious speech in 1988 rejecting closer economic ties with Europe.

When the Group published a strongly anti-European, and particularly Anti-German, statement embarrassing to Major she dissociated herself from it but did not resign as president. She proclaims her support for Major in public but in private she refers to his government as the "the B team."

In Britain nothing puts voters off so much as a party that is quarrelling with itself. They kept Labour out for years for this very reason.

Much as Major tries to walk away from it, the shadow of Thatcher may well still be too dark and the time too short to save him from defeat whenever he calls a general election. — GEMINI NEWS

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To the Editor...

Housing: Private sector

Sir, The apartment complexes which are now coming up in Dhaka cost between Taka 20 and 25 lakh per flat. A small percentage is available below Taka 20 lakh. Only less than one per cent of the one million families in the metropolitan area can afford these prices. The wealthy class get their own houses designed.

As per current income, less than 10 per cent of the families can buy flats in Dhaka. How the housing business in the private sector is going to be expanded from one to ten per cent,

or to cover at least five per cent of the market?

To cite an example of trends, in Malaysia, for example, in the early '80s, the private developers went for flats costing around M\$400,000. By 1990, smaller flats were constructed, selling for M\$40,000 — that is, a 10:1 change in price ratio.

Our private sector should come up with proposals for catering to the middle — and upper middle — class buyers; and the government should encourage the private and semi-autonomous sectors. RAJUK, for example, can prepare some schemes for low-cost flats; and sell only

a minor percentage of land for residential housing. In view of the unrealistic demand/supply ratio, the question arises whether it is in public interest to sell the majority of the plots; or sell majority of flats.

In developed countries, the average monthly rent is about 20 per cent of the monthly income; here it is more than 100 per cent — due to low salary, low purchasing power of the money, urban migration and fast-developing society. Housing is a basic need of the people, and deserves high priority in development planning.

Chaman, Dhaka.

Stop overloading and speeding

Sir, Deterrent measures should be taken to stop the menace of 'killer buses' now looming up in addition to the 'killer trucks'.

(1) Fine for overloading: (a) Taka 1000 for each excess passenger on inter-city routes; Taka 100 each in case of city services. For example, three detections on a single inter-city trip would cost Taka 3,000. The driver's licence should be endorsed on the spot. (b) Taka 100 for each excess kilogram for goods transport (trucks, etc.).

(2) Fine for over-speeding: Taka 1000 for each

detection; compounded for repeat convictions, on inter-city routes; and Taka 500 on city-service. All fines to be paid on the spot, or the vehicle should be seized. Passengers should discourage entry of excess passengers.

Driver, owner and conductor should each be fined, to act as deterrent, and to avoid conniving (viz. a conductor would refuse to

do duty with a 'fast' driver, and driver's fine won't be paid by the owner).

Issue of more inter-city bus permits may be considered (it is suspected that there are rackets to prevent more buses to ply on a specified route).

There is only one snag: showing leniency and taking bribes might prove fatal. Near Victim, Dhaka.

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.