

Bangladesh badly needs a credit rating

There is absolutely no doubt that Bangladesh has made substantial progress in the economic and human development fronts. It is time to let the world know about this progress. What better way of telling this success story than having some highly respected international credit rating agencies mentioned above speak for Bangladesh?

MAMUN RASHID

A credit rating is a forward-looking estimate of a borrower's default probability based on a combination of historical performance and forward projections. A sovereign rating is intended to support countries in their efforts at mobilizing resources from global capital markets. Private capital is critical in securing accelerated rates of economic growth and reducing poverty in a developing economy. A rating not only assesses the likelihood of a country's defaulting on its debt obligations, but also gives a strong signal about the overall health of the economy. A rating assumes even more significance for a developing country in terms of creating confidence and providing access to capital for development. In today's global environment of free private capital movement between nations, a non-rated sovereign draws more negative attention than does a less-than a good rated one. As a precursor to accessing the

international capital markets, Bangladesh should secure a credit rating from the leading international rating agencies. The sovereign rating takes into account the level of economic development, performance of the public finances, and other governance related issues. By obtaining a rating, Bangladesh will be able to enjoy benefits including: (i) a universally accepted measure of illuminating its strong creditworthiness to the investor community, (ii) establishing a platform and benchmark to facilitate immediate access to the international capital markets and enabling it to tap the international markets opportunisticly (including foreign direct investment & portfolio investment), (iii) precursor to establishing routine of investor education exercises and (iv) establishing it as a sophisticated issuer in the international capital markets. Bangladesh has embarked on a successful economic reform process, and come a long way in making great progress on most of the socio-economic issues. It has

taken steps in addressing institutional weaknesses, improving the flow of foreign direct investment and overcoming infrastructure deficiencies through higher level of private-public partnership. The government is maintaining its commitment to fiscal restraint, and beginning to focus on the necessary restructuring of state-owned enterprises, backed by donor and multilateral agencies support. Bangladesh has passed through various events in the recent past, such as flood, WTO cutover, coping up with oil price hike, and has shown its strong resilience. Also, Bangladesh has never defaulted on any international financial obligations. Given Bangladesh's economic progress over the past few years, the generally improved sentiment toward Asian sovereigns and the positive momentum of the political situation, experts believe the time is right to approach the agencies. From an investor's perspective, perceived investment risk of an unrated country often surpasses the facts on the ground, thereby

increasing the risk premium that they ask for. This often leads to an unattractive value proposition -- both for private and public sector projects in the country. Bangladesh is already paying the price for not having a quantifiable sovereign risk. A sovereign rating helps the investors in bringing their own internal risk appraisal in congruence with that of the market, thus reducing risk premium. A sovereign rating provides a transparent benchmark for pricing Bangladesh corporate issuances. Rated sovereigns formed an exclusive club of the world's most creditworthy governments until the 1990s. Today, the situation has changed substantially. Most developing countries of the world have understood the benefits of sovereign rating and got themselves are now rated by international rating agencies like S&P, Moody's, IBCA, or Fitch. For example, in South Asia alone, India, Pakistan and Sri Lanka are rated. In other parts of the world, most of the economies with similar economic profile to that of Bangladesh are rated. To name a few, the list includes Vietnam, Indonesia, Philippines, Ghana, Mongolia, Benin, Senegal, Uruguay, and Egypt etc. We have seen that some developing countries with much worse economic and political prospects have not deterred themselves from getting internationally rated. Sovereign ratings are not "coun-

try ratings," an important and often misunderstood distinction. Sovereign ratings address the credit risks of national governments, but not the specific default risks of other issuers. A rating assigned to a non-sovereign entity is, most frequently, the same as, or lower than, that assigned to the sovereign in the main country of domicile, but may be higher. Foreign currency ratings may be higher whenever the non-sovereign entity has stronger credit characteristics than the sovereign, and when the risk of the imposition of debt-service-limiting foreign exchange controls is less than the risk of sovereign default. Examples of such cases include a highly creditworthy private sector issuer located in a sovereign that is a member of a monetary union with a higher rated central bank, an issuer with a significant percent of assets and businesses offshore, or an issuer with a very supportive offshore parent. Similarly, an issue benefiting from specific structural enhancements can be rated above the sovereign. When significantly, or relatively, weaker countries such as Mongolia gets sovereign rating in the domain of B+, and Sri Lanka being able to raise international capital or attract investment with its B + rating, we believe that with significantly stronger fundamentals, Bangladesh's rating should be much higher. Some of Bangladesh's key credit

strengths are: **Largely positive macro-economic environment** • Macro-economic environment remains largely positive, with the challenge of the MFA phase-out met relatively well. • Remarkable resilience to the floods that affect the country often -- GDP growth slows only slightly. • Double digit export growth -- highly competitive textile export sector. • Inflation relatively stable at 6-8% band despite recent increase in oil price. • Relatively stable exchange rate since floatation in May 2003. • Improving social indicators. **Manageable debt burden** • Manageable government debt -- total government debt at 49% of GDP is lower than most of the peers. • Favourable debt composition with 27.7% external debt -- mainly from official creditors (long-term, concessional rates). • Government interest payment at approximately 16% of government revenues. represents a comfortable position. • Solid support of donors is expected to continue. **Political will and commitment to fiscal consolidation and reform** • Medium-Term Budgetary Framework, a link between PRSP and annual budget, introduced for FY2006-2008.

• Key goal -- "Putting the economy on a firmer footing, and laying the basis for higher sustainable growth." • Revenue Reforms Commission and Public Expenditure Reform Commission set up to rationalize government finances. • SOE reforms including privatization, public-private partnerships and energy sector rationalization initiated. • Medium term targets include freeing the financial markets and strengthening the Central Bank, improving BoP situation and effecting fiscal correction by FY2008. **Alignment with millennium development goals** • Provides robust and transparent framework for economic and social reform process. • Bangladesh has already made significant progress in both the areas of poverty reduction and education. • IMF/ World Bank endorsement critical to ensure support of other official donors and creditor. **Favorable investment climate** • Investment climate in Bangladesh compares rather favorably with most South Asian countries. • Bangladesh has a large domestic market, with steadily rising disposable income among the middle class. • Relatively good legal foundation ensuring investment protection,

apart from extensive incentive program. • Competitive labour costs and flexible labour laws are key factors encouraging investment. **Natural endowments** • Bangladesh is blessed with huge reserves of natural gas and coal. • Proper utilization of these resources can give a boost to the domestic economy and attract sizeable foreign investment. There is absolutely no doubt that Bangladesh has made substantial progress in the economic and human development fronts. It is time to let the world know about this progress. What better way of telling this success story than having some highly respected international credit rating agencies mentioned above speak for Bangladesh? We have seen that the world's leading investment bank, the venerable Goldman Sachs, has put Bangladesh as one of the next 11 potential countries with the best economic prospects. Well, it's not too late for us to realize that only Bangladesh does not have sovereign rating among these 11 high-prospect countries. Its high time for our policy planners and regulators, who believe in the future and "true potential" of Bangladesh to fold their sleeves and loudly say: "On your marks, get set ... Go!" The writer is a banker.

Simple reform is the key

The CTG will handover power to the newly elected government before long. This will, however, be done only after satisfactory completion of its jobs. As it virtually lacks accountability, and as it is free from pressure groups, it may easily undertake the unpleasant urgent tasks essential for development.

ABMS ZAHUR

LIKE in any other least developed country, the Bangladesh administration lacks efficiency. Unfortunately, instead of going up, the level of efficiency has fallen since independence because of : (a) operation of PO 9 and (b) extra weightage given to Mujibnagar employees and recruits of 1973 and 1977-1980. The call of the chief of CTG to the top civil servants to discharge their duties and responsibilities efficiently, courageously, honestly and neutrally may not be as effective as it should have been. However, Dr. Fakhruddin is fully aware of this. The highly politicized, and the neutral (non-politicized), bureaucrats will certainly realize now that during the tenure of the CTG they are at the same level. Such a realization will improve efficiency which is urgently needed. It would not be proper to blame the 4-party alliance government solely for incompetence of administration. But, certainly, too much politicization during its tenure has almost crippled the administration. That the government, perhaps in its desperation to consolidate its wealth and power, became oblivious of the fact that the high command of the alliance had gradually lost touch with the real situation. Awesome corruption of some of the cabinet ministers, and dysfunctional ACC, encouraged the bureaucracy and the administration in general to be bold enough for junior police officers to accept a bribe of Tk 1.5 million from an offender.

True, in both India and Pakistan inefficiency and corruption exist. However, we find there many corrupt but efficient bureaucrats. In Bangladesh we hardly see any real efficiency or honesty, but in India or Pakistan a bureaucrat needs good level of intelligence to make money through corruption. In Bangladesh it so easy that the simple wish of an electric-meter reader enables him to earn illegally millions of taka. How much corruption is possible by Bangladesh politicians is well known. A similar situation does not exist in India or Pakistan. We must not forget that our country has been holding the top position in corruption in the world for the last five years. Even though the general public are openly appreciating highly the various steps taken by the CTG, we do not know its tenure because this government has been set up only to hold a free, fair, neutral and credible election, and to hand over power to a new democratically elected government. Before going for holding the election, of course, the government must make the political environment fully fit for the contest. This needs reconstitution and reform of the Election Commission , a flawless voter list, voters identity cards, recovery of illegal arms, and depoliticization of bureaucracy. In addition, it will have to undertake reforms of ACC, PSC and the police department (as far as possible). Even though policy matter is involved, it must not ignore the urgent necessity for roads, gas, electricity and water to attract foreign investment in the country. We are relieved by the proclamation of emergency. Now we

need a successful completion of a fair, free, neutral and credible election as early as possible, because we love democracy even though a democratic government may not be as efficient. We love democratic government because we highly value fundamental rights like freedom of thought, profession and expression. Certainly, we are ready to allow enough time to the CTG to finish its job carefully and successfully. However, the job must not take too long. Without an appreciable improvement in administrative capability, the CTG may not be able to achieve its goals in time. Being a seasoned bureaucrat, the chief adviser is aware of the difficulty in implementation of decisions. He also knows that administrative reforms take a long time. Thus, he may select simple reformative measures as suggested by the Nurunnabi Committee, and by some studies conducted by the World Bank during the last 12 years. Some punitive measures may be taken immediately against the personnel violating restrictions imposed under government servants conduct rules. It may also consider issuing rules barring government servants from joining politics earlier than three years after retirement, and from developing close relationships with private firms when their retirements are drawing near. Even at this stage of politicization we should not lose faith in bureaucracy. At heart the majority of government servants are neutral. They are opportunists and time servers. What is discourting is the rapid deterioration of quality of work . Upgradation of

training and the training institutes may improve their skills to some extent. To cope with newer demands relating to development it is time for the government to concentrate on making different levels of officers capable enough to deal successfully in different negotiations, both at domestic and international level. The CTG will handover power to the newly elected government before long. This will, however, be done only after satisfactory completion of its jobs. As it virtually lacks accountability, and as it is free from pressure groups, it may easily undertake the unpleasant urgent tasks essential for development. We want to see a contest of only honest, educated and capable candidates from all political parties under a competent Election Commission. The era of domination of defaulters, black money holders, corrupt politicians and criminals must be over. Simple improvement of quality of training may not solve the present problem of development. Thus, it may consider appointing some retired government servants (including personnel from autonomous bodies), at levels equivalent to deputy secretary and above (based on their merit and antecedents), on contract for two years. They may be useful in statutory organizations like EC, ACC, and autonomous bodies like BOI, RAJUK, WASA, EPB, etc. In addition, some personnel from the private sector may be inducted on contract basis for a limited period. Such steps may ultimately increase efficiency and reduce corruption to an appreciable extent. Indirectly, it may quicken attainment of the objectives by the CTG. The writer is a former Joint Secretary.

Some thoughts on ACC

To create a just society, and to enhance the development process, there is no way other than combating corruption and improving law and order situation. Corruption is one of the major factors for deterioration of law and order. Making the system transparent and accountable, which is also necessary for the overall development of the country

MONZUR HOSSAIN

AT last we are witnessing some real initiatives from the care-taker government led by Dr. Fakhruddin Ahmed to make the Anti-Corruption Commission (ACC) effective and functional. Thanks to the care-taker government. As a student of Economics, I have some thoughts on containing corruption, from the country's economic development perspective. There is no doubt that corruption is the basic impediment to economic growth and poverty reduction. Corruption has become a way of life in Bangladesh. Although there is no exact figure on how much we are losing due to all types of corruption, a sizable reduction of corruption can make a drastic change in our life-style, and in the development process. Development is hampered to a great extent due to widespread corruption. Due to corruption, the majority of our people who are living in abject poverty, and in rural areas, are deprived of their basic needs. Nobel Laureate, Amartya Sen, explained "deprivation" as lack of access to entitled capabilities: "[W]hat he can or cannot do, he can or cannot be." A genuine capability to function -- to choose and to react -- is necessary for quality of human life and, hence, for absence of deprivation. Although Sen's entitled capabilities include nourishment, shelter, community life, freedom to travel and associate etc., that are clearly the basic needs, I think that corruption is a factor that can affect all these to a certain extent, from

both the quality and quantity points of view. Therefore, corruption can be an influencing factor in deprivation of people from their basic needs. Against this backdrop, the people's expectations from this Anti-Corruption Commission are high. So, the coming Commission has a long way to go. Assuming that the newly appointed Commission will be honest and highly committed to containing corruption, with due respect, as a citizen, I would like to voice some recommendations on the effectiveness of the ACC. The Commission must think about some short-term and long-term actions. Only taking action against the corrupt people will not be enough, the Commission must take initiatives to create awareness against corruption in the society, particularly among the new generation. For this reason, the Commission must first work out the definition of "corruption." There are various visible and invisible forms of corruption, such as bribery, forgery, nepotism, ransom-taking and rent-seeking, tax evasion through collaboration with tax collectors, graft in government and private purchases, wrong auditing, false bidding etc. Amongst them, the Commission should decide which are punishable and which are not. But, no doubt, all these types of corruption are not only depriving the people of their rights, and also justice, the country as a whole is suffering because of the tarnished image caused by corruption. The widespread corruption indicates our moral weakness. This is why the Commission should be strengthened in such a way that

they can design short-term and long-term plans to eradicate corruption. Now, I would like to highlight some of my ideas that can make the Commission effective and active. **Logistics:** The Commission needs to be equipped with modern facilities, with young, talented, dynamic, energetic, and overall honest, staff. Although honesty is a relative term, there might be some indicators by which minimum honesty of a person can be judged. People do not have faith in the existing personnel of the Anti-Corruption Commission. They must be changed. A new intelligence branch can be formed, with sufficient capacity to help the Commission. If this is difficult at this moment, a linkage with other intelligence branches can be made. **Data base:** The ACC should have a national database on the claims/allegations of corruption, and it should be updated daily basis on the present status of the claims. An IT section, with attractive remuneration packages, can be established in the ACC by appointing young IT professionals. This section should be the most restricted section of the ACC, where only the commissioners may have direct access. **Quick disposal:** Quick disposal of corruption cases is very important for containing corruption. For this, enacting some situation-demanding law is necessary. Some special anti-corruption tribunals can be formed for quick disposal of the cases. We are happy to learn that the current government is also thinking in this way. **Exemplary actions:** Above all,

some quick exemplary actions could be helpful toward enhancing the credibility of the ACC. **Rapid action:** It is another longstanding desire of the people that rapid action be taken in bribery and other cases. **Motivation and awareness:** This could be a long-term goal of the Commission. Moral education is the foremost necessity for the people, so that minimum honesty can be ensured. This moral education should be initiated from the school level, explaining the ethical issues in terms of the religious code of conduct, as well as our socio-cultural point of view. Moreover, strong publicity in the media is required to update people about the ACC's activities, to create awareness about the anti-corruption laws and possible penalties etc. This will help create awareness among the people against all types of corruption, and build the moral strength of future generations. To create a just society, and to enhance the development process, there is no way other than combating corruption and improving law and order situation. Corruption is one of the major factors for deterioration of law and order. Making the system transparent and accountable, which is also necessary for the overall development of the country, is crucial for combating corruption. Because: "development is a process of societal transformation that takes place over time ...[And] lasting development and poverty reduction require a true transformation of society. A transformation of this magnitude will entail changing situations so that they are accountable to all, including the poor." [World Bank, 2000] We are waiting for such a transformation in the society and polity, where the institutions will be accountable to the people and transparency will be ensured. Monzur Hossain is a Ph.D candidate at National Graduate Institute for Policy Studies, Tokyo.

Upbeat Bangladesh

Reportedly, efforts are underway to build on the existing rules as well, so as to neutralize the venomous elements. Though a few skeptics have voiced doubts regarding the success of the ant-crime drive, I, along with millions of the country, opt to remain thoroughly optimistic.

KAZI S.M. KHASRUL ALAM QUDDUSI

Thanks to God. Congratulations to the caretaker government. Back in March, I wrote an article titled "Resilient Bangladesh" -- published in The Daily Star on March 26, 2006 -- in response to launch of "honest and competent candidate movement" of civil society people. Today, within just one year of that auspicious occasion, I am being able to write another one of that sort. This time, however, it is in response to the state action against

enemies -- masquerading as democratic leaders -- of the nation's prosperity, happiness and stability. I beg your pardon for not being able to be courteous to these very people to whom the whole country remained hostage for years. Yes, things have started happening, much to the delight of the battered and shattered countrymen. Hopefully, Bangladesh has stepped into the much sought-after decriminalization process. The long held hopes and aspirations of

the common Bangladeshis are beginning to come true as the corrupt and crooked people have started to land in places where they have been overdue, because of their unforgivable crimes against the country. It is just common knowledge in every nook and corner of the country how willfully the corrupt politicians looted public money, and how ruthlessly the terrorist godfathers terrified the public mind. To be precise, they used to treat public money as their paternal property,

and people's lives as their playthings. Through this column, I would also like to congratulate the free press of the country for their indomitable role in keeping the people constantly informed and updated with the news of the wholesale corruption and terrorist connections of the big guns. Arguably, one doesn't need to be educated for being acquainted with the activities of the thieves and thugs during so many years. I wholeheartedly acknowledge the knowledge of the people of all walks of life regarding the corrupt and terrorist activities of corrupted people and godfathers. To be frank, they have better information than the educated ones in many respects. For example, asks a CNG driver, ask a rickshaw-puller, or people of any other profession, they may even surprise

you with tales of hardnosed activities of corrupt big fish and terrorist godfathers. Happily, also, Bangladesh has bounced back against the criminals engaged in adulteration as well. Is there any country in the world other than Bangladesh where adulteration is present, let alone so commonplace or rife? At least I have not yet heard of any such country. One similar question follows right away: What item is not adulterated in this country? The items range from daily essentials to fertilizers, from cheap foods to costly fast foods, from building materials to life-saving medicines. Admittedly, these are widely sold in all sorts of shops: from posh restaurants to cheap street hotels. In fact, a counter question can be asked: what really is there in the country that is not adulterated?

Thus, I believe that the hearts of millions of the land, like mine, ache and feel unmitigated anguish when we have to ask such questions, not to others but to ourselves, because the people that are involved in this grossly unethical, or rather entirely inhumane, adulteration are not aliens but people of our neighborhoods. Yes, lakhs of sacks of adulterated items of all sorts are being unearthed and recovered from the warehouses of many of our business tycoons who have piled up heaps of money by making us gorge up their stocks of rotten, poisoned and inedible items. May I -- rather sarcastically -- add that these businessmen -- not, of course all -- are perhaps doing us a great favour by supplying us with the essentials even at a high cost -- through syndicates -- otherwise we

would have perished by now from starvation! To them, perhaps, the death of people from being slow poisoned is better than that from starvation! Basically, there may be a tendency to hoard quality and costly items for more profit. But in this adulterators' paradise, there are hoarders and criminal syndicates for rotten and inedible items as well. More painfully, there are also grave allegations of import of rotten items from abroad, in collusion with foreign agents. I wonder how ruthless such businessmen could be. Do they not deserve something like capital punishment for such callousness toward precious human lives? Meanwhile, long standing civil society demands, too, are beginning to bear fruit now. Yes, non-partisan civil society groups are no more toothless. Though the big-

wigs netted are yet to be convicted, it can be remarked with a certain amount of confidence that none of them had clean sheets. Along with the widespread jubilation, however, there is also the expectation that the government will make all out efforts so that the netted -- and yet to be netted -- omnivorous big fishes cannot cut loose owing to loopholes of laws. Reportedly, efforts are underway to build on the existing rules as well, so as to neutralize the venomous elements. Though a few skeptics have voiced doubts regarding the success of the ant-crime drive, I, along with millions of the country, opt to remain thoroughly optimistic. Kazi S.M. Khasrul Alam Quddusi is Assistant Professor, Department of Public Administration, University of Chittagong, Bangladesh.