

Socio-political implications of development assistance: A look at the historical development

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DEVELOPMENT path is influenced to a significant extent, among others, by the basic features of a country's economy -- its political framework, the process of political decision making, and its human and natural resource endowment. It is also influenced by the strategies adopted by a country for long-term economic growth, mobilisation and allocation of resources and efficiency in use of resources. In the last three decades of the last century external assistance or foreign aid played an important role in practically all developing countries, more so in the low income countries. The impact of external assistance depended, apart from the macro-economic framework in which investment activities were undertaken, also on the degree of dependence on aid (aid inflow as a percentage of GNP). A large number of successful developing countries had been recipients of large quantum of foreign aid. If not decisive, aid was a major catalytic force in many such countries. In the case of most low income countries, without aid the level of domestic investment, growth and social benefits would have been much lower compared to middle income countries with access to international capital markets. OECD documents are full of statistics in support of this growth of per capita income, reduction in poverty, increase in life expectancy, increase in the rate of literacy and so on.

1) Though there have been "success stories" of aid users, no generalisation about the role of aid is possible ignoring the indigenous socio-economic process. One must be clear as to what is meant by development. It is not without moral value judgment and critics of aid have not been always able to shed their ideological baggage. Here the spectrum of opinion can be said to be circular -- the extreme right coming close to the views of the extreme left. Jagadis Bhagwati had once rightly said: "Often, in fact always, what people mean when they say that aid does not promote development is that it does not promote the kind of development of which they approve." But there is an underlying consensus about what development was not delivering in many developing countries -- there was no visible reduction of the worst forms of poverty in many low income countries. The concern was expressed even louder where such development had been with external assistance.

2) Acceptance of development assistance is a basic choice for a country. In a situation where domestic/national savings are not adequate to permit an acceptable level of investment and growth for visibly improving per capita income and reduction of poverty, foreign assistance and foreign savings had been, and are still being, sought to supplement domestic efforts. In theory, there can be no objection to this kind of development strategy. At the same time it needs to be realised that foreign aid generates foreign choice in a country's economic development efforts.

3) Embarking on development always entails risks. There are limits of resources, limits of institutional arrangements, and risk of failures in implementation. Therefore, embarking on development with foreign assistance is also fraught with risks; risk of failure, risk of distortion. Such failures are not difficult to come by. The crucial test is whether the government concerned is conscious of the risks and takes precautions to minimise them.

4) If a country is significantly dependent on foreign assistance, economic policy making may be unduly influenced by efforts for mobilisation of foreign aid. This was the case in Bangladesh in the '70's, '80's, and the first half of the '90's. The compulsion for taking hard domestic decisions was in some cases diluted by easy access to foreign aid, and convictions about economic policy making were at times weakened. Problems began to accumulate and governments found themselves in positions of undertaking reactive policies. Gradually many policy reforms became exclusively associated with donor conditionality -- and decisions were taken at times only on the considerations of a particular credit line or a particular project. This had also led to bitterness towards donors and the entire aid relationship was at times distorted and vitiated as in the first half of the '80's and '90's. Many public officials in Bangladesh would still remember the days when such a situation arose.

5) In a weak economy foreign aid can distort and influence domestic policies and political values. This occurs when a political party in power strongly justifies foreign aid and uses the commitment level as an index of its political success; and at the same time the political opponents of the government wished to use foreign aid as a lever to change the domestic power balance by lobbying with the donors. These were perceptions. It is necessary to appreciate that aid

is given by donors not to the government, not to the country, but to the people of the country. That is why it is important to have domestic political consensus about the role and importance of foreign assistance in the economy. If foreign aid is crucial for a country's development and growth, such a consensus would appear to be dictated by common discretion.

6) Foreign assistance comes from governments, and foreign governments can look for political support from (and at times military presence in) the recipient country as has happened in the past decades. This has not been necessarily true of big powers only (though military presence has been). The risk for this type of a situation increased if a country was overwhelmingly dependent on foreign assistance or dependent on only one or two foreign donors. Aid sources had, therefore, to be diversified. Multi-lateralism in aid relationship helped to balance domestic and foreign choice in decision making and in avoiding crude political pressure. That is why aid from multilateral institutions is always preferable.

7) Not infrequently in the last century, donors sought allies in support of their own sociopolitical philosophy or their international agenda. Political and public support for economic aid in some of the major industrial countries for the newly independent nations in the post-war period was enhanced by the search for obtaining leverage in the context of East-West confrontation. Today, it is different. With East-West issue out of the way, the emphasis now is on new issues -- on human rights, good governance, curbing non-productive expenditure, promotion of social development, and reduction of poverty -- the origin of the Millennium Development Goals.

8) Aid from Opec countries reached a significant volume

Bangladesh has been lucky that since the nationalisation of primary education by Bangabandhu's cabinet, and keenness of all subsequent governments to uphold their commitments to education and health, dictated by the clear provisions in the Constitution, attention to these basic social obligations did not waver, though there have been ups and down in allocation of budgetary resources (as a percentage of GDP but no decline in absolute terms).

in the '70's and early '80's. A large part of this had been in the form of grants to low income developing countries. Opec aid has been by and large without any conditionalities and their project aid financed a large number of infrastructure projects in these countries. Outright grant and balance of payments support had been also without any strings. However, some scholars have expressed views that some Opec assistance may have had the effect of creating a favourable political and social climate for those donor countries. In a long term context this is not different from the experience with other donors where development aid is distorted by non-development aid and non-development considerations.

9) Foreign aid may also distort production cost and structure in many cases -- through choice of projects and choice of investments. This happens when the recipient government deviates from a choice of project and programmes based on economic rationale under donor pressure or allurements of projects. It will not be an exaggeration to say that historically many bilateral donors have not always operated their aid programmes in the context of the optimal choice dictated by the concrete circumstance of a country at a given time. Bilateral donors naturally wish to provide whatever a particular donor can give best. But commercial interests tend to creep in. Even the most enlightened donors have many skeletons in their cupboard. It has not gone out of fashion. There may be some symptoms of this in our recent bilateral aid negotiations with some donors.

10) Foreign aid in most areas involves large scale import of capital goods, intermediate products and commodities. Naturally, there was competition for sale, and this leads to the growth of "middlemen" with minimum or no contribution to the growth process. Examples are not rare where a large section of the middle class has thrived on this process with no contribution to the economy. Such avenues of unearned income distort the choice of projects, development

of skills and social values. More often than not, this class works as the conduit for unearned income for decision makers and power brokers. The situation gets complicated and more complex when donor country business interests get involved in the process. While such developments were, and are, more likely in the case of bilateral aid, it did not take long to taint procurement under multilateral financing sources also, through refinement of the tools of operation, specially, involving the political power in the recipient country.

11) Aid policy in the '70's was very largely influenced by the desire and compulsion to recycle oil dollars, which was strongly encouraged by the multilateral development institutions and major industrial countries. Their compulsion was to keep the world economy going, to prevent a world recession (the fear was strong), and to protect the health of the industrial economies. This was also consistent with the Articles of Agreement and Charters of the multilateral development institutions. It is in this environment and not in the context of aid that many developing countries or particular regimes in some countries behaved irresponsibly. Many regimes fell for this new mechanism of borrowing from commercial banks and individual government leaders had their own personal agenda. Some regimes also faulted by being too ambitious about growth possibilities. The lesson of the experience of growth based on high levels of commercial borrowing seems to be that, in an urge for higher investment and quicker growth, domestic policy makers must not set aside some fundamental economic principles. Governments/countries must not be overoptimistic -- must not make over-optimistic assumptions about future world markets (oil or other commodities), interest rates, exchange rates etc. Countries must not

relax the standards of economic viability of projects. Countries should seriously consider the trade-off between high growth and lower but more stable growth rates, without sudden reversal. Undoubtedly, this calls for high standards of commitment, performance and judgment by the recipient country governments. The matter needs serious and continuous consideration by the government and the central bank, as there is growth of pressure from the private sector in Bangladesh in recent years.

12) The historical experience of some Asian middle income countries will be relevant in this context. Korea and Indonesia took recourse to commercial borrowings in the same period as the Philippines. Unlike the Philippines, the other two countries achieved significant growth rates, and were able to handle the reversionary situation in the event of second oil shock with much better outcome. This was entirely due to the policy reforms and hard decisions taken by the governments committed to development. US political influence in Korea was not and has not been less than that in the Philippines, and anecdotes about corruption were quite common. But Korea had been able to handle the situation with much greater success and had been able to eradicate poverty. From a social point of view both Korea and Indonesia had been able to handle the employment and poverty situation much better than the Philippines. In evaluating the socio-political implication of external assistance, where value judgments will unwittingly creep in, one must not, however, ignore the growth aspect. Undoubtedly, in the case of Korea, more than average growth rates, in fact very high growth rates, helped to resolve the poverty situation very effectively --resulting mainly from strong political commitment of the government of the time. But we must also not forget the devastating East Asian Financial crisis of the 1997.

13) The impact of external assistance in the South Asian countries has been widely different in the face of

different constraints. Domestic savings and resources have been the major constraints, practically in all South Asian countries. Between 1960 and 1985 the domestic savings in the case of Pakistan declined from 13% to 5% of GDP and in Bangladesh from 8% to about 3%, whereas in the case of India it increased from 14% to 21%. Bangladesh and Pakistan were able to maintain a reasonable rate of domestic investment (though it declined in Bangladesh in the second half the 1980s) largely due to the inflow of foreign savings. This probably reduced the grip of some of these countries on the development process and the declared social objectives were not served. The decline in domestic savings was mainly due to drastic reduction in public savings due to the growth of unproductive public expenditure, and gradual erosion in the efficiency of public enterprises. In the process, the governments lost the leverage in maintaining the desirable direction of public expenditure.

14. Education is the most important channel through which major socio-political influence can be brought in any country. In the early stages of economic development it primarily meant establishment of a universal primary education system. But as times goes on and the economy is diversified, further investment will be essential to bring up the quality of human resource development. Montek Ahluwalia, a well known Indian economist, had suggested on the basis of his research findings that investment in primary education and higher enrolment increased the share in national income of the poorest 40% of the people, while investment in secondary education improved the share of the middle 40% in income distribution. There are not many instances where external development assistance in a significant quantum had been channelled to the education sector. One reason was that primary education (as well as secondary and higher education) involved mostly local currency expenditure to which the donors have turned attention only very recently.

15) For Bangladesh, the decline in public savings and public investment in the '80's and '90's, at a time when aid availability had been reasonable, was a matter of considerable concern. Could it be taken as a decline in public commitment to improving the social conditions of the poor, donor pressure for taking certain economic policy decisions and to demonstrate that commitment would increase? In the years that followed there had been clear evidence of that.

16) Country after country in the developing world was accepting the importance of giving priority to social expenditure as a tool for reducing poverty, in addition to growth-oriented adjustments. It started in the '90's. Bilateral and multilateral donors were actively pursuing this in their aid policies. In this context there was some renewal of the emphasis on public sector intervention in the economy as well as realisation that certain things were done better or best by the public sector. It is now broadly realised that the nature and direction of public investments can have a positive and beneficial impact on the socio-economic condition of the weakest sections of the society, whether it is financed from aid or from domestic resources. But since low income countries had to depend on external assistance, a role for the donors was easily established. The donors are now most vocal for enduring efficient use of their aid.

Governments need to remain conscious and vigilant about this. Bangladesh has been lucky that since the nationalisation of primary education by Bangabandhu's cabinet, and keenness of all subsequent governments to uphold their commitments to education and health, dictated by the clear provisions in the Constitution, attention to these basic social obligations did not waver, though there have been ups and down in allocation of budgetary resources (as a percentage of GDP but no decline in absolute terms).

Distortion between recurrent expenditure and capital expenditure and distortions within recurrent expenditure and capital expenditure need to be constantly reviewed by the government in the context of a medium term framework of development strategy and programme, and in the context of the Perspective Plan. If not, donors will want to do this. Until recently there has been reluctance on the part of donors to comment publicly on recurrent expenditure of recipient governments. They are now willing to discard the fig leaf. It also led to budgetary support in appropriate areas when the intention of the government for social changes was clear. One cannot say that these measures had no link with the progress of Bangladesh towards the targets of the Millennium Development Goals.

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The writer is a former finance minister.

QUOTABLE Quote

Happiness is nothing more than good health and a bad memory. -Albert Schweitzer

CRYPTOQUOTE

CRYPTOQUOTE

MGIAO XON EXDZ MKQQ NG XZ DVAP JQAXZA, XON IAO XON NGFZ ZVGSQN BAQXR XON FAD SZAN DG DVA KNAX.

-- BGTABD X. VAKOQAKO

Saturday's Cryptoquote: THE ONLY ANGELS IN LOS ANGELES ARE IN HEAVEN, AND THEY'RE LOOKING DOWN ON THE DODGERS.

-- TOMMY LASORDA

A XYDLBAAXR is LONGFELLOW

One letter stands for another. In this sample, A is used for the three L's, X for the two O's, etc. Single letters, apostrophes, the length and formation of the words are all hints. Each day the code letters are different.

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