

Bangladesh: Interest Groups and Development Assistance

by Eirik G. Jansen

This article discusses how requests for development projects are generated in the collaboration between a donor government and a recipient government. The article emphasizes the important role national and international consultancy and construction firms, their agents and middlemen, play in influencing the requests which are forwarded to a donor government. Examples are provided of how these groups with vested interests in specific project proposals push requests for capital equipment, construction tasks and consultancy services. The article was first published in the 'Forum for Development Studies', Oslo and therefore makes references to Norwegian development assistance. The main topic of the article (which we publish in a slightly abridged version) is, however, of general relevance. It becomes very relevant, as the Minister for Land, Majidul Huq, presently is involved in a corruption scandal in connection to the multi-million Dollar 'Flood Action Plan' which is sponsored by the World Bank (see also 'Südasiens', 7/93).

The main issue this article will address is how requests for development assistance are generated. In particular the article will discuss who are the actors and which are the institutions influencing the type of requests forwarded by the government of a developing country to a donor. The article will also discuss some of the interest groups behind the requests for development aid.

As a topic of research, these questions have not received sufficient attention. When these issues are dealt with, it is usually in a very general manner, with little analysis of the concrete processes taking place. Whatever strategy a donor has adopted for development assistance, the strategy has to be implemented in a context where interest groups attempt to influence the nature of requests being forwarded to a donor. This article will only focus on development assistance which is provided by a donor government to a recipient government. In particular we will discuss some of the dilemmas the new NORAD (Norwegian Aid) development aid strategy faces. This strategy has to be carried out within a context where interest groups play an important role in influencing the type of requests that NORAD receives. How shall "recipient responsibility" be interpreted and implemented in an environment where corrupt practices may be rampant? For many of the aid-dependent countries, decisions about requests for aid, are among the most important development issues in the country. In this article we will briefly discuss how the development of the elite in Bangladesh is linked to the process of how requests for foreign aid are generated.

Aid dependence

Bangladesh is, almost totally, dependent on foreign aid. Every year US-Dollar 2 to 2,5 billion in foreign aid are allotted to Bangladesh. During the last 10 years 85-100 per cent of the country's development budget has been funded by foreign aid. Also the budget for recurrent expenditures is increasingly being financed by foreign aid.

Economists have pointed to various macro-economic effects of foreign aid, 'rather than complementing domestic savings and contributing to raising the rate of investment, foreign assistance has been a substitute for domestic savings ... the savings ratio (in Bangladesh) fell from 8 per cent of GDP before independence to 2 per cent in the 1980s, much of the decline caused by chronic dis-saving by the public sector' (Khan and Hossain, 1989).

This vast influx of foreign aid has given rise to certain attitudes which emphasize aid dependence. A notion has been fostered that there can be little development without aid. The process of development has become inseparably linked to the search for foreign funds. When the funds cannot be found, there is a temptation to believe that nothing can be done.

Official requests for aid

The foreign aid which Bangladesh receives is classified in three categories: project aid, commodity assistance and food aid. For all

these types of aid the Government of Bangladesh makes an official request to a bilateral or multilateral donor. Project aid is the category of aid which receives the largest part of the total aid package.

The formal procedure, prior to a request being made for project aid, is that the government institution, which is responsible for executing the project, prepares a Project Proforma (PP; for technical assistance projects it is a TAPP). The PP explains the purpose, the content and the budget of the project according to a standard formula. The PP is assessed at various ministerial and interministerial levels. If the central government gives the project priority, an official request is forwarded through the government's External Resource Division (ERD) to a donor. The project for which assistance is requested, is supposed to be, or eventually becomes, an integral part of the government's Annual Development Programme (ADP).

Thus, formally only two parties, the recipient government and the donor government, participate in the process of preparing and responding to a request. Informally, there are, however, very often other actors and institutions, from Bangladesh and abroad, which promote and sell project 'ideas', participate in the planning of these 'ideas' and integrate them with other government activities. If the 'ideas' are accepted at the level of the government executing agency, the informal actors can participate in preparing the PP. They can also participate in the process of ensuring that the decision about the PP is not delayed in ministerial and interministerial committees.

There are many examples of informal actors and institutions promoting good project ideas which have contributed very positively to the development of Bangladesh. This has often been done without them having financial gain in mind. In many ways the government system - and not only in Bangladesh - is dependent on proposals from outside the system itself about project ideas, new types of equipment, commodities and technical assistance needed.

Examples of large scale corruption

The temptation to utilize external aid for personal gain is, however, very strong. During the last two years an unusual and very open debate about corruption and misuse of aid has taken place in Bangladesh. This debate concerns former President Ershad. His regime, which lasted from 1982 to December 1990, was generally considered to be thoroughly corrupt. That was one reason why he was ousted from his position. Ex-President Ershad is now serving prison sentence of 10 years for possession of illegal arms and money of a value of 1 million US-Dollar.

A large number of new charges are, however, being prepared against the former president, with full exposure in the newspapers about how he, among other things, took bribes in connection with the procurement of new airplanes to the national airline, a fertilizer factory funded by foreign aid and a large number of rescue vessels provided by a donor organization after the 1988 flood.

Details are presented in the media about the lack of use of some

of this equipment, coupled with these projects' inappropriate technology. Speculations are also made on how many millions of US-Dollar he was able to secure for himself on each of these projects.

National and international newspapers have suggested that the former president and his wife may have property and money stashed away abroad to a value of 150-300 million US-Dollar. The wife of the ex-president was dubbed 'Mrs. 10 per cent' because of the 10 per cent commission she was rumoured to take on the projects and the distribution of licences and permits which she managed to get her hands on. Mrs. Ershad has also been in jail, and new charges have also been prepared against her. The fortune ex-President Ershad and his wife have amassed was directly and indirectly funded by foreign aid. Many people compare Ershad and his wife with the Marcos family in the Philippines.

Not all the money has been sent abroad. Much of the money and resources the former president obtained have been redistributed within the country to his henchmen in order to secure their continued support. His main support until the autumn of 1990 came from the military. Expenditures on the 200.000 men army and its equipment bear no relation to the military threats Bangladesh might face from its neighbours. The military has also, indirectly, access to foreign aid funds. Much money is spent on purchase of equipment to the army. In this connection it is important to make a distinction. An over-invoiced bill of 30 per cent for equipment can still serve important development purposes. However, it is well known that sometimes requests are made, and totally useless goods purchased, only for the purpose of the commission and other benefits they will provide for the informal agents and the bureaucracy. Much of the military equipment obviously belongs to the latter category.

The examples given above show corruption on a large scale. The informal institutions and actors promoting 'project ideas' and organizing requests are often international firms and their local agents in Bangladesh. Deals were made with the president and other top politicians, many of whom now are in prison in Bangladesh. Sordid details are, and will continue to be, provided in the newspapers on how they have misused foreign aid. Many of the 'projects' through which the top politicians have acquired a huge cut have been forwarded as project proposals through the normal channels. Formal requests have gone from the ERD to a donor government which has accepted to fund the project.

Reasons for corruption

There are many cultural, historical, institutional and personal reasons for corruption (Karlstrom, 1991). There can, however, be little doubt that the standard set at the top level of the government, has implications for the practice the lower level government officials adopt. Here we will limit ourselves and only focus on one major reason for corruption: the low salary level of employees both in the government and private institutions organizing development projects.

A well-educated civil servant in the Bangladesh government administration earns between US-Dollar 150 and 200 per month. Government servants at a lower level and in the districts may earn as little as US-Dollar 50 per month. The well placed civil servants who participate in the decision-making about the selection and the type of project to be given priority often have monthly expenditures which are many times higher than their nominal salary.

Many top civil servants will frankly admit that their salaries only cover their expenses for the first week of the month. For an outsider it is not difficult to see that the standard of living enjoyed by many civil servants cannot be financed from a US-Dollar 200 salary. Directly and indirectly the spoils of foreign aid are one important source which contribute to the added income of tens of thousands of government officials in Bangladesh.

It should be noted that very many civil servants and employees of the government administration, both in the cities and the districts, are honest and would not like to participate in corrupt practices. Often, however, whether they like it or not, they are pulled into a

system which gives them no choice. If the honest government servants report about the corrupt practices they observe or are forced to participate in, they will be severely sanctioned by the system in which they work.

The navigational simulator

One planned project, which NORAD nearly funded, illustrates very well how the income of government employees could be increased. In the mid 1980s, NORAD was approached by the government on the subject of funding a navigational simulator to the Marine Academy in Chittagong. The Marine Academy, which educates shipping officers for the Bangladesh merchant fleet, had received various Norwegian technical equipment under the Norwegian commodity programme since the early 1980s. A representative of a Norwegian company producing technical maritime equipment visited the academy. He gave information about his firm's equipment, including an advanced navigational simulator model, like the one used by large ships manoeuvring in difficult waters. The equipment would, if directly purchased from the company, cost about US-Dollar 1,5 million.

A week after the visit of the representative of the Norwegian company, a formal request had been prepared and passed through all the ministerial and interministerial committees (this was unusually quick - normally it takes many months, if not years, from the time when a project idea is conceived to a formal request is forwarded). The request submitted to NORAD had a price tag of US-Dollar 3 million. 1,5 million was thus reserved for commissions and greasing palms within the system.

An independent Norwegian consultant who studied the request concluded that the navigational simulator was totally inappropriate for the needs of the Marine Academy. He informed NORAD that only a few naval academies in the world possessed such an advanced simulator. NORAD consequently turned down the request. Many people in the government, at various levels and in various institutions, certainly lost an easy income which would have added to their meagre salary.

There are, however, many cases in which similar requests have been made and donors have accepted the request, and the goods have been delivered. Aid provided in the form of equipment and other hardware is the easiest form of foreign assistance on which to take a cut of the profits.

Alliances between interest groups

A very visible example of underutilized equipment in Bangladesh is the Danish road rollers (veivalser) which have been shipped into Bangladesh for many years. In Dhaka the yellow road rollers, decorated with a large and striking Danish flag with white cross and red background, were for many years seen all over the city. A transport economist pointed out that the hundreds of road rollers were only utilized for about half an hour a week on an average basis, as compared to 40 hours for the same equipment in Denmark. He suggested that the public roads authority should organize the use of the road rollers better, rather than importing new ones.

However, years after DANIDA (the Danish aid agency) was informed about the underutilization of its gift to Bangladesh, new road rollers, officially requested by the government, continue to pour into the country. In this case, no doubt, an alliance had been formed between the Danish firm and the road agency in Bangladesh. In general, when such a public agency has access to aid, it has influence. This influence can be sufficient to alter priorities within its sector and to ensure that the agency's choice of supplier is accepted. Should the Planning Commission and the other central institutions of the government contend otherwise, they can easily be accused of refusing aid and retarding the country's development. A main task for many of public agencies and institutions which execute projects is to convince the central authorities about the "importance" of the project they want to implement. The commissions and the cuts taken on the project, are, no doubt, an integral part of this process of negotiations and efforts to convince.

An even sadder story occurred with 4 Danish built vessels, costing 60 million DK, which were supplied to Bangladesh in the early 1980s. Their main task was meant to be to evacuate people from the islands in the Bay of Bengal in case of cyclones. They turned out to be totally inappropriate for this purpose since they were so big and deep that they could come no nearer than a few hundred metres from the islands. They were not useful for any other purposes either and have been lying idle for many years. Plans are now being made to scrap them. The same constellations of actors, with a "special" relationship between seller and buyer, were involved in obtaining a request for this project.

It is of course in the long term interest of the seller and the supplier of the equipment that the project and its equipment prove useful, and efforts are, no doubt, made to ensure that the project becomes a success. It is not difficult to observe, however, how easily "sellers and buyers" can get away with failures in the developing world.

There are, however, many situations where requests are made for projects and equipment which seem doomed from the beginning. An example can be supplied by the following case: An Australian programme officer in Dhaka informed a Norwegian inland water transport mission during an interview that his country was going to supply vessels for about US-Dollar 20 million to Bangladesh. He had repeatedly and strongly advised his government to reject the request because of its dubious development effects. Since support for the domestic industry in Australia is an integral part of the country's development assistance programme, the central aid agency in Australia nevertheless responded positively to the request. Also in this case the bilateral agency and the central institutions in the government of Bangladesh received pressure and incentives from an alliance of Australian firms and a public agency in Bangladesh.

The obsession with hardware and equipment is also prominent in more typical 'software' projects and programmes. The supply of project cars and imported equipment can become an important issue when discussing health, education and rural development programmes.

Construction versus maintenance

Another activity through which it is easy to gain access to resources is linked to construction of physical infrastructure. For many rural development projects as much as 80 per cent of the project funds are allocated for the building of physical infrastructure, i.e. roads, bridges, embankments, market places, irrigation channels, etc.

Also for health and education programmes, a major part of the budget is allocated to construction of clinics, hospitals and school buildings. It is commonly agreed that 20-40 percent of the expenses allocated for construction purposes end up in the pockets of the contractors and government officials. Fortunately construction of all types of buildings and other infrastructure is a very labour intensive process. Millions of man years are created every year for the poor in Bangladesh in public work projects and Food For Work projects to excavate canals after the annual flood, and in the repair of roads and embankments and in the building construction.

Such an infrastructure very often has a positive development impact. However, there are many examples of how infrastructure projects are requested not for the development purpose they will serve, but for the additional income they provide for private entrepreneurs and government officials. An elaborate system has been developed of how to take cuts on these projects. An USAID study has listed 28 different ways in which it is possible to cheat on road construction projects (Loft, 1989).

Often the various types of infrastructure created are only 'white elephants'. In a large health and family programme which has been running since the late 1970s under the auspices of the World Bank and many bilateral donors, many hundred clinics have been constructed all over the country. Very many of these clinics, costing tens of thousands of dollars each, are empty shells. They have no

doctors, nurses and medicines and no activities take place in them. For more than 10 years NORAD has insisted on funding Norwegian engineers to carry out a quality control of the buildings and arrest malpractice and corruption. The task of Norwegian engineers has also been to strengthen the maintenance component of the construction project, so that less money is spent on construction. All the engineers have been frustrated in their efforts by the Bangladesh authorities since there is much less money to gain on maintenance. It is much easier to obtain an official request for continued construction than setting up a maintenance unit.

The conflict between construction and maintenance is a regular feature in the discussion between donors and the government in projects where the building of infrastructure is an important part. The eagerness of getting into construction is very visible in the case of the 'Flood Action Plan' which could be one of the largest construction programmes in South Asia. After the disastrous floods in 1987 and 1988, the government and the donors made plans for controlling the floods by making large scale embankments along the Ganges, Brahmaputra and Meghna. It is estimated that the construction, which would last for a period of 20 years, in total could cost about US-Dollar 10 billion. At present a 'study and planning' phase is going on, consisting of 26 different components, costing in total US-Dollar 150 million.

It is striking to observe the active efforts made by national and international consultancy and constructing firms trying to get in line for the various project components. A bonanza atmosphere has been created. For national and international consulting and construction firms the 'Flood Action Plan' is a 'gift from heaven'. In many cases the bilateral donors have helped their national firms to gain contracts. Many fear, however, that environmental and distributional considerations will lose out against economic interests. Powerful interest groups both in Bangladesh and abroad will use all kinds of means to promote this project and see that requests are forthcoming from the government (Adnan, 1991).

Cuts on consultancies and contracts

Consultancy services from national and international firms are an important part of the total aid package coming to Bangladesh. Cuts and commissions can be made on consultancy services also. The 'Flood Action Plan' is a good example of this. Very many national firms in Bangladesh have linked up with international firms to bid on the different components which need analysis. One frank consultant opined that the firm he worked for had a 5 Dollar problem to study, but half a million dollars to solve it. This is not an unusual situation for a foreign consultancy firm. Also Norwegian consultants in Bangladesh have spent many times the expenses they knew were actually needed to solve a problem they were asked to study (Jansen, 1991 a). Other consultants in the 'Flood Action Plan' have said that they are duplicating studies carried out some years ago. Neither the government nor the donors seem aware of this.

As seen from the examples above, a variety of different ways exist for obtaining requests for projects. No doubt, many projects have positive development effects despite the purpose the projects serve by creating extra income for some. For other projects, whether it is equipment, construction or consultancy services, it is clear that they have been invented for no other purpose than serving the rich.

Effects of aid dependence: the creation of elites

The type of requests which are made, whether they have development effects or not, have other implications as well. The well known Bangladesh economist, Professor Rehman Sobhan, has shown in many of his books how development aid to Bangladesh has contributed to build up a rich class of people (Sobhan, 1982, 1990). Hundreds of import-export agencies have been set up along with the creation of a powerful group of commission agents who provide their services to different types of international firms. Also rich contractors have sprung up who depend for their work to a large extent on foreign funded projects. National consultancy firms

have been established to serve the needs of the donors (thousands of academics enter into consultancy work instead of research - since no one will fund research). Professor Rehman Sobhan has pointed to the close kinship relationship which exists between these middlemen and top politicians, high level bureaucrats and the military.

One aspect of these activities is that the projects and commodities usually promoted are the ones most open to a good deal. Thus the type of projects and character of many development programmes are influenced by what can be earned on the government request. Many of the projects which get priority therefore have a clear bias - imported capital intensive equipment rather than labour intensive local products, construction instead of maintenance etc.

Social programmes in health and the education sector get little priority since there is little to earn on them and no strong interest groups promote them. The development priorities of Bangladesh are clearly influenced by the possibilities of decision-makers to take their cuts on the project deals which are implemented. There is no doubt that a substantial slice of the US-Dollar 2,4 billion annual aid package to Bangladesh goes into the pockets of the rich. We should also point out that the people who have capital will not invest it in what for Bangladesh could be productive ventures. The 'aid business' is so lucrative that it is easier to attach oneself to the aid line and tap it. To invest in industries and productive activities is a risky affair in Bangladesh. Cumbersome rules and a corrupt bureaucracy wanting its cuts on such activities, frustrate people who have sufficient capital for such investments.

Thus a major effect of the large influx of aid is that it has created 'niches' for various forms of unproductive middlemen activities. In this group there is much capital flight of the spoils gained by aid. In the very precarious position Bangladesh finds itself in, it is not surprising that many well-to-do people from Bangladesh try to keep one foot abroad.

Maybe the most important and interesting aspect concerning foreign aid is not what it has meant for the development of the majority of people, but what it has meant for the creation of an elite. Particularly in aid dependent countries, like Bangladesh, the emergence and character of this elite have clear implications for the path of development the country chooses.

The relevance of this context for Norwegian aid

How relevant is this topic, dealing with interest groups and their ability to influence requests, for Norwegian aid to Bangladesh particularly in light of the new NORAD strategy which emphasizes the importance of 'recipient responsibility'?

Above we gave a short account of how NORAD decided to turn down a request of the navigational simulator to the Marine Academy despite the fact that the project was given priority by the government. This was, however, not the end of the story.

In 1989, the Norwegian representative of the firm, based in Singapore, again came to Dhaka and extolled the merits of the navigational simulator. He explained that it would be easy to obtain a request for the equipment. NORAD/Dhaka did not respond positively to his suggestions. Also in late 1991, the agent of the same firm again paid a visit to Bangladesh and NORAD in Dhaka on the same mission. The agent obviously hoped that the frequent change of personnel and the short institutional memory of NORAD would make his mission succeed this time. In 1992 an official request from the government about the navigational simulator was forwarded to NORAD, much to NORAD's dismay!

Whatever way one interprets recipient responsibility and the need for paying respect to the priorities made by the government, it would clearly be grossly irresponsible to accept the government request for the navigational simulator. The representative of the Norwegian firm will probably try again, but hopefully never succeed in selling the simulator. Although the request for the navigational simulator was rejected, there are many cases in the history of Norwegian aid to Bangladesh which have not had the same successful result:

* Strong interest groups, both in Bangladesh and Norway, promoted the far too expensive purchase by NORAD of a Norwegian oil tanker which was then given as aid to Bangladesh.

* Many of the items in the Norwegian commodity programme have been useless and even disrupted production of similar local products (Jansen, 1987).

* International firms and local agents promoted in the early 1980s a 200 million NOK telecommunication project in the railway sector which NORAD right from the start should never have become involved in.

For all these projects 'convincing' project documents, showing the usefulness and appropriateness of the project, formed the basis for the decision (...). At present NORAD is considering support for two projects which may be in this category. Strong interest groups in Bangladesh and Norway support and promote them. They may turn out to have a lot in common with the navigational simulator. How well equipped is NORAD to deal with such situations? In the opinion of this author, NORAD has in many cases not had an adequate basis for the decisions it has reached. According to the new NORAD development strategy more of the work tasks and responsibilities will be transferred from the NORAD head quarter in Oslo to the NORAD representations in the recipient countries. This author was many times surprised to see the weak basis the NORAD representational office in Dhaka had for many of the proposals which were forwarded to the NORAD head quarter in Oslo. Too much time was spent on "urgent" and petty administrative issues, and there was little opportunity for professional analysis and reflection about the context and the constraints facing the projects NORAD supported.

Many of the proposals and decisions the NORAD representation in Dhaka made had important implications for the content and type of NORAD's aid programme in Bangladesh. No doubt, many of NORAD's failures in Bangladesh can be attributed to quick decisions when not sufficient knowledge existed about the context and implications of the project. These situations were often influenced by the pipe-line problem which continually haunted the NORAD office in Dhaka.

If the NORAD offices are going to obtain more authority in the future, the decision-making basis must be improved. For both the past and existing project documents, which NORAD has to consider and respond to, programme officers often find it difficult to detect the weaknesses.

One of the two projects referred to above, which NORAD is at present considering a request for, concerns the procurement of advanced navigational equipment for a value of 50 million NOK. The second project concerns a request for funding studies and equipment concerning the determination of the sea level (important for mapping sea and inland water levels in Bangladesh). This project is estimated to cost about NOK 130 million. The project proposals surely look convincing, but so did the project proposal for the navigational simulator too. For both projects Norwegian consultants and suppliers will get the lion's share of the project expenses. The mapping project has actively been promoted by a Norwegian firm.

When NORAD evaluated such important requests for projects in the past they no doubt had professional people with technical insight to assess the design, costs, usefulness and appropriateness before a decision was reached. Very often, however, the projects were evaluated by the same type of technical people who had designed the projects. Although the evaluators are independent they often share the same development philosophy and "technical" ideology about the project they evaluate.

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