

Conditionality of receiving \$1bn IMF loan is suicidal. Keep away from money contraction and VAT expansion plan.

1. Conditions of Washington Consensus institutions are creating poverty in the countries.

After the 2nd world war, the developed countries have established the World Bank (WB) and International Monetary Fund (IMF). In the name of development, IMF has started its works to create market opportunities for their companies and credit business. The major objective of the WB was to disburse loan to all least developed and developing countries in the name of development. On the other hand IMF loan is being provided to countries to stabilize the BoP (Balance of Payment) against import. But the decision-making power of these institutions are depend on the authorities (that means investing more dollar create more authoritarian power) of their respective member countries. That's why it's being observed that there are 45% of voting power is captured by the seven developed countries, but there have a little power of the poor & least develop countries in decision-making process of WB and IMF, for whom they will work.

This controversial system has created these institutions as a clown of developed countries. If we clearly say that the WB and IMF is a sort of clown of US, because, with out consent of US, WB has no power for any decision making and even WB has require at least 85% of total vote wherein only US has 16.41% vote. So, it's very clear that, without US, no decision will be made if rest of the countries agreed. That's why its clearly saying that these two institutions are quite responsible to prolong poverty in poor countries due to apply their contradictory policy despite saying upon so called development objectives in actions (E.g. World Banks, World without poverty) for developing countries. So we are observing that, most of the country i.e. Indonesia, Thailand and Malaysia has come out from the grips of IMF due to their controversial policy. Even Bangladesh has not received any loan from IMF from the period of 2007 to 2010. Recently Bangladesh government has started its negation processes to received \$ 1bn loan from IMF.

2. Conditionality of WB & IMF and their role for Bangladesh

Since the period of independence, WB and IMF subsist in Bangladesh. Bangladesh had to taken over the responsibility of some amount of loans which was received during the period of Pakistan. In the decade of seventy, IMF & WB has able to start SAP (Structural Adjustment program) through support of military government and made denationalization especially privatization, import liberalization and reduce govt. expenditures successfully.

By this time, world wide a movement and protest has been emerged against this reform programs. Now a day, thus two institutions have been treating as a poverty re-production institution as well as a responsible for creating the debt burden for the developing and least developing countries. From the beginning of 21st century, Poverty Reduction Strategy (PRS) process has been taken place in countries with the guidance of these two institutions. In this reference, Bangladesh also received loan from IMF under the project of PRGF (Poverty Reduction Growth Facilities) implementation. Civil society criticized of government decision to go for PRSP instead of 5-year plan. And finally this PRSP has been treated as an instrument of poverty re-production in the country.

During the year of 2006-2007, IMF didn't disbursed \$400 million loan to Bangladesh, because of raising some policy gap/ misunderstanding among the institutions.

3. \$ 1bn IMF loan and it's conditionality

Basically in 2009, Bangladesh government has given proposal for \$ 1bn IMF loan that will be received from its Extended Credit Facilities (ECF) program. It has to be noted here that, Bangladesh has not received or given any proposal to IMF for any loan during the period of 2006-2010. Behind this reason, Bangladesh has earned remittance more then \$10bn, which was enough for re-payment of import cost under the Balance of Payment. Recently world economic meltdown, decreasing foreign remittance, increased cost of imported goods, price hike of daily essentials and decreasing of exported income, the government has took the decision to received \$ 1bn IMF loan. Government has started its negotiation in mid 2010. We are thinking that government has fulfilled all terms and conditions imposed by IMF for the said loan. We are also worried that some significant impacts (see the table) will be arising in this regards.

Apart from this, IMF is dictating Bangladesh to reduce expenditure from state own institutions and reformation of banking sector. They are also telling us to approve and implementation of ADP (Annual Development Plan) with a transparent planning. After getting approval from IMF board then, Bangladesh will get the loan by next 3 years. IMF will monitor and verify the imposed conditions before every installment. If not fulfilled their conditions they will not go for any single loan installment for Bangladesh further.

Conditions of IMF	Government has implemented	Impact in livelihood
1. Withdraw interest rate	1. Implemented and the banks	1. As a result, loan for investment will

(13% ceiling) from commercial bank. Follow the contraction Monetary policy	already increased interest rate. Increase cash reserve rate in Bangladesh bank for other commercial banks.	be decreased. Interest rate will be increased due to huge demand. Increase of short term loan that will create imports and market liberalization. SME sector will be hampered due to more supervision and monitoring cost.
2. Impose direct TAX especially VAT expansion.	2. Government has made declared draft law publicly. It will be approved in parliament by June'11.	2. Increase of VAT which will be collected from poor and marginalized people during any purchases of daily goods.
3. Increase monitoring in BPC, BCIC and BPDB in order to reducing subsidy from power, fertilizer and patrol.	3. Government already increased the price of electricity and decreased the subsidy from power and petroleum sector.	3. Government already increased the price of power and petroleum. As a result increased the cost of daily necessities due to transpiration and production cost.

4. Is Bangladesh capable to bear increasing debt burden and maintaining in future?

In Bangladesh, we have no assessment on how much debt burden is tolerable and can be beard by people of Bangladesh. Receiving these types of loan from IMF without any assessment, it will be harmful for the whole nation. As per the data March'11, now our foreign debt is around \$ 23,345 million, which is result the increase expenditure 20% of revenue budget in this regards. Presently Bangladesh has per capita foreign loan of \$ 157. Recently we have signed MoU (supplier's credit) with India for loan \$ 1billion. Negotiation with MIF for loan \$ 1bn is in the pipe line. More proposals is also going on for loan around \$ 5 bn for some big projects including Padma bridge, Deep sea port, High way road in Dhaka – Chittagong etc. Including the entire \$ 7 billion loan, per capita foreign debt will be around \$ 202 by this government tenure which will adversely affected in our

Participating organizations:

Arpan, Bangladesh Bhumihin Somitee, Bangladesh Ksihani Shova, Coastal Development Partnership, Bangladesh Krishok Federation, EquityBD, Lead Trust, La via Campesina Bangladesh, Media Foundation for Trade and Development, On Line Knowledge Center, Prodip, VOICE and Uddipan

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revenue budget and ADP implementation. It has to be noted that government is not bound to disclose all foreign debt agreements publicly even there is no provision to have a parliamentary discussion of doing this types of agreement,. No government has been shown their transparent and accountability in this regards.

5. Off course there have alternatives of \$1bn IMF loan.

We think that government should not go for loan \$ 1bn from IMF. Though, our foreign remittance has been decreased but not remarkable on BoP, because the trend of exporting is satisfactory. We have reserve funds at least for 3 months to meeting up the import cost. So it not necessary to carry out the IMF conditions for loan. We have example that, in the last government period the foreign reserve came out in a level which were equivalent of meeting 1 month's import cost. Still we are not seeing any significant problem in Bangladesh that we have to go for loan from IMF. In this aspect we are proposing for the following steps;

- Reduce unnecessary expenditure of government:** Government can form a separate Public Expenditure Review Commission (PERC) to reduce unnecessary cost from all sectors.
- Reduce superfluous imports:** As per agreement of WTO, developing country like Bangladesh can stop all types of unnecessary imports for a certain period through providing tariff and non tariff barrier. Government can save huge foreign exchange by this process.
- Increasing government TAX instead of VAT:** It is easy to collect VAT but mostly it imposed to poor and marginalized people. It should be re-considered. Government can impose TAX in individual level – can be an alternative.
- No alternatives to reduce corruption:** It is agonizing/sad but true that our government has decreased the power of its Anti Corruption Commission (ACC). To ensuring maximum efficiency of development allocation, government should control corruption strictly.