



Bangladesh Economy: Bangabandhu's Optimism Comes True

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Dr. Rahman appointed as the Economic Affairs Adviser to the Prime Minister of Government of the People's Republic of Bangladesh since 2009 with special responsibility for regional economic cooperation. He started his career with civil service in 1965 where he worked in various position in the government including Private Secretary to Prime Minister Bangabandhu Sheikh Mujibur Rahman, the Father of the Nation, Secretary, Internal Resources Division & Chairman, National Board of Revenue and Secretary, Economic Relations Division, Ministry of Finance. Dr. Rahman was also represented Government as alternate or acting Governor at Multilateral Institutions such as World Bank, Asian Development Bank and Islamic Development Bank. He was elected as Director of the Board of the Islamic Corporation for Private Sector Development (ICD) and Governor at the International Fund for Agriculture Development (IFAD) and Chairman of its Evaluation Committee (mid-1980s). Dr. Rahman completed his PhD from John F. Kennedy School of Government of Harvard University in 1980. Dr. Rahman published several articles and books at home and abroad, Integrated Rural Development, Political Economy of Income Distribution in Sri Lanka, National Social Protection Strategy: Critique & Appreciation, Constitutional Democracy etc.

The economy was devastated by the occupation forces during the war of liberation. There was not enough money in the treasury nor enough foreign currency in the central bank. Huge capital outlay was necessary for reconstruction of the transportation infrastructure, reviving trade and industry, and financing import. Support was needed urgently for agriculture. The countryside had become veritable wasteland; the rural people had joined the liberation war, organized local resistance groups, or fled from the brutalities by the enemy forces.

2. Bangabandhu's consideration for aid was based on humane assessment of the need and realistic assessment of the possible sources of supply in the context of the contemporaneous world political economy. He weighed the pros and cons in terms of human suffering and economic stagnation if adequate external resources were not available. Bangabandhu's foreign policy was based on the principle of 'friendship with all, malice with none', consistent with which he wanted to broaden the sources of external support. Membership of the World Bank and the International Monetary Fund opened the widest access to external resources – including to the bilateral sources – and balance of payments support.

3. Bangabandhu set up the Planning Commission and gave it the key role for planning economic policy and coordinating with the ministries. The Prime Minister was Chair of the Commission while the Finance Minister doubled as Minister for Planning, which gave the commission a high profile and effectiveness in the hierarchy of the government. The Deputy Chairman was given the rank of a minister, and the members the rank of state minister. The Division Chief and the Joint Chief – the top and the second rung of the professional staff – were given respectively ranks of Secretary and Joint Secretary. The External Resources Division, now designated as Economic Relations Division, was placed with the Planning Commission, and its Secretary was appointed from the civil service. The rank equivalence helped specify the relations of the Planning Commission with the other units in the government.

4. The Deputy Chairman and the members were economists who had obtained doctorate from the top-ranking universities of UK and USA, and were university professors. The Division Chief and the Joint

Chief also had done post-graduate studies in economics at Dhaka University and the top universities abroad. The members had developed the two-economy thesis based on data which showed the magnitude and the method of transfer of resources from the East Wing to the West Wing. After the massive electoral victory of Awami League in 1971, they joined Bangabandhu's team to incorporate the Six Point in the Constitution. During the war of liberation, they had lobbied the academic community and the civil society abroad for Bangladesh.

5. Clearance of Chittagong Port was urgent for activating the economy. During liberation war, a large number of vessels had been sunk in the channel which obstructed access to the ports. A Russian team cleared the channel allowing resumption of operation of Chittagong Port. Assistance from the UN system removed obstruction at Chalna Port.

6. Robert McNamara, President of World Bank, visited Bangladesh in early 1972. Bangladesh was yet to become a member of the Bank. His conversation with Bangabandhu exuded warmth. Bangabandhu stressed the importance of application of scientific knowledge to agriculture and rural development, which touched the lives of the Bangalees. He institutionalized integrated rural development that had been a project before. McNamara emphasized integrated rural development which included agriculture and rural infrastructure.

7. The hurdles to membership of the World Bank continued, however. The Bank stipulated that Bangladesh take responsibility for repayment of the loan taken by Pakistan prior to 1971. IPM Cargill, Vice President for South Asia, met with the Prime Minister and conveyed the Bank's condition for membership. Bangabandhu's response was sharp and irrefutable. The condition proposed by the Bank would perpetuate the injustice perpetrated by Pakistan against which Bangladesh had fought and millions of people sacrificed lives; if necessary, the people of Bangladesh would make more sacrifice but would not concede to the unjust proposal by the World Bank.

8. Bangabandhu suggested the solution as well. Bangladesh would consider assumption of the loan for the projects which were located in Bangladesh net of the repayments already made. The Vice President returned to Washington, carrying the message from the Prime Minister. Within the next couple of weeks, he confirmed to the government that the Bank would act as the Prime Minister had advised. The Bangladesh officials constructed the accounts of the liabilities that the Government of Bangladesh would assume.

9. Bangladesh became a member of Bretton Woods Institutions in August 1972. The government suggested that the Multilateral Agencies and the Bilateral Development Partners collectively be designated Aid Group – not Aid Consortium, which carries the stigma of the colonial past. Also, at the instance of the government, Just Faaland was chosen as the first Resident Representative of the World Bank in Dhaka. He was an eminent economist of Norway and familiar with the economic issues of the region from his work at the Pakistan Institute of Development Economics (PIDE).

10. Following membership of the World Bank, the government renegotiated with the bilateral development partners which resulted in conversion of loan to grants and to softer terms, which reduced the debt burden.

11. Membership of the World Bank qualified for membership of the Asian Development Bank (ADB), which is a multilateral regional development bank. There is overlapping ownership of ADB and the World Bank. ADB's lending program has a special focus on regional integration or cooperation. ADB faced resource shortage in late 1990s, when Bangladesh was converted to a blend country justified by its economic performance and no-default record on loan repayment. Blend loan assured enlarged access. The higher cost of blended loan fell when interest on Ordinary Capital Resource loan came down in the recent past.

12. Bangladesh borrows also from a few other multilateral lending institutions such as IFAD and OPEC, which follow similar interest policies as the other multilateral lending institutions. The Islamic Development Bank (IDB) complies with sharia principles; it finances slices of large projects in order to avoid co-financing with other development partners which charge interest. Bangladesh borrows large amounts from IDB's trade financing window, which is used for importing crude as well as finished petroleum product. Bangladesh was elected to the Executive Boards of IFAD and IDB as well as to the Executive Board of the Islamic Corporation for Private Sector Development (ICD) which is an affiliated body of IDB. The oil exporting countries of the Middle East are important sources of bilateral assistance.

13. Bangladesh has started borrowing from the Asian Infrastructure Investment Bank (AIIB), which lends without an overload of conditionalities and for infrastructure projects. Bangladesh has given the first tranche of capital for BRICS Bank. The new banks are set up as alternatives to the multilateral lending institutions and reflect the changes in the world economic powers since the Second World War.

14. The World Bank acted as coordinator of the Aid Group members. It prepared a report for the Aid Group meeting, the draft of which was presented at a meeting of the Local Consultation Group (LCG) in Dhaka. The government was represented at the level of Joint Secretary and Joint Chief. The officials at the missions in Dhaka represented the development partners. The World Bank finalized the report taking into account the observations of the development partners' representatives and consultation with the government.

15. The government prepared a report reflecting the state of the economy, critical issues of the economy, and estimate of the external resources required. It was tabled at the meeting in Paris. The Aid Group meeting in Paris was chaired by Vice President of the World Bank for South Asia, and the substantive discussion opened with a statement by the Leader of Bangladesh Delegation, and ended with the Leader's response to the issues raised by the development partners. The meeting clinched with a pledge for the year following, which the Vice President obtained from the development partners.

16. The first meeting of the Aid Group in 1973 was held in Dhaka at the instance of the government, and it shifted back to Dhaka in 1998. The World Bank had proposed to shift the venue from Paris to Dhaka in early 1990's. The government led by BNP did not agree. The proposal was broached with the government formed by the Awami League in 1996. The Aid Group meeting in 1997 was held in Paris, but in Dhaka the next year. Janab SAMS Kibria, Minister for Finance, chaired the meeting in 1998.

17. Aid Group Meeting in Dhaka gives an opportunity for broader participation by the officials of Bangladesh. However, quiet often the development partners are represented by the officials at the local missions. The meeting held at interval of two years tends to take on the character of a seminar; the development partners agree the pledge for the medium term and the annual program of commitment separately with the government. The role of the World Bank as the coordinator of aid has diminished, which has shifted more responsibility to the government.

18. Bangabandhu recognized that the developed countries, which are members of OECD, were the main sources of resource inflows. USA had provided assistance to countries of West Europe after the Second World War and had since played the hegemon. Grant of diplomatic status to the US consultation Dhaka and recognition of Bangladesh by USA were completed by the middle of 1972. The War of Liberation had enjoyed wide support from the Democratic political establishment and the academia, notwithstanding the official policy to support Pakistan. Bangabandhu took advantage of the broad support, which explains why diplomatic relations with US were sorted out so soon after Liberation.

19. USA was the main source for food aid. The negotiations with USAID had concluded and the Agreement was ready for being signed by the parties. USAID officials informed the Bangladeshi counterparts that the Agreement could not be signed as the US law did not allow aid to any country

which had economic relations with a communist country. Bangladesh had entered into an Agreement to export jute to Cuba. The US law provided that the President could seek waiver of the prohibition from the Congress, which discretion was not exercised in favor of Bangladesh.

20. On state visit to Japan in 1973, Bangabandhu pursued a broad agenda. He wanted Bangladesh to use its geographical location to become the bridgehead connecting South Asia and South East Asia. He broached the possibility of joining the Ministerial Conference of South Asian Development which was led by Japan and included Australia and New Zealand. Japan suggested that Bangladesh talked to Philippines and Malaysia which were the beneficiaries of the Conference. On the way back, Bangabandhu stopped in Manila and Kuala Lumpur. Philippines and Malaysia were lukewarm. A number of institutional formations have since been established for regional cooperation.

21. Japan responded positively to Bangabandhu's request to help construct the Bangabandhu Bridge on the Jamuna River. The pre-feasibility study was done by Japan. A complete feasibility and a technical study were necessary for engineering design and cost estimation. Assassination of Bangabandhu stalled progress for quite some time. The Jamuna Bridge surcharge imposed in 1980s demonstrated the renewed interest of the government. The Bridge was completed and inaugurated in 1998. Awami League was then back in power. The Father of the Nation dreamt of the Bridge, and it materialized during the administration of his daughter Prime Minister Sheikh Hasina.

22. Prime Minister Sheikh Hasina visited Japan shortly after assumption of office. She pleaded for a few large projects including the Padma Bridge and the Dhaka Protection Embankment. Japan informed later that it could finance only one large project at a time and asked for the government's decision. The Prime Minister opted for the Padma Bridge on the consideration that it would reduce the distance between the Capital and the Southern districts. WB, ADB and IDB joined JICA as co-financiers; WB became the lead financier; but they eventually retreated (explained below). The government financed the project. The Bangabandhu Bridge and the Padma Bridge, which connect the Capital respectively with the Northern and Southern Districts, are owed to the Father of the Nation and his daughter Prime Minister Sheikh Hasina.

23. There is a twist to the tangled story of the Padma Bridge. The Padma Bridge proposal had been turned down earlier by the World Bank and Asian Development Bank. The World Bank had explained that the environmental impact was uncertain and the cost could be too high (i.e., displace other projects). When Japan came forward, WB and ADB returned expressing the desire to be associated with the project. Both the lending agencies joined JICA as co-financiers; IDB financed a separate component for ensuring compliance with sharia principle. The World Bank alleged that there was conspiracy for corruption in which some high public officials and a consulting firm of Canada were involved. The process of evaluation and award of contracts was suspended. The co-financiers fell in line. The Prime Minister suspected that the Bank was acting from some ulterior motive and opted for financing the Bridge from alternative sources or preferably from government's own sources. However, some public officials sought to appease the World Bank on the terms proposed by the Bank latter. The case was rejected by the Court in Canada on the ground that the World Bank could not submit any evidence of conspiracy of corruption. The Prime Minister was vindicated. The World Bank and the co-financiers missed the opportunity of association with a transformative project.

24. Bangladesh had joined The International Monetary Fund in 1972. However, IMF did not have any active engagement with Bangladesh until 1975. By then, Bangladesh had a serious balance of payments problem. The Fund stipulated that the government take necessary measures before IMF could extend support. The measures included devaluation of taka, reduction of deficit expenditure and reduction of subsidies. The government reduced budget deficit and subsidy. An IMF delegation met with the Prime

Minister and conveyed their concern and the measures that would precede support of the Fund. Dr. A. Sattar, Economic Affairs Secretary to the Prime Minister, was present. The Prime Minister did not engage in discussing the details or the technicalities, which he left to the officials and professionals. His response was strategic: devaluation would be done when the new crops come on the market, which put downward pressure on price. In the event, taka was devalued by 58% in May, 1975.

25. Project aid is the most widely used method and delivers the largest amount of resources. The development partners spend a fairly long time working with the ministries and executing agencies to develop projects. There are few conditionalities including dated covenants which relate to project execution; in some cases, the conditionalities may relate to policy reforms that appear to have the capacity to enhance the benefit of projects.

26. Technical assistance comes as part of an investment project or as a stand-alone technical assistance project. Technical assistance component of investment is used to help project implementation and supervision. The government caps technical assistance component of an investment project. Large stand-alone technical assistance projects address major sectoral and structural policies. Capacity building or institutional development likely require large stand-alone technical assistance projects.

27. Project aid generally keeps a modest amount for local procurement. Similarly, technical assistance also keeps a modest provision for local consultants. In addition and importantly, the World Bank and Asian Development Bank provide price preference for local suppliers and consultancy services which win in international bidding. This gives an advantage to the local firms, which is rarely used.

28. Import Program Credit was used by the World Bank to provide financing for import. It also provided scope to include conditions for some critical reforms such as control of deficit expenditure, performance of autonomous bodies, subsidy, trade and tariff, etc.

29. Import Program Credit was replaced by Sectoral Adjustment Loan (SECAL) and Structural Adjustment Loan (SAL) in 1980s. The foreign currency was used for financing import; the local currency generated by sale of the foreign currency augmented revenue receipts. SECAL focused on reforms of particular sectors such as energy, jute, etc.; SAL focused on macroeconomic issues such as budget, revenue mobilization, trade and tariff policies, and balance of payments. The policy reforms were often included as cross-conditionality by other development partners. The adjustment loans were the result of the strong influence of the Washington Consensus which encapsulated the libertarian economic paradigm. Those have gone out of fashion but not the relevance of responsible macroeconomic policy.

30. The multilateral lending agencies and bilateral development partners now provide budget support assistance. The resources finance import while the local fund augments revenue receipts and help reduce budget financing gap. The budget support assistance plays a critical role in responding to crisis for instance Rapid Response Support during the CORONA pandemic.

31. In order to facilitate disbursement, the government and the development partners agreed to setup special accounts into which advanced disbursement of modest amounts is made. The project executing agencies can finance small expenditures from the special funds and get reimbursement subject to audit certification. These accounts maintain a minimum positive balance as agreed between the government and the development partners.

32. Food aid supported import of food grains i.e., wheat. The local currency generated by sale of food is allocated for development projects, a list of which is furnished to the development partners. In course of time, the focus on monitoring or audit trail has been enhanced. The sale proceeds of food aid were deposited with the Public Accounts of the Republic, and the amount for expenditure in a year is transferred to the receipt account of the budget and allocated to projects.

33. At the insistence of USAID, the sale proceeds of the food grains received from USA were transferred to an interest-bearing account of a branch of a foreign bank in Dhaka. USAID argued that the accumulated interest would offset erosion of the real value due to inflation. It turned out that the foreign bank did not have a network of branches through which money could be transferred for projects. Nationalized banks were used for such transfer, while the foreign bank benefited from the deposit.

34. Commodity aid was given by bilateral development partners. It financed import, and the sale proceeds in taka augmented the revenue receipts of the government. The long negative list of items that could not be imported posed a problem for utilization of commodity aid; clearance from the Ministry of Industry was necessary for each item. Meanwhile, the economy suffered shortage. Liberalization of import has removed the problem. Import under commodity aid was tied to the source of aid. Tied credit or aid was criticized for costing more than competitive price. By mid 1990s, the OECD countries untied commodity aid, which allowed procurement on a competitive basis.

35. Supplier's credit is discouraged as it ties procurement from the creditor country. It is estimated that procurement under tied supplier's credit costs 20%-30% higher than competitive procurement. The government contains the amount of supplier's credit as a proportion of total credit in an accounting period – usually a year. Buyer's credit limits competition among the contractors / suppliers of the lending country and has the weaknesses of supplier's credit, though moderated by the limited competition within the source country. However, a modest amount of supplier's credit may be necessary for projects which the government considers important but for which aid may not be available.

36. Audit of the expenditure of aid is important. The Comptroller and Auditor General is accepted as an independent auditor. A Foreign Aided Projects Audit Directorate (FAPAD) was set up for the purpose. The Comptroller and Auditor General conducts commercial audit for the corporations. Audit of the autonomous bodies is done also by the audit firms.

37. The Bangladesh economy has gone through sea change since 1972. The strong foreign exchange reserve and remittance as well as growth of export have reduced dependence on aid notwithstanding negative trade balance. As the country graduates through the grades of middle income to developed country status, the economic management transforms radically. The focus of policy shifts progressively to revenue mobilization through rationalized and efficient taxation system, quality of public expenditure, socially productive entrepreneurial development, and equitable and accountable ecosystem. The Bretton Woods Institutions will become important sources of knowledge and best practices rather than sources of financial resources. Bangabandhu's fight for liberation was premised on optimism, which is being realized fifty years down the time-path.