COUNTING THE COSTS OF FOREIGN AID IN BANGLADESH*

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Introduction

The cost item that comes readily to mind is the interest payable on foreign aid received. But the principal is also to be repaid. The term debt servicing is used to imply the payment of both principal and interest. The total amount of principal and interest paid out by a country in a year is usually expressed in terms of a percentage of the total export earnings of the country in that year and it is commonly known as the debt servicing ratio. In a country like Bangladesh, in which a substantial part of the aid is received in grants and the rest on soft terms, the debt servicing ratio is likely to be rather small. Indeed, over half of the aid received by Bangladesh so far has been in grants and the rest on very soft terms (the weighted average rate of interests charged by major donors during 1981-83 was only 1.3 per cent) so that the country’s debt servicing ratio has been of the order of 10-13 per cent in recent years. On the other hand, in the Latin American countries which depend heavily on commercial

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* This paper has drawn heavily from the present author's article "Aid, Influence and Development in Bangladesh" in Bangladesh Yearbook 1984, Progoti Prokashani, Dhaka.

1. In this paper, our concern is with the cost of foreign aid to the recipient; and the term 'cost' has been generally used without qualification to imply cost to the recipient.

bank credits, the debt servicing ratio was as high as 35 per cent of the region’s export earnings in 1983.³

Is foreign aid therefore good news for a country like Bangladesh? There are various other costs of foreign aid which have to be identified and assessed before an answer to this question can be given. First, cost is incurred in terms of money and other resources devoted and time given by the officers concerned to the numerous meetings for negotiating aid, held inside and outside the country. Second, possible adverse impact on domestic saving via easy availability of resources through aid which enables the government to avoid or postpone difficult decisions that may be necessary to take to increase mobilization of domestic resources. Thirdly, import of inappropriate technologies through tied aid or as a result of aid conditionalities relating to matters such as engineering specifications and sources of supply, which often militate against domestic resource endowments and lead to gross under-utilization of capacity. Fourth, because of tying or conditionalities imposed, aid-financed import of technologies often cost much more than would be the case if the country was truly free to import the technologies from the most favourable sources of supply. Fifth, there are also costs associated with undertaking of projects, as is often done, simply because aid is available for those projects while there may be many other projects which are much better claimants of those resources in view of the objective conditions prevailing in the country. Sixth, often aid is provided to try out models or ideas developed by donors. Such models or ideas are implemented without properly assessing their appropriateness and replicability in the recipient country. Such projects often fail to produce the desired results and are then abandoned as a strategy. Sometimes donors’ ideas change and aid is then provided for different types of

projects and ideas to be tried out. In these processes, resources are wasted and chaos and confusions are generated which bedevil development thinking and disorient development strategy. Finally, since the main reasons why donors give aid include the promotion of their foreign policy and commercial interests, expansion of their export earnings, utilization of their excess productive capacities, creation of employment opportunities for their exports, they naturally try to increase their influence in the recipient countries. This influence has economic, social, cultural and political dimensions having serious implications for the nation building process.

It should be possible to identify other items of costs associated with foreign aid. All the costs should be properly evaluated to understand all the dynamics behind and the net worth of foreign aid received by a country. But in this paper we shall not discuss even all the items listed above. Our purpose here is rather limited. We propose to present (a) a brief resume of the impact of the aid-dependent development strategy that Bangladesh has been following, and in so doing some comments will be made on some of the cost items; and (b) an analysis of the nature and possible consequences of foreign influence operating via foreign aid in this country. Indeed, it is our contention that the widespread and increasing donor influence in Bangladesh is potentially highly debilitating in relation to her prospects for self-reliant development, which means that the country may have to pay a very heavy price in the long run.

Impact of Aid-Based Development Strategy

The basic idea behind foreign aid-based development strategy is that foreign aid makes up for the foreign exchange and domestic savings gaps to enable the recipient country to make necessary investment and imports for achieving pre-determined growth rates.

Not only that export earnings of Bangladesh have failed to increase sufficiently but there has also been a sharp deterioration in
The terms of trade in recent years. The balance of payments of the country is therefore characterised by a massive structural trade deficit, which has been around Tk.2000 crore per annum during 1979-83. And despite remittances by large number of Bangladeshis working abroad, foreign aid accounts for about two-thirds of the total annual import bill.

The remittances are unlikely to increase much in future because of limited scope of further manpower export. Export earnings have remained largely based on jute which face uncertain long term prospects. There has not been a tightening of belt towards strengthening the economic base by judicious use of export earnings and remittances in importing appropriate technology and essential materials. Indeed the import structure has been and, given that it serves the vested interest of the power elites, is likely to remain characterised by the import of luxury goods on the one hand and ordinary consumer items on the other which can and should be produced domestically. In the case of foreign aid funded import, its tied nature and other conditionalities associated with it have, as noted earlier, often caused imports at higher than competitive prices and also import of inappropriate technology and hence wastage of aid resources. Thus, not only that foreign exchange gap has remained as critical as ever, but is in fact likely to remain so in the foreseeable future.

Regarding savings gap, the average savings rate (saving as per cent of GDP) was 2.45 per cent over 1979-84, while total investment as per cent of GDP during the same period was 10.82 most of which (8.37 per cent of GDP) was made up of foreign aid. In seeking and accepting foreign aid the expectation is that increased investment will generate increased income which will, in turn, cause increased savings which will then allow repayment of the debt and replacement of the need for foreign aid so that a process of self-sustaining growth is brought about. But, that expectation has not materialized and, given

4. **Statistical Pocket Book of Bangladesh 1983. op.cit., p. 370.**
5. **Ibid. p. 370.**
6. **Ibid., p. 398.**
the present state of the economy, is of bleak prospect in the foreseeable future. Indeed, all forecasts suggest that aid requirement will continue to increase to keep the economy afloat. A few oft-cited statistics may be recalled here to indicate how dismal the picture is despite billions of foreign aid received.

Per capita GNP at current prices for 1982-83 is Tk. 3027 or US$ 121. At constant (1972-73) prices, it rose to only Tk. 786 by 1982-83 from Tk. 710 in 1969-70 implying an annual rate of growth of 0.8 per cent. In fact, it declined in the first half of the 1970s and was Tk. 695 in 1975-76 implying an annual rate of decline of 0.4 per cent. On below poverty line population, the latest year for which computations are available is 1976-77, which show about 86 per cent of the population to have been below the poverty line, and about 60 per cent critically poor. The below poverty line figure was about 83 per cent in 1973-74 and about 65 per cent in 1963-64. About 40 per cent of the available labour time is unemployed; and about half the educated youth is either unemployed or employed in jobs which require much less education. Infant mortality rate is about 120 per one thousand live births. Literacy rate is only 23 per cent, and the primary level enrolment has in fact been down from 71 per cent in 1978 to 59 per cent in 1983.

The picture is thus one of deepening and widening poverty. Whatever growth has taken place has mostly accrued to political, bureaucratic, military, business, industrial, landed and professional elites.

7. ibid., p.401.
8. Q.K. Ahmad, and M. Hossain, Rural Poverty Alleviation in Bangladesh — Experiences and Policies, FAO, Rome, February 1984, Table 1 ; and Statistical Pocket Book of Bangladesh 1983, op.cit., p.404.
11. Statistical Pocket Book of Bangladesh 1983, op. cit., p.144. The figure is widely suspected to be higher than 120 — perhaps 140 or more.
12. ibid., p.480.
That is, it is these groups who have been the principal beneficiaries of the aid regime. They benefit through ways such as distribution of spoils of office, leakages, foreign trips, industrial loans which tend to remain outstanding almost indefinitely, commissions earned as indentors and construction contractors, consultancy fees and access to publicly distributed food. They have benefited because they have control over or access to decision making processes or are volatile in nature such as the food aid beneficiaries comprising city dwellers, armed forces, workers in large enterprises and students in hostels.

It also to be recognized that some rural poor are also benefiting from such programmes as food-for-work, rural works programme and the Grameen Bank. But both the amount of benefit and the number of beneficiaries are marginal in the context of the totality of the poverty situation and benefits accruing to the elites. This is of course good that some poor people are benefiting. But, these programmes are touted as success stories of aid-induced and aid-funded poverty alleviation strategies. Such touting is being used as a subtle means to help camouflage the few big beneficiaries from the spot-light of scrutiny.

In sum, then foreign aid has benefited a tiny minority of power elites, while the large majority has remained alienated. And it has not helped create or even generate the prospect of creating in the foreseeable future a basis for self-sustaining growth.

Donor Influences and Interferences

The bleak situation, as outlined above, is being further confounded by donor influences and interferences in the country’s economic, social, cultural and political life. On the economic front, donor

perspectives and aid conditionalities have been having pervasive influences on the investment and ownership patterns, organizational set-up, management styles, technology, distribution system, exchange rate, pricing policy and monetary and fiscal policies. Selection, design and location of projects, appointment of key personnel, and how and by whom performance evaluation is to be carried out are all either dictated or have to be approved by the donors in most cases. The donor influences have also penetrated the socio-cultural practices and political directions in this country as the elite economic beneficiaries of foreign aid take to lifestyles and culture practices of their foreign mentors and backers and also derive their politics from the tenets and perspectives held by the latter.

Indeed, every year a high point in economic planning in this country is the Paris meet of the aid donors and the frantic preparation made for this. It is there that the past year's performance is scrutinized and aid commitment for the coming year is indicated by the donors. But that provides only the overall frame of aid availability; details concerning each aid contract are worked out through protracted negotiations and many procedures and formalities have to be fulfilled in the process. In these negotiations, this country's policies are called into question and donor perspectives are imposed and sovereignty of the government in respect of decision making and implementation of development projects get compromised.

Symbiotic Relationship between 'Donors' and 'Receivers' of Aid

The donor dictates are accepted in this country because foreign aid has been allowed to become the cornerstone of development strategy and hence, the aid donors have assumed the role of philosophers and guides. Decisions are usually made in donor offices in Dhaka or in their headquarters in New York, Washington, Vienna, Geneva or elsewhere, although motions may be seen to be gone through to make a decision look like as if the Government of Bangladesh has played its legitimate role in it.
It should be recognized that there are differing interests and capabilities among donor countries and agencies. Within Bangladesh also there are different interest and influence groups. Aid modality, therefore, consists of a process of reconciliation of these conflicting forces, each projecting its own view points and trying to safeguard its own interests. In this process vested interests rule supreme and the national interest of the country becomes the sacrificial lamb. Hence, the final outcome of a process of aid negotiation may be far removed from the ideal defined in terms of national interest.

Moreover, in a situation characterised by conflicts, contradictions, and uncertainties, a class of touts, both local and foreign, have come into their own. They have been acting as aid brokers to promote projects and sale of items they have an interest in. They seek their own interest and perhaps that of their principals abroad because that determines their own interest. They therefore often create mix-ups and promote wrong projects or materials. They also make promises which they cannot fulfil, thereby creating bottlenecks in the decision making process. The local counterparts acting in association with foreign principals often put up formidable fronts. Sometimes, they can establish contact at the highest decision making level to counteract any adverse (from their point of view) situation created by functionaries at lower levels.\[^{14}\]

The aid regime thus has given rise to a syndrome of symbiotic relationships among donors and government decision makers and other influence groups including a class of local and foreign touts throwing in their entrepreneurship in aid brokerage. However, in this whole game, while the other groups derive certain benefits, shots are, in the ultimate analysis, called by those who hold the purse-strings—the donors.

\[^{14}\text{For certain examples of the operation of various interest groups in aid modality see, Nurul Islam, "Interest Groups and Aid Conditionality" in Jast Faaland (ed.)\textit{, Aid and Influence—The case of Bangladesh}, The Macmillan Press, Ltd., 1981.}\]
Who is to be Blamed for the Pervasive Donor Influence?

The blame cannot all be allocated to the donors. The bilateral donors would naturally try to promote their interests and, in doing so, would seek to wield influence in the management of the recipient economies. Since they hold the purse-strings, they use this very vital leverage to increase their influence. This is clearly a rational pattern of behaviour on the part of the donors. However, they often pretend that they provide aid on humanitarian grounds. But, while some humanitarian aid (negligible in relation to the total aid provided) may be provided at times of devastations caused by such natural calamities as tidal bore or famine and man-made calamities such as wars, this claim by and large is not true and it is therefore hypocritical on the part of the donors to make that claim.

The multilateral donors such as the World Bank, IMF and Asian Development Bank are in fact captive organizations of the major contributors to their funds, whose biases, prejudices and interests find expression in their operations and modus operandi. It is well known, for example, that the USA seeks to impose her perspectives on the policies and programmes of these organizations. There is of course the very strong voice that the USA and the allies have in the management of these organizations by virtue of their contributions to their funds. They also resort to threats of stopping their contributions to and withdrawing their membership from recalcitrant (from their point of view) organizations. The USA has, for example, withdrawn from UNESCO and has threatened to stop paying contributions to several other organizations. One such recent case of threat is that unless the Asian Development Bank actively promotes free enterprise market mechanism through its lending operations they might stop their contributions to its funds.

Such are the donor perspectives. But aid has also to be received. Those who negotiate, receive and allocate aid funds to different programmes and projects in the recipient countries are supposed to safeguard and promote their own national interests. But in Bangladesh,
as in many other recipient countries, these people are different from the masses as a class. They are the power elites. They are educated; they have power; they control policy making and resources; and they articulate and pursue their own individual and class interests. On the other hand, the masses are by and large illiterate, unorganized and alienated from the processes of national economic management; they have nothing at all to do with negotiating, receiving and allocating aid resources received. The power elites benefit from foreign aid in various ways—projects, consultancies, foreign trips, outright kick-backs. They need foreign aid to maintain and enhance their own economic, administrative and political preponderance. Hence, they are prone to accepting donor terms and dictates.

Thus, although there is the option of refusing foreign aid if conditionalities are such as are contradictory and detrimental to the national interests, this is not exercised by the power elites. And as long as they remain in control, the dependent development strategy will hold its sway and donor influence and dictates will essentially determine national development policies and strategies.

Long Term Consequences of Donor Influence

The following quotation sums up the agonizing experience of the Latin American countries in recent years as a result of a pervasive grip of foreign debt on their economies:

"...the debt has become a depressive and chaotic factor that subordinates national policies to uncontrollable external factors. The dilemma facing our countries is ... whether or not they are sovereign nations to decide their own destiny".15

Is Bangladesh's experience any different? I would say, basically no. If there is a difference, that will be one of degree only. But the situation is worsening. Indeed, the basic logic of the situation engendered by dependence arising from foreign debt (as incurred by Latin American countries) and that arising from foreign aid (of the

type received by Bangladesh) is the same in both the cases although the circumstances surrounding the process may be different in the two situations.

It has been seen earlier that the dependent development strategy has failed in Bangladesh. The country is in a poverty trap and there are no signs of breaking out of it. In my judgement, the only way to bring about a turn around in this country is to adopt a self-reliant development strategy by rejecting the present dependent development strategy. I have elsewhere elaborated my ideas on how a self-reliant strategy can be initiated and pursued. However, as long as foreign-aid-based foreign influence pervades the scene, such a change of course is unlikely to be adopted. Hence is my contention that continuing donor influence in this country poses a grave threat to an orderly progress of the economy and the society.

16. See, for example, Q. K. Ahmad, “Social Transformation in Bangladesh—Realities, Constraints, Vision and Strategy” presented at the Fourth Annual Conference of the Bangladesh Economic Association held in Dhaka during 20-22 May 1979. A Slightly condensed version of this paper has been published in IFDA Dossier 16, March/April 1980, International Foundation for Development Alternatives, 2 Place du Marche, Ch-1260, Nyon, Switzerland.