

# **External Debt, MDGs & Essential Services in Bangladesh**

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With a population of 140 million, Bangladesh is the most populous of the world's least developed countries (LDCs). Due to its annual per capita income of US\$ 520, it is also one of the poorest countries in the world. The heroic peoples' struggle of independence in 1971 dreamt for a society free from hunger, poverty and injustice. Although the Constitution of Bangladesh recognizes the rights to livelihood, health and education as basic rights of its people, the dream is yet to be realized as poverty, inequality, vulnerability, deprivation and injustices are highly prevalent making the country a home of 70 million poor people, which constitutes 10% of world poor population.

Undeniably, over the last 12 years, Bangladesh has made important economic progress with a GDP growth rate averaging 5 percent a year. Considerable progress has been made towards achieving the MDGs, notably in health and education. But still Bangladesh is facing several challenges: poor quality health and education services and unequal access to these services especially for the poor and women; continuing incidence of malnutrition in children, especially girls. The country also faces environmental challenges due to climate change, and arsenic contamination.

SUPRO, the Campaign for Good Governance is campaigning to make Bangladesh government and other global institutions responsive to people's rights and to ensure actions to end poverty and achieve MDGs.

It is a scandal that the rich world continues to demand hundreds of millions of dollars every day from the South, in payment of 'debts' that have emerged from unjust economic relations that deprived the South and enrich the North. These debts include those contracted in absence of democratic processes, accompanied by unjust terms and obligations, perpetuated through fraud and deception, lost to corruption and failed projects and that financed policies harmful to people and the environment. Often, conditionality attached with these loans (i.e. privatization, liberalization etc.) has created conditions for further marginalization of the people.

We call upon international financial institutions like WB-IMF-ADB and other regional development banks, northern governments and their export credit agencies to stop all funding programs that harm people and environment. Governments as well as global leaders must realize that they have justifiable responsibilities and should act in accordance with the promise made in the Millennium Declaration at the dawn of this century.

The present study focuses on the external debt situation of Bangladesh and how it undermines basic human rights of the people and prevents access to essential services. The study essentially reveals the fact that over the last several years Bangladesh is spending more on external debt servicing education and health. External Debt in general and conditions attached with in particular has become a serious threat to achieving the MDGs, despite all the promises and schemes offered by lending governments and international financial institutions. Consultation with stakeholders at various levels reveals that citizens demand an end to imposition of all conditional ties (e.g. privatization, liberalization and deregulation) by the international financial institutions, northern governments and other lending agencies. Demand for an unconditional cancellation and repudiation of debts is on rise.

I hope the study report will bring opportunity to citizens groups, NGOs and policy makers for taking position to demand unconditional cancellation of debt of Bangladesh for sustainable development and to achieve MDGs let alone ending poverty.

Let us demand past and present governments in the South to be accountable for their role in the debt problem. Let us declare our readiness to stand in solidarity with those who choose to repudiate illegitimate debt.

Let us also pursue and influence our leaders for allocation of resources to ensure essential services as basic rights of the people. We call on elected representatives, citizens groups and individuals – both South and North – to associate themselves with the actions and demands for debt cancellation to ensure essential services.

I would like to express my appreciation to the lead researcher Monower Mostafa for his in-depth study and comprehensive study report. I also appreciate the work of Associate Researchers Mohammad Shahid Ullah, Md. Zakaria and Razu Ahmed for their deep insight and taking continuous pressure to complete the study in due time.

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## Introduction

Bangladesh has made remarkable progress in terms of economic growth and yearly per capita income (per capita GNI) that has crossed the \$500-mark and looks set to rise further. The economic growth rate has stabilized at over 6 per cent over the last two years. Bangladesh's current gross domestic product (GDP) amounts to almost \$68 billion, while exports have grown almost 30 times from a paltry \$348.42 million in 1972-73 to over \$10 billion in recent years (Bangladesh Economic Survey: 2007). With economic growth and gradually increasing industrialization along with gradual accumulation of business capital, Bangladesh is surely on the verge of emerging as a strong economy. Indeed, Goldman Sachs (2005), in one of its studies picked Bangladesh as one of the 'next 11' economies that would emerge in the next few decades, by which time China, India, Brazil will have made their place among the five largest economies of the world.

Bangladesh has sustained good growth rates, and seen poverty reduced significantly, over the past decade or so. Although the proportion of people living in poverty has decreased by almost 7% during the last 15 years from 1991 to 2005 (SUPRO: 2007), but half of its population still lives on less than \$1 a day (PPP \$); and 83% on less than \$2 a day. And almost 20 million (over 7%) are extreme poor, living on less than 16p a day (DFID: 2007)<sup>1</sup>. While the percentage of people living in poverty has decreased; the absolute number of poor people has increased. During 1991-2005, the number of poor people has increased to more than 4.4 million and from 2000 to 2005 the number of hardcore poor has increased to almost 3 million (Bangladesh Bureau of Statistics: 2005)<sup>2</sup>. In

### Bangladesh: Key facts

Total population:	140.6 million (in 2007)
Annual population growth rate:	1.7 %
Per capita GNI	\$ 520 (2007)
Per capita GDP	\$ 482 (2007)
Total fertility rate (birth per woman):	2.5% (2004)
Urban population:	24.7%
No. of people living below \$1 (ppp \$) a day:	36.0%
No of people living below \$2 a day:	82.8 %
Life expectancy at birth:	63.3 years
Infant mortality rate:	41/1000 live births
Under-five mortality rate:	77/1000 live births
Maternal mortality rate:	320/100,000
Human development index rank:	137 out of 177 countries
Gender equality:	Equal number of girls and boys enroll at primary and secondary schools
<b>Health:</b>	
Health expenditure (% of GDP):	Public – 0.9 & Private- 2.2
Per capita health expenditure (public):	\$ 6
Population using improved sanitation:	20% (1990) and 39% ('04)
Population using improved water source:	72% ('90) and 74%('04)
<b>Education:</b>	
Public expenditure on education (% of GDP):	2.5 (2005)
% of total public expenditure:	14.2 (2005)
<b>ODA</b>	
ODA received (net disbursement):	\$ 1320.5 million
ODA (% of GDP):	6.9 (1990) and 2.2 (2005)
Per capita ODA:	\$ 9.3
Source:	Mostly UNDP Human Development Report 2007-08 and Bangladesh Economic, Survey 2007

<sup>1</sup> However, in a recent study (April 2008) showed that the number of people living below the poverty line was on the rise in recent times due to exorbitant increases in food prices. The number would now stand at about 90 million, up from previously estimated 60 million or 40 per cent of the country's population. At least 40 million people of the country are currently facing extreme poverty with no work and miserable buying capacity now. 'The government defines that the people with daily food intake of less than 2122 kilo calories are living below the poverty line. I have studied that at least 60 per cent of the country's population at present takes much less calories than required,' said Harun KM Yusuf (the author of the study), professor of Biochemistry and Human Nutrition at Dhaka University. High prices of food commodities are forcing the poor to cut nutrition intake, he observed. Yusuf showed that by spending one taka on coarse rice a consumer ensured only 120 kilo calories in December 2007, which was 50 calories less than what he or she received in January 2006 spending the same amount of money (The New Age: 27 April 2008).

<sup>2</sup> According to the latest household income expenditure survey, about 40 per cent of Bangladesh's 140 million people are below the poverty line according to the 'cost of basic needs' method. That amounts to some 31 million people. It is often stated that although the proportion of poor is decreasing the absolute number of poor are on the rise across the world. About a fourth of the population of Bangladesh is considered hard-core poor as their entire expenditure barely makes up for their food demand. The most recent global yardstick — another example of the classic 'one size fits all' outlook of the self-proclaimed development partners — of 'a dollar a day' is misleading since the percentage of population below the national poverty line is taken to be in that category. The

addition, inequality and disparity are seen pervasive; the top 5% receives 30% of national income; the poorest 5% receives only a meagre 0.67% (Unnayan Onneshan: 2005).

As a low-income LDC, Bangladesh is at a crossroad as far as the attainment of MDGs is concerned. The proponents of neo-liberal economics often advocate and propagate that economic growth is the ultimate tool to development, but they do not mention that this growth and prosperity must be equitable. Even the much-hyped and glorified **UN Millennium Development Goals (MDGs)** that have of late become the ultimate measure for development and apparently require the economy to grow at a stable seven per cent do not address the issue of equity. Economic and social inequality is manifested in form of denial of access to basic services (guaranteed by the Constitution) such as education, health, water-sanitation etc. by the poor. Poor public expenditure on these essential services runs the risk of attaining the MDGs by 2015.

The overall development strategy of Bangladesh, the Poverty Reduction Strategy Paper entitled "Unlocking the Potential: National Strategy for Accelerated Poverty Reduction" has been prepared in light of the Millennium Development Goals (MDGs) declared by the UN on September 2000. Improvement of the quality of life of the people occupies the central position of all 8 MDG targets. Although the government of Bangladesh is quite hopeful of realizing majority of goals (if not all) by the stipulated time-frame, the issue of financing has become a grave concern if one takes into account the patten of public financing particularly to those basic services highly relevant to MDG process. Moreover, the gradual withdrawal of the state from providing essential goods and services on which majority of the poor people depend has become one of the tenets of aid "conditionalities" imposed by the International Financial Institutions (IFIs) such as WB-IMF-ADB including almost all international donor community. It is not difficult to understand that the imposed agenda gives comfort to the so-called donor community as it ensures sustained flow of repayment of their loans lessening the pressure on government revenue. As a result, public expenditure on essential services is being squeezed day by day putting poor people at the mercy of private sector as the process involves privatizing the basic services.

Burden of debt, both external and internal, has become a serious concern as it takes away a substantial part of public expenditure that could be invested in basic human services such as health, education etc. Currently the government of Bangladesh spends more on external debt servicing than on health. On an average, every dollar in grant aid received, the government of Bangladesh pays back 1.5 dollar in external debt repayment<sup>3</sup>. Bangladesh desperately needs its external debt fully cancelled. To finance the MDGs, every year a staggering \$7.5 billion in external budget support is needed which is almost four times the amount of aid/loans currently provided by the international donor community. The present development context looks bizarre- a dollar paid in debt service seem to be a dollar lost for the MDGs.

### **Importance of essential services for fighting poverty**

Developing human capabilities is regarded both as an end and as a means of development. Capabilities related to nutrition, health and education are of special importance. For example, literacy and education (especially female education) make wide-ranging contributions not only to economic growth but also to demographic change, social equality, political democracy, and many other aspects of development. Similarly, good health is a fundamental basis of the quality of life as well as of social progress.

Anywhere in the world, when poor people talk about what poverty means to them, services almost always feature. A lack of access to services is an intrinsic part of what it means to be poor. It is both a cause and consequence of poverty. As a cause, it increases vulnerability and reduces productivity. A lack

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World Development Report 2007, published annually by the World Bank however, states that the percentage of population earning less than a dollar (at Purchasing Power Parity, amounting to less than Tk 20) every day was 36 per cent in 2000.

<sup>3</sup> In 2004, for every dollar in grant aid received, Bangladesh paid back almost 1.5 dollars to its donor-creditors. The country received \$441 million as grant while she paid back \$675 million.

of clean energy, water and sanitation, for example, has severe consequences for health. Smoke from cooking fires is a major contributor to the respiratory diseases which are the fourth biggest killer of people in the developing world. Slow and limited transport can reduce income-earning opportunities as farmers and small businesses are cut off from markets. Other businesses need inputs of energy or water and without these, opportunities for making a living are again limited. People's sense of dignity and self-esteem are also affected when they live in overcrowded neighborhoods blighted by poor sanitation, pools of stagnant water and heaps of refuse.

Both theory and evidence point to the importance of essential public services as it has direct bearing on poverty alleviation and over all social and economic advancement.

Economic theory suggest that due to pervasive "market failures" in the private provision (especially unregulated provision) of essential services such as health care

and education, extensive public action is needed to rapid reductions in malnutrition, illiteracy, ill health and related deprivations. In this context, state has an "inalienable responsibility to provide universally accessible and robust public delivery systems for essential services".

#### **Four main arguments for the state provision of universal basic social services**

##### **The moral argument**

Basic social services have intrinsic value because they generate such benefits as learning and good health, and that they should, therefore, be available to all. This argument sees basic social services as "merit goods" – goods that have an inherent worth and that should be supplied whatever the circumstances, even if there appears to be no express demand.

##### **The instrumental argument**

The instrumental argument for basic social services is based on the fact that their provision supports the achievement of other human development goals. Education, for example, contributes to greater productivity, better health, more equitable income distribution, and less poverty.

##### **The consensual argument**

There is a general consensus that access to basic social services should be universal. This consensus is implicit in the Convention on the Elimination of all Forms of Discrimination against Women (1979), and explicit in the Covenant on Economic, Social and Cultural Rights (1966), the Declaration on the Right to Development (1986) and the Convention on the Rights of the Child (1989). It was reiterated in the Plan of Action from the World Summit for Children (1990) and in the Copenhagen Declaration from the World Summit for Social Development (1995).

##### **The historical argument**

The historical argument originates in the 1800s. Governments in the industrializing countries realized that industrial growth required national communities that were both economically and socially viable. Literate and healthy populations would be needed to fuel the changes taking place.

*("Basic services for all?", UNICEF, 2000)*

There is an important complementarity between the emphasis on free and universal public services and the "rights approach" to social policy. In this approach, essential services such primary education and health care are seen as fundamental rights of all citizens, rather than as a form of state largesse. The rights approach can be of great value in shaping public perceptions of the social responsibilities of the state. It also draws attention to the possibility of legislative action to ensure that some essential services become enforceable legal entitlements (Jean Drèze: 2006).

### **Bangladesh: State obligation to provide ES**

The commitment and obligation of the state to provide basic services to its citizens is enshrined in the constitution of Bangladesh. The Constitution mandates that: "it shall be a fundamental responsibility of the state to attain, through planned economic growth, a constant increase of productive forces and a steady improvement in the material and cultural standard of living of the people, with a view to securing to its citizens- (a) the provision of the basic necessities of life, including food, clothing, shelter, education and medical care (Article: 15)". Bangladesh is responsible for creating an environment for its citizens that allows them to improve their quality of life through access to health, education and other basic services. The right to education in Bangladesh is written into the Constitution, a right for all children to receive basic primary and lower secondary education.

Apart from constitutional mandates, Government is also obligated to adopt necessary legal and budgetary provisions to provide basic services to its people as it has ratified and showed highest commitment to uphold different international covenants, charters and proposals including the UN. For example, Article 26

of The Universal Declaration of Human Rights, formulated in 1948, was an added incentive to this rights perspective which unambiguously states that "Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory". State commitment to health care has often been repeated. Article 12 of the International Convention on Economic Social and Cultural Rights (1966) states that "the state is obliged to attain the highest attainable standard of health' for its populations. States are required to adopt appropriate legislative, administrative, budgetary, judicial, promotional, and other measures towards the full realization of this right. In 2002, the United Nations Committee on Economic, Cultural and Social Rights issued a General Comment declaring that 'The human right to water entitles everyone to sufficient, affordable, physically accessible, safe and acceptable water for personal and domestic uses'. It also indicated that governments have a duty to respect, protect, and work to achieve this right progressively and that the right extends to providing the underlying preconditions of health including access to safe and potable water and hygienic sanitation.

Moreover, the Millennium Declaration (MD) of September 2000 when the heads of the state and government gathered at the United Nations to issue a call for a "more peaceful, prosperous and just world" is regarded as an affirmation of human rights, charting a course towards the proclaimed objectives and values through securing these rights for all humanity. The MD unambiguously asserts that men and women "have the right to live their lives and raise their children in dignity, free from hunger and from the fear of violence, oppression or injustice". As such, the MDGs are considered a potentially fruitful project since agreed quantitative targets often serve to focus minds. But we must keep in mind that the MDGs themselves are a distillate of several preceding UN declaration, especially in the decade of 1990s. The cycle begins with the declaration on "Education for All" adopted at a world conference in Jomtien, Thailand, in 1990 that reaffirmed the universal right to education. This was followed by the Earth Summit at Rio de Janeiro, International Conference on Population and Development in Cairo, the World Summit on Social Development at Copenhagen, and the International Women's Conference at Beijing. Different agreements and declarations came out of these international forums clearly points to the peoples' right to development and access to basic services fundamental for development.

Essential services need to be provided free of charge to ensure greatest equity and access for poor communities. The experience of elimination of direct user fees is not new to South Asia. Sri Lanka eliminated tuition fees from kindergarten to university in 1945. User fees in health were abolished in 1951. Bangladesh has introduced a law for free and compulsory primary education, and provides girls with free education up to secondary school. India has even made a constitutional amendment to guarantee free and compulsory education, but in practice user fees are pervasive.

Sometimes relevant laws and regulations are in place; but insufficient or no allocation of public funds does not ensure the access to services by the people for which the government is constitutionally mandated. Very often, the Constitutional rights of the people of Bangladesh are utterly denied when one takes into account some glaring features of our society: government documents (PRSP, MDG reports and other relevant policy papers) clearly states that almost 50% people are poor, meaning that these groups of people are "deprived", "powerless" and "distressed". This is obviously the violation of Article- 11, 13, 20 of the Constitution. But what does the government do as far as the public spending is concerned? Almost three-fourth of the population has little or no access to primary health services (violation of Article- 20). Where is the budget allocation? More than 50% people are still illiterate (violation of Article- 17 and 17C). Where is the public fund for education? Three-fourth of the population has no access to electricity (violation of Article- 16). Where is the effective budgetary allocation? Examples abound (Barakat: 2003). Hence, public expenditure is the most crucial indicator for analyzing government commitment.

### **MDGs and public spending on Essential Services**

Public spending on Essential Services (ES) is crucial to achieving MDG targets for Bangladesh. Spending on education, health and water-sanitation are seemed to be directly linked with almost all the major

MDGs. It seems reasonable to expect government to let people know how much it is spending on essential services. But this vital information is not, however, readily available from existing budget data. Hence, often we run the risk of making poor arguments in favor/against public spending pattern using that inappropriate data set.

Analyzing data available in different government documents including the budget texts, it can be shown that public spending on health, education and water-sanitation is poor in comparison to spending on other sectors.

The budgetary allocation on ES i.e. education and health seems to suggest an increase than those of the preceding years. Allocation for education in 2007 was 16.3% of the total public spending from 14.9 for the year 2006 which is 2.3% and 2.2% of GDP respectively and health sector follows the same trend amounting to 7.4% in 2007 while it was 6.7% in 2006. Public spending on water and sanitation sector is quite meager when compared with the former two.

### Public spending on Essential Services

Year	Education*		Health		Water and Sanitation**	Per capita Public Spending (2007)
	% of total spending	% of GDP	(% of total spending)	% of GDP	% of total spending	
2001	15.65	2.30	7.02	1.03	n/a	<b>Education:</b> Taka 15,847 (\$ 229.7)
2002	14.42	2.15	6.50	1.07	n/a	
2003	14.88	2.16	6.40	0.90	n/a	
2004	13.69	2.03	6.98	1.03	n/a	
2005	12.82	1.92	5.71	0.86	n/a	
2006	14.91	2.19	6.73	0.99	0.80	<b>Health:</b> Taka 347 (\$ 5)
2007	16.31	2.33	7.41	1.06	0.94	

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\* Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities through out the country.

However, if the allocation in different sectors is adjusted with the pace of inflation<sup>4</sup>, there seems to be a very meager increase in public spending on those crucial sectors. Although the government has repeatedly been claiming that the education sector always receives the highest budgetary allocation in term of both Revenue and Development<sup>5</sup> outlays, the real case scenario is somewhat different and misleading<sup>6</sup>. In fact, public spending on pure secular education is quite meager in comparison to other sectors/areas such as Defense or External debt repayment. This poor allocation of resources has huge

<sup>4</sup> Over all inflation rates for the year 2006 was 6% while it rose to almost 11.5% in the year 2007 (Bangladesh economic Survey 2007 & Monthly Update, March 2008, Bangladesh Bank).

<sup>5</sup> Traditionally, the national budget of the Government of Bangladesh is composed to two parts: Revenue Budget and Development Budget (commonly known as Annual Development Plan- ADP). These two parts are seen as two complete budgets as each involves both Receipts and Expenditure. Revenue budget comes first as it meets almost all expenses of the government. After meeting those demands, the surplus of the revenue budget is regarded as the receipts of the Development budget first followed by borrowings (both external and domestic) and grants. ADP is generally composed of projects and is seen as national "investment". Overall budget deficit can easily be calculated by subtracting the Revenue surplus component of the Development budget.

<sup>6</sup> For example, over all education budgets involves allocations on religious affairs and science and technology making the total outlay a little bigger than the real one. In addition, religious education and military educational institutions take away a substantial amount of public money from the education budget further squeezing the education outlays. Eventually, the allocation on pure secular public education becomes scanty one. Why Education and Religion (and sometimes Science and technology) are reported under the same under the same sector remains a big question as this undermines the transparency in allocation structure.

adverse impact in terms of shortages of teachers, spending less on school buildings, text books and equipments and paying the teachers on whom the education systems rely; shortage of doctors, nurses, medicines, clinics, outposts, hospitals so on and so forth.

Illustrating examples from the health and education sectors seem to be highly important since they are the two proven sectors where the state can effectively intervene to bring about human development. Indeed two of the three components of the global human development index used by the United Nations — which is in sharp contrast to the Millennium Development Goals — happens to be education and health, besides per capita income. Understandably, the longer a person lives and the more educated one becomes the realm of choices available increases exponentially. When the realm of choices increases, so does the number of opportunities and potential for earning, which would in the end, although gradually but surely, reduce the stark inequality of wealth and income distribution.

In the last 27 years between 1981 and 2007, the population of the country increased from about 90 million to 140 million officially. During this time, the number of registered nurses has increased from 3,014 to 20,129 and doctors from 10,081 to 44,632 — that is, while in 1981 there was a nurse for every 30,000 people and one doctor for every 8,900 people, now there is a nurse for every 7,000 people and a doctor for every 3,140 people. The number of hospital beds have increased from 15,845 (one per 5,680 people) to 38,211 (one per 3,670). The number of dispensaries however, has decreased from 1,399 to 1,362, while the number Upazila health complexes have increased from 306 to 419.

Certainly, the availability of doctors and nurses has increased but not to a level that might be reasonably expected. The number of beds in public hospitals has also increased, but not in a similar proportion to that of doctors and nurses. The numbers of dispensaries and Upazila health complexes on the other hand have not increased at all or the increase has been insignificant. These have to care for a much larger number of people. What it means is that people's access to health services has not increased although the number of doctors and nurses has risen. By implication then, the thousands of medical personnel are concentrated at urban centers serving at private clinics and hospitals and not in the rural areas where they are much needed. That beds, hospitals or dispensaries have not increased significantly means that the governments have not taken any initiative to build health care facilities, probably because infrastructure development requires much more public spending than the current level of budgetary allocation.

It would not be surprising if education has suffered a similar fate as well. While the number of perfect grade-point averages rises to a phenomenal high every year, breaking the preceding record, most of the students hail from cities and have parents who may afford some sort of private tuition in the least. There are also tens of schools and colleges that fire blanks in each public exam. One must then question the quality of schooling and naturally the quality of teachers at those institutions, which again people would readily agree is pathetic.

The numbers do not tell much of a different story either. During the 17 years between 1985 and 2002, the number of primary school students went from a little over 10 million to 17 million. During this time the number of teachers increased from about 1.83 lakh to 2.64 lakh meaning that the teacher-student ratio had actually worsened from one teacher for 54 students to one for 64. The number of schools increased from about 43,600 to 63,150, again in a worsening trend going from one school for 231 students to one for 269.

It was reported widely in the media during a movement of all primary school teachers of Bangladesh, demanding higher pay, that their wage structure was similar to that of class V government employees. Quite naturally, the quality of teachers and the logistics available at the schools are pathetically inadequate. But nothing concrete has yet been done either to improve the facilities of the schools or the standard of teachers through training and better remuneration. The inequality of distribution however

remains. Reports are published almost everyday in different Dailies of the poor state of school in remote rural areas that lay ignored and neglected for years (Ahmed: 2007).

Bangladesh has achieved significant coverage in water supply during the past decades primarily due to the availability of suitable ground water aquifers at shallow depth. According to the definition given by the government, the proportion of people with access to piped water supply, public tap, borehole or pump, protected well, protected spring or rainwater is considered to have access to drinking water. Though by this definition nearly 100% of the population has access to drinking water, only 45% population in urban areas enjoyed the access to safe drinking water in 1999 (GoB and UN 2005). According to the HIES 2000, majority of households in the country (about 90%) obtains drinking water from tube-wells of the households having the access to drinking water. But over the last few years tube-wells have been contaminated with arsenic, which has become a serious threat to the access to safe drinking. Sixty one districts out of 64 have been affected by this problem.

In addition, Bangladesh targeted to increase the access to improved sanitation from 56% to 85.5% in urban areas and from 29% to 55.5% in rural areas by 2015. But according to Baseline Sanitation Survey, GoB, 2003 we observe the improved sanitation has increased from 11% in 1990 to 29% in 2002 in rural areas, while the situation has deteriorated from 71% to 56% in urban areas during the same period due to unplanned urbanization. In this context, it would very difficult to hit the target.

Given the scenario of public spending pattern on health, education and water-sanitation, it seems logical to raise question whether the existing pattern of spending and amount of money allocated to these vital sectors are sufficient to achieve the MDG targets by 2015.

The government of Bangladesh is quite hopeful of realizing majority of the goals (if not all) by the stipulated time and a review of the MDG progress, jointly prepared by the government of Bangladesh (GoB) and UN country team in Bangladesh, suggests that country is 'on tract' on majority of the targets such as infant mortality, child mortality, expansion of primary and secondary education, reduction of gender disparity, and eradication of hunger in the form of child malnutrition. In addition, the Bangladesh Poverty Reduction Strategy Paper (PRSP) holds that the rate of actual progress achieved by the country during 1990-2000 is consistent or even higher than the pace of annual progress required for achieving MDGs by 2015. Despite showcasing such progress in the different sectors, the statistics provided in the report suggest two emerging challenges that may impede the 'steady' progress of the realization of the Goals. First, there exists a very high degree of social inequality, which cuts across all key social targets. Second, the rich-poor divide is striking and showing a secular upward trend. The worrying is the gap between the poorest and the rest of the society. A high level of inequality in spatial dimensions and socio-economic categories needs to be seen as factors likely to cause divergence in the progress in MDGs in the coming decade (Unnayan Onneshan: 2005).

According to the GoB/UNDP Bangladesh MDG Progress Report of February 2005, Bangladesh faces serious challenges in meeting the targets it has set towards attaining the important MDGs in eradicating extreme hunger and poverty, reducing child mortality and improving maternal health. The challenging outlook for Bangladesh with regard to meeting the MDG targets is also strongly emphasized in the ADB report 'MDGs: Progress in Asia and the Pacific 2006', which categorizes Bangladesh as a 'country of greatest concern', by falling further behind and score negatively on both the progress index and the latest status index. Specific reference is made to increasing inequality, severe school drop out rates which undermine the good enrolment rates, disparities between urban and rural access to education, gender disparities especially at tertiary level in education, alarming child malnutrition, worsening urban access to sanitation and a disastrous environmental situation.<sup>7</sup>

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<sup>7</sup> For further details of the MDG Progress, please see Unnayan Onneshan (2005), "Public Policy Watch 2005: Millennium Development Goals- A Reality Check" ([www.unnayan.org](http://www.unnayan.org))

Assessments by international agencies suggest that most low-income countries are far from achieving these objectives by 2015. Halfway to the target date of 2015, the world is still falling short of meeting the Millennium Development Goals. The World Bank and the United Nations have estimated that anywhere from \$40 billion to \$75 billion annually will be needed globally if we are to achieve the MDGs (Devarajan: 2002). A key requirement is to ensure that government and donor resources are increasingly targeted towards the achievement of MDGs.

The UNMP estimates the annual cost of achieving the MDGs in low-income countries at US\$253 bn in 2006, rising to US\$348 bn. in 2010 and US\$529 bn. in 2015. It is assumed that roughly three quarters of the figure will be met through the mobilization of domestic resources, leaving an annual shortfall of US\$73 bn. in 2006, rising to US\$135 bn. by 2015.

Furthermore, it is estimated that meeting the MDGs in middle -income countries will require an additional US\$10 bn per year, and that funding international components of the goals will require a further US\$15 bn. in 2006, rising to an annual US\$31 bn. by 2015. In total, therefore, the UNMP estimates that additional external annual financing of US\$121 bn. In 2006, US\$143 bn. in 2010, and US\$189 bn. in 2015 will be required if the MDGs are to be met in all countries.

The assumption of a rising contribution of domestic resources to MDG expenditure has been questioned in some quarters as overly optimistic. The UNMP (2005) suggests that the average domestic contribution for the least developed countries would be 5% of GDP in 2006, rising to 9% by 2015 (for low income countries the corresponding figures are 7% and 11%).

Given that government revenues in low-income countries have averaged between 12% and 14% of GDP since 1990 (Culpeper and Kappagoda, 2006), these estimates would appear perfectly reasonable, if not a little pessimistic. A corollary to this, however, is the scope to further increase the domestic tax take in developing countries. It is well known that tax revenues as a proportion of GDP are strongly related to a country's level of development, so that low-income countries have a significantly lower level of tax revenues as a proportion of GDP than do high-income countries. However, the importance of domestic resource mobilization cannot be overstated. The more a country can fund its activities – including but not restricted to MDG expenditure needs – through domestic resources, the more autonomy the country has, the lower its needed external and internal borrowing and thus the more sustainable its debt.

However, given the rising trend of government revenue earnings<sup>8</sup> in Bangladesh, very scanty part of it is being invested on essential services such as education, health etc. Public expenditure of these vital services account for only 25% of total spending and a meager 5% of GDP. So, where does the public money go?

### **Let's see, where the money goes?**

In the global context, the studies suggest that, predictably, there are three factors that are unduly burdening many budgets: defense spending, debt payments and untargeted subsidies. The total military expenditure of governments across the world has fallen in the 1990s compared to the 1980s. However, the absolute burden of defense expenditure remains high in many countries. Contrary to the global trend, defense expenditure in South Asia has risen. In many countries examined, including Benin, Cameroon, Chile, the Philippines, and Sri Lanka, defense spending absorbs more resources than basic social services. In many cases, debt service alone surpasses, often by a wide margin, the allocation to these services. This was true in Brazil, Cameroon, Côte d'Ivoire, El Salvador, Jamaica, Kenya, Nepal, Niger, Peru, the Philippines, Sri Lanka, Tanzania, and Zambia (UNICEF: 2000).

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<sup>8</sup> A target of Taka 5,730.1 million in revenue collection has been set for FY08, which is Tk. 7,82.9 million or 15.8 per cent higher than the revised figure for FY07. On the other hand, revenue-GDP ratio and tax-GDP ratio are targeted at 10.8 per cent and 8.6 per cent respectively, up from 10.5 per cent and 8.4 per cent in FY07 (CPD: 2008).

## Government spending pattern: Essential services vs. External debt servicing (In billion Taka)

Year	Total government spending	Education* (% of total spending)	Health (% of total spending)	Water and Sanitation** (% of total spending)	External debt servicing % of total spending
2001	374.00	58.52 (15.65)	26.27 (7.02)	n/a	12.87
2002	407.60	58.78 (14.42)	26.49 (6.50)	n/a	12.89
2003	437.00	65.04 (14.88)	27.97 (6.40)	n/a	12.27
2004	493.70	67.58 (13.69)	34.45 (6.98)	n/a	12.45
2005	556.30	71.30 (12.82)	31.75 (5.71)	n/a	12.57
2006	610.60	91.03 (14.91)	41.12 (6.73)	4.94 (0.80)	16.01
2007	668.40	109.06 (16.31)	49.57 (7.41)	6.30 (0.94)	18

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\*Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities throughout the country.

The above table reveals the fact that the government is spending more on external debt servicing than education or health. In 2006, the country had to pay 16% (2.4% of GDP) of total public spending for external debt servicing while the figure was around 15% (2.3% of GDP) and 7% (1.06% of GDP) for education and health sector respectively. The water and sanitation sector takes out very meager amount money (just 0.8%) from the total allocation pie. A frustrating picture can be seen if one looks at the issue from the window of the Revenue budget. It clearly demonstrated that Bangladesh has spent 15.65% and 5.89% of its revenue expenditure on education and health respectively in the year 2007 while, in 2006, she had to pay 22.03% for external debt servicing.

According to the official statistics published by the GOB, overall external debt servicing rose from \$892.7 million in 2001 to 1457.6 million in 2006 showing almost 63% increase during the last 6 years. Servicing for Medium and Long-term Debt (MLT), borrowed mostly from multilateral and bi-lateral donors costs \$678.1 million in 2006 while the figure was \$596.6 for the year 2001. Due to the increasing rate of exports during the last one and a half decades, the EDT/XGS (Total External Debt/Exports of goods and services) ratio has gone down from 388.5 in 1990 to 116.8 in 2006. Same trend can be observed in TDS/XGS (total external debt servicing/exports of goods and services) ratio: 20.9 in 1990 to 8.8 in 2006.

If one takes into account the domestic debt servicing, the overall public debt servicing (external and domestic) picture for the year 2006 would be seen as frightening one consuming almost 13% (2.04 for external and 10.25 for domestic) of revenue expenditure for interest payment only.

However, the economic analysis of revenue expenditure (2008) of the GOB reveals that expenditure on account of major three heads, "salary and allowances", "subsidies and transfers" and "interest payments", which is set to account for 82.2 per cent in the total actual revenue expenditure, will grow by 4.9 per cent, 16.7 per cent and 17.8 per cent respectively in FY08. It may be noted that the domestic debt servicing liabilities are on the rise. Share of Debt service Liabilities-DSL (domestic) in revenue expenditure was 18.2 per cent in FY07 which is projected to be 19.0 per cent in FY08 (CPD: 2008).

## Government revenue expenditure: Essential services vs. External debt servicing

In Million \$

Year	Total government revenue expenditure	Education* (% of total Rev.)	Health (% of total Rev.)	External Debt servicing (% of total Rev.)
2001	4232.8	666.9 (15.70)	203.7 (4.81)	892.7 (21.09)
2002	4819.4	650.6 (13.50)	223.6 (4.64)	915.1 (18.99)
2003	5348.9	684.1 (12.79)	230.0 (4.30)	925.8 (17.31)
2004	5752.1	758.7 (13.19)	253.67 (4.41)	1043.3 (18.14)
2005	6339.4	826.0 (13.03)	293.51 (4.63)	1139.5 (17.97)
2006	6614.5	945.9 (14.30)	284.32 (4.65)	1457.6 (22.03)
2007	6591.4	1031.4 (15.65)	388.23 (5.89)	1551.3 (24)

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\*Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities through out the country.

Widespread poverty, powerlessness and lack of basic services mean that demand for public spending is high. Therefore, the challenge for the government is to contain wasteful public spending and orient it towards priority sectors. Public expenditure should promote sustainable growth; basic services, such as education, health, sanitation and housing, should be a priority. However, Bangladesh is paying more on debt servicing (both external and domestic) leaving very little for those vital services. Different unofficial estimates suggest that public debt in Bangladesh has stabilized below 50% of GDP in recent years, estimated at 47% in 2006. However, the real burden of public debt is in its servicing. In Bangladesh, interest payments alone consumed about 13% of government revenues in 2006, more if repayments of principal are included.

### Debt Profile: Bangladesh

Government or public debt in Bangladesh consists of domestic and external debt. External Debt is directly linked to borrowing from bilateral and multilateral institutions for project funding through the Annual Development Programs and budget support systems. Domestic borrowing is generated for financing segments of the budget deficit in addition to intra-year cash flow management. In general, external borrowing is applied to long term commitments while domestic borrowing is required for short, medium and long term commitments.

Over the last few years, government borrowing from domestic sources has dominated over borrowing from foreign sources. The dominance of domestic borrowing over foreign financing continued during FY07. During FY07, total government borrowing was Tk. 597.9 billion, out of which Tk. 522.0 billion (87 percent) came from domestic sources. The net flow of government borrowing from external sources remained nearly stagnant in FY07 at the FY06 level (Bangladesh Bank: 2008)

Bangladesh, like other developing countries, has been a regular recipient of foreign aid or external assistance in order to lessen the gap between savings and investment and to mitigate the balance of payment deficit. However, there has been serious debate over the issues such as low performance in aid-utilization, donors' stringent and one-size-fits-all "conditionalities" and global aid politics that are believed to undermine the potential benefits that aid could have brought to the development scenario of the country. The apprehension over aid issues is felt in different countries around the world and also among

the donors themselves. As a result, the idea of aid effectiveness has received increasing attention and importance in international discussions that generates hope that the international structure of aid would create sustainable development outcome for the poor countries. Besides, the concept of “debt sustainability” has attracted attention to policy makers and experts both at national and international level, as a low-income developing country like Bangladesh is paying too much for debt servicing fundamentally at the cost of financing basic services to its poor people. The issue has become a dreadful one as it has direct bearing on attainment of MDG targets. Clearly, like many other poor countries, Bangladesh has insufficient resources for the implementation of MDGs as the country continuously pay on an average 1060 million every year during the last 6 years from 2001 to 2006 (of which \$620 for Medium and Long-term-MLT), out of its scarce budget, on foreign debt servicing.

#### **Common agendas of International Financial Institutions (IFIs)**

- Dismantling public institutions and public enterprises that deprives people but give immense authority to big business
- Removing all supports and protection for local industries and agriculture by liberalizing imports
- Supporting export oriented activities to meet the needs of western market by supplying cheap product at the expense of economy and environment
- Withdrawing state's responsibility of providing basic services such as health care and education for the people
- Raising prices of fuel, gas, electricity, raising fees of education and healthcare to create good business opportunities of the global companies

#### **What IFI's get in return, if polices/agendas are implemented?**

- a huge market for the global capital
- favorable conditions to have extraordinary return on investment
- an open space for global big businesses to do whatever they like to do

However, it is often said that untold

stories are more realistic than what is told. If those figures are taken as “told stories”, the untold stories are nothing but the “conditionalities” attached with external assistance particularly with the MLT loans taken from the so-called international donor communities including the IFIs. Withdrawal of state responsibilities from providing basic services to its people and privatization of those services mean that people are exposed to more vulnerability making the dream of poverty eradication and achieving the MDG targets a distant one.

### **A General Scenario of external resource flow to Bangladesh**

External assistance has played a vital role in the economic development of Bangladesh, assisting in bridging the internal gap (savings-investment gap) and external gap (export-import gap). The costs, risks and maturity structure related to external debt management analysis are important. The cost of external debt is low as the most of the foreign loans received are through the concessional window of IDA, ADB and Japan. The structure of maturity of the external debt of Bangladesh is composed of medium and long term debt with an average grace period of 10 years and a repayment period of 20 years. With the shrinkage of share of grant aid in the external aid package in recent years, the volume of external borrowings is increasing which has resulted in a progressive increase of per capita debt obligation which stood at US\$ 139.9 in 2006.

From 1972 to 30 June 2006, a total of about US\$ 53.93 billion of foreign assistance was committed of which about US \$ 44.83 billion of aid was disbursed. 44.74 percent of the disbursed aid was grants and 55.26 percent was loans. In 2007, Bangladesh received \$1631 million as foreign economic assistance of which \$1040 was loan while the amount of grant was \$590, almost half of the amount received as loan.

Aid is received from both multilateral and bilateral sources. The multilateral sources include World Bank (WB), Asian Development Bank (ADB), United Nations Development Programs (UNDP) and other UN organizations. The bilateral donors include individual countries.

Since independence, Bangladesh has received highest amount of bilateral aid from Japan in terms of cumulative disbursement followed by USA. International Development Association (IDA) is the largest amongst the multilateral development institutions followed by the Asian Development Bank. **Table - .....** shows that IDA contributed 26.68% of the total aid disbursed between 2001-2007, followed by ADB

which contributed 15.45% over the corresponding period. Japan's contribution during that period is 9.9% percent followed by UK (4.95%). However, from 2004 UK has been the largest bilateral donor to Bangladesh.

### External Assistance at a Glance (2001-2006)

(US \$ million)

Year	Loans (% of GDP)	Grants (% of GDP)	Total (external) (% of GDP)
2001	865 (1.84)	504 (1.07)	1369 (2.91)
2002	963 (2.03)	479 (1.00)	1442 (3.03)
2003	1075 (2.07)	510 (0.98)	1585 (3.05)
2004	695 (1.23)	338 (0.59)	1033 (1.82)
2005	1244 (2.05)	244 (0.40)	1489 (2.45)
2006	1067 (1.57)	501 (0.74)	1568 (2.31)

Source: External Relations Division, Ministry of Finance, Government of Bangladesh & Bangladesh Statistical Appendix, IMF, June 2007,

There has been a significant change in the composition of aid to Bangladesh over the years. The key features demonstrate the fact that the share of grants has been decreasing steadily over the past few decades. The share of grants which was 89 percent in 1971/73 has reduced to only 31.9 percent in 2006. The declining volume of grants resulted in a larger share of loans in the total aid package. Bilateral aid has shown a declining trend whereas multilateral aid has increased positively over the years. Bilateral aid that was 75.4 percent of total aid in 1973/78 has declined to about 43.8 percent in 2005. Multilateral aid, on the other hand, has grown from 24.6 percent to about 56.2 percent in 2005. The flow of food aid and commodity aid has shown a declining trend while project aid has increased sharply from 1.3 percent of total aid in 1971-72 to 93.8 percent in 2006.

### Grant as a share of total Aid package

Year	Grant as a share of total Aid Package
1971/73	89.0%
1979/80	53.2%
1984/85	55.4%
2005/06	31.9%

Source: Flow of external resources into Bangladesh, 2007

As the ratio of grants in the total aid has been declining with respect to both commitment and disbursement, the aid flow is contributing to mounting external indebtedness. The total public sector external debt has increased from US\$ 973.8 million in 1974/75 to about US\$ 19.420 billion in 2005/06. The total debt service payments have increased considerably in the past. The increasing external debt along with expiry of grace periods and unfavorable exchange rate movements has resulted in increased external debt service.

### Foreign Aid by category

year	Food Aid (% of total)	Commodity aid (% of total)	Project Aid (% of total)
1971-72	47.9	50.8	1.3
1977-78	21.3	45.6	33
1984-85	19.5	34	46.5
1989-90	10.4	25.2	64.4
1994-95	7.9	19.1	73
1999-2000	9	17.8	73.2
2005-06	6.2	0	93.8

Source: Flow of external resources into Bangladesh, 2007

Per capita debt obligation of the country has risen from US\$ 6.59 in 1974 to US\$ 139.91 in 2006. The reductions of the share of the grants in aid package and the rise in the volume of external borrowing have contributed to the increasing growth of per capita debt obligation.

### **Official development Assistance (ODA)**

To achieve a significant growth, adequate savings for investment and sufficient foreign exchange to buy capital goods are essential. Development assistance or foreign aid can serve as a supplement when either domestic savings or necessary foreign exchange for the development is lacking. It has become quite

essential for the least developed countries. Statistics shows that in recent years, ODA from countries belonging to the Development Assistance Committee (DAC) has been decreasing, both in real value and as share of the GNI of donor countries. It dropped from US\$1.24 billion (0.28% of GNI) in 1996 to US\$1.02 billion (0.22% of GNI) in 2001. ODA to the least developed countries also fell from 0.06% of donors' GNI in 1996 to 0.05% in 2001. This is far from the target of 0.7 and 0.15%, respectively; set as the MDG requirements for these indicators.

The effect of declining trend of ODA was also reflected in foreign aid disbursement in Bangladesh. In 2003-04, Bangladesh received US\$954 million of foreign aid, which was US\$1,577 million in the fiscal 2002-03, registering negative growth of 39.5%. However, due to the lower capacity of utilizing aid in the context of lowering trend of aid commitment, Bangladesh has the experience of about US\$5.4 billion aid in the pipeline from 1971-72 to 1 July, 2002. In addition, our foreign aid structure has experienced a remarkable change after independence. In 1972-73, project aid was only about 15% out of total foreign aid, which rose to 86.8% in 2001-02. But this aid proved ineffective in our development. During 2003-04, only 82% of the total project aid was utilized in the ADP. Though market expansion, GDP growth have been argued as a positive result of foreign aid, no survey or analysis has been conducted figuring out the net result or effect of this aid so far. A research identifying the beneficiaries of the foreign aid shows that about 80% of the total foreign aid goes back to the foreign countries in the form of import payment and payments to foreign consultants, 15% goes to the local importers, indenters and bureaucrats (Sobhan, 1992).

However, foreign aid has played an insignificant role to stimulate growth in the context of scarcity of savings and investment in Bangladesh. It has been observed that when the domestic savings of the country declined or stagnated, the flow of foreign aid also declined and remained a marginal proportion of GDP. Since foreign aid does not add significantly to total national savings and rather shows a diminishing trend, it is not likely to promote growth in Bangladesh (CPD, 2005).

#### **What is the main purpose of foreign aid?**

The main purpose of foreign aid is to transfer resources from one government to another to stimulate economic development

#### **What is the use of the foreign aid?**

- to fill the gap of budget deficit;
- to meet balance of payment for international trade; and
- to fund the Annual Development Program (ADP)

#### **What actually happens?**

- A substantial part of foreign aid finds its way back to the lenders in form of consultant fees and cost of equipment.
- Government officials, politicians and the influential persons involved in the process, get their due share
- Only a scanty sum reaches the poor through some services or benefits
- Economists claim that only 20 percent of aid goes to the target groups while 80 percent is siphoned off

## External Debt outstanding<sup>9</sup>

### Bangladesh: External Debt Outstanding (2001-2006)

(US \$ million)

	2001	2002	2003	2004	2005	2006
<b>Total outstanding External Debt</b>	<b>15734</b>	<b>16276</b>	<b>16455</b>	<b>16761</b>	<b>19286</b>	<b>19420</b>
• Medium and long term- MLT	15607	16067	16234	16404	18644	19015
o Multilateral	11335	11598	11797	11465	13945	14447
o Bi-lateral	3704	3776	3675	3964	3573	3238
• Suppliers credit	298	512	653	774	898	917
• Short term credits	127	209	221	358	641	405
• IMF	172	109	34	144	216	410
• Others	99	73	74	56	12	3
<b>Total External Debt Servicing</b>	<b>892.7</b>	<b>915.1</b>	<b>925.8</b>	<b>1043.3</b>	<b>1139.5</b>	<b>1457.6</b>
<b>MLT Debt Servicing*</b>	<b>596.6</b>	<b>586.3</b>	<b>608.0</b>	<b>588.7</b>	<b>655.3</b>	<b>678.1</b>

\* In general, this part of debt servicing is related to loans associated with Foreign Aid package.

Source: Bangladesh Statistical Appendix, IMF, June 2007 & Flow of External Resources 2007, Economic Relations Division, Ministry of Finance, Government of Bangladesh.

Note: Loans related to Air craft, Shipping, Food and Crude oil are included here but excludes the IMF Trust Fund.

According to the official sources, as of June 2006, total outstanding external debt stood at \$19420 million of which MLT is \$19015 million, almost 97% of the total debt outstanding. This is very indicative given the context of the political economy of foreign aid manifested in the form of aid conditionalities. Debt servicing for this particular component of overall external debt is also significant as it consumes on an average \$ 860 million every year from 2001 to 2006.

### Domestic Debt profile

Although the total amount of debt in Bangladesh is increasing over time, external outstanding debt as a percentage of GDP is declining and the ratio for domestic debt to GDP is increasing.

The debt to GDP ratio is showing a declining trend in recent years implying a visible improvement in the outstanding debt position as a percentage to GDP. The total debt to GDP ratio declined to 47.9 percent of GDP in 2006 compared to 58.0 percent in 2002. The external debt to GDP ratio has also been declining since 2003 which has shrunk to 31.3 percent in 2006, which is close to the desired level and threshold

<sup>9</sup> The concept of External Debt as it is understood and practiced by the GOB needs to be understood clearly in order to avoid ambiguity related to Foreign Aid/loan/assistance. Foreign Aid is comprised of external loans given on concessional terms and grants. Almost all bilateral and multilateral loans are concessional in nature (low interest rate, longer repayment periods etc.). On the other hand, the over all External Debt essentially includes the loan component of Foreign Aid package as well as the loans incurred by GOB from other sources. This second part of external debt component generally refers to Suppliers Credit, Short Term borrowings, IMF purchase, Private etc. (sometimes called Special Borrowings). Other than the IMF purchase, these are generally called 'special borrowing' by the Ministry of Food, Bangladesh Shipping Corporation, Bangladesh Biman (Air craft), Bangladesh Petroleum Corporation, private sector and Ministry of Defense. These later categories of loans are quite different in nature from the loans associated with the Foreign Aid package. These two different kinds of loans and subsequent repayments (debt servicing) can be shown differently. However, from a broader peoples' perspective, it is important to take into account the volume of overall External Debt and its repayments as it is the "contractual liabilities of residents of a country to non-residents to repay" (Flow of External Resources into Bangladesh, 2007, Economic Relations Division, Ministry of Finance, Bangladesh, Page: XX). Since almost all these loans are owed by the government in one way or another, it is the people of the country who are liable to repay them as stipulated by the contract. An example may clarify the ambiguity related to the repayments of External Debt. Very often, the figure presented as External Debt servicing for the year 2006 is \$ 678.1 million. What is meant by this figure is simple: the author has taken into consideration the repayments (both principal and interest) of loans associated with the Foreign Aid/assistance package. However, sometimes the figure \$ 1457.6 million is shown as the repayment amount of the same year, 2005. Here the author has taken into consideration the over all External Debt of the country including that particular loan component of the Aid package. Ambiguity comes into play when one uses the term "External Debt" and "Foreign Aid" interchangeably.

(30.0 percent) that is considered as a “sustainable benchmark” for low income countries like Bangladesh (ERD and Bangladesh Bank: 2007).

In the context of the declining trend in external assistance to Bangladesh, the relevance of borrowing from domestic sources has increased and the share of domestic debt as a percentage of GDP is also demonstrating an upward trend. Traditionally the domestic debt market in Bangladesh has been small and underdeveloped. However, recent reforms in domestic debt management are expected to contribute towards the development of a well functioning domestic debt market. The primary sources of domestic borrowing are: i. borrowing from the banking system and ii. borrowing from the public (through National Savings Certificates). The banking system consists of the Bangladesh Bank and Deposit Money Banks (i.e. Scheduled Banks). An increasing trend has been observed in net government borrowing from banking sources between 2002 and 2006. Net borrowing from the public has demonstrated a declining trend during the period 2002 to 2005 due, in part to, the interest rate cut in NSD certificates and termination of some savings certificates. However, an increasing trend has been observed due to upward adjustments in the interest rates for savings certificates during recent years. There has been a major shift in government borrowing from 2007 when the government announced an increase in its borrowing requirement through marketable Treasury bonds instead of Treasury bills.

### Public Debt from Internal Sources

(Billion Taka and Percentile)

	Loans taken from banking sector			Loans taken from outside of Banking sector	Total internal public debt	Internal debt as % of GDP
	From Bangladesh Bank	From Commercial Banks	Total			
FY 2001	20.09	89.51	29.04	42.08	71.12	2.8
FY 2002	27.27	-1.58	25.68	47.11	72.80	2.7
FY 2003	-25.9	16.07	-9.82	47.95	38.13	1.3
FY 2004	16.53	10.16	26.69	45.99	72.68	2.2
FY 2005	38.27	-1.42	36.84	29.24	66.08	1.8
FY 2006	93.52	-33.10	60.41	31.03	91.45	2.2
FY 2007	90.5	35.11	44.16	46.82	90.98	2.0

Source: Bangladesh Economic Review 2007

Total outstanding domestic debt as percent of GDP increased to 19.24 percent, on average, during 2001-2006 from 12.96 percent during 1973-1980. Over the period 1974- 2006, the nominal value of domestic debt grew at the rate of 13.41 percent per year. The growth rate was higher during 1990-2006 as compared to growth registered during 1974-1990. External debt-GDP ratio, on the other hand, declined to 32.74 percent during 2001-2006 from 43.57 percent in 1980s. In the wake of slower external aid inflow since late 1990s, the growth of external debt came to 6.65 percent per year on average over the period 1990-2006 as compared to the per year growth of 25.54 percent during 1974-1990.

Growing level of Government borrowing from Bangladesh Bank, which increases the level of high-powered money, grew by 19.76 percent, on average, during 1990-2006 as compared to 11.30 percent, during the whole period of 1974-2006. As a result, the amount of outstanding debt from Bangladesh bank stood at Taka 246.62 billion at the end of 2006 from Taka 16.78 billion at the end of 1991. High powered money (Reserve Money) and Broad Money increased by 12.46 percent, on average and 14.23 percent respectively during 1990-2006.

## Debt servicing costs too much

In 1980s Bangladesh's aid dependence was over 10 per cent of GDP and financed nearly 100 per cent of our Annual Development Plan (ADP). This meant that no Finance Minister could frame a budget without first being assured of aid pledged at the Paris Consortium meeting. This dependence on donors gave them a disproportionate leverage over our policies. The World Bank, in particular, used this leverage to impose an extensive program of Structural Adjustment Reforms (SAR) on the Government of Bangladesh, based on the neo-liberal economic philosophy associated with the so called Washington Consensus. Bangladesh, readily accepted this advice though many of these reforms were unsatisfactorily implemented. This raised tensions with the donors but did not lead to any discontinuity in aid. The donors and successive governments played a discrete game where Bangladesh accepted and promised to implement all reforms whilst the donors turned a blind eye on failure to do so. The era of aid dependence built up its own class of beneficiaries who prospered from aid and acquired a vested interest in its continuity. Aid dependence, thus, generated its own dynamics which influenced the political behavior of successive regimes and the workings of the administrative as well as the business community. The SAR process impacted on the political economy of Bangladesh where new social forces were financially and politically empowered whilst large numbers of people, from de-subsidized poor farmers to disemployed factory workers, became its victims (Sobhan: 2003).

### External debt servicing (% of GDP): 1980-2007

Year	Total debt (% of GDP)	Total debt/XGS%	Debt servicing**		Total debt servicing (% of GDP)	TDS/XGS%
			Principal (% of GDP)	Interest (% of GDP)		
1980	26.6	272.9	1.3	0.4	1.7	17.6
1990	47.9	388.5	1.8	0.8	2.6	20.9
2000	43.6	189.4	1.6	0.5	2.1	9.0
2001	37.4	163.3	1.8	0.4	2.2	9.8
2002	41.5	175.1	1.8	0.5	2.3	9.8
2003	33.5	165.9	1.5	0.3	1.8	8.8
2004	32.5	155.6	1.5	0.3	1.8	8.8
2005	32.1	141.0	1.5	0.4	1.9	8.3
2006	31.3	116.8	2.0	0.3	2.3	8.8

Source: Flow of External Resources into Bangladesh, 2007, page: 237-242

\*GDP is calculated at market price.

\*\* Calculations are author's own

While there is no denying that Bangladesh is heavily dependent on foreign aid and loans to finance its annual budget, it is also true that aid agencies and multilateral lenders in the West have to carry a lion's share of the blame for Bangladesh's burden of debt. Between 1980 and 2004, Bangladesh's total outstanding international debt quadrupled. What is of immense significance in that statistic is that it was between 1980 and 1990 – during a decade of military dictatorships characterized by rampant corruption and political oppression – Bangladesh's debt figure tripled from \$3,921 million in 1980 to \$12,439 million in 1990. The bulk of this surge in lending to the autocratic regimes came from the International Development Association, the soft-loan window of the World Bank. Can the World Bank and the IMF morally impose the burden of this debt on the Bangladeshi people, when in fact that money provided valuable succor to an autocratic regime that the people were struggling to topple at the time? Today, nearly two decades later, Bangladesh is still paying back loans that the dictatorial regime availed from the World Bank and the IMF in the 1990s, much of which was pillaged and squirreled away to foreign bank accounts.

However, comparing the external assistance received by Bangladesh vis-à-vis the amount required debt servicing clearly indicates the mockery of aid. Recent trends in external debt servicing reveals an interesting fact essentially questioning the role of foreign assistance as substantial amount of loan money goes back to the creditor-donor through debt servicing leaving a very meager amount for so-called development in the poor countries like Bangladesh. Table ..... shows that within the last seven years Bangladesh has had to service its debt with as much as 85 per cent of the loans it received in foreign assistance. However, the average amount of debt servicing comes to almost 60 per cent on an average every year.

### Foreign assistance at a glance: 2001-2007

(US million dollar)

Year	Grant	Loan (DS in %)	Total (DS in %)	Debt servicing (DS)
2001	504	865 (69)	1369 (43.6)	596.6
2002	479	963 (60.8)	1442 (40.7)	586.3
2003	510	1075 (56.5)	1585 (38.4)	608.0
2004	338	695 (84.7)	1033 (57)	588.7
2005	238	1257 (52.2)	1491 (44)	655.3
2006	500	1067 (63.6)	1567 (43.3)	678.1
2007	590	1040 (69.5)	1631 (44.5)	721.9
<b>Total</b>	<b>3159</b>	<b>6962 (64%)</b>	<b>10118 (44%)</b>	<b>4434.9</b>

Source: Flow of external resources into Bangladesh, 2007 and Bangladesh Economic Review, 2007

The Global Development Finance 2007 (GDF 2007) report indicated that servicing the external public and private debt by developing countries amounted to 540 billion dollars in 2006. Taking into consideration the servicing of external public debt, since this falls under the responsibility of the state budget, it represented 280 billion dollars in 2006. Despite the fact that the external public debt/GDP ratio is decreasing, the total volume of the debt is continuing to rise and the amounts repaid increase once again in 2006 compared to the previous year. More ominously, if we include servicing the domestic public debt, which also falls under the state responsibility, it is the astronomical sum of more than 1000 billion dollars a year which the people of the developing countries have to repay for both external and domestic public debt<sup>10</sup>. Domestic public debt is increasing rapidly. In 1998 the internal and external debts were almost equal. However, in 2006 the domestic public debt exceeded the external debt by a factor of three! This phenomenon is very important: from now on, it is no longer possible to measure the level of debt of developing countries solely on the basis of the external debt.

Despite improvements in recent years, public debt remains a serious problem for most countries in South Asia. While domestic public debt is becoming a larger component of total public debt, it has received relatively less attention despite its serious economic and social implications. Although official statistics show that the interest payment of total public debt remains at 13% of GDP, other estimates suggest that it is much higher than the officially disclosed one.

<sup>10</sup> Neither the WB nor other IFIs provide reliable data on the reimbursement of the domestic public debt. The basis of the calculations is the following: according to the WB, in 2006, the internal public debt was three times higher than the external public debt. In 2006, the interest rate for the internal public debt of developing countries was generally higher than the interest rate for the external public debt. Since the repayment of the external public debt amounted to about 280 billion dollars in 2006, we can estimate that the total repayment on the external and internal public debts exceeded the sum of 1000 billion dollars in 2006. In 2007, the amounts repaid were greater than those of 2006 (Eric Toussaint: 2007)

## Foreign Debt Service Payment

(In million US)

Fiscal Year	Medium and long-term debt service payments			Export earnings	Total foreign exchange earnings*	DS payment as % of total export earnings	DS payment as % of total foreign exchange earnings
	Interest	Principal	Total				
2001	159	438	597	6476	9117	9.2	6.5
2002	151	435	586	5986	9295	9.8	6.3
2003	156	452	608	6548	10497	9.3	5.8
2004	165	423	588	7603	11899	7.7	4.9
2005	185	434	619	8655	13680	7.2	4.5
2006	176	502	678	10526	16624	6.4	4.1
2007	182	540	722	12178	19641	5.9	3.7

\* Total foreign exchange earnings = commodity export earnings + workers remittances + invisible receipts

Source: Bangladesh Economic Review, 2007.

For example, some evaluation goes as follows: although Bangladesh's debt service to export ratio (9.1 per cent) is slightly lower than for most of the HIPC's, its debt to exports ratio (180.3 per cent) is already well above the 150 per cent considered by the World Bank to be an indicator of un-sustainability, and it is clear that the country's debt repayments are currently absorbing precious resources that are urgently needed to supply the basic needs of its people. (<http://jubileeresearch.org/databank/profiles/bangladesh.htm>). The OECD calculation of country risk rating for 2004 produces a risk factor of 6 for Bangladesh. Same as Indonesia's and Pakistan's this risk factor indicates high risk of external debt default ([www.efic.gov.au/static/efi/cra/bangladesh.htm](http://www.efic.gov.au/static/efi/cra/bangladesh.htm)).

Excessive reliance on debt, whether domestic or external, carries macroeconomic risks that can hinder economic and social development. Country's macro-economic is thus disturbed by this factor alone. Scarcity of resources has already compelled the government to borrow afresh and/or impose new taxes on the citizenry to meet debt service obligations. High domestic public debt pushes up interest rates and crowds out private investment, which is much needed to promote economic growth. When most government revenues are devoted to debt servicing, fiscal policy cannot be used to provide basic services, such as education, health, safe drinking water and housing.

Bangladesh, in terms of population, is the largest Least Developed Country (LDC) and its external debt has grown from \$4.2 billion to about \$19.5 billion in the past two and a half decades. A substantive amount of national budget is allocated to debt-servicing -- at a tremendous socio-economic opportunity cost -- when nearly half of the population are illiterate and live below the poverty line. For example, in 2006, Bangladesh spent more on servicing its debt (2.4 % of GDP) than on providing public healthcare (1.06% of GDP). The majority of the people do not have access to safe drinking water, sanitation or quality education. During the past decades our per capita aid has dropped by 50 percent, but the repayment of external debt has increased from \$100.9 million in 1975 to \$1457.6 million in 2006 - a more than fourteen-fold increase. During this time MLT debt repayment increased from \$70.8 to \$678.1 million, almost ten-fold increase. Bangladesh's debt-servicing constitutes 2.4 percent of the GDP (2007) while, for example, the government's allocation to the health sector is 1.06 percent.

Unfortunately, the national budget — annual statement of the government's income and expenditure — does not recognize the gravity of the situation characterized by its serious problem to finance the external debt servicing at the cost of basic human services. Every year Bangladesh pays, on an average \$ 1060 million, to its foreign creditors. A 2003 study (SUPRO: 2003) exclusively revealed the fact that for every dollar in foreign grant aid received, the government spends over \$1.5 in debt service to foreign creditors annually. These debt servicing payments has not come without cost. In 2006, the debt service bill of \$1457.6 million exceeded the total revenue expenditure of the government on education (\$945.9 million) and health (\$388.23 million) which was just \$1333.83 million.

### **How sustainable Bangladesh Debt is?**

Debt sustainability is an essential condition for macroeconomic stability and sustained economic growth. Most often, high public debt levels create repayment flows that can crowd-out much needed public spending, and can generate adverse incentives for private investors to engage in activities that spurt long-term growth. An excessive level of public debt can make the nation vulnerable to interruption in aid flow or to sudden shifts in domestic financial market sentiment. These problems are aggravated by a narrow export and production base and various structural, political, and institutional factors that reduce returns on investment (ADB, 2006).

Bangladesh is classified as a low-income country and is home to the third highest absolute number of poor people in the world, after China and India. Despite the huge amounts it spends servicing debt (\$1457 million in 2006), the World Bank describes it neither as 'severely' nor even 'moderately' indebted, but instead classifies Bangladesh as 'less indebted'. Instead of rewarding Bangladesh for its track record of prompt debt servicing, the World Bank has interpreted this to mean that Bangladesh's debt must be sustainable. Arbitrary thresholds on indicators like debt/exports made Bangladesh ineligible for the Heavily Indebted Poor Countries (HIPC) initiative or the Multilateral Debt Relief Initiative. Bangladesh will not receive through either of these initiatives the debt relief that it desperately needs to finance public expenditures on school and hospitals among other basic necessities.

Despite lack of actions by the World Bank, IMF, and the Paris Club, some bilateral debt relief agreements have taken place. In recognition of extreme poverty levels and devastating floods, Canada cancelled Bangladesh's bilateral debt of \$600,000 in 1999. In 2000, the United States agreed to a debt-for-nature swap, forgiving \$10 million in debt payments in return for \$8.5 million expenditure by Bangladesh to protect mangrove forests and Bengal tigers. The United Kingdom has reached bilateral agreements with Bangladesh to write off their outstanding debts from loans made for development purposes. As a result, Bangladesh's UK debt, which amounted to \$1.3 million in April 1997, was written off by the end of March 2001.

The G-8 debt cancellation campaign has primarily focused on the Heavily Indebted Poor Countries (HIPC) at the cost of other poor countries, mostly in Asia, who have been repaying their debts regularly. Paradoxically, debt relief is only provided to those countries who default on debt repayment. As such, the poor countries who maintain their repayment schedule, of course at the cost of its peoples' basic needs, are considered "good debtors" and, consequently, penalized for not defaulting. One of the Bangladeshi development experts remarked that- "Bangladesh has regularly paid its debts, expanded exports and are now being punished for its success" (Bhattacharya: 2006). The whole argument is that, since these countries are able to repay they must have "sustainable" levels of debt. The sustainability of debt is primarily measured on the economic matrix called Debt Sustainable Analysis (DSA) introduced by the World Bank and IMF, which lays too much emphasis on the country's exports and does not fully reflect the true nature of the debt burden on government expenses. Thus, Bangladesh and other South and South-East Asian countries are not included in the HIPC and, therefore, were not eligible for debt cancellation.

In 2005, developing countries paid out \$1.4 billion every day in servicing external debts. The poorest countries – those with an average daily income of less than \$2.40 per person – spent over \$100 million

every day. Meanwhile, public services in these countries are, in general, disastrously under-funded, with services for women and girls particularly lacking. Kenya, for instance, is not eligible for multilateral debt relief, but spent more on servicing debt than on health care in 2006/7. The United Nations Development Program reports that Burundi spent more than twice as much on paying debts as on health and education combined in 2004.

Increased investment in public services is urgent: more than one billion people worldwide have no access to clean water; 11 million children die each year from infectious diseases; 40 million people are living with HIV and AIDS; and despite some progress in education, 80 million children in developing countries are not going to school, whilst millions more suffer from a severe shortage of teachers and facilities. Oxfam estimates that to meet the Millennium Development Goals on health, education, water and sanitation would require an extra \$47 billion to be invested in these services each year: this is just 9% of the amount the developing world spends annually on servicing debt (OXFAM: 2007).

Bangladesh is no more an exception as it pays more on debt external debt servicing than on essential services. In this backdrop, any Bangladeshi citizen can raise the following questions essentially questioning the very intention of the international community as far as the concept of 'debt sustainability' and 'debt cancellation' is concerned.

How can Bangladesh's debt be sustainable especially when it pays back on an average \$1060 million to its foreign creditors in general and \$860 million to its so-called benevolent development partners (multi-lateral and bi-lateral donors) annually? How can its debt be sustainable when the cost of external debt servicing exceeds the public spending on health and education, for example? In what criteria, the Bangladesh external debt can be measured as sustainable when it clearly demonstrates that MDG progress is being seriously hampered due to the excesses of debt servicing? Presumably, the international community has left a single choice for Bangladesh: servicing external debt at the cost of basic services let alone the MDG progress!

### **Bangladesh deserves full debt cancellation**

Undeniably, Bangladesh cannot afford to pay on average \$1060 million a year to foreign creditors. Even though the country is making some progress with regard to the implementation of the MDGs, it is still home to 70 million people living in poverty. It has the highest incidence of poverty in South-Asia. In fact, Bangladesh cannot afford to pay a single dollar in debt service. If debt sustainability is based on the financing needs for the MDGs, Bangladesh would receive full debt cancellation. Bangladesh needs US\$ 7.5 billion a year to finance the implementation of the MDGs.

According to the GoB/UNDP Bangladesh MDG Progress Report of February 2005, Bangladesh faces serious challenges in meeting the targets it has set towards attaining the important MDGs in eradicating extreme hunger and poverty, reducing child mortality and improving maternal health. The challenging outlook for Bangladesh with regard to meeting the MDG targets is also strongly emphasized in the ADB report 'MDGs: Progress in Asia and the Pacific 2006', which categorizes Bangladesh as a 'country of greatest concern', by falling further behind and score negatively on both the progress index and the latest status index. Specific reference is made to increasing inequality, severe school drop out rates which undermine the good enrolment rates, disparities between urban and rural access to education, gender disparities especially at tertiary level in education, alarming child malnutrition, worsening urban access to sanitation and a disastrous environmental situation.

Assessments by international agencies suggest that most low-income countries are far from achieving these objectives by 2015. A key requirement is to ensure that government and donor resources are increasingly targeted towards the achievement of MDGs. In this respect, debt servicing represents a claim on government resources. International community has provided substantial external debt reduction and relief to Heavily Indebted Poor Countries (HIPCs), with an aim of assisting these countries on their path

towards achieving MDGs. Governments also have to service domestic debt, which if freed, could also be utilized for achievement of MDGs.

A recent IMF/IDA analysis for 66 LICs over 1995-2004 suggests an average domestic to GDP ratio of about 19 per cent, with domestic debt constituting on average about one fifth of total public debt. In the Asian LICs, Sri Lanka has sizeable domestic debt (47 percent of GDP in 2005), in the context of total public debt/GDP ratio of over 100 per cent, while domestic debt in Bangladesh has been around 18 per cent of GDP in recent years.

However, some of the targets can be achieved through additional aid, but expanded debt cancellation is highly important to make development assistance more effective. As Jeffrey Sachs and his team pointed out in the 2005 United Nations Millennium Project- "Investing in Development" report, "Dozens of heavily indebted poor and middle-income countries are forced by creditor governments to spend large proportions of their limited tax receipts on debt service, undermining their ability to finance vital investments in human capital and infrastructure. In a pointless and debilitating churning of resources, the creditors provide development assistance with one hand and then withdraw it in debt servicing with the other."

### **WB-IMF and the Debt Sustainability Analysis**

To date, debt sustainability has been conceived of in terms of variables such as the ratio of debt service payments to export earnings or GDP, which can be criticized for being both arbitrary and overly optimistic in terms of the future path of these variables. However, as well as these shortcomings, these calculations take no account of estimated spending requirements to meet the MDGs, which has led many to argue that the concept of debt sustainability must be redefined to make it compatible with this vital goal.

In 2005, the UN Secretary-General put the argument as follows: "Debt sustainability should be redefined as the level of debt that allows a country to achieve the MDGs and to reach 2015 without an increase in debt ratios." He further stated that "If current trends persist, there is a risk that many of the poorest countries will not be able to meet many of them [MDGs]. Considering how far we have come, such a failure would mark a tragically missed opportunity...As I said in my March report: 'Let us be clear about the costs of missing this opportunity: millions of lives that could have been saved will be lost; many freedoms that could have been secured will be denied; and we shall inhabit a more dangerous and unstable world.'" As a response to this situation, a comprehensive report on progress on the MDGs was published by the UN's Millennium Project (UNMP) in 2005, which contained detailed costing for the resources required at the national and global levels if the goals are to be met

The UNMP estimates the annual cost of achieving the MDGs in low-income countries at US\$253 bn in 2006, rising to US\$348 bn. in 2010 and US\$529 bn. in 2015. It is assumed that roughly three quarters of the figure will be met through the mobilization of domestic resources, leaving an annual shortfall of US\$73 bn. in 2006, rising to US\$135 bn. by 2015.

Furthermore, it is estimated that meeting the MDGs in middle -income countries will require an additional US\$10 bn per year, and that funding international components of the goals will require a further US\$15 bn. in 2006, rising to an annual US\$31 bn. by 2015. In total, therefore, the UNMP estimates that additional external annual financing of US\$121 bn. In 2006, US\$143 bn. in 2010, and US\$189 bn. in 2015 will be required if the MDGs are to be met in all countries.

The assumption of a rising contribution of domestic resources to MDG expenditure has been questioned in some quarters as overly optimistic. The UNMP (2005) suggests that the average domestic contribution for the least developed countries would be 5% of GDP in 2006, rising to 9% by 2015 (for low income countries the corresponding figures are 7% and 11%).

The importance of domestic resource mobilization cannot be overstated. The more a country can fund its activities – including but not restricted to MDG expenditure needs – through domestic resources, the more autonomy the country has, the lower its needed external and internal borrowing and thus the more sustainable its debt. Despite the importance of this issue, however, it can do little to help in the immediate future – the fruits of tax reform policies may take many years to materialize, but the MDGs need to be funded sufficiently today. Consequently, while domestic resource mobilization must be an increasingly important part of the long-term solution, it cannot be the whole solution. We must address the situation as we find it today, not as we hope it could be in some years' time.

An important part of this story relates to the continuing burden of external debt in many countries. In 2006, for example, US\$446 billion in debt -related payments were made by all developing countries, with US\$40.8 billion of this being paid by low -income countries, and the remaining US\$405 billion coming from middle-income countries. To many this is a perverse situation: low-income countries that require external support of US\$135 billion in 2006 if they are to be on track to meet the MDGs, are paying almost 30% of this figure to creditors as interest or amortization on their external debt.

### **Alternative to WB-IMF formula**

By focusing on the debt-to-export ratio as one of the primary eligibility determinants, the current debt relief initiative falls short. An alternative model would look at poverty levels or a country's per capita income and its ability to use released funds to fight poverty. By removing a country's debt burden as a determinant of eligibility, we could correct the problem inherent in previous debt relief efforts when countries with less debt (which, it might be argued, borrowed more responsibly) did not benefit, while highly indebted countries did. Bernhard Gunter, of the Bangladesh Development Research Center, argues in a recent paper that there are 30 countries that are both poorer and more indebted (using a debt-poverty ratio) than the least poor and least indebted eligible HIPC.

Considering that the current debt levels of HIPC countries that have received debt relief under the Multilateral Debt Relief Initiative (MDRI) is far lower than the debt levels of non-HIPC low-income countries, Gunter (2007) questions whether the HIPC program provides equitable distribution of development resources. HIPC eligible countries may benefit from debt relief at the expense of the poorer, and now more indebted countries. Gunter proposes to do away with the HIPC debt-to-export ratio criterion described above, and to replace it with a focus on fiscal debt sustainability.

Spratt (2007) developed an alternative to WB-IMF criteria in determining the appropriate levels of debt service costs in the low-income countries from the perspective of MDG process. The alternative suggests that for a genuinely MDG-compatible framework of debt sustainability to be successfully implemented, the primary criteria for determining appropriate levels of debt service costs in developing countries can only be the impact this has on a country's ability to meet the MDGs.

In many ways this turns the traditional approach on its head. In the past, it has been assumed that a country's obligations to its creditors take precedence over other objectives. Thus, the fund available for human development purposes, for example, is whatever is left after debt obligations have been met. In contrast, the alternative proposal argues that the money available for meeting debt obligations should be whatever is left over after needed MDG expenditures have been met.

In this alternative framework<sup>11</sup> the concept of 'sustainability' is defined in terms of the surplus government revenue left over after the MDG spending commitments have been met, with debt service (& principle) changing in proportion to the size of this 'surplus'. In practice this would require a two-stage

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<sup>11</sup> For details of this alternative framework, please see Spratt, S (2007), "External Debt and the Millennium Development Goals: A New Sustainable Framework" (a joint UNDP /UN Department for Economic and Social Affairs- UNDESA initiative on defining more MDG –consistent debt sustainability frameworks)

process. In stage- 1, countries are assessed in terms of the ratio between MDG expenditure required and available government revenues. If this ratio exceeds a certain level, debt relief is automatic and continues until the sustainable level is reached, on the basis of equal burden sharing between public and private creditors. In the second stage, all remaining debts are repackaged as 'MDG Bonds' with the interest and principle being directly related to the proportion of this surplus accounted for by debt service obligations. For the poorest countries, this would effectively mean 100% write -off, and for other countries both interest and principle would rise proportionally in relation to this ratio. At the other end of the spectrum, many middle-income countries would see debt service payments at full market rates from the start.

In some ways, the obvious cut-off point in terms of MDG-consistent sustainability is 100%. That is, if required MDG expenditure is larger than total government revenues the situation is clearly unsustainable. However, this assumes that the entirety of government revenue is spent on achieving the MDGs, which is patently unrealistic.

For illustrating his alternative framework with data obtained form four specific low-income countries, Spratt developed the following table.

<b>Key variables for selected case -studies (US\$ billions, unless otherwise stated)</b>					
Country	GDP, 2006	Population, 2006 (millions)	Total debt service, 2006	Total MDG expenditure required, 2006*	Total Government Revenue (ex grants)**
Bangladesh	59.4	144.5	1.04	10.7	5.9
Cambodia	5.4	14.35	0.075	1.02	0.58
Ghana	10.3	22.5	0.32	1.8	2.45
Uganda	8.6	29.8	0.13	2.24	1.04
* Estimates derived from UNMP (2005) & author's calculations					
** Estimates derived from 2004 GFS, extrapolated to subsequent years.					
Note: All the figures presented in this table are as of September 2006 and drawn from the publicly available sources given above.					

**Sources:** WEO; DESA; GDF; WDI

For illustrative purposes, the first stage of the framework therefore sees debt relief in all countries where required MDG expenditure is greater than 70% of total government revenues, with the debt relief being of a magnitude sufficient to reduce this ratio to 70%. For three of the case studies, this has straightforward implications: Bangladesh, Cambodia and Uganda qualify for 100% debt relief, which would still leave the ratio well above 70% - these countries would therefore clearly need substantial ODA flows to fill the funding gap for achieving the MDGs. Ghana, in contrast, has a ratio of 77.4%, which suggests that partial debt relief would be sufficient to reduce this to below 70%.

### **Bangladesh Debt must be cancelled, because ...**

Debt costs too much to Bangladeshi people in general and poor and marginalized in particular. People need a healthy and prosperous life that requires increased government spending on basic services such as health, education, water-sanitation etc. Bangladesh needs to achieve the MDG targets in time. To finance the Millennium Development Goals, every year a staggering US7.5 billion in external budget support is needed. This is about four times the amount of aid and concessional loans currently provided by foreign donors and creditors. Every dollar paid in debt service is a dollar lost for the MDGs. At this juncture, Bangladesh can no longer afford to pay a single dollar for debt servicing. **Because..... "Every dollar paid in debt service is a dollar lost for the MDGs".**

## **We, therefore demand:**

- The international community including the G-8 must take necessary steps immediately to ensure full Debt cancellation for Bangladesh;
- Debts must be cancelled as a matter of justice: creditors must accept their share of responsibility in creating the current debt crisis, and cancel debts on this basis;
- A “MDG-consistent” frame-work of Debt Sustainability should be applied and cancellation must be available to all that need it;
- The issue of Climate Change and its adverse effect must be taken into account and additional fund should be released to overcome the adversity linking it with MDG process;
- The governments of indebted countries must demonstrate to their citizens that they are spending money well and accountably. But this must not be used as an excuse to impose economic policy conditions or to limit those countries receiving debt cancellation by the donor community;
- Rich countries, institutions and commercial creditors must cancel all illegitimate and un-payable debts being claimed from all poor countries;
- Total Debt stocks must be cancelled, not just Service; debt service cancellation for a limited period is not enough. Debts must be completely written off;
- If debt cancellation is to make a difference to the poorest people in the world, it must release extra funds and not be paid for by taking money out of aid budgets;
- Debt cancellation of any kind must not be conditional
- Debt cancellation of any kind must not be conditional and it must not be considered again as ODA
- Developed countries must fulfill their commitment of ODA target of 0.7% of national income without any conditionality and fully cancel the external debt.

## Annexes

### Composition of Financing of Budget Deficits

(% of GDP)

Budget Deficit/ financing	2001	2002	2003	2004	2005	2006	2007
Overall budget deficit (excluding foreign grants)	-5.1	-4.7	-4.2	-4.2	-4.5	-3.9	-3.7
Overall budget deficit (including foreign grants)	-4.1	-3.7	-3.4	-3.4	-3.7	-3.3	-3.3
Net foreign financing	2.0	2.1	2.3	2.4	2.4	1.7	1.6
Net domestic financing	2.8	2.6	1.9	1.8	1.8	2.2	2.0

Source: Finance Division, Ministry of Finance, Bangladesh Bureau of Statistics (BBS) and Bangladesh Bank (BB).

### Commitment and Disbursement of Foreign Economic Assistance

(In million \$)

FY	Commitment			Disbursement		
	Grant	Loan	Total	Grant	Loan	Total
2001-02	402	477	879	479	963	1442
2002-03	870	1309	2179	510	1075	1585
2003-04	887	1036	1923	338	695	1033
2004-05	345	1207	1552	244	1244	1488
2005-06	628	1159	1787	501	1067	1568
2006-07	728	1528	2256	590	1040	1631

Source: Bangladesh Bank (2007)

## Donor wise disbursement of Foreign Aid to Bangladesh

(In million \$)

Country/ Agency	2001	2002	2003	2004	2005	2006	2007	Total 2001-07	% of Total
IDA	298.82	323.39	560.88	225.22	696.34	635.33	680.10	2784.75	26.68
Japan	316.15	287.43	243.36	79.38	45.04	31.05	31.62	1034.03	9.9
ADB	235.68	182.01	207.12	171.97	208.28	264.56	342.46	1612.08	15.45
USA	39.28	19.49	34.70	12.00	7.75	3.95	61.91	179.08	1.72
UN Agency*	23.01	51.88	37.59	36.45	33.93	111.15	85.44	379.45	3.64
Canada	18.78	17.57	23.20	21.05	7.82	62.04	17.7	168.16	1.61
Germany	43.01	20.78	6.27	26.39	23.64	15.29	19.71	155.09	1.49
UK	53.29	17.57	40.46	93.81	85.21	156.80	69.37	516.51	4.95
EU	32.30	80.18	19.28	21.17	7.87	72.65	66.38	299.83	2.87
UNICEF	49.22	46.38	38.69	29.63	25.19	18.09	n/a	207.02	1.98
Others	362.27	395.55	373.48	316.36	366.28	196.73	256.46	3099.06	29.70
<b>Total</b>	<b>1368.80</b>	<b>1442.23</b>	<b>1585.03</b>	<b>1033.43</b>	<b>1507.35</b>	<b>1567.64</b>	<b>1630.58</b>	<b>10435.06</b>	<b>100</b>

Source: Economic review 2007 (English version), Ministry of Finance.

\* excluding UNICEF

## Government spending pattern: Essential services vs. Interest payment

Year	Total government spending (In core Tk.)	Education* (% of total spending)	Health (% of total spending)	Water and Sanitation** (% of total spending)	Interest payment		Total Interest (% of total spending)
					External (% of total spending)	Domestic (% of total spending)	
2001	37400	5851.70 (15.65)	2627 (7.02)	n/a	870 (2.23)	3260 (8.71)	4130 (10.94)
2002	40760	5877.55 (14.42)	2649 (6.50)	n/a	780 (1.91)	4150 (10.18)	4930 (12.09)
2003	43700	6503.78 (14.88)	2797 (6.40)	n/a	970 (2.21)	4690 (10.73)	5660 (12.94)
2004	49370	6757.91 (13.69)	3445 (6.98)	n/a	910 (1.84)	4550 (9.21)	5450 (11.05)
2005	55630	7130.12 (12.82)	3175 (5.71)	n/a	1400 (2.51)	4780 (8.59)	6180 (11.10)
2006	61060	9102.27 (14.91)	4112 (6.73)	493.33 (0.80)	1250 (2.04)	6260 (10.25)	7510 (12.29)
2007	66840	10905.7 (16.31)	4957 (7.41)	629.52 (0.94)			

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\*Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities through out the country.

**Government revenue expenditure: Essential services vs. External debt servicing**  
(In Million \$)

Year	Total government revenue expenditure	Education* (% of total Rev.)	Health (% of total Rev.)	External Debt servicing (% of total Rev.)
2001	4232.8	666.9 (15.70)	203.7 (4.81)	892.7 (21.09)
2002	4819.4	650.6 (13.50)	223.6 (4.64)	915.1 (18.99)
2003	5348.9	684.1 (12.79)	230.0 (4.30)	925.8 (17.31)
2004	5752.1	758.7 (13.19)	253.67 (4.41)	1043.3 (18.14)
2005	6339.4	826.0 (13.03)	293.51 (4.63)	1139.5 (17.97)
2006	6614.5	945.9 (14.30)	284.32 (4.65)	1457.6 (22.03)
2007	6591.4	1031.4 (15.65)	388.23 (5.89)	n/a

Source: Bangladesh Economic Review 2007, Flow of external resources into Bangladesh 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

**Government spending pattern: Essential services vs. Debt servicing**  
(In Core taka)

Year	Total government spending (% of GDP)	Education Budget* (%GDP)	Health spending (% of GDP)	Water and sanitation** (% of GDP)	Interest payment (% of GDP)		Total Interest payment (% of GDP)
					External	Domestic	
2001	37400 (14.75)	5851.70 (2.30)	2627 (1.03)	n/a	870 (0.3)	3260 (1.3)	4130 (1.6)
2002	40760 (14.92)	5877.55 (2.15)	2649 (1.07)	n/a	780 (0.3)	4150 (1.5)	4930 (1.8)
2003	43700 (14.54)	6503.78 (2.16)	2797 (0.90)	n/a	970 (0.3)	4690 (1.6)	5660 (1.9)
2004	49370 (14.83)	6757.91 (2.03)	3445 (1.03)	n/a	910 (0.3)	4550 (1.4)	5450 (1.6)
2005	55630 (15)	7130.12 (1.92)	3175 (0.86)	n/a	1400 (0.4)	4780 (1.3)	6180 (1.7)
2006	61060 (14.69)	9102.27 (2.19)	4112 (0.99)	493.33 (0.12)	1250 (0.3)	6260 (1.5)	7510 (1.8)
2007	66840 (14.30)	10905.7 (2.33)	4957 (1.06)	629.52 (0.13)	n/a	n/a	n/a

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\*Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities through out the country.

## Government spending pattern: Essential services vs. External debt servicing

(In Crore Taka)

Year	Total government spending	Education* (% of total spending)	Health (% of total spending)	Water and Sanitation** (% of total spending)	External debt servicing % of total spending
2001	37400	5851.70 (15.65)	2627 (7.02)	n/a	12.87
2002	40760	5877.55 (14.42)	2649 (6.50)	n/a	12.89
2003	43700	6503.78 (14.88)	2797 (6.40)	n/a	12.27
2004	49370	6757.91 (13.69)	3445 (6.98)	n/a	12.45
2005	55630	7130.12 (12.82)	3175 (5.71)	n/a	12.57
2006	61060	9102.27 (14.91)	4112 (6.73)	493.33 (0.80)	16.01
2007	66840	10905.7 (16.31)	4957 (7.41)	629.52 (0.94)	n/a

Source: Bangladesh Economic Review 2007, BANBAIS, Medium term budgetary framework 2007/08-2009/10 and Budget Documents 20004/05-20007/08

\*Includes the allocation on the Ministry of primary and mass education and Ministry of education.

\*\*Includes the budget of Department of public Health Engineering (DPHE), Dhaka WASA and Chittagong WASA of Local Government Division as these agencies are primarily responsible for providing safe drinking water and sanitation facilities through out the country.

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