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PRESIDENT  
PEOPLE'S REPUBLIC OF BANGLADESH  
DHAKA

25 May, 1987

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 104A/87

Excellency,

The world will be following with keen interest the deliberations and outcome of the Venice Summit of the major industrial countries early in June, 1987. The decisions taken at the Summit will have significant impact on developing countries also through their impact on international trade and resource flows.

2. The economic outlook for the coming year looks anything but optimistic. The growth rate of the industrialized countries was below 3% in 1986 and projection for 1987 in the last meeting of the Interim Committee was less than 2.5%. The low growth rates in the industrial market economies in 1986 put a serious brake on economic growth of the developing countries and the situation is unlikely to change this year. It is well-known that the level of living in many developing countries has hardly shown any improvement for several years now, and many of these countries, particularly the low-income and least developed ones, have reached the limits of austerity. These difficulties have been compounded by external shocks—such as continued depressed primary commodity prices, rising protectionism, deteriorating terms of trade and rising debt service obligations. In the case of Bangladesh, prices of jute, jute goods and tea, our principal and traditional exports, had had several successive price declines, cumulating to about 50 percent in the course of the last two years, which created severe pressure on our balance of payments.

3. On this occasion, Excellency, I wish to inform you briefly about the economic situation in Bangladesh. Since 1983, we have embarked on a package of adjustment and stabilization measures which include, inter alia, increased mobilization of domestic resources, expanded role of private sector, privatisation of public sector industrial and financial undertakings, incentives for export expansion and diversification, containment of monetary expansion and inflation, reduction of inequitous subsidies, fiscal discipline, land reforms, and decentralization of development administration. Increasing agricultural production and reducing population growth rate have been two major anchor sheets of our development effort. Our efforts have achieved some success, but growth rates have suffered due to reduced export earnings and reduced flow of concessional assistance. We launched our Third Five Year Plan

(1985—90), from July 1985, with the prime objective of alleviation of poverty—particularly rural poverty—through higher growth, employment generation, skill development, and technological upgradation. Unfortunately progress has been modest indeed as the average GDP growth rate during the first two years of the Plan (FY 85-86 and 86-87) will be barely above 4% per annum—mainly due to reduced export earnings resulting from external constraints, stagnant levels of resource inflows, and domestic natural calamities.

4. Availability of resources for alleviation of poverty through increased development efforts remains one of the most important problems for the least developed countries. ODA as percentage of GNP has remained much below the level agreed under the Substantial New Programme of Action in 1981, and the terms, conditions and composition of aid have not changed at all to the advantage of the developing countries. Excellency, deeply concerned, as you are, about the development prospects and problems of the LDCs, I would request you to discuss in your meetings the measures relating to aid volume, aid modalities and trade policies in order to help the developing countries to help themselves.

5. Erosion in the resource base of multilateral financial and technical assistance agencies has diminished their capacity to respond to the needs of the low income and the least developed countries. Replenishment of ADB and IFAD have been at disappointingly lower levels. In this connection, however, we welcome the agreement on a \$12.4 million IDA-8 replenishment to support adjustment, growth and poverty alleviation in low income countries. We understand that 45% to 50% of IDA-8 resources are to be allocated to Sub-Saharan African countries—who richly deserve to be supported. At the same time, the share of the IDA also of countries of Asia, particularly least developed countries like Bangladesh, need to be protected and expanded in support of the adjustment measures and self-help policies which we are adopting. May I mention in this context that in view of the less than satisfactory GDP growth rates in the initial years of our Third Five Year Plan we undertook a comprehensive review of our economic situation—and have developed a Policy Framework Paper in consultation with the IMF and the IDA—on the basis of which the IMF granted to Bangladesh a loan under the new Structural Adjustment Facility. But the resources available under this facility is meagre indeed (of the order of SDR 150 over a period of 3 years!). While applying for the SAF we had expected that additional resources, particularly quick-disbursing assistance, would be forthcoming in support of our medium term adjustment programme which has a significant cost. Unless additional quick-disbursing resources are ensured parallel to the SAF, it will be impossible

to carry through the adjustment measures, and the ultimate economic & social costs may even be higher. Under the circumstances I would request you to please advise your concerned Ministry/Agency to give serious consideration to this matter and to help us to carry through our structural adjustment programme as planned. Increased food aid which the major OECD countries are in a position to allocate at this time, will be particularly crucial in this context, as a satisfactory level of supplies and stock is essential to maintain price stability, a sine qua non for undertaking adjustment and economic reforms.

6. Excellency, I would like to share with you our views on the right perspective on Bangladesh's needs, endeavours and performance. I think it is fair to say that over the years, two distinct sets of donor concerns have been noticeable in the context of aid support to Bangladesh, as in the international community at large—one mainly centred on macro-economic adjustment and the other on social concerns. The Government of Bangladesh has fully understood both sets of concerns, as these mirror the duality of our own domestic concerns and struggles. With the passage of time, the two streams have tended to converge, though their blending has all along remained an object of constant effort, both globally and in the particular case of Bangladesh.

We believe, and note with satisfaction, that the current year seems to mark some notable progress in this process of convergence. The World Bank's latest economic report on Bangladesh has very effectively captured and particularized the central thrust of the current concerns on "Protecting the Poor During Periods of Structural Adjustment" a subject discussed in the last meeting of Development Committee meeting recently concluded in Washington. A significant passage in the well-considered background paper on this subject, dealing with the need for ensuring the adequacy of external resources for low income African countries cogently notes the deep-seated problems they are facing in generating external surpluses and the increasing savings rates. It goes on to add that against the background of the extreme poverty of their people and their unfavourable growth prospects in the medium term, the "need to protect the poor during adjustment in these countries is all the more important". The simultaneous conduct of domestic policy reform and institutional reform, the creation of supporting infrastructure, ensuring the minimum growth in per capita consumption needed to sustain the hard adjustment effort, and the protection of the poor through appropriate social programme, thus call for a steady and increased flow of concessional aid as has been highlighted there. Though these analyses and recommendations in the World Bank's background paper appear in the immediate context of the predicament of low income African countries, they also accurately sum up the right perspective on the successes and short-comings of my country's endeavours in all areas of economic management.

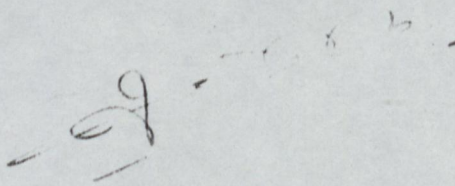
I am inviting your attention to the close parallelism between low income Africa and Bangladesh because the accident of geographical location can often mask important and relevant facts. In lists ranking low income countries of the world under most of the economic and social indicators relevant to development issues, Bangladesh would be flanked by clusters of low income African countries, and can thus be legitimately considered an economic, though not a geographical, neighbour of these countries. Our problems and needs, therefore, deserve to be considered in this context.

7. May I take this opportunity to mention, Your Excellency, that the bilateral cooperation between our two countries is progressing satisfactorily, and there is a joint effort to channel the bilateral assistance funds to areas of priority as mutually agreed. However, additional support for our current needs as mentioned here will be crucial to the success of our efforts.

8. Excellency, you may be aware that Parliamentary and Presidential election have been successfully completed in Bangladesh last year, and the democratic process is taking roots. We believe that economic progress must go hand in hand with political development. Your great country can play a very useful role in helping Bangladesh pursue its own goals of economic and political development through bilateral support and support through international financial institutions.

9. Allow me, Excellency, to extend to you my sincere wishes for your personal health, happiness and long life for the peace, progress and prosperity of the friendly people of your country.

10. Please accept, Excellency, the assurances of my highest consideration.

  
(Hussain Muhammad Ershad)

Rt. Hon. Margaret Thatcher  
Prime Minister for Her Majesty's  
Government of the United Kingdom  
LONDON.