IMPACT OF FOREIGN AID ON DEVELOPMENT IN BANGLADESH

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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DECLARATION

I certify that

a) except where due acknowledgement has been made, the work is that of mine alone;

b) the work has not been submitted previously, in whole or in part, to qualify for any other academic award;

c) the content of this thesis is the result of work which has been carried out since the official commencement date of the approved research program;

d) any editorial work, paid or unpaid, carried out by a third party is acknowledged; and

e) ethics procedures and guidelines have been followed.

Muhammad Abu Obaydullah
February 2007
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADP</td>
<td>Annual Development Plan</td>
</tr>
<tr>
<td>BADC</td>
<td>Bangladesh Agricultural Development Corporation</td>
</tr>
<tr>
<td>BBS</td>
<td>Bangladesh Bureau of Statistics</td>
</tr>
<tr>
<td>BRAC</td>
<td>Bangladesh Rural Advancement Committee</td>
</tr>
<tr>
<td>BRSB</td>
<td>Bangladesh Shilpa Rin Shangstha</td>
</tr>
<tr>
<td>CBO</td>
<td>Community Based Organisations</td>
</tr>
<tr>
<td>CIRDAP</td>
<td>Centre for Integrated Rural Development of Asia and the Pacific</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organisations</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Financing Institutions</td>
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<tr>
<td>ESAF</td>
<td>Extended Structural Adjustment Facility</td>
</tr>
<tr>
<td>FSAC</td>
<td>Financial Sector Assessment Committee</td>
</tr>
<tr>
<td>FSRP</td>
<td>Financial Sector Reform Program</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoB</td>
<td>Government of Bangladesh</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>I-PRSP</td>
<td>Interim Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>NCB</td>
<td>Nationalised Commercial Bank</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>NNGO</td>
<td>Northern Non-Governmental Organisation</td>
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<tr>
<td>SNGO</td>
<td>Southern Non-Governmental Organisation</td>
</tr>
<tr>
<td>ODA</td>
<td>Overseas Development Assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation of European Cooperation for Development</td>
</tr>
<tr>
<td>PDB</td>
<td>Power Development Board</td>
</tr>
<tr>
<td>PKSF</td>
<td>Palli Karma Sahayak Foundation</td>
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<tr>
<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RADP</td>
<td>Revised Annual Development Plan</td>
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<tr>
<td>RPA</td>
<td>Reimbursable Project Aid</td>
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<tr>
<td>SAP</td>
<td>Structural Adjustment Program</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNROB</td>
<td>United Nations Relief Operations in Bangladesh</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax (same as the GST in Australia)</td>
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SUMMARY

Bangladesh is largely dependent on foreign aid for its development activities. The country has received some US$50 billion in aid over 35 years of its existence. The central purpose of this thesis is to study how the massive influx of aid has been put to use. Subsequently, this huge amount of aid has had little impact on the country’s socioeconomic development, and little of the benefits of aid have reached the poor who constitute the vast majority of the population. The main aim of this thesis is to determine why this is so. An objective will be to derive an understanding of the aid philosophy of donors and their contributions towards the formulation of the development policy in Bangladesh.

Although Bangladesh is currently not so heavily dependent on foreign aid as it was over the past three decades, yet the flow of aid has remained a critical factor in sustaining its development activities, and donors are thoroughly integrated into the decision-making processes of the country. Much of the literature on foreign aid suggests that under such circumstances, donors are capable of influencing the development endeavours of a country in such a way that it would seem to be decisive for the country’s economic future. The history of Bangladesh illustrates some of the strengths and shortcomings of foreign assistance in achieving the goal of economic progress.

This thesis examines the impact of aid on Bangladesh and its inability to lay the foundations for its solid economic growth. It is argued that while aid has helped to sustain the present levels of per capita national output, it has been relatively ineffective in inducing the qualitative changes needed for achieving significant increases in production and improvement in income distribution. Findings imply that donors have responded as a group to changes in Bangladesh’s development requirements. But major donors have also responded both to the country’s development requirements as well as their own interests. The latter probably hampers aid effectiveness in the country’s development endeavours.

Recent studies on the impact of aid on economic growth have used time-series and cross-country data. These studies implicitly assume that aid has more or less the same incremental impact in all countries which is unlikely to be the case. This thesis investigates whether aid to Bangladesh has exerted any impact on economic growth. Following the most recent literature, this thesis examines whether the impact of aid on growth is conditional upon measures of policy and governance. This has not been attempted deeply in the past aid effectiveness literature. This thesis disaggregates total aid into its various components to examine whether aid effectiveness is conditional upon the type of aid. Results indicate that there is little evidence that foreign aid alone has contributed to economic growth in a country. But there is some evidence that aid can be effective at increasing growth while a country has good governance and macroeconomic policy environment in place. An
alternative interpretation is that donor conditionality is sometimes effective at accelerating growth in a country with bad governance and macroeconomic mismanagement.

Much of the past aid effectiveness literature has concentrated on exploring the effect of foreign aid on economic growth. Growth is often viewed as a crucial driver of poverty alleviation and few studies have investigated the impact of aid on poverty directly. This is particularly true in the context of single country case studies. This thesis contributes to this inadequate literature. Bangladesh suffers from high incidence of poverty and there is a large incidence of inequality and differences in well-being. This thesis has studied the mix of donor policies aimed at promoting economic growth with the poverty situation in the country. Growth in Bangladesh has not been pro-poor, and the high level of inequality that prevails is likely to reduce the impact of growth on poverty. Findings indicate that the sectoral allocation of foreign aid to Bangladesh has been broadly consistent with a strategy to effectively reduce poverty and increase human well-being. However, this thesis suggests a number of ways in which foreign aid donors can more effectively achieve these important goals.

This thesis concludes with a number of policy recommendations arising from the research findings. In short, it is recommended that foreign aid be provided considering the humanitarian needs and that project aid preferred over budget support. To support growth, aid should be used to foster a productive investment environment and to support and reward government policies which are beneficial to those whom aid is targeted for.

This thesis makes the following contributions to the existing aid effectiveness literature:

- This thesis examines the effectiveness of foreign aid and explores the impact of foreign aid on the public sector, poverty, and policy reforms in Bangladesh. Previous empirical analyses of aid effectiveness have used aid and growth studies using time-series and cross-country data, typically assuming that the impact of foreign aid is more or less the same across the developing world. By investigating the impact of aid on public investment (government behaviour), poverty, and policy reforms in Bangladesh, this thesis provides a holistic assessment of aid effectiveness in the country.

- This thesis investigates that aid effectiveness is conditional upon the macroeconomic policy environment and measures of governance in a country like Bangladesh. It disaggregates aid to Bangladesh into its various components to investigate whether different types of aid have different impacts on growth.
• Prevailing aid allocation models simultaneously model the allocations of foreign aid to a number of recipients in the developing world in addition to Bangladesh. However, results point out that it is important to account for the joint determination of aid flows, and failure to do so is likely to yield invalid results and misleading conclusions.

• This thesis collects and uses data from government and other sources to estimate a fiscal response model for Bangladesh, avoiding the estimation of target variables for public sector decision-makers. The estimation of target variables is the major criticism of previous fiscal response models. An adapted theoretical model of public sector fiscal behaviour justifies this approach. Disaggregated aid data is used in fiscal response models to account for the heterogenous nature of aid.
CHAPTER ONE
INTRODUCTION

1.1 Introduction

The central purpose of this thesis is to undertake an inquiry into the effectiveness of the foreign aid inflow into the economy of Bangladesh, given that the country is largely dependent on foreign aid for its development activities. The country has received about US$50 billion in aid over 35 years of its existence. This huge amount of aid has had little impact on the country's socioeconomic development, and little of the benefits of aid have reached the poor who constitute the vast majority of population. The main aim of this thesis is to determine why this is so. This thesis examines how the massive influx of aid has been put to use in the country. An objective will also be to derive an understanding of the aid philosophy of donors and their contributions towards the formulation of the development policy of Bangladesh.

Although the dependence of Bangladesh on foreign aid has eased to some extent recently, the flow of aid has remained a critical factor in sustaining its development activities, and donors are thoroughly integrated into the decision-making process of the country. Much of the literature on foreign aid suggests that under such circumstances, donors are capable of influencing the development endeavours of the country in such a way that it seems decisive for the country's economic future. The history of Bangladesh illustrates some of the strengths and shortcomings of foreign assistance in achieving the goal of economic progress. Studies of foreign-aided projects completed in Bangladesh convey the impression that the government has not been serious about their implementation. Moreover, donors also channel funds for projects which they later admit to have been based on wrong assessments about the socioeconomic realities of the country.

This thesis examines the impact of foreign aid on Bangladesh and the inability of foreign aid to lay the foundations for the country’s solid economic growth. It is argued that while aid has helped to sustain the present levels of per capita national output, it has been relatively ineffective in inducing the qualitative changes needed for achieving significant increases in production and improvement in income distribution. Findings imply that donors have responded as a group to changes in Bangladesh’s development requirements. But major donors have also responded both to the country’s development requirements as well as their own interests. The latter hampers aid effectiveness in the country’s development endeavours.

Studies on the impact of aid on economic growth have used time-series and cross-country data (Table 1.1 and Table 1.2 on pp.12-13). These studies implicitly assume that aid has more or less the same incremental impact in all countries which is not likely to be the case. This thesis investigates whether aid to Bangladesh has exerted any impact on economic growth. Following recent literature,
this thesis examines whether the impact of aid on growth is conditional upon measures of the country’s policy and governance. This thesis disaggregates total aid into its various components to examine whether aid effectiveness is conditional upon the type of aid. Results indicate there is little evidence that foreign aid alone has contributed to economic growth in Bangladesh. But, according to Feeny (2003), there is some evidence that aid can be effective at increasing growth while a country has good governance and macroeconomic policy environment in place. An alternative interpretation is that donor conditionality such as the Structural Adjustment Program is sometimes effective at accelerating growth in a country with bad governance and macroeconomic mismanagement.

Most of the past aid effectiveness literature has focussed on investigating the impact of aid on economic growth. Growth is often viewed as a key driver of poverty reduction and very few studies have investigated the impact of aid on poverty directly. This is particularly true in the context of single country case studies. This thesis contributes to this inadequate literature. Bangladesh suffers from high incidence of poverty and there is also a large incidence of inequality and differences in well-being. This thesis has studied the mix of donor aid policies aimed at promoting economic growth, directly targeting at the poor and provisions of safety nets, with the poverty situation in the country. Growth in Bangladesh has not been pro-poor, and the high level of inequality is likely to further reduce the impact of growth on poverty. Findings indicate that sectoral allocation of foreign aid to Bangladesh has been broadly consistent with a strategy to effectively reduce poverty and increase human well-being. However, this thesis suggests a number of ways in which the use of foreign aid can more effectively achieve its important goals.

This thesis concludes with a number of policy recommendations arising from the research findings. In short, it is recommended that foreign aid be provided considering the humanitarian needs and that project aid preferred over budget support. To support growth, aid should be used to foster a productive investment environment and to support and reward government policies which are beneficial to those for whom aid is targeted.

1.2 Motivation

There has been a declining trend in the provisioning of foreign aid as a percentage of GDP over the 1990s. Alongside, the disparity between developed and developing countries is growing. There are two broad reasons for the decline in the provisioning of foreign aid. The first is that OECD countries have tighter budgets due to their own fiscal and employment problems (OECD, 1999). The second is that the donor community is suffering from aid inertia. A cause of this inertia is scepticism about the effectiveness of foreign aid. The well-publicised World Bank (1998) publication Assessing Aid: What Works, What Doesn't, and Why has played an important role in
generating a new debate on aid effectiveness. The publication finds that aid only works in recipient countries with good economic policies and management. As a result, the report recommends a policy of selectivity whereby larger amounts of foreign aid are provided to countries where good policies are in practice.

The World Bank (1998) report has been a subject of immense criticism, and there have been a number of recent studies which find that foreign aid is effective at increasing growth irrespective of recipients’ policy environments. The debate over the importance of policy continues. In general, the research in aid effectiveness has been very sensitive to model specifications and econometric approach. One reason for this sensitivity is that most of the studies have used cross-country data and that some other studies have used time-series data. Much of these studies assume that the impact of aid on growth will be almost the same for all developing countries which is unlikely to be the case. In fact, recipients behave very differently in response to aid flows. This implies that it is important to investigate the issue of aid effectiveness using single country case studies.

Bangladesh is an interesting case study. The country is rich in human resources and has received large amounts of foreign aid. But the country has failed to prosper, and its poor performing economy is often referred to as being unpredictable. Bangladesh performs very poorly in comparison to other poor countries in the developing world. Many of its indicators are at the bottom. Life expectancy is the lowest with less than half its adult population literate and health indicators static for many years. According to the UNDP's Human Development Report (UNDP, 2005), Bangladesh is far behind its Millennium Development Goal (MDG) by 2015, and recent studies suggest that the country is also far behind its objectives in socioeconomic spheres.

There is a lack of empirical literature regarding the impact of foreign aid specific to Bangladesh. This is of great significance to most donors. Of late, there has been a change in the composition of aid shifting away from budgetary support to project aid. Therefore, it may be of significant interest to policymakers of both the recipient and donors to see if the change in the type of aid has impacted aid effectiveness.

1.3 Research Questions
This thesis undertakes to do original research on questions that have not been adequately dealt with in the context of Bangladesh. The core research question is: How far does foreign aid work? There are quite a number of objectives behind giving aid – so in order to answer this question the impact of aid must be weighed up using various factors. This thesis concentrates on a couple of research questions that will attempt to explore the impact of foreign aid on Bangladesh. Although the research questions are not comprehensive, they encompass key areas of interest to the country’s
policymakers as well as donors. The research questions pertaining mainly to micro- and macro-economic impact of aid are as follows:

1. How much is aid to Bangladesh targeted towards poverty alleviation in the country?
2. How has aid made an impact on the economic growth of Bangladesh, and how participatory is the process?
3. What are the environmental implications of economic growth in Bangladesh?
4. To what extent has aid impacted public sector behaviour of Bangladesh?
5. Is aid to Bangladesh tied to strategic, political or economic interests of donors? and
6. Why has aid to Bangladesh been of little impact on the poor section of population?

The above research questions will be addressed throughout this thesis, and this thesis will adopt an approach to look at their indirect relationships. For instance, an understanding of the impact of foreign aid on Bangladesh’s public sector will be important in order to understand the impact of aid on economic growth. Besides that, growth is considered to be an important indicator of poverty. On the other hand, a comprehensive understanding of how aid impacts poverty requires an understanding of its impact on growth. Awareness of their direct and indirect relationships is necessary for a comprehensive understanding of the impact of foreign aid on Bangladesh.

1.4 Outlines of the Thesis

Chapter Two presents a discussion on the geography, history, politics and governance of Bangladesh, and provides an overview of its economy. It examines the country’s economy in terms of broad economic indicators including growth rates in the GDP, its composition and stability. The chapter discusses the performance of the external sector and implications of the changes that the economy has experienced. It is argued that despite significant changes, the economy lacks diversification and rests on a narrow base. The chapter reviews the environmental implications of economic growth, reveals the potential impact of global warming, and outlines the socioeconomic indicators of development in Bangladesh.

Chapter Three discusses the historical background of the aid dependence of Bangladesh with a short note on development theory and a brief history of foreign aid. The history of the aid dependence of Bangladesh is unlike that of other recipients of the developing world in the sense that the country’s aid dependence reflects an inherited structural weakness. Bangladesh was a part of Pakistan since 1947 and became independent only after a long liberation war in 1971. Although Pakistan began to receive foreign aid in as early as the sixties, after independence Bangladesh received little compensatory benefits from this aid flow, and, at the outset of liberation, there was a
large external resource gap. Moreover, Bangladesh subsequently had to accept an inherited debt
liability of US$483 million against the projects that were completed before independence and
physically located on the territory of then East Pakistan which is now Bangladesh. The chapter
provides significant motivation to do the current research.

Chapter Four gives a contemporary outline of foreign aid and its disbursement in Bangladesh. It
provides a general definition of foreign aid and discusses the role foreign aid has been playing in
Bangladesh since its independence in 1971. In fact, foreign aid has played a crucial role in
Bangladesh’s development, and the country has received some US$50 billion in aid since 1972. But
despite the decreasing share of aid in Bangladesh’s development endeavours these days, donors still
try to retain a considerable degree of leverage over the country because its dependence on aid
makes it receptive to considerable pressure from donors. The chapter examines that aid
dependence has fostered anti-development attitudes, and that foreign aid utilisation disregards the
priorities of Bangladesh’s development agenda. The chapter discusses the current debt servicing
situation of the country. It observes that donor financing with conditionality but without domestic
ownership has largely failed to produce any lasting change in the country. Therefore, the borrower
ownership of reform is increasingly recognised as a prerequisite for success these days.

Chapter Five provides an overview of what major aid donors (such as the World Bank and the
IMF) claim in their policies and what they do in practice in the case of Bangladesh, one of the
poorest aid recipient countries in the developing world. The chapter examines American influence
on IFIs and neo-conservative influence on the World Bank and IMF. It explores why these
institutions should begin to think about reforming themselves and how they could do it and create
conditions by which countries could increase their own economic freedom. The chapter reviews
literature that strongly and actively supports reforming these institutions’ lending practices. The
literature reviewed endorses that these reforms would augment their capability, enhance
accountability for their lending practices, and restrict their harmful impact on the developing world.
Such reforms would produce more stability, economic development, and peace across the world.

Chapter Six argues that donors tend to believe that aid disbursement through NGOs is more
effective in reaching the target groups. Donors consider it to be cost-effective for realising poverty
alleviation. The chapter examines the relationships between NNGOs and SNGOs and their impact
on the efficiency of SNGOs, and investigates the aid flows to the government and NGOs in
Bangladesh. The chapter focuses on the challenges NGOs are facing in realising their declared
objective of poverty alleviation in Bangladesh. The chapter points out that the efficacy of donor
support towards NGOs will improve if the capacity of NGOs to design poverty alleviation
programs and their ability to effectively utilise the funds are enhanced. However, the flow of
foreign funds to NGOs and the rapid increase in NGO activities in Bangladesh have given rise to government concern that NGOs are competitors to government activities. But NGOs should not be considered competitors to the government, and a fruitful cooperation between government departments and NGOs has to be established for successful utilisation of aid.

Why has foreign aid had a poor record when it comes to increasing economic growth in Bangladesh? A large part of the explanation is given in Chapter Seven. The chapter investigates the impact of foreign aid on Bangladesh’s public sector investment and fiscal behaviour. It examines the response of various government expenditure and revenue categories to the inflow of foreign aid. The major focus of the chapter is on analysing the evolving structure of the ADP and dynamics of foreign aid contribution to financing the same. An attempt is also made to illustrate the sectoral pattern of foreign aid dependency of the ADP in terms of various explanatory indicators. A comparison between various time points has also been made to see whether there is any inter-temporal shift or change in patterns of aid intensity of public investment in Bangladesh.

Chapter Eight explores the relationship between foreign aid inflow and poverty alleviation in Bangladesh. This is in the context of the medium term experiences of using foreign aid in the country mainly over the last ten years of the 20th century. As donors have been increasingly attaching various conditions to their aid disbursement, whether these conditions are favourable for the poor section of people is examined. The initiation of the Structural Adjustment Program by the World Bank and the IMF in the 1980s and the latest move by the World Bank for a Poverty Reduction Strategy Paper (PRSP) as a precondition for getting aid are also examined to see whether these are effective to channel aid for poverty reduction.

Chapter Nine draws upon a set of questions to investigate the effectiveness of policy reforms through foreign aid. One of the questions the chapter asks is how to determine whether elements of aid conditionality that try to initiate policy reforms are acceptable to the people whose well-being the aid is supposed to ensure in the first place. However, recognising the positive impact of foreign aid in some areas, the chapter takes a closer look at the failures of policy reforms. The chapter highlights that policy reforms in Bangladesh have slowed down despite donors’ increasing emphasis on conditionality because of the government’s lethargic attitude towards reforms. The chapter suggests that most of the reforms undertaken by successive governments have been taken under donor pressure. The analysis asks if Bangladesh could have done better “without aid” or “with aid, without conditionality”. The chapter emphasises the need for strong domestic institutions and a capacity to interact with formidable international financial institutions.
Chapter Ten concludes with a brief summary of what this thesis has explored and found, along with an outline of policy recommendations. The chapter summarises what the findings of this thesis are, what the impact of foreign aid is on Bangladesh, and makes some policy recommendations resulting from this thesis. The chapter also explains the limitations encountered while doing the research. This thesis is reliant on data from domestic sources such as the Bangladesh Bank, Bangladesh Bureau of Statistics and Ministry of Finance, and local think-tanks such as the CPD and BIDS, and international sources such as the World Bank, IMF and OECD. However, the data sets may not be perfect due to reporting errors and manipulation of accounts. The chapter ends with recommendations on opportunities for further research in the field.

1.5 Contributions

This thesis generates the following contributions to the existing literature on aid effectiveness:

- This thesis examines the effectiveness of foreign aid, and explores the impact of foreign aid on the public sector, poverty, and policy reforms in Bangladesh. Previous empirical analyses of aid effectiveness have used aid and growth studies using time-series and cross-country data (Table 1.1 on p.12 and Table 1.2 on p.13), typically assuming that the impact of foreign aid is more or less the same across the developing world. By investigating the impact of aid on public sector investment, poverty, and policy reforms in Bangladesh, this thesis provides a holistic assessment of aid effectiveness in the country.

- This thesis investigates that aid effectiveness is conditional upon the macroeconomic policy environment and measures of governance in a country like Bangladesh. It disaggregates aid to Bangladesh into its various components to investigate whether different types of aid have different impacts on growth.

- Aid allocation models simultaneously model the allocations of foreign aid to a number of recipients in the developing world in addition to Bangladesh. Results point out that it is important to account for the joint determination of aid flows, and failure to do so is likely to yield invalid results and misleading conclusions.

- This thesis collects and uses data from government and other sources to estimate a fiscal response model for Bangladesh, avoiding the estimation of target variables for public sector decision-makers. The estimation of target variables is the major criticism of previous fiscal response models. An adapted theoretical model of public sector fiscal behaviour justifies this approach. Disaggregated aid data is used in fiscal response models to account for the heterogenous nature of aid.
1.6 Conclusion

The pressures on limited resources and technology of Bangladesh are extreme. It is clear that the large population, small land area and vulnerability to natural disasters would mean severe hardship for any agricultural society based on traditional methods of cultivation. In addition, social and institutional obstacles in Bangladesh greatly compound the difficulties of attempts to improve the economic prospects of the country. However, the qualitative change offers high hope of more rapid growth than would be projected on the basis of the continuation of present trends. In fact, under the present rates of population growth and per capita incomes in rural areas, it can be expected for at least the bottom half of the population. It is argued that the qualitative effects of aid have not been sufficient to improve the ability of the country to reduce the poverty level that prevails. The economic development of Bangladesh is basically a task of the Bangladeshi people, with donors’ influence dependent upon their acceptance within the country. Given the situation in the country today, the Bangladesh government must have the leading role in promoting economic change and technical advancement. Donors cannot be expected to have consistent and coherent long-term strategies for economic development given the limitations inherent in aid. In addition, donors have failed to adapt policies and programs to the special circumstances of the country.

This thesis examines the effectiveness of foreign aid in confronting these problems blocking development in Bangladesh. The introductory chapters provide the historical setting and the international background for the study while the remaining chapters have examined the qualitative and quantitative impact of aid on the country. This thesis identifies that these considerations underline the heavy responsibilities of the Bangladesh government to initiate new policy directions and exercise effective leadership as well as ownership in policy matters. This thesis encourages that project aid be favoured over budget support. To increase growth, aid should be used to foster a productive investment environment and to support and reward government policies that are beneficial to Bangladesh. Limitations of this thesis and opportunities for further research in the future are also provided at the end of this thesis. The main limitations include data quality and proxies for policy and governance resulting from a failure of donors and the recipient to undertake a rigorous empirical analysis of aid impact on poverty.

Chapter Two presents an overview of Bangladesh and an outline of the economy of Bangladesh. It provides a discussion of the country’s geography, history, politics and governance, and examines the performance of the economy.
## Table 1.1: Aid and Growth Studies Using Time-Series Data

<table>
<thead>
<tr>
<th>Study</th>
<th>Case study</th>
<th>Variables</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1972 to 1990)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gounder (2001, 2001a)</td>
<td>Fiji (1968 to 1996)</td>
<td>Growth rate of GDP, Growth in the labour force, Investment, Growth rate of exports, Military coup dummies, Various components of foreign aid to GDP</td>
<td>Aid flows have a positive and significant impact on economic growth.</td>
</tr>
<tr>
<td>Mavrotas (2002)</td>
<td>India (1970 to 1992)</td>
<td>Growth rate of GDP, Foreign capital to the private sector, Growth in exports, Disaggregation of foreign aid, Other financial flows, Uncertainty, Human capital</td>
<td>Aid disaggregation matters. Some evidence that foreign aid to India has had both positive and negative impacts.</td>
</tr>
</tbody>
</table>

Table 1.2: Aid and Growth Studies Using Cross-Country Data

<table>
<thead>
<tr>
<th>Study</th>
<th>$A^2$</th>
<th>$A^*P$</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durbarry, et al. (1998)</td>
<td>✓</td>
<td>✗</td>
<td>Aid is effective at increasing growth with diminishing returns.</td>
</tr>
<tr>
<td>Svensson (1999)</td>
<td>✗</td>
<td>✗</td>
<td>Aid effectiveness is contingent upon the level of democracy.</td>
</tr>
<tr>
<td>Lensink and Morrissey (2000)</td>
<td>✗</td>
<td>✗</td>
<td>Uncertainty of aid flows has a negative impact on growth. When aid uncertainty is controlled, aid has a positive impact on growth.</td>
</tr>
<tr>
<td>Hansen and Tarp (2000, 2001)</td>
<td>✓</td>
<td>✓</td>
<td>Aid is effective with diminishing returns regardless of policy environment.</td>
</tr>
<tr>
<td>Dalgaard and Hansen (2001)</td>
<td>✓</td>
<td>✓</td>
<td>Aid is effective with diminishing returns regardless of policy environment.</td>
</tr>
<tr>
<td>Guillamont and Chauvet (2001)</td>
<td>✗</td>
<td>✓</td>
<td>Aid is effective regardless of policy environment although less effective in bad climatic condition and politically unstable environment.</td>
</tr>
<tr>
<td>Hudson and Mosley (2001)</td>
<td>✓</td>
<td>✓</td>
<td>Aid is effective with diminishing returns regardless of policy environment.</td>
</tr>
<tr>
<td>Lensink and White (2001)</td>
<td>✓</td>
<td>✓</td>
<td>Aid is effective with diminishing returns regardless of policy environment.</td>
</tr>
<tr>
<td>Lu and Ram (2001)</td>
<td>✓</td>
<td>✓</td>
<td>Aid is effective with diminishing returns regardless of policy environment.</td>
</tr>
<tr>
<td>Collier and Dehn (2002)</td>
<td>✗</td>
<td>✓</td>
<td>Aid effectiveness is contingent upon policy environment.</td>
</tr>
<tr>
<td>Collier and Hoeffler (2002)</td>
<td>✓</td>
<td>✓</td>
<td>Aid effectiveness is contingent upon policy environment (this includes diminishing returns and does not include aid in levels).</td>
</tr>
<tr>
<td>Chauvet and Guillamont (2002)</td>
<td>✗</td>
<td>✓</td>
<td>Aid effectiveness is contingent upon policy, structural economic vulnerability, and political stability.</td>
</tr>
<tr>
<td>Dalgard, et al, (2002)</td>
<td>✓</td>
<td>✗</td>
<td>Aid is effective with diminishing returns although less so in tropical countries (aid does not interact with policies).</td>
</tr>
</tbody>
</table>

PS: Columns two and three indicate whether empirical studies have included the non-linear and aid policy interaction terms. $A$ is for foreign aid, $P$ represents measures of recipient government policy. An aid squared term, $A^2$, is included to capture non-linearity in the aid-growth relationship and $A^*P$ represents the aid policy interaction term. Some models, however, have failed to include either a non-linear term and/or an aid policy interaction term. The major findings of studies are presented in column four.

CHAPTER TWO
AN OVERVIEW OF BANGLADESH AND ITS ECONOMY

2.1 Introduction
This chapter provides a general overview of Bangladesh and an outline of the prominent features of the Bangladesh economy. It also provides a discussion of the country’s geography, history, politics, and governance. This chapter examines the performance of the country’s economy in terms of broad economic indicators including growth rates in the GDP, its composition and stability. It also discusses the performance of the external sector and implications of the changes that it has experienced. It argues that despite significant changes, the Bangladesh economy lacks diversification and rests on a narrow base. This chapter has made some observations on the socioeconomic impact of economic development on Bangladesh. However, the development process has involved major environmental costs exposing the vulnerability of the physical environment of the country. This chapter has found signs of considerable environmental damage particularly originating from export-oriented industries in Bangladesh.

2.2 History and Geography of Bangladesh
Bangladesh is a small but populous country of South Asia situated on the Bay of Bengal, not far from the Indian Ocean. Formerly a part of the greater Bengal in British India, it became East Pakistan when India achieved independence in 1947. After a nine-month long bloody war with West Pakistan in 1971, Bangladesh became independent and formed a separate nation. The country is now officially known as the People’s Republic of Bangladesh. Dhaka is the largest city and the capital, and Chittagong is the largest port city.

The country is 56,977 sq miles (147,570 sq km) in area, and the current population is 145,000,000 (Bangladesh Bureau of Statistics, 2006). It borders on the Bay of Bengal in the south; on the Indian states of West Bengal in the west and north, Assam and Meghalaya in the northeast, Tripura and Mizoram in the east; and on Myanmar in the southeast. Bangladesh is one of the world’s ten most populated countries and has one of the highest population densities (about 2,100 people per sq mile/810 people per sq km). The great majority of population is Bengali. About 80% are Muslims, over 10% are Hindus, and others are Buddhist, Christians and tribal people. Bangla (or Bengali) is the nation’s official language, and English is widely used in urban
areas. Bangladesh has a predominantly rural population, with over 60% of the workforce engaged in agriculture. There are a number of public universities in Dhaka, Chittagong, Rajshahi, Khulna, Kushtia, Mymensingh, and Rajshahi, and over 50 private universities mainly in the capital city.

2.2.1 Bengali Civilisation and History of Bangladesh

Remnants of civilisation in the greater Bengal region date back 4,000 years ago (Xinhua, 2006), when the region was settled by Dravidian, Tibeto-Burman, and Austro-Asiatic peoples. However, Islam was introduced to Bengal in the 12th century, AD, by Sufi missionaries, and subsequent Muslim conquests helped spread Islam throughout the region. Bakhtiar Khilji, a Turkish general, defeated Lakshman Sen of the Sena dynasty and conquered large parts of Bengal. The region was ruled by Sultan dynasties and feudal lords over the following few hundred years. By the 16th century, the Mughal Empire controlled Bengal, and Dhaka became an important provincial centre of the Mughal administration (Eaton, 1996).

European traders arrived in India late in the 15th century, and their influence grew until the British East India Company gained control of Bengal following the Battle of Plassey in 1757 (Baxter, 1997). The bloody rebellion of 1857, known as the Sepoy Mutiny, resulted in the transfer of authority to the crown, with a British viceroy running the administration. During the colonial rule, famine racked the Indian subcontinent many times, including the 1770 Bengal famine that claimed 3 million lives (Sen, 1973). Between 1905 and 1911, an abortive attempt was made to divide the province of Bengal into two zones, with Dhaka being the capital of the eastern zone. When India was partitioned in 1947, Bengal was partitioned along religious lines, with the western part going to India and the eastern part joining Pakistan as a province called East Bengal (later renamed East Pakistan), with its capital in Dhaka (Collins and Lapierre, 1986). In 1950, land reform was accomplished in East Bengal, and the feudal zamindari system abolished. However, despite the economic and demographic weight of the east, Pakistan’s government and military were largely dominated by upper classes from the western part of Pakistan. Pakistan’s two provinces, which differed considerably in natural setting, economy, and historical background, were separated from each other by more than 1,000 mile (1,610km) areas of India. The East Pakistanis, who comprised 56% of the total population of Pakistan, were discontented under a government centred in West Pakistan; and the disparity in government investments and development funds given to each province also added to the resentment. Efforts over the years to secure increased economic benefits and political reforms proved unsuccessful. All this led to a nine-month war with Pakistan in 1971.

After gaining its independence, Bangladesh established a parliamentary system of government, with Sheikh Mujib as the Prime Minister. In the 1973 parliamentary elections, the Awami League
gained an absolute majority. A nationwide famine occurred during 1973 and 1974, and in early 1975, Sheikh Mujib initiated a one-party socialist rule with his newly formed BAKSAL. On 15 August 1975, Sheikh Mujib and his family were assassinated by mid-level military officers (Mascarenhas, 1986). A series of bloody coups and counter-coups in the following three months culminated in the ascent to power of Maj-Gen Ziaur Rahman, who reinstated multi-party politics and founded the Bangladesh Nationalist Party (BNP). Ziaur Rahman’s rule ended when he was assassinated in 1981 by elements of the military. Bangladesh’s next major ruler was Lt-Gen Hossain Mohammad Ershad, who gained power in a bloodless coup in 1982 and ruled till the end of 1990, when he was ousted in a popular uprising. Since then, Bangladesh has reverted to a parliamentary democracy. Ziaur Rahman’s widow, Begum Khaleda Zia, led the BNP to parliamentary victories in 1991 and 2001 and was Prime Minister from 1991 to 1996 and again from 2001 to 2006. Sheikh Hasina, one of Sheikh Mujib’s surviving daughters and head of the Awami League, was in power from 1996 to 2001. Although Bangladesh enjoys the distinction of having two female politicians leading national politics, as Transparency International (2005) argues, it continues to suffer from extensive corruption, disorder and political violence.

2.3 Government and Politics

As it has been noted previously, Bangladesh is a parliamentary democracy. The President is the head of state, a largely ceremonial post. The real power is held by the Prime Minister, who is the head of government. The President is elected by Parliament every five years and has normally limited powers that are substantially expanded during the tenure of a caretaker government, mainly in controlling the transition to a new government. Bangladesh has instituted a unique system of transfer of power at the end of the tenure of a government – power is handed over to an interim caretaker government for three months, who run the general elections and transfer power to an elected government. This system was first practiced in 1991 and institutionalised in 1996 as the 13th amendment to the country’s constitution (Banglapedia, 2006).

The Prime Minister is ceremonially appointed by the President and must be a Member of Parliament (MP), commanding the confidence of the majority of MPs. The cabinet is composed of ministers nominated by the Prime Minister and appointed by the President. The unicameral Parliament is the 300-member Jatiyo Sangsad, elected by popular vote from single-member constituencies for a five-year term of office. The highest judicial body is the Supreme Court – the judiciary is not separate from the administration, which has caused much commotion in recent years. Laws are loosely based on English common law, but family laws such as marriage and inheritance are based on religious scripts, and hence differ from one religious community to another.
Chapter Two: An Overview of Bangladesh and Its Economy

The two major parties in Bangladesh are the Bangladesh Nationalist Party (BNP) and the Bangladesh Awami League. The BNP finds its allies among Islamist parties like Jamaat-e-Islami Bangladesh and Islami Oikya Jot, while the Awami League aligns with leftist and secularist parties. Another important player is the Jatiya Party, headed by the former military ruler Hossain Mohammad Ershad. The rivalry between the Awami League and BNP has been bitter and punctuated by protests, violence and murder. Student politics is particularly strong in Bangladesh, a legacy from the liberation movement era. Almost all parties have highly active student wings, and many student leaders have been elected to the Bangladesh Parliament.

2.3.1 Government Branches:

Executive Branch:
President Dr Iajuddin Ahmed (since 6 September 2002). The President’s duties are mainly ceremonial, but with the 13th amendment to the constitution (Caretaker Government Amendment), the President’s role becomes significant at times when Parliament is dissolved and a caretaker government is installed to supervise the elections.

Legislative Branch:
The unicameral Parliament or Jatiya Sangsad with 300 seats is elected by popular vote from single territorial constituencies (plus 30 seats reserved for women). MPs serve a five-year term. Following Parliamentary elections, the leader of the party that wins most seats is appointed Prime Minister; last held on 1 October 2001 (next to be held by the end of 2008 under the caretaker government of Dr Fakhruddin Ahmed).

Judicial Branch:
The Supreme Court (the Chief Justice and other judges are appointed by the President).

2.4 The Economy of Bangladesh
Bangladesh is one of the world’s poorest nations in the world, with overpopulation adding to its economic woes. However, it has made significant strides in its economic sector since its independence in 1971. Despite this and sustained domestic and international efforts to improve economic and demographic prospects, it has remained a poor, overpopulated, and ill-governed nation. Although half of the GDP is generated through the service sector, nearly two-thirds of Bangladeshis are employed in the agriculture sector, with rice as the single-most important product. According to Sobhan (2003), major impediments to growth include frequent cyclones and floods, inefficient state-owned enterprises, inadequate port facilities, a rapidly growing labour force that cannot be absorbed by agriculture, delays in exploiting energy resources (natural gas), insufficient power supplies, and slow implementation of economic reforms. Economic reforms are stalled in
many instances by political infighting and corruption at all levels of government. Progress also has been blocked by opposition from the bureaucracy, public sector unions, and other vested interest groups. Most of the previous governments had the parliamentary strength to push through the needed reforms, but a political will was lacking in areas of great importance.

However, the GDP per capita registered a peak growth of 57% in the seventies after the country gained independence. But this proved unsustainable, and growth consequently scaled back to 29% in the eighties and 24% in the nineties (Rahman, 2004). The economy of Bangladesh is based on agriculture. Rice, jute, tea, sugarcane, tobacco, and wheat are the main crops. Bangladesh is the world’s largest producer of jute; fishing is also an important economic activity; and beef, dairy products and poultry are also produced. Except for natural gas (found along its eastern border), limited quantities of oil (in the Bay of Bengal), coal and some uranium, Bangladesh possesses few mineral resources. Dhaka and Chittagong (the country’s chief port) are the principal industrial centres; clothing and cotton textiles, jute products, processed food, steel and chemical fertilisers are manufactured. In addition to clothing, textiles, jute, and jute products, exports include tea, leather, fish and shrimp. Capital goods, petroleum and textiles are other major imports. Western Europe, the United States, India and China are the main trading partners. Bangladesh’s garment industry is one of the largest and comprehensive industries in the world.

Although two-thirds of Bangladeshis are farmers, according to Roland (2005), more than three quarters of Bangladesh’s export earnings come from the garment industry, which began attracting foreign investors in the 1980s due to cheap labour and low conversion cost. In 2002, the garment industry exported US$5 billion worth of products (Rahman, 2004). The industry employs more than 3 million workers, 90% of whom are women (Begum, 2001). After the garment industry, remittances from several million Bangladeshis working overseas are the second largest source of foreign income. Before 1980, Bangladesh’s economy and foreign exchange earnings were driven by the jute industry but this industry started to fall from 1970, when polypropylene products gained popularity over the jute products.

Bangladesh has also made significant strides to meet the food needs of its increasing population, through increased domestic production. Currently, Bangladesh is the third largest rice producing country in the world. The land is devoted mainly to rice and jute cultivation, although wheat production has increased in recent years; the country is largely self-sufficient in rice production. Nonetheless, an estimated 10% to 15% of the population faces serious nutritional risk. Bangladesh’s predominantly agricultural economy depends heavily on an erratic monsoonal cycle, with periodic floods and drought. Although improving, infrastructure to support transportation, communications and power supply is poorly developed. The country has large reserves of natural
gas and limited reserves of coal and oil. While Bangladesh’s industrial base is weak, unskilled labour is inexpensive and plentiful.

However, the country’s economy has undergone significant changes over the past decade. Given that the country is dependent on external resources to a considerable extent, Bangladesh undertook in the eighties a number of policies such as the Structural Adjustment Program at the direction of donors led by the World Bank and the IMF. The policies have influenced the country’s overall economy and various aspects of economic management. The sectors that have embodied the pace of reforms are agriculture, banking, external trade, finance, industry, and foreign exchange. Reforms under the Structural Adjustment Program were activated through a set of comprehensive economic policies through which the government acted directly to restructure taxation and the provision of social services, and intervened in the market to change pricing behaviour to create a favourable environment for investment and growth. The reform process represents significant changes in policy direction in the economic activity of Bangladesh. The policy base has shifted primarily from one of state interventionism to one of greater reliance on the operation of market forces.

Since independence in 1971, Bangladesh has received about US$50 billion grant-in-aid and loan commitments from foreign donors, much of which has been disbursed. Major donors include the World Bank, the ADB, the IMF, the UNDP, Japan, and a number of West European countries. Yet, the country’s poverty rate remains high. With nearly half of its 145 million people living below the poverty line, Bangladesh still has the highest incidence of poverty in South Asia, the third highest number of poor people living in a single country after India and China. As in other countries with similar income levels, Bangladesh still faces deficiencies in the quality of social services. Bangladesh has historically run a large trade deficit, financed largely through aid receipts and remittances from those of the countrymen working overseas. Foreign reserves had dropped markedly in 1995 and 1996, but due to remarkable remittance growth in recent years, the reserves stabilised at about US$3.1 billion (or about 2.2-2.5 monthly import cover) since the beginning of 2006, and by September 2006, the foreign exchange reserves rose to US$3.6 billion (ADB, 2001-3; Bangladesh Bank, 2006; and World Bank, 2005).

Notwithstanding sustained domestic and international efforts to improve economic and demographic prospects, Bangladesh remains an underdeveloped and overpopulated nation. The per capita income in 2004 was as low as US$440, and many other economic indicators were less than impressive (UNICEF, 2005). Yet, as World Bank (2005) notes in its Country Brief 2005, the country has made impressive progress in human development by focusing on increasing literacy, achieving gender parity in schooling, and reducing population growth. Obstacles to economic growth, however, include frequent cyclones and floods, inefficient state-owned enterprises,
mismanaged port facilities, a growth in the labour force that has outpaced job opportunities, inefficient use of energy resources (such as natural gas), insufficient power supplies, slow implementation of economic reforms, political infighting, and corruption. According to the World Bank’s Country Brief (2005), “Among Bangladesh’s most significant obstacles to growth are poor governance and weak public institutions.”

However, despite the hurdles, the country has been able to achieve an average annual growth rate of 5% since 1990 (World Bank, 2005). The middle class and the consumer industry have seen some growth. In December 2005, four years after its report on the emerging “BRIC” economies (Brazil, Russia, India, and China), Goldman Sachs (2005) named Bangladesh one of the “Next Eleven”, along with Egypt, Indonesia, and several other countries. Bangladesh has seen a sharp increase in foreign direct investment. A number of multinational corporations, including the Unocal Corporation, have made major investments, the natural gas sector being a priority. In December 2006, the Bangladesh Bank, the central bank of the country, projected GDP growth at around 6.5% for the fiscal year 2006 (Bangladesh Bank, 2006).

One significant contributor to the development of the economy has been the widely propagated microcredit introduced by the country’s Nobel Laureate Muhammad Yunus through the Grameen Bank. By the late 1990s, Grameen Bank had 2.3 million members, along with 2.5 million members of other similar organisations (Schreiner, 2003). Macro-economically speaking, in order to enhance economic growth the government has set up several export processing zones to attract foreign investment. These are managed by the Bangladesh Export Processing Zone Authority.

### 2.4.1 Bangladesh Moves Towards A Market Economy

Following independence in 1971, Bangladesh – with the help of large infusions of donor relief and development aid – slowly began to turn its attention to developing new industrial capacity and rehabilitating its economy. The static economic model adopted by its early leadership, including the nationalisation of much of the industrial sector, resulted in inefficiency and economic stagnation. Beginning in 1975, the government gradually gave greater scope to private sector participation in the economy, a pattern that has continued to-date. A few state-owned enterprises have been privatised, but many, including major portions of the banking and jute sectors, remain under government control. Population growth and inefficiency in the public sector have continued to restrict economic growth. In the mid-1980s, there were encouraging signs of progress. Economic policies aimed at encouraging private enterprise and investment, denationalising public industries, reinstating budgetary discipline, and liberalising the import regime were accelerated. From 1990 to 1993, the government successfully followed an Enhanced Structural Adjustment Facility (ESAF) with the International Monetary Fund.
The government, elected in June 1996, indicated that it would continue along the path towards privatisation and open-market reform, but progress has been slow, especially in privatisation. While the government managed to maintain economic growth levels at 4%-5% and single-digit inflation except for a few months after the 1998 floods, per capita income levels remained distressingly low. The government in 1991-1996 and 2001-2006 initially took significant strides toward market reform, including bringing about tax reform and allowing increased foreign direct investment in the gas and power sectors, but preoccupation with domestic political troubles stalled progress on this critical front in the last year of its tenure.

Efforts to achieve Bangladesh's macroeconomic goals have been problematic. The privatisation of public sector industries has proceeded at a slow pace, due in part to worker unrest in affected industries. The government also has proven unable to resist demands for wage hikes in government-owned industries. Economic growth has been further slowed by a largely dysfunctional banking system which has impeded access to state-owned banks, which control about three-fourths of deposits and loans, and carry classified loan burdens of about 50%. Some efforts are being made to alleviate this problem through microcredit programs such as those led by the Grameen Bank. Table 2.15 on p.35 provides a trend of the GDP of Bangladesh at market prices estimated by the IMF with figures in the Bangladeshi Taka (in million).

2.4.2 Performance of the Economy

Since the 1970s, the share of agriculture has less than halved while the share of industry has more than doubled albeit from a very low base. The contribution of the service sector seems to be disproportionately high. Table 2.1 p.31 presents an overview of trends in the Bangladesh economy in terms of its GDP growth and its three major components: agriculture, industry and services. The significant decline in the share of agriculture in the GDP is in contrast to the growth in the service sector rather than the industrial sector, which accounts for only about a sixth of the GDP. The average growth rates in the GDP and its components are set out in Table 2.2 p.31. It can be clearly seen that the 1990s have been characterised by higher growth rates in agriculture and industry. The overall average growth rates in the service sector in all decades seem to be much the same. One noteworthy feature of the growth process is a significantly higher variability from 1974 to 1990 in respect of the growth rates in the GDP, agricultural value added and industrial value added. Thus the period since the reforms seems to be characterised by a greater degree of stability with higher growth rates. Table 2.3 on p.31 provides some macroeconomic indicators since the late 1990s. This information suggests that during the post-reform phase, Bangladesh could be characterised as a low inflation and a low deficit economy.
Since the mid-1980s, investment and savings as percentages of the GDP have increased steadily (Table 2.4 on p.32). However, annual changes in savings and investment have fluctuated considerably with the former showing much higher orders of magnitude compared to those in investment. Rahman (2003, p.37) identifies three factors that might be working simultaneously. The factors are (a) non-conducive social environment for investment; (b) high rates of interest intended to encourage savings (this might itself have arrested the pace of investment); and (c) huge government borrowing from the financial market and the use of borrowed fund for financing non-investment expenditure. This fiscal behaviour may have worked against savings being translated into investment.

2.4.3 Agriculture

About 80 percent of Bangladeshis earn their living from agriculture. Although rice and jute are the primary crops, wheat is also assuming greater importance. Tea is grown in the northeast. Because of Bangladesh’s fertile soil and normally ample water supply, rice can be grown and harvested three times a year in many areas. Due to a number of factors, Bangladesh’s labour-intensive agriculture has achieved steady increases in food grain production despite the often unfavourable weather conditions. These include better flood control and irrigation, a generally more efficient use of fertilisers, and the establishment of better distribution and rural credit networks. With 20.2 million metric tons produced in 1999, rice is Bangladesh’s principal crop. National sales of the classes of insecticide used on rice, including granular carbofuran, synthetic pyrethroids, and malathion exceeded 13,000 tons of formulated product in 2003 (Bangladesh Bureau of Statistics, 2002; Bharadwaj, 2003). The insecticides not only represent an environmental threat, but also are a significant expenditure to poor rice farmers. The Bangladesh Rice Research Institute is working with NGOs and international organisations to reduce insecticide use in rice (Xinhua, 2006). In comparison to rice, wheat output in 1999 was just 1.9 million metric tons. Population pressure continues to place a severe burden on productive capacity, creating a food deficit, especially of wheat. Foreign assistance and commercial imports fill the gap. According to Heitzman and Worden (1989), over 43% unemployment rate remains a serious problem, and a growing concern for Bangladesh’s agricultural sector will be its ability to absorb additional manpower. Finding alternative sources of employment will continue to be a daunting problem for future governments, particularly with the increasing numbers of landless peasants who already account for about half the rural labour force.

2.4.4 Industry and Investment

Fortunately for Bangladesh, 1.5 million new jobs, mostly for women, have been created by the country’s dynamic private readymade garment industry, which grew at double-digit rates by the
end of the 1990s. Despite the country’s politically motivated general strikes, poor infrastructure, and weak financial system, Bangladeshi entrepreneurs have shown themselves adept at competing in the global garment marketplace. Bangladesh’s exports to the United States surpassed US$1.9 billion in 1999. Bangladesh also exports significant amounts of garment and knitwear to the EC market. The country has done less well, however, in expanding its export base – garments account for the lion’s share of all exports, dwarfing the country’s historic cash crop jute, along with leather, shrimp, cement, pharmaceuticals, and ceramics. Bangladesh has been a world leader in its efforts to end the use of child labour in garment factories. On 4 July 1995, the Bangladesh Garment Manufacturers Export Association, the International Labour Organisation, and the UNICEF signed a Memorandum of Understanding (MoU) on the elimination of child labour in the garment sector. Implementation of this pioneering agreement began at the end of 1995, and by the end of 1999, child labour in the garment sector was virtually eliminated. The labour-intensive process of ship-breaking for scrap has developed to the point where it now meets most of Bangladesh’s domestic steel needs. Other industries include cement, sugar, tea, leather goods, newsprint, pharmaceuticals, and fertiliser production.

2.4.5 The External Sector of the Economy

The external sector has experienced significant changes in recent years. Table 2.5 on 32 compares changes in tariff regimes both over time and across other countries in South Asia. Significant changes can be noticed in the average rates of tariffs and their variables between the late 1980s and the late 1990s for Bangladesh and its two South Asian neighbours, India and Sri Lanka. Table 2.6 on p.32 provides evidence on the degree of openness of the Bangladesh economy over the past years. The indicators used are shares of export, imports and their sum in the GDP for selected years. The changes are more noticeable in the export sector than in the import sector. On the whole, external trade accounted for nearly 30 per cent of the GDP in 2000 compared to around a fifth in the 1980s. This growth has been steady rather than dramatic. Hossain and Alauddin (2005) analyse the ratio of the real effective exchange rates for export and import, and confirm the significant outward orientation of the Bangladesh economy. As it can be seen from Table 2.7 on p.32, both imports and exports grew at much faster rates during the 1990s compared to the 1980s. The change in the composition of export is also important. The combined share of food and agricultural raw materials declined from 31 per cent of total exports in 1980 to only 9 per cent in 2000. The share of manufactured items increased from 68 per cent to 91 per cent during the same period. While these changes are apparently significant, they conceal the real strength of the export sector. Firstly, more than two thirds of exports are accounted for by one item in one product group – readymade garments. Secondly, Bangladesh’s export trade is concentrated in a limited market area – North America, primarily the USA, the EC, and Japan. Thirdly, the export of readymade
garments is characterised by high import intensity. While the real extent is not known, the value added in readymade garments is no more than one third of the total value of the industry output (Alauddin, 1997).

Thus the key objective of export diversification has not been attained since exports are still highly concentrated in a few goods, more precisely in textiles and readymade garments. The lack of product diversification together with the present state of low export market diversification may render the Bangladesh external sector vulnerable to external shocks (Hossain, 2003). Table 2.8 on p.33 presents Bangladesh’s external competitiveness in manufacturing in a South Asian context.

Bangladesh suffers from a low productivity syndrome compared to its neighbours. While value added per worker in Indian and Sri Lankan manufacturing sectors increased extensively between the early 1980s and late 1990s, that for Bangladesh increased only by 6 percent. This is reflected more sharply in the value added-labour cost relativities. For Bangladesh, it dropped by 22 per cent compared to 28 and 22 percent increase for India and Sri Lanka respectively. While Bangladesh has experienced significant increase in trade overall, it has engaged in little trade with its South Asian neighbours. According to Alauddin (2003, pp.101-102), as of the late 1990s, less than two percent of Bangladesh’s export was destined for countries of South Asia. In the import trade, nearly a sixth of the total originates within the region, almost exclusively from India. However, there is a significant incidence of illegal trade across Bangladesh’s borders with India. If one takes this into account, India’s contribution to Bangladesh’s imports is likely to be about a quarter (Alauddin, 2003, pp.102-103). One important feature of the post-reform period is the increased inflow of foreign investment as set out in Table 2.9 on p.33. Foreign direct investment rose significantly since 1998. However, investments in export processing zones (EPZs) have fluctuated, reached a peak in 1999, and then declined in 2000.

2.4.6 Foreign Trade and FDI

The Bangladesh government continues to invite foreign investment, something it has done fairly successfully in private power generation, and gas exploration and production, as well as in other sectors such as cellular telephony, textiles, and pharmaceuticals. In 1989, the same year it signed a bilateral investment treaty with the United States, it established a Board of Investment to simplify the approval and start-up procedures for foreign investors, although in practice the board has done little to increase investment. The government created the Bangladesh Export Processing Zone (EPZ) Authority to manage the various export processing zones. The agency currently manages EPZs in Adamjee, Chittagong, Comilla, Dhaka, Ishwardi, Karnaphuli, and Mongla. The government has provided the private sector with permission to build and operate competing EPZs commencing 1999.
Despite major impediments to growth like the inefficiency of state-owned enterprises, a rapidly growing labour force that cannot be absorbed by agriculture, inadequate power supplies, and slow implementation of economic reforms, the government has made some headway towards improving the climate for foreign investors and liberalising the capital markets. For instance, it has negotiated with foreign firms for oil and gas exploration, better countrywide distribution of cooking gas, and the construction of natural gas pipelines and power stations. So far the East Asian financial crisis has not had major impact on the economy. World Bank (2005) predicted economic growth of 6.5% for 2006. Foreign aid has seen a decline of 10% over fiscal year 2006 but economists see this as a good sign for self-reliance. There has been 18% growth in exports, and remittance inflow has increased at a remarkable 25% rate. Export was $10.5 billion in the fiscal year 2005 exceeding the target export by $0.4 billion. Target export for 2006 was $11.5 billion (World Bank, 2005).

Growth in remittance and exports have contributed to an overall positive Balance of Payment (BoP) over the last fiscal year of 2005-06 (World Bank, 2005). According to Bangladesh Bank statistics (Bangladesh Bank, 2006), the country’s trade imbalance recorded a decrease of 13 percent as export outweighed import in the same fiscal year. The overall BoP recorded a surplus of US$365 million in the same year, which was a smaller surplus with US$67 million in the previous year. During the last fiscal year, growth in import was 12.05 percent or US$1431 million whereas export had a growth of 21.63 percent or US$1849 million. On the other hand, remittance inflow maintained the growth rate over 24.78 percent, touching US$4.8 billion mark by the end of 2006 mainly due to increase in skilled Bangladeshi labour overseas and government’s efficient move against money laundering (Bangladesh Bank, 2006).

Due to better performance by the export sector, the country’s trade deficit decreased largely in the fiscal year 2005. Reducing by US$418 million, the country’s deficit in trade balance now figures at US$2879 million. Despite larger service and income deficit, the current account balance recorded a surplus of US$572 million in the fiscal year 2005 against the deficit of US$557 million in fiscal year 2004. The overall BoP recorded surplus despite decline both in foreign aid and net foreign direct investment (FDI) in the fiscal year 2005. According to official statistics from Bangladesh government, the net FDI amounted to US$675 million in fiscal year 2005, which was US$800 million in fiscal year 2004. Bangladesh Bank statistics (2006) also reveals that foreign aid amounted to US$1241.21 million in fiscal year 2005, while it was US$1260 million in fiscal year 2004.

2.4.7 Impact of Economic Development on the Environment
Major environmental changes have occurred in Bangladesh in recent decades due to growth in agriculture and associated population increases along with spillovers from urbanisation and industrialisation. Figure 2.2 on p.35 in the Appendix summarises various human activities that have
contributed to these environmental changes in Bangladesh. Environmental problems in rural Bangladesh have manifested themselves in the form of degradation in the land and water resource systems. Due to intense population pressure, the net cropped area has declined over the years while the effective (gross cropped) area has increased significantly due to increased frequency of cropping during one calendar year (Alauddin, 2004).

The introduction of the new agricultural technology has led to a considerable increase in water use for crop production. The phenomenal increase in land area irrigated has been due primarily to increases in the use of both surface water and groundwater. The use of surface water for irrigation has increased only slowly from just over 1 million hectares in the late 1960s to around 1.2 million hectares over a period of three decades, to the late 1990s. Over the same period, the area under groundwater irrigation has registered a spectacular 76-fold increase from 32,600 hectares to about 2.5 million hectares. Closely related to the increased pattern of ground–surface water use in Bangladesh is the phenomenal increase in the area irrigated by modern methods (shallow and deep tube wells, low-lift pumps and large-scale canal irrigation). As a consequence, the ratio of the area irrigated by labour-saving modern methods to the area irrigated by traditional labour-using methods has shown a spectacular increase from about 53 per cent in 1969–70 to more than 900 per cent in 1996–97. While irrigation is regarded as an internal land-augmenting input that enhances land quality (Peterson, 1987; Hayami and Ruttan, 1985), wastage and overuse is likely to limit the capacity to use this vital resource and sustain land quality in longer terms given the disturbing trends of the extraordinary growth in groundwater irrigation in absolute terms as well as relative to surface-water irrigation and land degradation (Prescott-Allen, 2001, pp. 198–200).

On the whole, agricultural growth in Bangladesh has entailed significant environmental damages. It seems clear that Bangladesh has failed to fully appreciate the value of the environment as a factor of production. This may have resulted from both market failure and policy failure (Alauddin and Hossain, 2001; see also Figure 2.2 on p.35). The dominant discourse has assumed a very high degree of substitutability between environmental capital and man-made capital. While this may be consistent with the conditions of weak sustainability, there is little evidence to support this position. The high environment-intensity of agricultural production in the country is reminiscent of factor proportions problems espoused by Eckaus (1955, pp. 539–40). The fragility of the physical environment exposed by the growth process has the potential to limit output to sustain a growing population. Unless corrective measures are taken in the near future, the production function may shift inward typifying an outward shift of the production isoquant requiring more inputs to for the same level of output or less output for the same level of inputs (Alauddin, 2003a, p.449). Preliminary evidence from Bangladesh indicates considerable loss of potential output of rice due to
environmental degradation (Pagiola, 1995, p.31-32, Asaduzzaman and Toufique, 1997, p.460-64). Table 2.10 on p.33 sets out the extent and sources of water pollution in South Asia over the period from 1980-1997. Throughout South Asia, emissions of organic pollutants have increased significantly. India emits nearly five times organic pollution as the rest of South Asia. During the period under consideration, Bangladesh experienced the fastest growth rate with a trebling of the emissions of organic pollutants.

In South Asia, with the exception of Bangladesh and India, the food and beverage industry is the greatest source of water pollution. For Bangladesh, textiles are singularly responsible for more than 50 per cent of the industrial emission of organic water pollutants followed closely by the food and beverage industry. In India, textiles contribute more than 11 per cent of the same. In South Asia (India excepted) major export earners, textiles, are also the greatest contributor to water pollution. This underscores South Asia’s development dilemma. Bangladesh is no exception.

2.4.8 Potential Impact of Global Warming on Bangladesh

The geographical location of Bangladesh makes the country vulnerable to natural disasters. The lives in parts of the country are upset by natural disasters every year. The mountains and hills bordering three-fourths of the country, along with the funnel-shaped Bay of Bengal in the south, have made the country a meeting place of life-giving monsoon rains and at the same time have subjected it to disastrous havocs of natural disasters. Its physiography and river morphology, where the mighty Brahmaputra, Ganges, Meghna and many other rivers crisscross to form a vast delta of alluvial plains that are barely above the sea level, making it prone to flooding from waterways swollen by rain, snowmelt from the Himalayas, and increased infiltration by the ocean, largely contribute to recurring disasters. A combination of geography and demography puts it among the countries which specialists predict will be hard hit as the earth heats up although its own carbon footprint is very small. The root cause of most of its global warming problems lies, of course, in the heavily industrialised world, and yet, as the sea level rises, the tiny Bangladesh will pay a heavy price.

Bangladesh, a densely populated country in the developing world, contributes only a very small amount to the greenhouse gases. But the projected climate change is likely to affect its millions of already vulnerable people. According to Rahman (2007), nearly 150 million people, the equivalent of about half the US population, live packed in an area slightly smaller than the American State of Iowa and over 15 million of them are concentrated into the overcrowded capital city of Dhaka. Many of them have abandoned their homes in the countryside relocating to Dhaka to seek an elusive better life. Most are not successful in their quest for improved living standards and live in low-lying parts of the city which are subjected to flooding and diseases every year.
All of Dhaka and most of Bangladesh lie within a mostly flat alluvial plain and many areas are just a few feet above the sea level. Violent storms regularly sweep in from the Bay of Bengal to wreck havoc upon the land and inhabitants. Warmer weather and rising oceans are sending seawater surging up Bangladesh’s rivers in greater volume and frequency than ever before, overflowing and seeping into the soil and the water supplies of thousands of people. Heat waves, floods, storms, cyclones, landslides, fires and droughts cause increased deaths and harm to lives and properties. On an average, river erosion takes away about 19,000 acres of land and more than one million people are directly or indirectly affected by riverbank erosion every year in Bangladesh. Millions of people are at risk from coastal flooding due to sea level rises (Rahman, 2007).

As a low lying tropical country, Bangladesh is on the frontline of the consequences of global warming. Already the storms are becoming more violent. Recent heavy rainfall and many deaths in Chittagong in June 2007 due to landslides indicate alarming future. People along the shoreline have noticed a rise in the sea level. Many have already been forced to move several times to highland. The planting of crops has been affected. Most crops do not fare well as salt water moves into the water table. The World Bank (2001) reported that the sea level would rise about 3mm every year in the Bay of Bengal. It warned of the loss of Royal Bengal tigers in the Sundarbans, the world’s largest mangrove heritage, and threats to hundreds of its flora and fauna. The one metre of sea level rise will inundate 15 to 20 percent of Bangladesh. This means that the predicted sea level rise, at a rate that is gradually increasing, will not only affect millions of people but also flood out much of the rice production. The World Bank also warned of a decline in the production of food and cash crops by up to 30 percent with the predicted sea level rise.

If there is an increase in temperature of 6°C in Bangladesh, then the rising flow of water through the country’s three great rivers will inevitably lead to between 20 and 40 per cent more flooding. On the southern coast, erosion driven in part by accelerating glacier melt and unusually intense rains will cause relentless sufferings to millions of people. In the dry northwest of the country, droughts are getting from bad to worse. If the sea level rises by a foot, which researchers such as Rahman (2007) say could happen by 2040, then the resulting damage would set back Bangladesh’s progress by 30 years and up to 12 percent of the population would be made homeless. And if the sea level rises by 3 feet by the turn of the century, as scientists predict (Rahman, 2007), a fifth of the country will disappear. As many as 30 million people would become refugees on their own land, many of them subsistence farmers with nothing to subsist on any longer. It will result in more density of population. If it happens, tomorrow’s poverty will be far worse than what is today. Bangladesh does not have any preparations for facing the consequences of global warming. Neither
does it have any capacity or planning to go through a real challenge brought about by global warming.

2.4.9 Socioeconomic Indicators of Development

Tables 2.11-2.14 on p.34 have presented information on socioeconomic indicators of the recent economic development in Bangladesh. In terms of human development indices, Bangladesh is almost at the bottom of the ladder. The incidence of human poverty index is quite high in Bangladesh, and has changed only marginally in the late 1990s. Nevertheless, there has been a higher decline of poverty in urban areas as compared to rural areas. Thus the urban sector appears to have benefited more from the development process than the rural sector. As Tisdell and Alauddin (2003, p.198) observe, “Bangladesh’s market-oriented reforms have not been associated with a reduction in the incidence of rural poverty. At the same time, however, there may have been a reduction in the incidence of urban poverty... Furthermore, even if a reduction in the incidence of urban poverty happened to be associated with the increasing openness of Bangladesh’s economy, it would be necessary to specify the nature of the association, that is, to what extent a causal relationship exists and the nature of the causal connection, if any.” Further indicators of the incidence of rural poverty are provided in Table 2.13. While the incidence of hard-core poverty has declined for all classes between the early and mid-1990s, the decline in absolute poverty is relatively slow. As for nutrition, calorie and protein intakes, the results are mixed (Table 2.14).

2.5 Conclusion

The economy of Bangladesh has undergone considerable changes over the past decade. Bangladesh undertook a number of donors-prescribed policies such as the Structural Adjustment Program that have influenced the country’s economy. The sectors that have taken the pace of reforms are agriculture, banking, external trade, finance, industry, and foreign exchange. Reforms under the Structural Adjustment Program were activated through a number of economic policies through which the government acted to restructure provisions of social services, and intervened in the market to create a favourable environment for investment and growth. The reform process represents significant changes in almost all spheres of the economic activity of Bangladesh. The policy base has moved from one of state interventionism to one of reliance on market forces.

While this chapter has presented a discussion on geography, history, politics and governance of Bangladesh, it has also provided an overview of the economy of the country. This chapter has examined the performance of the country’s economy in terms of broad economic indicators including growth rates in the GDP, its composition and stability. It has discussed the performance of the external sector and implications of the changes that it has experienced. This chapter has
argued that despite significant changes, the Bangladesh economy lacks diversification and rests on a narrow base. This chapter has also provided socioeconomic indicators of recent economic development in the country.

However, the overall impact of changes stemming from donor-prescribed reforms has been mixed. The transition from state-run monopoly to privatisation may have led to a more rational allocation of resources in the agricultural sector but the distributional consequences of these changes in this sector have not necessarily been equitable. As for export performance, while results seem encouraging in terms of its growth, exports are highly concentrated. The manufacturing sector has shown few signs of increases in productivity. The lack of product diversification together with the present state of low export market diversification may, however, render the Bangladesh external sector vulnerable to serious external shocks. There is evidence of reduction in hard-core poverty even though there is little evidence of improvement in human development and related indices. Furthermore, the development process has entailed significant environmental costs exposing the fragility of Bangladesh’s physical environment. This chapter has also found evidence of significant environmental damage originating from export-oriented industries in Bangladesh.

Chapter Three will provide a brief history of foreign aid and make an attempt at exploring the historical background of the aid dependence of Bangladesh.
### Table 2.1: Growth Rates of GDP and Its Three Major Components, Bangladesh 1974-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Value added in Agriculture</th>
<th>Value added in industry</th>
<th>Value added in services including construction</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services including construction</th>
</tr>
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<td>-10.92</td>
<td>4.57</td>
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<td>15.60</td>
</tr>
<tr>
<td>1999</td>
<td>4.90</td>
<td>4.80</td>
<td>4.90</td>
<td>4.90</td>
<td>25.47</td>
<td>15.54</td>
</tr>
<tr>
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<td>5.90</td>
<td>7.40</td>
<td>6.20</td>
<td>7.00</td>
<td>25.33</td>
<td>15.84</td>
</tr>
<tr>
<td>2001</td>
<td>5.30</td>
<td>3.10</td>
<td>7.40</td>
<td>5.50</td>
<td>24.10</td>
<td>15.62</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bureau of Statistics (Statistical Year Books of various years), and ADB (2002).

### Table 2.2: Growth Rates: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.46</td>
<td>4.88</td>
<td>6.74                                                                         0.27   4.60 24.28 (p=0.0000)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.99</td>
<td>3.21</td>
<td>2.47                                                                         4.62   11.83 3.56 (p=0.0235)</td>
</tr>
<tr>
<td>Industry</td>
<td>2.49</td>
<td>7.50</td>
<td>4.46                                                                         30.36  25.08 12.72 (p=0.0001)</td>
</tr>
<tr>
<td>Services including construction</td>
<td>5.66</td>
<td>5.22</td>
<td>5.49                                                                         1.11   0.55  0.91 2.02 (p=0.1296)</td>
</tr>
</tbody>
</table>

Source: Based on Table 2.1.

### Table 2.3: Some Recent Macroeconomic Indicators of Bangladesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Account Balance (% GDP)</th>
<th>International Reserve (US$ million)</th>
<th>Budget Deficit/Surplus (% GDP)</th>
<th>Inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>-2.1</td>
<td>1719</td>
<td>-2.6</td>
<td>5.59</td>
</tr>
<tr>
<td>1998</td>
<td>-1.2</td>
<td>1739</td>
<td>1.0</td>
<td>6.78</td>
</tr>
<tr>
<td>1999</td>
<td>-1.4</td>
<td>1523</td>
<td>-1.9</td>
<td>7.79</td>
</tr>
<tr>
<td>2000</td>
<td>-0.9</td>
<td>1602</td>
<td>-4.1</td>
<td>2.27</td>
</tr>
<tr>
<td>2001</td>
<td>-2.3</td>
<td>1307</td>
<td>-11.8</td>
<td>1.66</td>
</tr>
<tr>
<td>2002</td>
<td>0.4</td>
<td>1583</td>
<td>-6.8</td>
<td>2.95</td>
</tr>
</tbody>
</table>

Sources: ADB (2003, p.296); Bhattacharya (2003, pp.14, 21).
Table 2.4: Changes in Savings and Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
<th>Savings</th>
<th>Savings</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>16.7</td>
<td>12.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1986-87</td>
<td>16.0</td>
<td>11.1</td>
<td>24.77</td>
<td>8.15</td>
</tr>
<tr>
<td>1987-88</td>
<td>16.3</td>
<td>10.7</td>
<td>-23.33</td>
<td>6.08</td>
</tr>
<tr>
<td>1988-89</td>
<td>16.7</td>
<td>12.2</td>
<td>41.74</td>
<td>7.01</td>
</tr>
<tr>
<td>1989-90</td>
<td>17.1</td>
<td>12.9</td>
<td>-16.07</td>
<td>6.33</td>
</tr>
<tr>
<td>1990-91</td>
<td>16.9</td>
<td>14.6</td>
<td>77.37</td>
<td>1.42</td>
</tr>
<tr>
<td>1991-92</td>
<td>17.3</td>
<td>13.9</td>
<td>14.10</td>
<td>4.44</td>
</tr>
<tr>
<td>1992-93</td>
<td>17.9</td>
<td>12.3</td>
<td>12.75</td>
<td>9.52</td>
</tr>
<tr>
<td>1993-94</td>
<td>18.4</td>
<td>13.1</td>
<td>8.43</td>
<td>9.35</td>
</tr>
<tr>
<td>1994-95</td>
<td>19.1</td>
<td>13.1</td>
<td>16.77</td>
<td>9.11</td>
</tr>
<tr>
<td>1995-96</td>
<td>20.0</td>
<td>14.7</td>
<td>44.48</td>
<td>10.60</td>
</tr>
<tr>
<td>1996-97</td>
<td>20.7</td>
<td>15.9</td>
<td>11.10</td>
<td>11.08</td>
</tr>
<tr>
<td>1997-98</td>
<td>21.6</td>
<td>17.3</td>
<td>23.53</td>
<td>12.06</td>
</tr>
<tr>
<td>1998-99</td>
<td>22.2</td>
<td>17.6</td>
<td>15.97</td>
<td>9.85</td>
</tr>
<tr>
<td>1999-00</td>
<td>22.4</td>
<td>17.8</td>
<td>19.32</td>
<td>7.32</td>
</tr>
<tr>
<td>2001-01</td>
<td>23.6</td>
<td>18.0</td>
<td>12.64</td>
<td>6.43</td>
</tr>
</tbody>
</table>


Table 2.5: Degree of Openness in Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>5.28</td>
<td>16.96</td>
<td>22.24</td>
</tr>
<tr>
<td>1985</td>
<td>5.52</td>
<td>14.28</td>
<td>19.80</td>
</tr>
<tr>
<td>1990</td>
<td>7.72</td>
<td>15.78</td>
<td>23.50</td>
</tr>
<tr>
<td>1995</td>
<td>8.67</td>
<td>15.28</td>
<td>23.95</td>
</tr>
<tr>
<td>2000</td>
<td>12.09</td>
<td>17.23</td>
<td>29.32</td>
</tr>
</tbody>
</table>

Sources: Alauddin (1997, p.103); Bangladesh Bureau of Statistics (Statistical Year Books of various years).

Table 2.6: Changes in Tariff Barriers in a South Asian Perspective

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Mean</th>
<th>St. Dev</th>
<th>Weighted Mean</th>
<th>Primary Products</th>
<th>Manufactured Products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mean</td>
<td>St. Dev</td>
<td>Weighted Mean</td>
<td>Mean</td>
<td>St. Dev</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1989</td>
<td>114.0</td>
<td>84.9</td>
<td>114.2</td>
<td>85.1</td>
<td>58.7</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1999</td>
<td>22.1</td>
<td>14.6</td>
<td>19.0</td>
<td>21.1</td>
<td>13.1</td>
</tr>
<tr>
<td>India</td>
<td>1990</td>
<td>81.8</td>
<td>39.4</td>
<td>83.0</td>
<td>74.1</td>
<td>38.4</td>
</tr>
<tr>
<td>India</td>
<td>1999</td>
<td>32.9</td>
<td>12.7</td>
<td>27.6</td>
<td>28.8</td>
<td>21.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1990</td>
<td>28.3</td>
<td>25.5</td>
<td>24.1</td>
<td>31.4</td>
<td>28.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1997</td>
<td>20.0</td>
<td>15.4</td>
<td>20.7</td>
<td>23.8</td>
<td>23.0</td>
</tr>
</tbody>
</table>


Table 2.7: Net Foreign Investment (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct investment</th>
<th>Portfolio investment</th>
<th>Investments in Export Processing Zones (EPZs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>7</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>1994</td>
<td>16</td>
<td>53</td>
<td>37</td>
</tr>
<tr>
<td>1995</td>
<td>6</td>
<td>61</td>
<td>36</td>
</tr>
<tr>
<td>1996</td>
<td>7</td>
<td>-21</td>
<td>31</td>
</tr>
<tr>
<td>1997</td>
<td>16</td>
<td>-132</td>
<td>54</td>
</tr>
<tr>
<td>1998</td>
<td>249</td>
<td>3</td>
<td>69</td>
</tr>
<tr>
<td>1999</td>
<td>198</td>
<td>-6</td>
<td>72</td>
</tr>
<tr>
<td>2000</td>
<td>194</td>
<td>0</td>
<td>35</td>
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</table>

Table 2.8: Growth and Structural Changes in Merchandise Trade

A: Annual average growth in merchandise trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Value</td>
</tr>
<tr>
<td>1980-90</td>
<td>1.0</td>
<td>7.8</td>
</tr>
<tr>
<td>1990-99</td>
<td>14.9</td>
<td>11.3</td>
</tr>
</tbody>
</table>

B: Structural Change

<table>
<thead>
<tr>
<th>Merchandise Category</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980</td>
<td>1990</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>1980</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>2000</td>
</tr>
<tr>
<td>Total ($ million)</td>
<td>793</td>
<td>1671</td>
</tr>
<tr>
<td></td>
<td>6500</td>
<td>3618</td>
</tr>
<tr>
<td></td>
<td>8360</td>
<td></td>
</tr>
<tr>
<td>Per cent of total</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>


Table 2.9: Bangladesh’s External Competitiveness in Manufacturing: A South Asian Perspective

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual unit labour cost per worker ($)</th>
<th>Annual value added per worker ($)</th>
<th>Value added-labour cost relativity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>556</td>
<td>671</td>
<td>20.68</td>
</tr>
<tr>
<td>India</td>
<td>1035</td>
<td>1192</td>
<td>15.17</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>447</td>
<td>604</td>
<td>35.12</td>
</tr>
</tbody>
</table>


Table 2.10: The Extent and Sources of Water Pollution in South Asia, 1980-97

A: Extent of water pollution

<table>
<thead>
<tr>
<th>Country</th>
<th>Kilograms per day</th>
<th>Kilograms per day per worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980</td>
<td>1997</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>66,713</td>
<td>186,852</td>
</tr>
<tr>
<td>India</td>
<td>142,2564</td>
<td>166,4150</td>
</tr>
<tr>
<td>Nepal</td>
<td>186,922</td>
<td>265,500</td>
</tr>
<tr>
<td>Pakistan</td>
<td>75,125</td>
<td>114,726</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>30,086</td>
<td>55,665</td>
</tr>
</tbody>
</table>

B: Sources of water pollution

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage shares of industry in emissions of organic water pollutants (1997)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary metals</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.8</td>
</tr>
<tr>
<td>India</td>
<td>15.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>1.5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.2</td>
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</tbody>
</table>

### Chapter Two: An Overview of Bangladesh and Its Economy

#### Table 2.11: Human Development Related Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Human Development Index (HDI)</th>
<th>Human Poverty Index (HPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0.412</td>
<td>--</td>
</tr>
<tr>
<td>1991</td>
<td>0.364</td>
<td>--</td>
</tr>
<tr>
<td>1992</td>
<td>0.309</td>
<td>--</td>
</tr>
<tr>
<td>1993</td>
<td>0.365</td>
<td>--</td>
</tr>
<tr>
<td>1994</td>
<td>0.368</td>
<td>48.3</td>
</tr>
<tr>
<td>1995</td>
<td>0.371</td>
<td>46.5</td>
</tr>
<tr>
<td>1997</td>
<td>0.440</td>
<td>44.4</td>
</tr>
<tr>
<td>1998</td>
<td>0.461</td>
<td>43.6</td>
</tr>
<tr>
<td>1999</td>
<td>0.440</td>
<td>43.3</td>
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<tr>
<td>2000</td>
<td>0.478</td>
<td>42.4</td>
</tr>
<tr>
<td>2001</td>
<td>0.502</td>
<td>42.6</td>
</tr>
</tbody>
</table>

Source: Tisdell and Alauddin (2003, p.196); UNDP (various issues).

#### Table 2.12: Percentage of Rural and Urban Population in Poverty

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>47.7</td>
<td>32.3</td>
</tr>
<tr>
<td>1976-77</td>
<td>62.3</td>
<td>37.4</td>
</tr>
<tr>
<td>1983-84</td>
<td>53.8</td>
<td>40.9</td>
</tr>
<tr>
<td>1985-86</td>
<td>45.9</td>
<td>30.8</td>
</tr>
<tr>
<td>1988-89</td>
<td>49.7</td>
<td>35.9</td>
</tr>
<tr>
<td>1991-92</td>
<td>52.9</td>
<td>33.6</td>
</tr>
<tr>
<td>1995-96</td>
<td>51.1</td>
<td>26.3</td>
</tr>
<tr>
<td>2000</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bureau of Statistics (Statistical Year Books of various years); Tisdell and Alauddin (2003, p.196).

#### Table 2.13: Percentage of Population below Poverty Line by Size of Owned Land in Rural Areas

<table>
<thead>
<tr>
<th>Size of owned Land (acres)</th>
<th>Absolute poverty (2122 kcal/day/person)</th>
<th>Hard-core poverty (1805 kcal/day/person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landless</td>
<td>66.0</td>
<td>69.7</td>
</tr>
<tr>
<td>0.01-0.49</td>
<td>58.0</td>
<td>59.4</td>
</tr>
<tr>
<td>0.50-1.49</td>
<td>40.8</td>
<td>43.6</td>
</tr>
<tr>
<td>1.50-2.49</td>
<td>33.7</td>
<td>37.4</td>
</tr>
<tr>
<td>2.50-7.49</td>
<td>32.1</td>
<td>33.0</td>
</tr>
<tr>
<td>7.50+</td>
<td>20.5</td>
<td>19.5</td>
</tr>
<tr>
<td>All groups</td>
<td>47.1</td>
<td>47.6</td>
</tr>
</tbody>
</table>

Source: Tisdell and Alauddin (2003, p.198).

#### Table 2.14: Food, Calorie and Protein Intakes in Bangladesh (selected years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita daily intakes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food (grams)</td>
</tr>
<tr>
<td>1985-86</td>
<td>2196</td>
</tr>
<tr>
<td>1991-92</td>
<td>2266</td>
</tr>
<tr>
<td>1995-96</td>
<td>2244</td>
</tr>
<tr>
<td>2000</td>
<td>2240</td>
</tr>
</tbody>
</table>

Source: Tisdell and Alauddin (2003, p.198).
Table 2.15: Trends in the GDP of Bangladesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product</th>
<th>US Dollar Exchange</th>
<th>Inflation Index (2000=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>250,300</td>
<td>16.10 Taka</td>
<td>20</td>
</tr>
<tr>
<td>1985</td>
<td>597,318</td>
<td>31.00 Taka</td>
<td>36</td>
</tr>
<tr>
<td>1990</td>
<td>1,054,234</td>
<td>35.79 Taka</td>
<td>58</td>
</tr>
<tr>
<td>1995</td>
<td>1,594,210</td>
<td>40.27 Taka</td>
<td>78</td>
</tr>
<tr>
<td>2000</td>
<td>2,453,160</td>
<td>52.14 Taka</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>3,913,334</td>
<td>63.92 Taka</td>
<td>126</td>
</tr>
</tbody>
</table>


Figure 2.2: Environmental Consequences of Development in Bangladesh

- **Agricultural activity**
  - Extension of agricultural activity to marginal areas
  - Commodity-focus especially rice monoculture
  - Externalities from agrochemical use
  - Increased extraction and use of ground water
  - Environmental spillovers of coastal aquaculture

- **Population pressure**
  - Increased human settlement
  - Declining supplying of arable land and intense pressure on land
  - Deforestation

- **Urbanisation**
  - Increased pressure on underground water
  - High demand for energy
  - Infrastructure development
  - Externalities including air pollution

- **Industrialisation**
  - Industrial pollution and effluents
  - Air and water pollution
  - Other industrial spillovers

- **Poor policy framework**
  - Dichotomy between growth and environment
  - Inappropriate pricing/valuation of environmental goods
  - Poor governance
  - High income inequality and high incidence of poverty
  - Lack of well defined property rights

Source: Alauddin (2004a).
CHAPTER THREE
HISTORICAL BACKGROUND OF AID DEPENDENCE OF BANGLADESH

3.1 Introduction
This chapter discusses the historical background of the aid dependence of Bangladesh preceded by a brief note on development theory and a brief history of foreign aid. The history of the aid dependence of Bangladesh is unlike other recipients in the developing world in the sense that the country’s aid dependence reflects an inherited structural weakness. Bangladesh was a part of Pakistan since 1947 and became independent only after a long bloody liberation war in 1971. Although Pakistan began to receive foreign aid in as early as the sixties, after independence Bangladesh received little compensatory benefits from this aid flow, and at the outset of liberation, had a large external resource gap. Moreover, Bangladesh subsequently had to accept an inherited debt liability of US$483 million against the projects that were completed before independence and physically located on the territory of the erstwhile East Pakistan which is now Bangladesh.

3.2 Development Theory
Development Theory is a conglomeration of theories, such as Modernisation Theory and Dependency Theory, about how desirable change in society is best to be achieved. Such theories draw on a variety of social scientific disciplines and approaches.

Modernization Theory is a theory of development which states that development can be achieved through following the processes of development that were used by the currently developed countries. Scholars such as Rostow (1960) and Organski (1990) developed stages of development through which every country develops. Huntington (1996) determined development to be a linear process which every country must go through. Modernization Theory, in contrast to Classical Liberalism, viewed the state as a central actor in modernizing “backward” or “underdeveloped” societies. Talcott Parsons’ functional sociology defined the qualities that distinguished “modern” and “traditional” societies. Education was viewed as the key to creating modern individuals. Technology played a key role in this development theory because it was believed that as technology was developed and introduced to lesser developed countries it would stimulate growth. One key factor in Modernization Theory is the belief that development requires the assistance of developed countries to aid developing countries to learn from their development. In addition, it was believed that the lesser developed countries would develop and grow faster than developed countries. Thus, this theory is built upon the theory that it is possible for equal development to be reached between the developed and lesser developed countries.
In response, came the rise of Dependency Theory which was critical of Modernization Theory. Dependency Theory is founded on the concept that the effects of colonialism on lesser developed countries must be considered when creating future development. Dependency Theory grew out of Latin American scholars such as Raul Prebisch, mainly due to observation that Modernization Theory was failing to address the consequences of colonialism, i.e. trade inequities, in which the colonial trade patterns of exporting raw materials and agriculture and importing the processed and manufactured goods continued to persist. Scholars such as Andre Gunder Frank (1994) and Fernando Henrique Cardoso (2005) have furthered the theory attributing Modernization Theory to be a development process through which developing countries only became further entrenched and dependent upon developed countries. In addition, Dependency Theory divided countries into two different categories of development, periphery and centre. The centre was determined to be developed and colonizing countries and the periphery consists of developing and colonized countries. The relationship is outlined as one of exploitation in which the centre exploits the periphery and it is through this colonial and post-colonial exploitation that the centre countries were able to develop. This approach aims to discredit Modernization Theory’s development process by stating that since exploitation allowed the centre to develop it is impossible for the same process to lead to the development of previously exploited countries. Some criticisms of Dependency Theory are that it provides no feasible development solution, and that it does not acknowledge distinctions within the periphery or vulnerability in the centre and does not outline any means of observing change within development.

3.3 A Brief History of Foreign Aid

Foreign aid has played an important role in the economic development of many countries across the world through different periods of history. Some of these countries even belong to the present-day industrially advanced and prosperous group. For instance, the United Kingdom received aid from the Netherlands in the 17th and 18th centuries. The United States, now one of the leading donor countries, was assisted by the United Kingdom in the middle of the 19th century. There was also some exchange of aid between the USA and the UK during World War II. The linkage between aid and development has thus a fairly long history (Haq and Abrar, 1999). However, it was in the post-World War II era that foreign aid assumed a new dimension and emerged as a worldwide phenomenon. Foreign aid was globally viewed as a critical component of the growth-paradigm which for nearly half a century influenced development concepts, plans and strategies.

As Haq and Abrar (1999) point out, the end of World War II and eventually of the Cold War brought about two epoch-making developments:
a) The world witnessed a phenomenal transformation in its political map as a result of the emergence of newly independent countries in Asia, Africa and Latin America most of whom were colonies; and

b) A worldwide movement for development was noticed in these countries known as the developing world that comprises two-thirds of the world population but commands only one-fifth of the world resources. Their urge for rapid progress in raising the quality of life of their people was reflected in their commitment to planned development. The resulting national plans are unique as blueprints of the most exciting socioeconomic experiments ever undertaken in the history of human endeavour.

A striking feature of this global movement was that the upsurge of enthusiasm and the efforts generated by this movement have been shared by rich countries. As a result, thousands of scholars and specialists are participating in this movement, and international cooperation has taken a new magnitude and significance. Given the new dimension, international cooperation has been enriched in its structure and content through the establishment of international financing institutions aiming at promoting economic and social progress in developing countries. As Sattar (1982) identifies, notable among them are the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The World Bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Collectively the World Bank, IFC and MIGA are generally known as the World Bank Group. The IBRD was established in 1945 and is the largest among the four institutions. The IBRD is owned by the governments of 178 countries that have subscribed to its capital. The IDA, established in 1960, provides assistance to poorer developing countries, mainly those with an annual per capital GNP of less than US$696 (in 1993 US dollars). According to this criterion, some 60 countries are eligible for IDA assistance (World Bank, 1998). These organisations, known as Bretton Woods Institutions (BWI), were established following the conference of the allied powers held at Bretton Woods after World War II. And in more than six decades after this event, the world has undergone many changes. These changes included a major shift in the concept of foreign aid and the perception of development goals and strategies.

3.4 A Brief History of Aid Dependence of Bangladesh

Bangladesh’s aid dependence reflects an inherited structural weakness. Long before the birth of Bangladesh, Pakistan began to receive US aid on a substantial scale from the late fifties. Whilst initially the United States remained Pakistan’s principal donor, aid was also received from the OECD and socialist countries. But due to the systematic drainage of resources of Bangladesh, then the eastern part of Pakistan, through the mechanisms of national and international exploitation, Bangladesh received fewer compensatory benefits from this foreign aid flow and, at the outset of
liberation, had a large external resource gap. However, after independence in December 1971, Bangladesh subsequently had to accept an inherited debt liability of US$483 million against the projects that were completed before independence and physically located on the territory of the erstwhile East Pakistan which is now Bangladesh (Sobhan, 1985).

When aid initially started to flow into Bangladesh after independence, it was primarily used for relief, rehabilitation and repairing damages incurred during the liberation war. The assistance provided to Bangladesh at that time was, at the bilateral level, largely contributed by India and Russia whilst most other aid was largely coordinated by the United Nations Relief Operations in Bangladesh (UNROB). However, once the immediate post-war threat of economic attrition was over and the worst damage repaired, foreign aid became the fundamental component of development of the country. As the first five-year plan was launched in 1973, the inadequacy of domestic resources available to the economy persuaded the Bangladesh government to accept foreign aid in order to sustain some level of development activities. 10 percent of the GDP and 100 percent of the ADP were financed with foreign aid till the end of the eighties (Sobhan, 1990). Bangladesh’s dependence on the mobilisation and influx of foreign funds into the country for financing development projects under various plans, as well as for financing the import of food items and other essential commodities, became more institutionalised.

Sobhan (1990) points out that although the quantum of external aid pledged to Bangladesh is considered an indicator of the success of Bangladesh’s foreign policy and diplomacy, the benefits of aid do not reach the poor constituting the vast majority of population in Bangladesh. Much of it is siphoned off by influential interest-groups creating in the process in Bangladesh a new rich class and hundreds of import-export agencies and consultancy firms. They work in close cooperation with interest-groups in donor countries. According to Akash (1997), aid dependence has also fostered anti-development attitudes. Quite often, the utilisation of foreign aid disregards the priority objectives of national development. For instance, a project aided by a foreign donor may be technically implemented but its impact on priority objectives may be negative, nil or marginal.

3.5 Why Aid is Given – Donors’ Versions

Most donors tend to promise aid programs on the grounds of being supportive to development efforts of the Bangladesh government. These efforts are seen as directed towards strengthening the economy and alleviating poverty in Bangladesh. According to the German Ambassador, Dr Baren von Marshall, his government’s development policy aims at improving the economic and social living conditions of the poorer sections of people with special emphasis on the fulfilment of the basic needs (German Embassy, 1994). As emphasised by him, the fundamental conditions of foreign aid are that power is not to be abused, that a concern for the welfare of the poor lies at the
heart of development efforts, and that aid is not to be prevented by either malfeasance or incompetence from reaching those for whom the taxpayers intend.

Donors also share the concern about the poor (World Bank, 1998b). One of the purposes of lending funds and providing technical assistance by the World Bank and the ADB is to reduce underemployment, unemployment and poverty among the population. The UNDP reckons (Rahman, 1984) that the UN agencies, the World Bank, the IMF, the USAID, and other donor agencies are in Bangladesh to assist the government to achieve development goals. The UNDP is of the view that the country must have its own development policies and that the only thing donors can do is assist it, financially and technically, to achieve the ends of these policies. According to World Bank (1998c), the organisation is trying to help the country because it must aspire to become a developed one. The World Bank has some conditional packages for the aid receiving country inasmuch as aid is provided from the funds committed by the taxpayers of donor countries who would like to see that such money is properly used. Emphasising that donors are concerned about development in the country, the World Bank adds that donors cannot go on providing aid without producing any results. So, the World Bank has to pay attention to how aid is utilised in the recipient country. The policy of the IMF is characterised in terms of its instruments (short-run macroeconomic policy) and in terms of its area of concern (balance of payment, inflation, level of economic activities), which the IMF thinks can lead a country to development. Refuting the allegation that IMF loans envisage direct conditionality, an IMF publication (2004) says that the IMF does not want to see its money being wasted and that when a country fails to pay back the loan taken within a stipulated period, only then it recommends for the debtor country some policy measures which are designed to facilitate the recovery of the country from its economic difficulties.

3.5.1 Aid and Geopolitical Interest of Donors

It is apparent that a sharp difference exists between rhetoric and practice in donors’ aid policies. The aid rationale of donors tends to be more complex in reality and reflects a mix of both altruism and self-interest. This mix varies extensively between donors, depending on the economic stake of particular donors and their strategic interest in Bangladesh. Whilst the altruism of the aid policies of donors emerges from moral and humanitarian considerations, their self-interest is dictated primarily by strategic global political and military interests in the region and the enhancement of their commercial interest in Bangladesh.

For a simple illustration of this point, mention may be made of one of the documents of the United States Agency for International Development (USAID, 1987) where sustained assistance to Bangladesh is justified on grounds that “the US government values its cooperative relations with Bangladesh on international questions. Bangladesh has played a moderate and pragmatic role in the
Islamic and Non-Aligned Movements and the Group of 77. The moderate Bangladesh government continues its opposition to the Soviet invasion of Afghanistan and the Vietnamese invasion of Kampuchea, and maintains its pragmatic positions on North-South issues. It appeared before the UN Security Council in September 1983 to protest at the Korean Airline tragedy, and supported the US government position at the UN on human rights in Central America and Poland.”

A long list of meritorious behaviour by Bangladesh, which appears to have made it eligible for continued US aid, speaks for itself. It indicates the areas where US foreign policy interests and US aid objectives converge. Moreover, in the cited document (USAID, 1987) it has been admitted that “beyond the humanitarian aspect the US has an interest” in providing aid to Bangladesh and an absence of aid in the country may lead to “political turmoil and economic distress as in 1971, introduce severe strains into South Asian regional relationships, with unpredictable consequences for broader US interests”. Such a clearly articulated political perspective on aid to Bangladesh indicates that the premise of US aid is far from being limited to humanitarian concerns.

3.5.2 Aid and Commercial Interest of Donors

The extent to which aid is exploited to realise the commercial ends of donors in Bangladesh is best revealed in the practice of tying of aid. Moreover, in many cases, inclusion of statutory items in aid agreements automatically ensures promotion of the commercial interests of donors in the country. As Sobhan, et al, (1987) notes, the most obvious example of using aid to promote business is perhaps the Country checklist, Project checklist and Standard Items checklist of the USAID where the general criteria for the country are pointed out. The legal basis for tying US aid to US commercial interests is mandated by the US Congress through the Foreign Assistance Act of 1973.

Although not expressed so overly, as is done by the US, other donors also try to promote the interests of their business communities through the instrument of aid. For instance, in the “Memorandum on German Development Assistance Policy 1983” produced by the German Embassy (1994), while discussing the instrument for the promotion of German private investment in the developing world, it has been stated that the German government can only hope to influence private investment indirectly by lowering the risk threshold for private German investors in third world countries and to increase their incentives to invest in poorer developing countries.

3.6 Conditionality of Aid

Donors are guided by their own policy considerations. Questions such as “promotion of democracy”, “good governance”, and “market mechanisms” are often pushed, and they look for efficient organisation and capable government for the proper use of aid. Donors have the view that Bangladesh’s limited aid absorption capacity due to ill-conceived project planning, bureaucratic
inefficiency and lack of coordination between various government agencies has acted as a major disincentive to increasing the volume of aid. But Bangladesh considers the imposition of stringent conditions as a major issue of concern. Moreover, what makes aid utilisation difficult is a lack of synthesis between donor preference and recipient priority. The problem of diverse priority, timeframe, and attitudes and preferences on many occasions may turn out to be too critical.

Good governance, human rights, the environment, and child labour are some of the newer elements in conditionality. Conditions are imposed at project, sectoral, or macro-economic levels. For projects such as power plants, conditions deal with where they will be located; who will implement them; what will be the schedule of work; how the product will be sold; and who will manage the facility, inputs supply, operations, maintenance, and pricing and delivery of services. For sectoral issues such as the power sector, it involves input pricing, sector management, decision-making, and distribution system. For macroeconomic issues, supply of money, inflation, trade pattern, exchange rate, and budget are some of the important considerations (Sobhan, 1990).

According to Hossain (1994), who was one of the Director Generals of the Foreign Office of Bangladesh, conditions come as directives not as requests. Between 1987 and 1994, conditions were imposed on commodity aid or project aid under structural adjustment credits and concession loans. During that time, Bangladesh accepted commodity aid which was “stringent, embarrassing, and bitter in nature”. In 1986-87, the country’s foreign exchange reserve was very low and development budget was totally dependent on foreign aid. The government was in a difficult situation, and in order to stabilise the balance of payment situation, it accepted structural adjustment loans. Most of the structural adjustment loan agreements were signed during that period. Under the agreements, the World Bank and the ADB disbursed cash money in exchange of the fulfilment of some tough conditions to reform the financial, energy, agricultural, public resource management, jute and other industrial sectors. Bangladesh had no other choice than to accept what the donors proposed.

Over time the nature of conditionality changed from project to sectoral in the form of institutional reforms. The macroeconomic scenario was no less bleak. The government was spending more than it could afford. This invited macroeconomic conditionality on the government base, government expenditure, exchange rate mechanism, etc, and was directed towards sustainable macroeconomic stability. As Sattar (1982) observes, from 1987 to 1989, as all aid was linked to sectoral and macroeconomic conditionality, the government accepted such conditionality knowing very well that these could not be implemented. However, the post-1991 government was under pressure to implement policies agreed upon by the preceding government. Since 1991, with improvement in the overall economic situation, Bangladesh became more selective in accepting structural adjustment credit. Pros and cons of loan agreements were carefully assessed. According to Sobhan
(1993), there had been instances when the country had to cancel agreements, e.g., the second industrial credit. With a better foreign exchange reserve situation, the government felt the strength to do so. In cases where Bangladesh has shown interest in getting funds for projects, it has evoked strict conditions. The Jamuna bridge project is a major case in point where loans were accepted with severe conditions.

Donor influence has been considered by some such as Sattar (1982) as beneficial for the economy. They think that the main objective behind conditions is to improve the efficiency and effectiveness of resource use, and to move towards self-reliance by improving the policy environment for stimulating larger investments. Conditions, in some instances, help in the effective implementation of projects. Conditions are intended for removing archaic structures of public sector corporations which are not able to deliver. In many cases reform programs are prioritised by donors. There are some conditions imposed by donors which are conducive to national interest. One case in point is what is known as “system loss” in the power sector. System loss is a euphemism for theft. In 1984, system loss in Bangladesh was 36 percent compared to about 15 percent in India. In the urban water supply sector the figure was as high as 56 percent. Under such conditions, donor insistence on policy change in reducing system loss was well appreciated. Because of the weaknesses of democratic institutions the government was not accountable to the people. In that context, such conditionality made the government accountable to donors.

3.7 Government Response to Conditionality

Government response to conditionality is determined by political and economic factors. In some cases the government has been successful in implementing the macroeconomic related conditions. This has been reflected in lower interest rates and a lower inflation rate in the mid-1990s. The conditionality issue becomes acute when it involves the trimming down of state corporations. Politically, it becomes very difficult for the government to implement conditions which demand large scale retrenchment of employees.

As observed by Haq and Abrar (1999), aid during the 1970s was received mainly in the form of food aid and commodity aid. In the first half of the 1980s aid came in with moderate conditions. In the later half of the 1980s, conditions became tough as mismanagement and corruption became obvious. The misappropriation of 1988 flood relief items invited severely strict monitoring of the government utilisation of aid money. The government had no choice but to accept conditions. Under the Structural Adjustment Program, the government qualified to receive cash money under different tranches. For release of money under each tranche the government had to certify that it had met the conditions laid down. However, it is heartening now that most of the donors’ aid policies have set a goal of targeting the poor. They have undergone transformation. There has been
a paradigm shift in their aid strategy with allocations directly targeted to the poor through various poverty alleviation programs implemented by the government or NGOs. With this end in view, donors led by the World Bank have asked for the government to draw up a localised development agenda named the Poverty Reduction Strategy Paper (PRSP). The government completed an interim PRSP (I-PRSP) by the end of 2004, and a full version by the end of 2005. Since the liberation of Bangladesh in December 1971, the role of foreign aid in the development process of the country has been debated by academicians, policymakers, media people and the general public. However, as the flow of external resources remains a critical factor sustaining the official development programs in Bangladesh, it is being realised that the external alignments of Bangladesh as well as its domestic economic policies remain vulnerable to the growing pressures of donor agencies and countries.

According to the World Bank’s first Resident Representative in post-liberation Bangladesh, Just Faaland (Bangladesh Observer, 1972), the opportunity of the aid-givers to impose their views on Bangladesh was made all too clear when it became the accepted view that Bangladesh simply could not manage her economy without the assurance that large amounts of aid would be forthcoming. Bangladesh’s experience with the mobilisation and coordination of foreign economic assistance has seen that all donors have accepted that priorities are for the recipient to decide but in practice this principle is not always honoured. Neither is it possible for all donors to know the sectoral priorities of the recipient country. But at times, donors try to impose their preferences or ideas. Of late, the Bangladesh government’s official documents are taking note of the fact that decisions for the choice of development priorities, economic policies, or the economic system is vested with the recipient government. Whilst this is in principle conceded by donors, they rarely operate on this premise. Thus, as Hossain (1994) says, even if there may not be any direct imposition, there is at least an attempt at influencing the recipient with donor preference, standard or ideas.

While influencing the domestic policies of Bangladesh, donors have tended to freely express their views on the suitability of various policies enacted by the government of the day, the quality of the administration, and the political integrity of policies undertaken. This attitude originates from the belief that the size and importance of donors’ contribution to Bangladesh’s development efforts give them a right to dictate over how the country should conduct its development affairs. To give substance to various perspectives of the role of donors, it is necessary to establish the specific nature, extent and direction of intervention by donors in the policymaking process of Bangladesh. To evaluate the role of donors it is necessary to ascertain their varying perceptions of the developing process in the country. It is from such perspectives that their inclination and capacity to intervene in domestic policymaking can be derived. The present research is a modest attempt to
review and analyse donor perspectives on public policy in Bangladesh.

3.8 Crisis in Donor Vision

In spite of the consensus that prevailed between donors and the government on the reform of Bangladesh’s macroeconomic policies (World Bank, 1988), the actual performance of the economy did not register any noticeable improvement. The GDP growth rate did not reach the target of 5 percent set in the reform model rather it came down to the level of 2 percent in 1988-89 due to a devastating flood in 1988. The tax-GDP ratio, the overall deficit of the government and net credit absorbed by the government, all mutually agreed macro targets, continued to be unfulfilled. In 1989-90, external resources financed 37 percent of the total government expenditure and 103 percent of the development budget (Akash, 1997). The latter rate implies that by 1989 Bangladesh was already running a huge deficit on the revenue budget and therefore external aid became not only the sole source of development finance but also underwrote a part of the current deficit.

Donors were increasingly dissatisfied with the economic performance of the government, and at the Paris aid consortium meeting in April 1990 they expressed their vote of no-confidence on the state of economic management. A new policy framework paper was negotiated between the GoB and the World Bank and IMF in Washington, D.C., in August 1990 and endorsed at an aid consortium meeting in Dhaka in November 1990 by the government and donors. The policy framework paper has remained the master document guiding policy reforms in Bangladesh. In general the donor-driven vision of the 1980s has proved inadequate to transform the Bangladesh economy. During 1973-81, the average GDP growth rate was 5.8 percent but in the 1980s this rate fell to 3.5-4.0 percent, at a time when Bangladesh had an intimate relationship with donors led by the World Bank (Bhagawati, 1985). Syeduzzaman (1991) believes that the growth rate could have been improved if resources were allocated on the basis of priorities avoiding ad hoc pre-emption of valuable resources for non-planned items.

Over the following decade of the nineties the basic consensus macro vision remained unchanged during the tenure of two successive democratic governments. According to Sobhan (1990), in the mid-eighties, the share of public expenditure in the GDP was 15.28 percent. In spite of the negative pressure and the contrary vision of donors to downsize the share of the government in the economy, the share increased further, as Mahmud (1997) says, rising to 17.20 percent in 1996-97. But, on the other hand, the revenue collection of the government which at first increased from 8.89 percent in the mid-eighties to 12.7 percent in 1994-95 again declined to 11.9 percent in 1996-97. As a result, the government’s net borrowing went up from only one percent in 1993-94 to 2.5 percent in 1996-97. Given this, Mahmud (1997) makes two cautionary notes with regard to the macroeconomic performance: firstly, the slight acceleration in the growth rate may not be sustained
in the future if there is no breakthrough of private sector investment in industry, and secondly, such a trend of high borrowing by the government may ultimately destabilise the economy and have a crowding-out effect on private investment.

3.9 Donors’ New Perspectives and Domestic Responses

Donors such as the World Bank and IMF do not associate Bangladesh’s weak economic performance with policy agendas under implementation, since they do not recognise any fundamental flaw or inconsistency in their basic vision or strategies (Sobhan, 1982). Their diagnosis of Bangladesh’s poor performance is thus focused on the various implementation failures which are collectively described as governance failures. According to World Bank (1998b), the key areas of governance failures pertaining to the macroeconomic performance of Bangladesh are (i) fiscal management; (ii) quality of public spending; (iii) reforming the financial sector; (iv) creating an enabling environment for the private sector; and (v) appropriate pricing of tradable commodities.

In contrast to donor perception of casualty in Bangladesh, domestic policymakers as well as managers of the economy complain against the harshness of donors’ reform proposals and suggest that because of political constraints as well as lack of effective institutional capacities the pace and outcome of reform has been weaker than actually committed to donors (Faaland, et al, 1981).

A possible argument for the weak outcome from the donor-driven reform agenda in place in Bangladesh over the last decade is presented below:

a) Some donor conditionalities are acceptable to the government but not to the people (Islam, 1993). Here the government makes no attempt to mobilise either political support in Parliament or popular support within the civil society or even within beneficiaries for the conditional reform package (Sobhan, et al, 1987). The reforms thus require an assured donor-driven character where the commitment and capacity of the government to implement the reforms remain weak.

b) A rapid pace of adjustment causes much pain to affected social groups (Rahman, 1991). Depending on the strength of such groups some policies become politically unfeasible, e.g., a sharp elimination of agricultural subsidies in one year or two may lead to a severe shock to farmers who may resist such reform by putting pressure on their elected representatives.

c) A too rapid reduction of tariffs has a revenue reducing effect which needs to be seriously considered before tax reforms are put in place. The government may not have the capacity to implement a compensatory move to increase collections from direct taxes. Such tariff reforms make adverse impact on local industries faced with an influx of imports (Planning Commission, 1997).

d) Elimination of the differential between two exchange rates within a short time frame may serve as a disincentive to foreign exchange remitted by Bangladeshi workers from overseas and encourage
them to slow down remittances. This may cause problem for the balance of payment situation (Syeduzzaman, 1991; Husain, et al, 1993).

Another former finance minister, Saifur Rahman (1991, p.135), has also disagreed with some of donor prescriptions, and in the course of a presentation at an international seminar in January 1991, raised substantial objections to donors’ reform agenda in the following areas:

a) The government cannot increase the prices of water, power, telephone, railway and fertiliser because it is foolish to realise 100 percent of the full costs of these services through price increases when a part of the costs is due to the inefficiency and wasteful expenditure of concerned agencies.

b) The World Bank and the IMF should prioritise institutional efficiency and reform over macro policy part by part.

c) The World Bank pressure for currency devaluation contributes to the rise in the budget deficit by increasing the costs of foreign debt and debt service charges. It may also generate inflationary pressures due to a rise in costs of direct and intermediate imports.

d) When severe adjustment measures were being undertaken in the eighties, the value and share of import of equipment, plant and machinery relative to the total import fell to levels below those attained in the late seventies. The adjustment measures actually led to a decline in investment in this period. The budget was balanced over the following decade by continuously cutting development outlay because of adjustment needs. This has lowered the GDP growth and whatever little growth has taken place mainly in the service sector.

e) Extensive denationalisation undertaken at the behest of the World Bank as well as the IMF created new problems for the private sector. Under donor advice in the post-denationalisation phase, credit was expanded liberally to the private sector but restricted to the public sector. During the mid-eighties, private sector credit had been expanded by 130 percent but no corresponding growth of production followed in the credit receiving sectors. Rather, a new problem associated with massive debt-default emerged which was compounded and perpetuated over the following years. Now to curb this over expansion of private sector term credit, the government has resorted to a tighter credit policy which again is causing a fall in industrial investment, production and demand.

f) The World Bank’s Structural Adjustment Program has severely hit the agricultural sector by withdrawing all subsidies from fertiliser and irrigation equipment. The Bank suggests that to compensate the farmers the procurement price may be increased. But the government does not have an institutional capacity to ensure that a higher procurement price will actually reach growers at the grassroots level rather than being appropriated by middlemen. Moreover, since a large majority of growers are subsistence producers, and hence do not generate a net marketable surplus, higher procurement prices do not compensate for the withdrawal of input subsidies.
After noting his disagreements with donors, Rahman (1991) concludes that in formulating adjustment policies, the country’s specific situation and condition must have to be taken into consideration. There has to be a dialogue and not a monologue. And also, there should not be any element of arrogance on the part of those coming to the negotiating table.

3.10 Donor Perception of Bangladesh’s External Sector

The World Bank considers trade policy reform essential for achieving an efficient allocation of resources and thereby paving the way for attaining a satisfactory rate of economic growth in Bangladesh through a rapid expansion of exports. Even though this message is contained in various World Bank country reports on Bangladesh, the need for trade policy reform is specifically emphasised in a World Bank (1996a) publication. As is well known and documented, this very same prescription has been handed down by the World Bank and the IMF to many other third world countries. As in these countries, in Bangladesh too, trade policy reform with import liberalisation, constituting the single-most important pillar of such reform, has been pushed through by the World Bank by attaching conditionality to multilateral aid available under its Structural Adjustment Program (SAP) and the IMF’s Extended Structural Adjustment Facility (ESAF).

The donor prescription of import liberalisation as the major component of trade policy reform is anchored firmly in the neoclassical approach to the balance of payments theory. According to this school of thought (Mickelwait, 1979; British High Commission, 1995), fiscal mismanagement and irresponsible monetary policy lie at the root of the economic problems faced by low-income countries. As Himenenz (1999) and Burnside (1998) argue, large fiscal deficits together with monetary expansion (largely resulting from government borrowing from the banking system) lead to high rates of inflation which erode a country’s competitive strength against imports on the domestic market and against exports of other countries on the world market. The declining levels of exports and increasing imports lead to an ever-worsening position in the current account of the balance of payments. Being faced with a rapidly deteriorating balance of payments position, these countries resort to high tariff and quantitative restrictions (QRs) on imports which, by bringing about a distortion in relative prices, breed the growth of inefficient import-substituting industries and stifle the growth of export industries. The correct policy to follow under these circumstances, according to this line of reasoning, would be the devaluation of the currency, tariff reduction and elimination of import controls which would set matters right by rectifying distortions in the structure of relative prices facing import-substituting and export-oriented production activities.

The World Bank has a clear perception of the need for reforming the trade policy regime of Bangladesh (World Bank, 1996a). In the World Bank’s view, trade policy reform is the correct response to the problems of low export growth, widening current account deficit and the
unsatisfactory rate of economic growth that Bangladesh has been experiencing ever since its independence. Whether one agrees with the diagnosis of problem and the prescription given is a different matter altogether but there is no denying the fact that the World Bank has a definite strategy while recommending trade policy reform in the country.

Donor prescription relies on getting prices right for stimulating export growth. According to the prescription (Sobhan, 1985a), high rates of import tariff, a large number of tariff slabs and end-use based tariff concessions which result in a highly-dispersed tariff structure, and a proliferation of quantitative restrictions (QRs), including import bans, lead to the establishment of a relative price structure which discourages production for export and encourages inefficient import-substituting activity. In this situation, a policy of import liberalisation would remove the extant anti-export bias by correcting distortions in relative prices and lead to a rapid growth of exports and income. Import liberalisation would also lead to an increase in consumer welfare by making better-quality imported goods available at cheaper prices. But it is important to realise that the removal of anti-export bias through the pursuit of an import liberalisation policy is perhaps a necessary condition but definitely not a sufficient condition for achieving rapid export growth. Supply-side constraints may impede export growth despite the existence of a favourable price incentive structure.

The above argument focuses on the importance of the speed and sequencing of the import liberalisation reforms. Rahman (1984) observes that if supply-side constraints, including institutional weaknesses, are not removed prior to import liberalisation, then the salutary effect of trade policy reform is likely to be limited. Worse still, rapid liberalisation in the face of structural weaknesses may cause serious damage to the growth of local industry whose ability to compete with imports is severely constrained by such weaknesses. Furthermore, fair and unhindered access to developed country export markets is another important factor which will determine the success of policies aimed at export growth. All such issues are apparently not given much importance in the World Bank’s perception of trade policy reform. However, World Bank (1998a) mentions somewhat belatedly of the importance of removing constraints on supply response. But paradoxically, the World Bank has continued to advise the government about the need for accelerating the pace of import liberalisation of Bangladesh, simply adding that the speed of reform in other areas needs to be accelerated as well. It has been observed that the more aid a donor gives the more explicit its policy choices become. Thus it is observed that the World Bank, being the single largest donor, has been most articulate and forceful in putting forward its perception about the present state and future course of development of the Bangladesh economy. The World Bank also exercises greater leverage in moulding the domestic economic policies of Bangladesh.
3.11 Conclusion

The poor record of project implementation and the weak capacity for domestic resource mobilisation of Bangladesh has meant that donors carry the burden of development activity in the country. Donors’ frustration at the country’s poor development performance has given way to anger at its incapacity to improve its performance. The severity of donor conditionality derives from the deteriorating performance of the government. What is annoying is that the government readily succumbs to their policy advice and embraces the entire agenda of donor policies. Bangladesh has figured for successful implementation of the structural adjustment reforms.

The World Bank rules out any flaw in its prescriptions for the government of Bangladesh. The World Bank projects what it believes to be universal formulae for the ills facing the developing world so there was no reason why this should not be prescribed for the country. If the prescriptions could not improve the rate of growth, stimulate savings and investment, realise structural change and narrow the external resource gap, the fault must lie with the poor implementation capacity and the insincerity of the government in honouring its commitments to take the full dose as prescribed. In many a consortium meeting such as that of 1990, aid commitments were withheld until Bangladesh accepted the prescriptions presented in Paris. If any delinquency on the part of the country were identified by the World Bank afterwards, further disbursements against loans were withheld. Whilst the World Bank injects its own priorities into project selection there is no scope for second guessing their preference.

Nevertheless, the initiative for many a reform originates not from the government but from a donor such as the World Bank which has recently pressed, for instance, an agenda for tax reform and improvements in the collection process. The agenda includes the introduction of the VAT and hiring foreign pre-shipment inspectors to inspect all shipments to Bangladesh. The latter task is premised on the belief that most imports into Bangladesh are either under-invoiced to promote some form of tax evasion or over-invoiced to facilitate flight of capital overseas, and that domestic customs officers can be persuaded to accept such false declarations. The government has accepted the melancholy appreciation by the World Bank of the probity of local businessmen and customs officers as a fact of life as well as the World Bank solution rather than treating this as an act of maladministration needing correction.

Chapter Four will provide a contemporary overview of the aid scene in Bangladesh. It will deal with the nature of aid, donor conditionality, domestic ownership, aid commitment, disbursement and utilisation, and beneficiaries of aid.
CHAPTER FOUR
CONTEMPORARY OVERVIEW OF AID SCENE IN BANGLADESH

4.1 Introduction
This chapter provides a brief definition of foreign aid and an overview of who are the donors to Bangladesh and then gives a contemporary overview of aid allocation and disbursement in the country. The chapter discusses the role foreign aid has been playing in the country since its independence in 1971. As noted earlier in this thesis, foreign aid has all through been playing a crucial role in Bangladesh, and the country has received some US$50 billion in aid since 1972. Two factors have made the country dependent on foreign aid. Firstly, the country has not been able to collect enough taxes to generate enough savings on the domestic front, and secondly, it has failed to gather adequate foreign exchange to repay foreign loans. However, despite the decreasing share of aid in Bangladesh’s development endeavours these days, donors still try to retain some degree of leverage over the country because its dependence on aid makes it receptive to considerable pressure from donors. Critics say, the psychology of dependence on donors has become ingrained in the minds of civil and military bureaucrats and political decision-makers in Bangladesh, who are convinced that donors’ goodwill is an important factor in the country’s domestic politics. This chapter examines that aid dependence has fostered anti-development attitudes and that foreign aid utilisation disregards the priority objectives of Bangladesh’s development agenda. This chapter observes that donor financing with donor-imposed conditionality but without strong domestic ownership and political support has failed to produce any lasting change in the country. As such, the domestic ownership of any reform in the country is increasingly recognised by donors as a prerequisite for success.

4.2 Definition of Foreign Aid
The use of the term “foreign aid” in international relations is quite diverse and complicated. The term “Foreign aid” is used interchangeably with “aid,” “foreign assistance,” “economic assistance,” “economic aid,” “development aid,” “development assistance,” “development cooperation,” or “economic cooperation” and so on (OECD, 1999).

To evade confusions from the diverse uses of the term and misunderstanding of it, this thesis follows the definition of foreign aid established by DAC (Development Assistance Committee), which is one of the subcommittees under OECD (Organization for Economic Development and Cooperation). Coining the term “ODA (Official Development Assistance),” which currently has gained international use, referring to and substituting for the term foreign aid, DAC provides a clear definition of foreign aid. According to DAC (OECD, 1999), ODA is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and
local government or by their executive agencies, each transaction of which meets two criteria: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) it is concessional in character and contains a grant element of at least 25 percent.

According to the DAC definition, foreign aid is a kind of flow of financial resources to developing countries which has following three characteristics: *official resources, developmental purpose, and concessionality*. Firstly, to be regarded as ODA, the financial flow should be originated from official resources such as state or local governments and official agencies. In this sense, ODA is distinguished from private financial flows which include commercial loans, trade credits, direct investments or private humanitarian aid. As mentioned above, contributions to international development organizations, as long as it is originated from official sources, are also included in ODA. The multilateral organizations encompass:

- a) IDA (International Development Association), which accounts for the largest portion of the multilateral ODA;

- b) UN organizations, such as UNDP (UN Development Program), UNHCR (UN High Commission for Refugees), and IFAD (International Fund for Agricultural Development); and

- c) Regional development banks such as ADB (Asian Development Bank), AfDB (African Development Bank), and IDB (Inter-American Development Bank) – ODA through such multilateral organizations is called “multilateral ODA,” while that between a donor country and a recipient country is called “bilateral ODA.”

### 4.2.1 Who are the Donors?

The World Bank, the ADB, the IMF, the EC, and the OECD are the leading multilateral donors who provide aid to Bangladesh. Among bilateral donors Canada, Germany, the Netherlands, the UK, and the USA offer tied aid while Japan, Sweden, and Arab countries offer untied aid (Bhattacharya 1990). The World Bank is a leading multilateral donor which frequently describes itself as the Bank. According to Bhattacharya (1990), some 60 percent of aid provided by the Bank takes the form of foreign currency expenditures which lessens pressure on the hard-earned foreign exchange reserves. The World Bank primarily focuses on agriculture, flood control, irrigation, primary education, electric power and energy, population control, roads and highways, and inland water transportation. The Bank provides more aid than any other single donor and is the coordinator of the aid consortium of Bangladesh. It maintains contact with the civil society of the country and conducts extensive study and research on the Bangladesh economy. According to Temple (2003), the World Bank’s former country director in Bangladesh, the Bank provided the
country with US$300 million in commodity and project aid for the fiscal year 2002-2003, and US$550 million, the highest amount all donors, for 2003-2004. The World Bank acts as the moderator of the Bangladesh Development Forum. As Islam (1993) says, all donors have accepted the leading role of the Bank although some have noted that recognising its coordinating role does not necessarily mean expressing solidarity with all of its policy recommendations. Donors also see the World Bank as a platform where they usually want to donate and observe that it is a very good institution to support (Himenenz, 1999). They maintain close contact with the Bank to coordinate and monitor aid activities in Bangladesh and to avoid duplication of project recommendations by coming to prior agreements on particular projects.

4.3 Classifications of Foreign Aid to Bangladesh

Foreign aid has been playing a crucial role in development endeavours of Bangladesh. In the early years after independence in 1971, foreign aid was aimed primarily at providing relief and rehabilitation to the war-ravaged country. And since 1973, foreign aid has been mobilised for importing various commodities in order to finance development projects. That Bangladesh largely depends on foreign aid for its development endeavours can be clarified in terms of the two-gap model developed by Chenery and Strout (1966a). The country’s failure to generate enough savings for investment, on the one hand, and its inability to obtain sufficient foreign exchange to repay foreign credit, on the other, have made it dependent on aid for its development efforts. There are three types of aid: food aid, commodity aid and project aid. Food aid consists of cereal imports and is provided to offset domestic food deficits or in times of natural calamities. Commodity aid aims to help maintain a steady flow of imports of industrial raw materials, agricultural inputs, and commodity goods such as fertilisers, pesticides, petroleum goods, etc. Project aid is provided for specific development projects such as the construction of roads and highways, irrigation systems, etc. According to GoB (2002), technical assistance, which constitutes about 6.5% of project aid disbursements, is intended for technological development in Bangladesh. The country has received a substantial amount of technical assistance in the form of equipment, advisory services, and technical facilities. As Ahmed (1992) puts it, the main aim of commodity aid is to help Bangladesh offset its balance of payment problem, and commodity aid is crucial to maintaining its liberal import policies. The government mobilises substantial amount of domestic funds by providing foreign currency received as commodity aid to the private sector that needs it for its imports. Because commodity aid generates domestic funds, the government is generally inclined to procure more of this type of aid. Foreign aid can also be categorised as tied and untied aid. All multilateral and most bilateral donors offer tied aid. However, all types of aid come under the classifications of grants and loans. Grants are provided for free while loans are provided as credit which is normally on a 0.75 percent interest rate to be paid in 40 years with 10 years grace periods (Ahmed, 1992).
4.4 Donor Conditionality and Domestic Ownership

Any reforms in Bangladesh are carried out under strict donor conditionality. But according to Mahmud (2002), the rationale for bringing about such reforms has been articulated by donors rather than the Bangladesh government. Local support or critique has come mainly from the local press and civil society, all outside the government. Government position is occasionally stated in public utterances of government leaders and in the annual budget speeches of finance ministers. So, it is difficult to assess how much of the reforms are actually owned by the government, and how much are imposed by the exercise of foreign aid leverage. It is a fair assumption that the latter factor is dominant. The World Bank, in particular, has been involved in Bangladesh’s economic development in an all-encompassing role of policy advice, lending and donor coordination.

Although generalisation is difficult, there is a good record of compliance with aid conditionality in respect of some politically difficult policy reforms, whose economic rationale was beyond controversy. For instance, the public food distribution system was successfully transformed in the 1980s to make it more cost-effective and targeted to the poor. The system of urban food rationing was gradually but entirely abolished although it hurt the politically influential urban middle class who had been the main beneficiary of the system. On the other hand, the withdrawal of subsidies on fertiliser distribution was resisted by the government, and after the initial major reductions in these subsidies in the 1980s, they were reintroduced to some extent from time to time. In theory, some amount of agricultural input subsidies can be justified, on both equity and efficient grounds, if there are sub-optimal levels of fertiliser use, particularly by poor farmers exposed to an imperfect credit market. In this situation, a case for subsidy withdrawal usually rests on the argument that the money thus saved may better be used for rural infrastructure that could help farmers get better produce price. But this leads to a more complex behavioural question about the government’s marginal expenditure propensities and the resulting marginal social value of such expenditures.

Donor influence and aid conditionality are not always resisted because of the vested interests of a powerful political elite – sometimes it may be out of a genuine concern about the validity of the rationale of the proposed reforms. This does not mean that these concerns are always justified.1 But in many cases of reforms, particularly the institutional reforms aimed at improving the quality of governance, aid conditionality is resented precisely because their implementation will hurt the rent-seeking opportunities of the political elite.

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1 The government’s handling of fertiliser distribution policies is an example of muddled economic thinking at the highest level of policymaking. In Bangladesh, the government is the monopoly producer and distributor of fertilisers but the fact is ignored that it cannot determine both the price and quantity of the demand of fertilisers. Thus, a well-intentioned policy of supplying fertilisers to farmers at a fair price fails as it is not backed by adequate supply to meet the demand at that price. It only creates scope for reaping extra profits by traders and middlemen.
While aid conditionality is mainly about economic policy reforms, donors try to influence the budgetary allocations through project aid which is the predominant form of foreign aid received by Bangladesh. However, the sectoral proportions of donor funding show a general declining trend because of the overall decline in the foreign funding of the Annual Development Plan (ADP) since the early nineties. The Health and Family Welfare sector gets the highest donor priority while the previously high donor support for public investment in industry and power has fallen, reflecting a policy shift in favour of the private sector. The aid share in agriculture has been maintained. In rural development and education, the sharp decline in the proportions of donor funding is mainly because of the government’s increased allocations to these sectors. Donors have not shared the government’s enthusiasm to increase allocations to these sectors because they are sceptical of the quality and effectiveness of additional spending in these sectors.

Targeting aid to priority areas may not produce the intended results because of aid fungibility since local funds may be diverted to less priority areas in response to the availability of foreign funds. One common donor reaction to the problem of aid fungibility is to impose additional conditions beyond the project level to ensure the availability of resources at the sector level. As Mahmud (2000) puts it, an example is provided by the Health and Population Sector Project (HPSP) for 1998-2003 which was designed to provide integrated healthcare and population control services along the guidelines adopted at the UN International Conference on Population and Development (ICPD) held in Cairo in 1994. The HPSP stipulates for a five year period the amounts of both local and foreign funding as well as the minimum levels of allocations to the priority areas like primary health care. So far, the arrangement has proved unworkable because of the lack of flexibility and unreliable projections of resource availability. There seems to be little alternative for donors but to encourage the government, through concerted efforts, to devise its own plans and strategies for efficient public spending.2

The fungibility problem in aid utilisation is overcome to some extent when aid is spread over a large number of projects to meet their foreign exchange component, thus requiring the government to commit local resources. In fact, Bangladesh’s development projects and programs are donor-driven. The syndrome of donor dependence is manifest in the absence of sustainable institutional capacities or their rise and fall with donor-funded project cycles. Donors have recently been emphasising the need for improving institutional capacity and the quality of project implementation by incorporating mechanisms for accountability, stakeholder participation, and people’s empowerment. The incorporation of such ideas can improve project design and implementation

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2 One major weakness in pursuing global goals is that too little attention is given to national level follow-up actions and to adapting global goals to the peculiar situation of the recipient country.
but they must be based on intimate knowledge of ground realities. These can hardly be imposed from outside, less so through donor leverage of aid conditionality. Therefore, Mahmud (2002) underscores the need for donors to make more use of local expertise in determining what works and what does not.

4.5 Aid Utilisation

Apart from less effective aid utilisation, a slow pace of aid utilisation has been of pressing concern to the Bangladesh government and donors as well. Table 4.1 on p.66 shows the amounts of disbursed aid have always lagged behind the committed amounts. The slow rate of aid disbursement and the resulting stockpiling of committed aid in the pipeline can be explained by a lack of domestic resources required to match foreign aid in sectors concerned. This causes aid-funded project implementation to slow down.

According to GoB (1996), project aid forms a large component of the aid packages received by Bangladesh: some 55% of the total aid committed and some 45% of the total aid disbursed are project aid. But the slow rate of utilisation of project aid has caused the slow rate of utilisation of foreign aid. Studies commissioned by donors and the Bangladesh government have investigated the causes of poor aid utilisation in the field of project implementation. World Bank (1991) holds responsible the agonisingly intricate bureaucratic supervision of development plans and projects and the undertaking of too many projects with too little local resources. A GoB study (1991) says, the main reason of the slow rate of aid utilisation is the low rate of domestic resource mobilisation and the consequent lack of counterpart funds to finance the local cost components of aid funded projects. Bangladesh officials insist that the decline in the quality of aid and imposition of stringent conditionality are major issues of concern to them. They argue that changes in the modality of commodity aid, tied to domestic sources of the aid receiving country, severely undermines the quality of aid. In addition, supply-based technical assistance, instead of being demand-driven, also erodes the quality of aid.

Haq and Abrar (1999) believe that limited aid absorptive capacity due to ill-conceived project planning, bureaucratic inefficiency and lack of coordination between government agencies has acted as a major disincentive in increasing the volume of aid to the country. One of the difficult problems associated with technical assistance is a lack of synthesis between donor preference and recipient priority. Performance and aid utilisation capacity are responsible for the reduction of aid to the country. Poor performance in utilisation has wider ramifications. In a situation, where there is an intense competition for aid money, this may lead to diversion of aid to other countries. Bangladesh has a problem of implementation capacity which has led to slow aid utilisation. Bureaucratic inefficiency and redtapism is another major area of concern. Agreements can be
signed within a short span of time but it takes awfully long time to cross the bureaucratic hurdles. Donors are in agreement that there is a serious constraint in aid absorptive capacity. The government machinery is not geared to absorb aid resulting in a reduction in the Annual Development Plan (ADP) by some 20 percent every year. A number of projects of questionable quality are implemented at the very end of the financial year mainly to perform figure-wise.

According to the Japanese ambassador, as quoted by Haq and Abrar (1999), the administration is not service-oriented. Unwillingness on the part of officials to take decisions is a major problem. Everyone is afraid that someone may point a finger to him if something goes wrong. It is for this reason that instead of taking a decision one refers a matter to someone up in the echelon. At times, ministers are unwilling to delegate authority to their subordinates. Sometimes there is a tug of war, and someone always puts a brake on initiatives taken by others. This sort of complications is very damaging to projects. Nevertheless, some ministries are relatively more efficient than others.

4.6 Beneficiaries of Aid

A mere 25 percent of the benefits of aid reach the poor and the rest of it is siphoned off by influential interest groups. This process has created a new rich class in Bangladesh and hundreds of import agencies and consultancy firms. They work in close cooperation with interest groups in donor countries. Aid dependence has also fostered certain anti-development attitudes. Quite often, the utilisation of foreign aid disregards the priority objectives of national development. For instance, a project aided by a foreign donor may be technically implemented but its impact on the priority objectives may be negative, nil or marginal. According to a study done by Hashemi (1990), although aid programs have largely achieved their objectives they have generated inequitable flow of benefits that have accrued mostly to the upper income class. Another study by Browne (1990) shows that although the rural poor are the major target of most aid projects, no more than 25 percent of the aid benefits reach them. It is extremely difficult for the benefits of aid to be brought to the vast majority of the poor through the existing government machinery. This is because of corruption, misappropriation of funds, overlapping power of different government bodies, and bureaucratic redtapism (Centre for Policy Dialogue, 2004). As economist Dr Abul Barakat (2003) reckons in his paper “The Political Economy of Foreign Aid to Bangladesh” that out of the total foreign aid received by Bangladesh in the past 30 years, only 25 percent has reached the poor section of people, and the rest 75 percent has been devoured by foreign and domestic beneficiaries. The foreign and domestic beneficiaries include foreign and local consultants, suppliers of foreign machinery and their local commission agents, politicians, bureaucrats, and local contractors.
In another study, Sobhan (1982) finds that about 20 percent of the total aid benefits have gone to rich farmers and landowners who constitute a very small minority of the rural people in Bangladesh. An important factor that clarifies this flow of aid benefits is that the countryside of Bangladesh is marked by stark disparity in land ownership (Hashemi, 1990). Rich farmers, due to their economic power and the consequent state patronage they enjoy, wield formidable leverage on poor farmers in socioeconomic affairs including benefiting from aid projects. Rich farmers and landowners have the capability of utilising modern agricultural inputs such as tractors, power tillers and fertilisers that are imported with foreign exchange available under commodity aid packages. Moreover, they are considered by banks as better credit risks for credit, and are provided with aid-funded bank credits. Subsequently, rich farmers and landowners benefit most from the aid regime resulting in a virtual marginalisation of the rural poor. Mahmud (1985) deplores that this process of polarisation contributes to an increased level of landlessness in rural Bangladesh, about 50 percent of the rural households.

4.7 Aid Disbursement

According to Bhattacharya (2003), the foreign aid committed to Bangladesh in the financial year 2003-04 amounted to about US$2179 million, whilst the actual disbursement was in the region of US$1577 million. After a secular decline in the volume of foreign aid disbursement since 1999, a growth of more than 26 percent was recorded in the financial year 2003-04 compared to the preceding year. The latest figures available (Bhattacharya, 2003) for 2003-04 indicate a modest commitment level of US$136.6 million upto November 2003. Drawing on the pipeline, the disbursement till October 2003 amounted to US$209.2 million. This increase in foreign aid inflows to Bangladesh was largely due to the Development Support Credit (DSC) contracted with the World Bank. Under the DSC US$300 million was disbursed in one go to Bangladesh as it promised to implement a time-bound Structural Policy Reform Matrix. On the other hand, IMF (2004) also agreed to give Bangladesh about US$517 as a loan under the Poverty Reduction and Growth Facility (PRGF), of which $US74 million was disbursed as first tranche. The second tranche was available once Bangladesh serviced a number of commitments in the area of budgetary and financial sector reforms.

The foreign debt scenario in Bangladesh, compared to that of many low income countries, remains manageable. The country’s debt servicing liability (DSL) on account of foreign loans amounted to only 6.3 percent of its total foreign exchange earnings during financial year 2003-04. The major problem for Bangladesh originates in its weak capacity to utilise the already committed foreign aid. Thus, as of June 2003, the aid in the pipeline amounted to more than $6.2 billion. At the same time, most of the foreign assistance disbursed in the recent past had been in the form of
loans implying a growth in DSL in the near future (Bhattacharya, 2003).

Table 4.1 on p.66 shows the financial year-wise breakdown of committed and disbursed grants and loans and the total amount of aid provided to Bangladesh. However, both Tables 4.1 and 4.2 on pp.66-67 present a somehow exhaustive situation of foreign aid, although a bit old. There has been a steady increase in disbursements until 1985. Disbursements sharply increased by about 40% from 1985-86 before a drop of about 14% from 1990-91. With an increasing number of debts maturing, the amount paid in the 1989-90 stood at US$302m. It is interesting to note that that in the year 1999-2000 the total amount of aid disbursed was US$862m, while the amount spent on debt servicing was a staggering US$619m. The cumulative outstanding debt until 30 June 2002 amounted to US$16,276b.

4.8 Debt Servicing
Because massive influx of aid since 1972 has led Bangladesh to its substantial indebtedness, debt servicing started in 1973-74. In that year a total of US$18m loan was repaid, and up to 2002, the total debt servicing stands at about US$7,986b. A year-wise breakdown of debt servicing is presented in Table 4.2 on p.67. The table shows that foreign exchange earnings have sustained with the increasing level of debt liability. Largely because of substantial growth in export earnings, debt servicing to foreign exchange earning ratio has declined. Despite that some of the loans have been converted into grants, debt liability has been increasing largely due to short-term loans contracted in emergency situations, such as natural disasters, and partly due to the changing profile of aid packages in which loans have assumed greater proportions vis-à-vis grants (Quazi, 1999). However, in terms of debt servicing, the overall records of Bangladesh are very good, and the country has always tried to honour its commitments.

According to World Development Movement (2000), Bangladesh is among those excluded countries that have been denied special assistance from the corridors of power because their debts are considered ‘sustainable’ – despite a crippling regime of debt repayments. Ironically, debt relief is only provided to countries that have defaulted on their repayments and have approached either the Paris Club or the World Bank for special assistance. Nevertheless, Canada and the USA have accepted that Bangladesh should receive debt relief despite its ineligibility for the HIPC initiative. In November 1999, Canada cancelled 100% of bilateral debt, and the USA deemed it eligible for 100% bilateral debt cancellation. But none of the other creditors have made any move to follow this lead, and Bangladesh’s key creditors, the multilateral institutions seem even not to consider it. The country seems to be penalised for being a good debtor and for not defaulting. It goes without saying that debt servicing has been recognised as a major hurdle for Bangladesh trying to build its domestic infrastructure. Debt servicing diverts government resources away
from essential public services like schools, hospitals, and sanitation. Therefore, the country needs
debt relief so that it can channel more resources in to pro-poor policies rather than paying money
to the rich countries.

4.9 Aid Discourse

Over the last three and half decades, foreign aid discourse has undergone dramatic changes in
Bangladesh and across the world. Prominent Bangladeshi economist Rehman Sobhan’s first work
food aid to then East Pakistan under the US PL-480 program. The study highlighted the political
economy of aid and discussed how such aid was used as a form of political patronage to the rural
elite of East Pakistan in order to patronise the political power of the then Pakistan government.
Throughout the 1960s, along with other local economists, Rehman Sobhan was involved in a series
of debates with Pakistan’s principal donors over the mis-governance associated with foreign aid
which was used to bolster the country’s military rulers whilst they denied the democratic aspirations
of the people of the eastern part of the country and freely abused the human rights of all Pakistanis.
In 1971, Rehman Sobhan took part in the Bangladesh liberation war and was empowered as a
special envoy by the government-in-exile of Bangladesh to organise a campaign to influence the
principal aid donors of Pakistan that they should suspend aid to the country until it ceased its
genocide on the people of Bangladesh and accepted the Bangladeshi people’s right to self-rule.
During his tenure as a member of the first Bangladesh Planning Commission he was involved in a
series of debates with the World Bank and other donors over the issue of ownership over
Bangladesh’s policy agenda. This debate and its outcome have been discussed in his book *The Crisis
of External Dependence: the Political Economy of Foreign Aid to Bangladesh*, published in 1982. Since then
he has continued to address issues relating to aid and governance, and has noted with some
satisfaction that the evolution of the aid debate has come to accept that policy ownership and good
governance are critical to the effectiveness of aid (Sobhan, 2003a).

The issues of aid, governance and ownership are as old as aid itself as far as aid recipients are
concerned. However, donors have taken much longer to come to terms with the reality that aid is
intensely a political process and cannot be seen as exclusive to the promotion of development. It
has taken long for donors to accept that effective aid utilisation, which derives from the political
economy of foreign aid in a particular country, can influence the economic as well as political
benefits of foreign aid. It is argued that the same misconceptions which influenced aid policies in an
earlier generation could still be influencing the aid discourse today. These misconceptions have
originated in the fallacious belief that donors could influence the effectiveness of aid by influencing
the direction of policy in developing countries. The resultant loss of ownership over their policy
agendas, particularly during the decade of donor-driven policy reforms in the 1980s, has led to the de-accumulation of domestic institutional capacity as well as the weakening and even the de-legitimisation of the state. This has further aggravated the crisis of governance in many developing countries including Bangladesh. Therefore, any attempt to improve the effectiveness of aid lies in a complete rethinking of not just the policy agenda associated with aid but in the nature of relationship between a donor and a recipient. Therefore, donors need to restore ownership to aid recipients over the design of domestic policy just as aid recipients need to reclaim this ownership. To restore ownership over policy issues will need to take into account the nature of aid relationship as it infringes on the political economy of developing countries that determines the distributive outcomes of policy issues. It is this dimension of political economy that appears missing from the contemporary donor-driven discourse on aid.

4.10 Donors and Policy Reforms

The World Bank, one of the major multilateral donors of Bangladesh, is willing today to encourage a more domestic process of promoting policy reforms in developing countries. This is reflected in its approach to the Poverty Reduction Strategy Paper (PRSP). The World Bank has envisaged that the PRSP is to be designed as a purely indigenous process from countries in the developing world, to prioritise poverty in their national development strategies. The World Bank articulates the issue of policy ownership as a critical ingredient in any move to promote better governance. This discovery of the importance of domestic ownership over policymaking did not emerge as a result of some flash of inspiration in the Bank but originated in the bitter harvest reaped by developing countries from their experience with reform. Studies conducted in Bangladesh by economists such as Sobhan (2003a) and globally by donors such as the World Bank have established that although World Bank-led reforms have had some positive impact on reform-exposed countries but they have done little to stimulate sustained growth or eliminate poverty without “concrete actions of domestically initiated reform efforts” (World Bank, 1998: 4).

The weak impact of reforms on Bangladesh and elsewhere in the developing world is attributed to poor governance and lack of domestic ownership. As in much of the rest of the world this argument remains valid, its advocacy originating from donors to Bangladesh remains self-serving, and is designed to detract attention from the design flaws in the original reforms imposed on Bangladesh. However, attempting to evaluate the quality of governance in Bangladesh is more difficult than evaluating the impact of reforms. Thus, as Sobhan (2003a) says, any attempt to establish a link between institutional quality and growth in Bangladesh is highly problematic. Measuring the strength of the rule of law is as difficult as the comparative measure of corruption, introduced by Transparency International. It is difficult to assess whether the rule of law in
Thailand is better established than in Bangladesh, in order to explain their consistently higher growth rates. As far as a comparative assessment of bureaucratic quality is concerned it would be difficult to argue that Bangladesh’s bureaucracy is less competent than that of Indonesia or Vietnam as to qualifications, systems of recruitment and career advancement. Bureaucratic quality thus appears to be measured by economic performance and can hardly serve as an explanatory variable for this economic performance.

Experience shows that donor financing with strong conditionally but without strong domestic leadership and political support has generally failed to produce lasting change. This statement could certainly be written as a monument on the era of conditional aid offered to Bangladesh over the last two decades. There is no evidence that any government in Bangladesh has made strong political commitments to economic reforms or sought to build a political support behind their economic reforms. Once the World Bank and other donors embrace the proposition that reforms depend mainly on domestic political and social factors, they have to come to terms with the limited influence they can exercise over domestic policy agendas in developing countries. In the wake of this renovation in the World Bank’s approach to policy reforms, conditional lending would need to be phased out. In such context donors should do no further than suggest that the Bangladesh government needs to get their action together, design reforms and commit to the implementation of these reforms. The idea that donors can actually improve the governance of Bangladesh appears no more feasible than their belief that they could impose economic reforms on Bangladesh through external pressure. Donors have to date attempted to lead reforms in Bangladesh. This often follows in the wake of slow progress by the country in designing its own policy reforms. Donors tend to lose patience with the tardiness of the Bangladesh government and prefer to call in expatriate consultants but with a facade of local participation added on. Donors working in Bangladesh thus also need patience and self-discipline. They should not make the mistake of promoting ownership which would itself be a contradiction given that borrower ownership of reform is increasingly recognised as a prerequisite for success these days.

Despite years of foreign dependence, Bangladesh has remained a country with a strong potential for assuming ownership of its policy agenda. It is a country with a strong sense of nationalism that has established a tradition of electoral democracy where free elections in the 1990s have put a stop to sporadic regime changes. Unfortunately, a confrontational politics between the two dominant political parties (one governing and one opposition) remains a threat to the working of the country’s parliamentary institutions. However, the prospect of electoral defeat has established some sort of accountability on successive regimes in Bangladesh. The press is largely free and lends itself to extracting a degree of accountability and transparency from the government. Although
Bangladesh’s long exposure to autocracy and a tradition of bureaucratic concealment tends to be hostile to making public affairs more transparent. Both accountability and transparency need to be extended to the private sector which tends to conceal a variety of misdeeds that are not exposed to the public or penalised in the market place because of their collusive association with the state and the imperfections of the market.

Under the prevailing circumstances of Bangladesh, donors need to be circumspect about how far they need to go in promoting better governance in Bangladesh. Donors in Bangladesh today command insufficient leverage to influence governance since foreign aid inflows in relation to the GDP have declined to a great extent. This has not prevented donors from seeking to influence not just economic policy but also the promotion of transparency and even sound democratic practice in Bangladesh or to reach out to civil society to involve them in facilitating good governance. Unfortunately civil society itself is an indistinct concept. Donors, in search of civil society in Bangladesh and other countries, have often been tempted to use their aid to construct a civil society by using NGOs as a substitute for this civil society. But a sustainable civil society must ultimately depend on the spontaneous mobilisation of citizens to demand transparency and accountability from the government and to seek more effective representation in Parliament. Donors can do little to create such civic mobilisations or indeed to promote the accumulation of social capital which remains an inherently indigenous process. Donors in Bangladesh and elsewhere lack the comparative advantage and political experience in a specific country to influence such politically sensitive agendas. They will thus have to come to terms with the reality that governance is a domestic process which is sensitive to the nature of politics and the capacity of civil society to promote better governance.

Despite the declining share of aid in Bangladesh’s development, donors still retain a degree of political leverage over the successive governments of Bangladesh who feel they are sufficiently dependant on aid to make themselves receptive to considerable pressure from donors, especially in the area of human rights and governance. Whilst this receptiveness may amount to little more than lip-service, governments cannot afford to ignore the concerns of donors or reject their policy advice. The psychology of dependence on donors has become ingrained in the psyche of military, political and bureaucratic decision-makers in Bangladesh who remain convinced that the goodwill of donors is an important political resource in the domestic politics of the country.

4.11 Rethinking Aid Policy

Past experience encourages donors to recognise now that Bangladesh should be left to design its own policy agendas and to demonstrate its capacity to implement these policies as a basis for accessing aid. Bangladesh can call on the services of local professional resources, command the
institutional base, retain the political capacity, and has an active civil society which invests it with the capability to assume ownership over its own destiny. Donors should thus resist the temptation of alluring successive regimes in Bangladesh with offers of aid to embrace donor agendas, whether for structural adjustment reforms, for good governance, for alleviating poverty, or for promoting human development. Bangladesh is mature enough to decide what the country wants and what price it will pay for this. Donors remain at liberty to direct their aid to regimes which will target poverty and human development or liberalise their trade regime. They should not drive countries towards agendas where they have little commitment or capacity to implement them and embrace such policies largely in order to access fungible aid resources.

The people of Bangladesh believe that the era of the World Bank-led donor consortium or aid group should be terminated (Sobhan, 2003a). All such mechanisms of aid coordination through meetings between the government and donors should be located within and chaired by the host country. Ideally the Bangladesh government should include the political opposition and civil society organisations in its consultative process for designing policies and as participants in the aid group meeting. Sobhan (2003a) believes that as a concrete manifestation of promoting ownership, donors should advise the Bangladesh government to go ahead and carry through policy reforms recommended by a number of commissions they have set up in recent years, such as the Commission on Agricultural reforms. They should encourage the Bangladesh government to initiate public debate on these reforms, build a consensus behind them in Parliament and implement them with a due sense of commitment. Where required, donors should offer to finance such reforms. If the policy fails, donors may either seek a policy change closer to what donors deem appropriate or withdraw aid and let Bangladesh finance its own stupidity. Even where a particular donor decides that a policy is inappropriate and thus chooses to withhold aid, there should be some scope for a free market amongst donors, where the Bangladesh government can sell its policy to another donor. In an open market for ideas, principal donors should not assume hegemonic postures in setting the policy agenda where donors are expected to coordinate their strategy towards a particular country under the umbrella of the World Bank or the UNDP.

The need for a retrieval of policy ownership in Bangladesh is premised on the belief, based on three decades of experience, that unless the country assumes responsibility for its own destiny and is committed to transforming the lives of citizens, no policy reform or economic transformation is feasible and no donor can impose this on a country, however weak it may be. This hypothesis remains a viable basis for aid policy in Bangladesh because the country has the capacity to take charge of its own affairs. Bangladesh has a wealth of skills to design its own policy. It is for the
government of Bangladesh to reach out to its own professionals and draw upon its own talents to reclaim ownership over its future destiny.

4.12 Conclusion

This chapter has provided an overview of foreign aid and its disbursement in Bangladesh. It has discussed the role foreign aid has been playing in Bangladesh since the country’s independence in 1971. In fact, aid has been playing a crucial role in Bangladesh for the country has received some US$50 billion in aid since 1972 although the outcome is very little. That the country has not been able to collect enough taxes to generate enough savings on the domestic front and failed to gather adequate foreign currency to settle foreign loans has made it dependent on aid to a great extent. Donors think that limited aid absorptive capacity due to ill-conceived project planning, bureaucratic inefficiency and lack of coordination between various government agencies has acted as an impediment to the proper use of aid in Bangladesh. However, according to development academics and researchers, little of the benefits of foreign aid have reached the poor, and most of it is siphoned off by influential interest groups. This process has created a new rich class and hundreds of import agencies and consultancy firms in Bangladesh who work in close cooperation with interest groups in donor countries and agencies.

This chapter has examined that aid dependence has fostered certain anti-development attitudes. More often than not, foreign aid utilisation disregards the priority objectives of Bangladesh’s development agenda. For instance, a project aided by a foreign donor may be technically implemented but its impact on priority objectives may be negative, nil or marginal. Studies show that although aid programs may appear to have largely achieved their objectives, yet they have generated inequitable flow of benefits that have accrued mostly to the upper income class. This chapter has also observed that donor financing with donor-imposed conditionality but without strong domestic ownership and political support has generally failed to produce any lasting change in the country. As such, borrower ownership of reform is increasingly recognised by donors as a prerequisite for success these days.

Chapter Five will attempt at deriving an understanding of the aid philosophy of donors and their contribution towards the formulation of the development policy of Bangladesh. It will study what donors say in their policies and what they do in practice in terms of policy and development issues of the country.
### CHAPTER FOUR TABLES

**Table 4.1: Foreign Aid Committed and Disbursed 1971-2002 (in million US$)**

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Source: GoB (2003)
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Source: GoB (2003)
5.1 Introduction
This chapter provides an outline of what major aid donors claim in their policies and what they do in practice regarding Bangladesh which is one of the poorest aid recipient countries in the developing world. According to the Canadian International Development Agency (2004), Bangladesh tops 10 Asian countries who receive 71% of Canada’s total bilateral ODA to Asia and 10% of Canada’s global bilateral aid. Other major multilateral and bilateral aid donors to Bangladesh are the World Bank, the IMF, the ADB, Japan, the United Kingdom, and the United States. This chapter explores why major donors should begin to think reforming themselves and create an atmosphere for recipient countries to increase their own economic freedom. Critics believe that as these institutions hinder economic freedom, most of the recipient countries have been unable to develop fully even after decades of dependence on them. This chapter reviews some of the literature that supports reforming these institutions’ lending practices. The literature reviewed in this chapter endorses that these reforms would augment their capability, enhance accountability for their lending practices, and restrict their harmful impact on the developing world. Such reforms would produce more stability, economic development, and peace across the world.

5.2 Rhetoric and Practice of Donors
A sharp difference exists between what donors say and what they practice. The aid rationale of donors tends to be more complex in reality and reflects a mix of both altruism and self-interest. This mix varies depending on the economic stake of particular donors and their strategic interest in Bangladesh. Moreover, as observed in Chapter Four (4.9 Aid Discourse on p.60), some misconceptions have influenced aid policies in the past and are still influencing aid discourse today. These misconceptions have originated in an erroneous conviction that donors could impact aid effectiveness by influencing policy direction in developing countries. The subsequent loss of ownership over their policy agendas, particularly during the donor-initiated policy reforms in the 1980s, has led to the loss of the capacity of democratic institutions as well as the weakening of the state. What is more, this has furthered the crisis of governance in many countries in the developing world including Bangladesh.

The position of Bangladesh has become increasingly constrained in a unipolar world. This is not a new phenomenon since the country’s options have been limited over many years by its dependence on foreign aid. However, the nature of this dependence in recent years has changed from aid to trade. This may appear a positive development but it has imposed no less severe fetters on the country’s external choices. Bangladesh has always known that its aid relations were driven by
political factors. Rehman Sobhan, a prominent economist of Bangladesh, wrote a book in 1982 entitled *Crisis of External Dependence: The Political Economy of Foreign Aid to Bangladesh*. In that book he observes that in today’s world the trade relations of Bangladesh are exposed to political influences, so the country needs to understand the underlying political economy driving its external relations.

### 5.3 Changing Dynamics of Aid Dependence

Until the end of the 1980s, Bangladesh’s aid dependence was over 10% of the GDP, and foreign aid financed nearly 100% of its ADP (Sobhan, 1990). This means that no finance ministers could frame a budget without first being assured of aid pledged at the Paris Consortium meetings in April each year. This dependence on donors gave them an uneven leverage over the country’s policies. The World Bank, in particular, used this leverage to impose the Structural Adjustment Program (SAP) on the Bangladesh government, based on the neo-liberal economic philosophy associated with the Washington Consensus. Bangladesh accepted the program although the proposed reforms were not satisfactorily implemented [detailed in Chapter Three (3.9 Donors’ New Perspectives and Domestic Responses on p.46)]. This raised tensions with donors but did not lead to any discontinuity in aid. Bangladesh accepted and promised to implement all reforms whilst donors turned a blind eye on its failure to do so. The era of aid dependence built up its own class of beneficiaries who prospered from aid and acquired interest in its continuity. Aid dependence generated its own dynamics that influenced the political behaviour of successive regimes and the workings of the administrative and business community. The SAP process impacted the political economy of Bangladesh where new social forces were financially and politically empowered whilst large numbers of people, from de-subsidised poor farmers to unemployed factory workers, became its victims.

The unsatisfactory outcome from the SAP process did not persuade donors to rethink their reforms. Rather it pushed them to increase the burden of reforms. The poor results from reforms were now ascribed to poor governance. Thus, issues of governance, covering corruption, the judiciary, even the state of democracy, were added to the need for the Structural Adjustment Program. In this new phase, poverty reduction was prioritised over growth by both the World Bank

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1 The phrase “Washington Consensus” is a pilloried term in debates about trade and development. It is seen as synonymous with “neoliberalism” and “globalization.” The phrase’s originator, John Williamson (1994), says: “Audiences the world over seem to believe that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based IFIs and that have led them to crisis and misery. There are people who cannot utter the term without foaming at the mouth.”
and the IMF. The Bangladesh government was invited to prepare a Poverty Reduction Strategy Paper (PRSP), an interim version of which was presented to donors in 2003, and a full version was presented by the end of 2005. This rethinking of aid priorities by donors did not extend to greater introspection over the impact which such aid dependence was having on the political economy of Bangladesh or other aid-dependent countries. However, it is not surprising to see that many of the consequences of aid dependence that have affected Bangladesh are being replicated in many developing countries in Africa, Asia and Latin America. Although SAP was not a success, donors insisted on implementing reforms because they thought the failure was due to the governance and other domestic problems of recipient countries. So, the pathology of aid dependence obviously transcends national boundaries and cultures.

According to Sobhan (2003a), the policy influence of donors over the Bangladesh government still persists today, even though aid dependence has declined from over 10% of the GDP in the 1980s to under 3% in the 1990s. Today, aid finances less than 50% of the ADP (Figure 5.1 on p.69) so the country is no longer totally dependent on aid to frame its budget (Sobhan, 2004). Nor are donors regarded as the universal font of all wisdom. However, Bangladesh still seems to give the same regard to donors’ advice as it did when it was heavily aid-dependent. The Washington Consensus is heavily discredited whilst the Structural Adjustment Programs (SAP) are seen to have brought neither sustained growth nor poverty reduction across much of the developing world. The increasing ferocity of the attacks on global institutions such as the World Bank, the IMF and the WTO, both on the streets and at a professional level, suggests that these organisations no longer command the credibility or authority they enjoyed in their golden age of the 1980s. In these changed circumstances Bangladesh is required to forge a new pattern of relations with donors.

The Bangladesh government cannot begin to develop equal relations with its donors unless it is able to get its own house in order and design its own policy agenda. Donors encourage governments to make their own policy choices but the available experience suggests that the exercise of such policy independence by aid recipients is only welcome if countries such as Bangladesh choose policies that concur with donor policy advice. Thus even after 20 years of unfruitful Structural Adjustment Program (SAP), few third world governments have challenged the assumptions underlying the SAP. As a result, even today the SAP remains at the core of the World Bank’s Country Assistance Strategy to Bangladesh as much as for most other LDCs and has been incorporated into the Poverty Reduction Strategy Paper (PRSP) of virtually all these aid-dependent countries.

5.4 Donor Policy Leads to Waste

In June 1990, the World Bank had sanctioned a loan of US$175 million to Bangladesh for the
purpose of bringing about reform of the country’s financial sector deficiency which was “constraining the growth of non-traditional exports of the private sector, to respond to changing competitive sector” (World Bank, 1991). Along with this, a large component of the US$19.4 million grant was provided by the USAID. One important element of the loan was to provide funds to the Bangladesh government to enable it to inject money to the nationalised banks for increasing their capital structure which was wiped off by their non-performing loans.

According to Ahmed (2004), a former Bangladesh Bank Governor, the World Bank again sanctioned in 1996 a loan of US$37 million for strengthening and helping the central bank (Bangladesh Bank) to privatise three large nationalised banks and improve their management structure. The conditionality of the loan stipulated that the program would be managed by consultants and equipment brought from overseas although there were many experienced local bankers able to do the job and that a substantial portion of the cost of this project had to be borne by the Bangladesh Bank out of its own resources.

One would be curious to know: What was the performance of these loans? Where did the money go? Why was such a massive program of training staff and increasing managerial expertise not able to do the job? Why was the substantial amount of capital injected into nationalised banks without first improving their managerial capacity? Why was a new loan of the same type necessary again? If the Bangladesh government wants to find this out, Ahmed (2004) suggests digging records where it could be found that in 1996, the World Bank’s own Operation and Evaluation Wing declared the earlier loan as a failure, suffering from the lack of proper sequences of measures, and rated the program unsatisfactory and unlikely to be sustainable. If this is the case why was another program for the same purpose? Who had certified the measures to be well thought-out, properly sequenced and implement-able, time frame adequate, and measures sustainable? It is unfortunate that both the loans included a provision for the government to ban trade union activity by bank employees while this was the employees’ fundamental right guaranteed by the country’s constitution? Should the core labour rights of the people be taken away only in order to punish some recalcitrant and misguided labour leaders? People wonder how the World Bank could ask the government to take such a repressive measure only to enforce its reform program.

Hence the World Bank should be asked to come out to openly discuss the failures of their various programs and discuss publicly who would share the losses sustained by borrowing countries after they implemented the World Bank’s wrongly crafted programs. While willy-nilly taxpayers have to carry the load of such non-performing loans, it is not understood why the World Bank should disregard this. Why should they not write off such bad loans? Similarly, the Bangladesh government should clarify why reforms of such magnitude touching the lives and
livelihood of people were undertaken without adequate public discussion in Parliament or outside even though Bangladesh had a democratically elected government. Where was the transparency and accountability supposed to be the important ingredients of democracy?

The World Bank sometimes claims that the organisation is a champion of change but it is well known that all changes do not augur well. Workers are replaced by automation, with the help of computers and machines imported from overseas, just like a child asked to run on feet even when he has not learnt to walk properly. Would this change be welcome and beneficial without simultaneously modernising other arms of the government, and were not these problems part of larger social and humanitarian issues? Furthermore, in the context of pervasive unemployment in the country, whether modernity, at the cost of unemployment, is preferable or not leaves room for public debate. Changes per se do not bring modernity or progress or efficiency. On the contrary, there may be retrograde steps under certain circumstances. The public is not aware whether these considerations were carefully weighed by World Bank staff when they drew up the program.

Another problem with the World Bank is its failure to realise how important it is to focus on implementation issues at the onset of negotiations. There are already reports in the local press (Daily Star, 2004) that the government is trying to drag its feet from reform measures already agreed upon after watching the backlash of public opinion and bank employees.

The entire effort of the World Bank to modernise economies and remove poverty reminds one of what Rousseau once said, “People should be forced to be free”. Except as serving as a good example of oxymoron, such prescription does not work in the real world. This was tried in the former Soviet Union for 73 years but eventually it proved to be a failure. Western efforts to mould the economies and political structures of poor countries in Western fashion through the instrumentalities of the Bretton Woods Institutions (BWI), coupled with the unilateral policy of mindless globalisation and free market, are very likely to meet the same fate in course of time – perhaps sooner than later. Signs are already on the horizon. Globalisation is losing heights and descending.

There are more and more open discussion for more creative globalisation agenda that supports universal basic education, fights abusive child labour and sweatshop, strengthens civil society watchdogs and independent monitors, and funds transition assistance to workers and small farms hurt by market opening, while insisting on codes of corporate conduct that support core labour rights. Free market concepts stand exposed to the public through large scale corporate scandals all
over the world – the United States in particular. Nation states in the developed and developing worlds are appearing once again.

This is the time when countries like Bangladesh should learn to manage their economies without getting addicted to foreign aid further and particularly with lesser recourse to the World Bank and the IMF for funds and technical assistance. Nations trying to be self-reliant with their assistance are bound to suffer withdrawal syndromes and pain severity of which will be proportionate to the degree of dependence experienced earlier. But these hardships could be mitigated to some extent by following egalitarian measures not hitherto done. Self-sufficiency and freedom from bondage are rewards by themselves. Also there is no quick fix in economic development. It is a patient, drawn-out process involving wider participation of people. What is more important, it should be organic and not imposed from outside. Bangladesh should try to find home-grown remedy as far as possible for its home-grown malady. Like Japan it can be modern without being Western. Let the country pause and cease to move like sleep-walkers charted by others. In development economics there is a term frequently used – cost-benefit ratio. In Bangladesh’s development efforts, this needs to be kept in view so that the country’s people do not bear only the cost while benefits accrue to others.

5.5 Aid and Bangladesh’s Policy Response

Aid dependence under the tutelage of the World Bank should not have impacted Bangladesh’s foreign policy in the same way as it did the country’s economic policies. After all, the World Bank is a multilateral organisation which is supposed to have neither an ideology nor a political stance. It was therefore noteworthy that a changed stance in the World Bank’s lending philosophy in the early 1980s to push its Structural Adjustment Program coincided with an ideological change in the policy regime of the United States after President Reagan came into office and Margaret Thatcher became Prime Minister in the United Kingdom. According to Sobhan (2004), these two leaders may have been deemed the political godparents of the neo-liberal revolution across the world. The messianic commitment to a neo-liberal philosophy within the World Bank and the IMF originates from this period.

The embrace by the World Bank and the IMF of the political philosophy of some of its principal financiers encouraged the belief that what Washington thinks today the World Bank thinks tomorrow. As a result, successive governments in Bangladesh have come to believe that the World Bank and the IMF are extensions of the US State Department and Treasury. This view gained currency when the United States intervened time and again in the boards of the World Bank and the IMF and pressurised them to participate in the bail-out of strategically important countries such as Mexico, Russia and other victims of rapid globalisation that deemed of strategic interest to the
G-7 countries. Acceptance of advice from the World Bank and the IMF was thus believed by Bangladesh policymakers to have some approbation from the US and even the EC whose goodwill remained of great importance to the Bangladesh government.

The US, which was once Bangladesh’s principal donor through the 1960s and 1970s, is not even the country’s principal bilateral donor today, which happens to be Japan now. And yet Bangladesh is persuaded to believe that the generosity of the World Bank and the IMF is contingent upon good relations with the US government. This assumption is not entirely a fantasy. The Pakistanis have already noted that their alignment with US strategic interests in Afghanistan and the provision of logistical support for the US invasion of Afghanistan have won them significant collateral benefits from the IMF. The IMF reaffirmed its credentials as a foreign policy instrument of the US State Department by assuming a much more favourable perspective on Pakistan’s policy reforms compared to the hardline stand taken prior to the change in Pakistan’s external posture. The World Bank, too, has become much less jaundiced in its perception of Pakistan. The US has backed up the IMF’s generous loans by enhancing its own bilateral aid commitments to Pakistan and rescheduling Pakistan’s debts. The lesson learned from Pakistan’s experience suggests that aid commitments as well as their terms, even from multilateral bodies such as the World Bank and the IMF, are linked to foreign policy alignments with a superpower even when countries such as Bangladesh and Pakistan have become less dependent on aid.

5.6 Political Economy of Trade Dependence

This paradox of genuflecting to aid donors, even as aid dependence declines, may be linked to the new trade dependence which is influencing the external relations of Bangladesh and many other third world countries. In the case of Bangladesh, the US remains its largest single market, absorbing around 40% of its exports, mostly in the form of readymade garments. The EC accounts for a further 40% of the exports. Since Bangladesh’s exports along with remittances currently finance over 80% of the country’s foreign exchange expenditures, its trade relations have a much stronger impact on its economy than aid now. Access to the US and EC markets and the continuance of the absorption of the country’s migrant labour in the Middle East, as well as in East Asia and the US, remains an important foreign policy objective for Bangladesh. As a result, garment exports to the US and EC have acquired a special significance in its foreign policy choices.

At the same time, one should also take note of the fact that India is a fast growing economy and the largest source of Bangladesh’s imports (official and unofficial), closely followed by China. Whilst this growing import dependence on its two large neighbours is less concentrated than its export dependence, and there is a greater scope for diversifying its import sources than there is for exports, its import trends also remain relevant to the political economy of its external relations.
Bangladesh’s ongoing search for greater market access to the Indian market is therefore not just an issue of commercial relations. So, the political economy of the Bangladesh-India relations has its own special features that merit attention. As with aid, trade is also politicised. Once upon a time, trade relations were forged in the market place but experience at the WTO jamborees in Doha and Cancun has exposed the Bangladesh to the importance of political variables in determining trade relations. The notion of the WTO taking the country towards a rule-based, market-driven and global trading regime has proven a fantasy as the major powers and even regional powers are increasingly responding to political stimuli to both deny and provide access to their markets.

The US, in particular, has discovered the strategic significance of its market since it presides over the world’s largest market. The terms and conditions on which Bangladesh accesses this market can influence its economic fortunes as a country and can impact the lives of millions of poor families. If the US were to reduce Bangladesh’s garment export quotas and continue to give trade preferences to the country’s prospective rivals, as it has done to Sub-Saharan and Caribbean countries, this could impose severe economic and social costs on Bangladesh which in turn could have repercussions at home. If the US were today to give Bangladesh duty- and quota-free access to its market, as it has done for Sub-Saharan Africa, this could possibly double the country’s garment exports and provide additional jobs to a million poor women. Given the far-reaching implications of its policy decisions, the US may expect to extract a significant political rent from Bangladesh for the privilege of providing enhanced market access. This rent may range from a demand that the country should allow its gas resource to be exported from its fields to India, send peace-keeping troops to Iraq, recognise Israel, and even abandon its commitment to the LDCs in respect of sensitive global issues such as agricultural subsidies and the so-called Singapore issues. All such decisions involve serious political consequences for Bangladesh at home and in its relations with neighbouring or partner countries. Fortunately, the US is not yet ready to recognise Bangladesh as a strategic partner with whom such political horse-trading can be negotiated. But this day may not be far off and Bangladesh may well have its notions of foreign policy independence severely tested in the days ahead.

### 5.7 Asserting Autonomy over Foreign Policy

The scope for countries such as Bangladesh escaping from such strategic pressures exercised by its principal trading partners is limited. Such demonstrations of autonomy have not moved easily even towards big countries such as China and India. Even China has to calibrate its external relations with the US to take account of the fact that it provides the US with over US$100 billion of Chinese exports (Sobhan, 2004). It is not surprising that even where China has strong disagreements with the US in the Security Council it has never exercised its veto to frustrate the strategic decisions of
the US. China too has had to become aware of the political economy of its relations with the US. In such an unequal world order, countries such as Bangladesh have to rethink their notions of sovereignty and reassess their domestic policy options to see how far they can assume greater autonomy in their external relations. In order for the country to be able to enhance its freedom of choice, it needs to commit itself to a process of structural change not just in its economy but in its politics as well. Bangladesh would thus have to drastically diversify the composition and destination of its exports, enhance its domestic savings and significantly improve the quality of its policymaking and governance. This will have significant social and political implications on Bangladesh.

To initiate all of the above changes and then demonstrate policy independence vis-à-vis the US and other major trading partners would require the building of a strong political consensus within Bangladesh underwritten by massive support from the public. To develop such support would require a major structural adjustment in its politics as well as in the direction of its economy. The country would have to begin to correct the deep injustices of its social order so that ordinary people develop a stake in the growth of the economy. Only then can they provide the political support needed to assert autonomy in the country’s external relations and to bear the short-term costs of its search for policy change. Bangladesh would have a gulf to cross before it can move from its state of political and structural stagnation towards assuming the gear of a sovereign nation state.

5.8 Donors and Governance Issues of Bangladesh

Donors in Bangladesh do not coordinate their micro-projects (Sohban, 1996). There is some coordination amongst them in imposing macro-policy conditions on the country, or, occasionally, aiming at reform in some of the sectors such as health and family planning. This is mostly due to the lead role played by the World Bank in designing policy reforms for Bangladesh for which they seek support from other donors. Most donors prefer to control their own projects from conception to post-completion evaluation. But, according to Sobhan, et al, (1998), each government agency or each donor prefers to establish its own autonomy over a project, and donors or the recipient make little effort to ascertain whether a particular project is being replicated in another ministry or by an NGO. There is some element of the Bangladesh government-NGO coordination in the health and education sectors, but in most cases, absence of transparency in negotiating and implementing projects ensures that other similar projects remain outside the attention span of the user and are kept concealed from the attention of donors when aid for such a project is being negotiated.

Throughout the 1980s Bangladesh’s development agenda remained heavily influenced by the World Bank’s Structural Adjustment Program (SAP). The SAP design for Bangladesh never attempted to take into account the impact of the reforms on poverty. As Sobhan (1998) puts it, the prevalence of high levels of poverty in the country has led to a new generation of micro-project interventions in
the lending agenda of the World Bank and other donors to build safety nets for the poor who may fall victim of particular reforms and to support projects targeted towards groups of the poor. This particular approach to poverty alleviation has served to segmentise the poverty alleviation programs and has tended to discourage the design of a more holistic agenda for eliminating poverty. The disaggregation of Bangladesh’s anti-poverty programs into a large number of aid funded micro-projects dispersed between various ministries of the Bangladesh government and some 986 NGOs registered to receive foreign donations has served to weaken the cumulative impact of the programs for reducing poverty and raise the delivery costs. Thus, poverty alleviation programs in the country have been more expensive and less productive than they should have been (Sobhan, 1998).

5.8.1 How Serious are Donors about Governance?

The proliferation of aid projects delivered through diverse delivery agents in Bangladesh raises questions about the seriousness of donors in prioritising issues of governance in their aid agenda. Donors are protective of their sovereignty over their micro-projects. Much of this desire to retain control over their aid derives from a bureaucratic imperative of keeping a hand on the project and ensuring that it conforms to their policy priorities, whilst also meeting their accounting standards. There may also be some commercial benefits to be derived through “tying” of their aid, as Sobhan (1990) believes, although the extent of this practice differs amongst donors. Multilateral donors who have less of a stake in such aid tying still tend to use aid, no doubt with the best of intentions, to retain as much control as possible over its end use, since they may have limited faith in the governance capacity of the aid recipients in Bangladesh. Whatever their motivation, donors’ approach to aid delivery promotes inefficiency as well as some element of corruption in the aid delivery system and is thus hardly conducive to good governance over poverty alleviation programs. More seriously, this high profile role by donors in the poverty alleviation process disempowers the government which abdicates control and supervision over these projects to the point where signing an aid agreement becomes more important for the Bangladesh government than its end result (Sobhan, 1990). The government tends to disconnect itself from the end result of many such projects. It is thus arguable that donors’ commitment to prioritise governance among their policy goals in Bangladesh is already failing the first test of good governance, i.e., promoting national ownership over domestic policy agendas. This suggests that donors may be less serious about promoting good governance in Bangladesh than it may appear from their public positions.

5.9 Donors’ Policies and Practice: Problem or Solution?

In September 2003, the World Bank Group and the Board of Governors of the IMF met in Dubai to discuss their own work on international monetary and development issues. This meeting was worth its high expense as the discussions were centred on these institutions’ own
reform policies and practice rather than on how they should intervene in developing countries. However, an examination of the records of World Bank and IMF policies and performances in developing countries (Eiras, 2003) suggests that, far from being a solution to global economic instability and poverty, these two international institutions are a major problem. For one thing, their lending practice deters growth because the money they lend removes incentives for governments to advance economic freedom, and breeds corruption. For these reasons, the vast majority of recipient countries have been unable to develop fully after depending on these institutions for decades. So, there are demands across the world to establish a solid framework for reforming the World Bank and the IMF. The reforms should maximise their effectiveness, increase accountability for their lending decisions, and minimise their harmful influence on the developing world.

5.9.1 World Bank Policy – Fights Poverty or Supports Profiteering?

The World Bank’s mission statement is to fight poverty and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors. However, this is just the public language of the World Bank. According to World Bank (2003b), the Bank’s constitution (created in 1944, before the Universal Declaration of Human Rights) makes it clear that its underlying purpose is to “assist in reconstruction and development... by facilitating the investment of capital for productive purposes... to promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment” (Article One). So whatever may be said by the World Bank in its glossy brochures, it is required by its Articles to be primarily an agent of private foreign investment. Further, the associated economic liberal philosophy, supported by most World Bank managers, argues that private for-profit investment is the main force behind effective and efficient economic development. This philosophy is hostile to development based on public, state or community controlled investment and planning.

The World Bank is a special type of bank but, like an ordinary bank, it makes money from lending money. As Sobhan (2003a) estimates, in 2000 alone, the World Bank’s income from loans was over US$8 billion and its income from investments was over US$1.5 billion. Yet it also paid almost US$7 billion in interest, and its net income for that year was US$2.5 billion. The World Bank is therefore not a charity but a large money making corporation. However, the World Bank also sets up the conditions for profitable private banking and profitable private foreign investment. This may involve infrastructure or social investments, usually funded by loans and often involving investment opportunities for large private companies. World Bank loans are
often associated with private bank loans, and World Bank conditions are almost always the prerequisite for these sometimes larger private loans. The conditions attached to World Bank loans (eg. privatisation, less restrictions on foreign investment, lowering import taxes, removal of subsidies, restricted public investment, minimised labour and environmental controls) are all designed to encourage further private for-profit investment in, and trade with, the developing world. An important assumption in all World Bank operations is that there can be a happy marriage between (1) development programs that will benefit poor people and (2) profitable opportunities for giant multinational companies. Conflict between these two goals tends to be ignored. Low interest loans are also made available to very poorest countries through the World Bank’s ‘soft loan’ arm, the International Development Association (IDA), which is funded by the World Bank’s wealthy member countries. Here the interest rate is only about 1%, and the loans are paid over a long period (35 to 40 years, often with a 10-year grace period). However, the same conditions are applied (privatisation, less restrictions on foreign investment, lowering import taxes, removal of subsidies, restricted public investment, minimised labour and environmental controls), and the World Bank thus gains significant control over the economic policies of developing countries (Sobhan, 2003a).

5.10 American Influence upon International Financial Institutions

Ever since their inception, major IFIs (International Financial Institutions) such as the World Bank and IMF have been accused of being a tool of their major shareholders, especially the United States (Gisselquist, 1981; Loxley, 1986; and Barnebeck, et al, 2004). Fratianni and Pattison (2003) summarise evidence showing that the G7 are in full control of these agencies on big issues and that staff autonomy is restricted to areas which are of marginal interest to its shareholders. In the words of Rieffel (2003: 28-29), “The IMF is an instrument of the G-7 countries. There is no example that comes easily to mind of a position taken by the IMF on any systematic issue without the tacit, if not explicit, support of the United States and other G-7 countries”.

The recent empirical literature on political influences on the IMF shows that developing countries indeed get better terms from the IMF, when they have closer ties with the USA, as measured by their voting behaviour in the UN General Assembly (Thacker, 1999; Barro and Lee, 2003; Stone, 2003; Dreher and Jensen, 2003). Similarly, the USA interferes with World Bank policies when its national interests are at stake. Schoulz (1982) documents that the USA influences the World Bank’s “interests” in certain cases quite frequently. In some cases, the World Bank even violated its charter to satisfy US politicians, and the distribution of Bank loans was dominated by political considerations. Fleck and Kilby (2001) show that World Bank lending significantly reflects US influence. Faini and Grilli (2004) report that World Bank and IMF
lending is influenced first by the USA and then by the EU. However, whether G7 countries have actually been successful in “buying” votes with IMF and World Bank money has so far not been investigated.

The question addressed here is similar to the literature on the impact of (bilateral) aid on UN General Assembly voting patterns. As pointed out by Keohane, “certain states in the Assembly are very susceptible to bilateral pressure” (as quoted in Wittkopf, 1973: 869). According to the US Department of State (1985), examining UN votes makes it possible “to make judgements about whose values and views are harmonious with our own, whose policies are consistently opposed to ours, and whose practices fall in between”. Moreover, a report from the same department in 2000 states that “a country’s behaviour at the United Nations is always relevant to its bilateral relationship with the United States, a point the Secretary of State regularly makes in letters of instruction to new US ambassadors” (as quoted in Barnebeck, et al, 2004: 15). It has even been claimed that the primary purpose of US economic assistance is in promoting overall US policy objectives (Zimmerman, 1993). “The State Department… places high value on the employment of foreign aid to… swing critical votes in international bodies” (Black, 1968: 19). Aid is thus not mainly given to help countries in economic distress but to achieve the donor’s political targets. In fact, since the late 1940s every US administration considered foreign aid to be important in achieving foreign policy goals (Ruttan, 1996). According to Morgenthau (1962: 302), “the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered.”

As previous empirical studies did not cover extended periods of time and usually focused on US influences only, the analysis of foreign aid on voting patterns is interesting in its own right. However, the main contribution of this point is to analyse whether G7 countries employ the World Bank and IMF to change the voting behaviour of developing countries. What we find is, basically, that countries receiving concessional IMF loans are significantly more likely to vote with the G7 countries, while (non-concessional) money from the IBRD significantly reduces voting coincidence. Bilateral aid from G7 countries, however, is not robustly related to voting in the General Assembly.

5.10.1 Influence of American Neo-Conservatives upon the World Bank

Neo-conservative is a label applied to the marriage of convenience between three basic groups of theologically and ideologically driven lawyers, academics, and politicians and millionaires that have a shared goal to influence and direct US foreign policy. This group has found a common vehicle in enacting their agenda through the window of opportunity provided by the executive branch of the US federal government, and the current resident of the office is President George W. Bush who
shares many if not all of the neo-conservative values and goals. The goal of neo-conservatives is to use the military and economic might of the USA to pre-emptively attack and eliminate all challenges and threats, real and perceived, to maintain their wildly disproportionate influence on world affairs. Paul Wolfowitz, who was World Bank president over the past two years after stepping down as George W. Bush’s deputy secretary of defence in June 2005, is a neo-conservative that fits into this category very well (Wanniski, 2005). As Perkins (2004: 275) claims, “Paul Wolfowitz’s appointment left no doubt – if ever any existed – that the World Bank is not a world bank, it is a US bank. The president of the United States chooses its president and controls its major decisions.” One of the most notable achievements for Wolfowitz, as asserted by Weisbrot (2005), has been as the “major architect and symbol of the Bush Administration’s war in Iraq”, along with his other credentials, his “contempt for multilateral institutions and general disregard for world public opinion.”

According to Chomsky (2007), the ultra-conservative fringe element is on board the neo-conservative wagon to see the hegemonic influence of the United States undiluted and uninhibited by international institutions, standards, and oversight which is why they are such vociferous antagonists of the United Nations, weapons limitations, environmental protection agreements – basically any law or agreement that restricts the unilateral military and economic power, known by their codeword of “sovereignty”, of the United States. This faction of neo-conservatives is primarily motivated by economic self-interest. They reject international rules and regulations because they interfere with predatory capitalism and the accumulation of unrestricted and irresponsible profits that they seek. They subscribe to the fractured belief common among American right-wing conservatives that “if I can get richer then America is automatically made a better place” (Bacevich, 2005: 162). Millionaires Dick Cheney and Donald Rumsfeld also fit very well into this category as well as John Bolton.

5.11 Running Developing Countries off the Road to Prosperity

The debate on the ability of IFIs (International Financial Institutions) to influence reform in developing countries had its peak over the last few years in the past century, when the US Congress created the IFIAC (International Financial Institutions Advisory Commission). The IFIAC assessed the role and effectiveness of the World Bank, the International Monetary Fund, the regional development banks, the Bank of International Settlements, and the World Trade Organisation. Eiras (2003) refers to the IFIAC as having observed that the work of the World Bank and the IMF has left much to be desired. Specifically, the IMF has given too little attention to improving financial structures in developing countries and too much attention to expensive rescue operations. Its system of short-term crisis management is too expensive, its responses too
slow, its advice often incorrect, and its efforts to influence policy and practice too intrusive. High cost and low effectiveness characterise other development bank operations as well. According to the IFIAC (Eiras, 2003), the World Bank’s evaluation of its own performance in Africa has found a 73% failure rate. In reducing poverty and promoting the creation and development of markets and institutional structures that facilitate development, the record of the World Bank and regional development banks leaves much room for improvement. The problem is not so much that the World Bank and the IMF are ineffective as it is that they create disincentives in the countries they are trying to help. Sending money to countries with misdirected policies and weak rule of law increases the recipients’ debt without visible economic growth. Nevertheless, no significant reform of these international institutions has taken place to date. For example, at the entrance of the World Bank building in Washington, D.C., is a sign that reads “Our dream is a world without poverty.” To fulfil that dream, the World Bank employs over 10,000 people in more than 100 offices around the world with an annual budget of US$1.5 billion. Despite such monstrous investment of resources, according to the Index of Economic Freedom (Roll and Talbott, 2002), the Bank’s money has done nothing to improve economic freedom in recipient countries. Predictably, little development seems to have taken place in those countries compared to the level where they were 40 years ago when they started receiving World Bank loans.

The International Development Association (IDA) is the branch of the World Bank Group that lends money to the world’s poorest countries. For each of the IDA’s top 10 recipients, Table 5.1 on p.86 shows the cumulative amount received from the World Bank, the GDP per capita in the country’s first year and last year of receiving funds, and the level of economic freedom in its economy. India, for example, remains poor despite the country received US$28.8 billion since 1961 (Soto, 1989). That money did nothing to make India open its economy, which remains “mostly unfree” according to the Index. Similarly, Bangladesh is the World Bank’s third highest recipient of funds, despite being the world’s most corrupt country (Transparency International, 2003). This is not something to take lightly. According to Transparency International (2003), corruption in Bangladesh caused a loss of economic activity equivalent to 4.7 percent of its GDP in 2001. It is not difficult to guess, therefore, where the World Bank’s money may be going, since Bangladesh today is the world’s third poorest country. Summing up the results in Table 5.1, after receiving IDA funds for about four decades now, the economies of these countries are today “mostly unfree”, according to the Index – except for the economy of Uganda, which is only slightly better than the rest. As a result, the per capita income of recipient countries went from between US$117 and US$447 in the 1960s to between US$124 and US$527 in 2002.
The IMF has had similar results. According to the IMF (2001), its goal is “to promote international monetary cooperation, exchange stability... to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payment adjustments.” However, financial crises around the world have increased over the past years, even after the IMF has committed ever-greater resources to combat them. In many cases, recipients of IMF loans are worse off today (e.g., Argentina) than before the IMF loans began to flow. The reason is simple. Financial crises are the results of poor policymaking and corruption, not of some inexplicable evil design. For example, if the IMF were to bail out a country from an impending crisis, it would not let its leaders face the consequences of poor policymaking and corruption. Hence, the country’s leaders would have no incentive to change the poor way in which they run the country. And at the same time, the country’s government bonds would be sold in the market at a very high yield – reflecting the high risk of default culture from poor policymaking. But because the IMF continuously bails it out, regardless of continued corruption and poor policy, buying the bonds would become a unique investment: a high yield bond bearing no risk.

Far from achieving the IMF’s stated goal, bailout loan packages reduce the political risks associated with faulty economic decisions, and recipient countries consequently end up with greater debt, lower standard of living, higher unemployment, and less savings. For each of the IMF’s top 10 recipients, Barro (1997) has shown the cumulative amount received from the IMF, the GDP per capita in the country’s first and last years of receiving funds, and the level of economic freedom in its economy. Brazil, for example, has received US$53 billion from the IMF since 1958. That money did nothing to open Brazil’s economy, which remains “mostly unfree” according to the Index. Consequently, Brazil has been unable to grow sustainably, and 49 percent of the population remains poor, with its huge debt burden crippling its growth prospects.

Argentina is the third highest recipient of IMF funds and perhaps the most obvious example of IMF failure. Over US$26 billion in IMF loans since 1958 has not encouraged Argentina to move towards substantially open markets (Cooter, 1996). At a first glance, the few changes that Argentina has undertaken appear to have made it “mostly free”, but it is still a “mostly unfree” economy. As a result, Argentina’s GDP per capita has not changed much since 1958. IMF lending practices in Argentina have had two negative consequences that apply, in fact, to all IMF lending. Firstly, IMF assistance became predictable, eliminating investor risk through repeated bailouts: Investing in Argentina would bring a guaranteed profit regardless of how poor its economic conditions were. Secondly, the Argentine government had little incentive to reform;
the money would still come in. These lending policies were a major cause of Argentina’s worst economic, social, and institutional crisis.

In sum, after receiving IMF funds for an average of 42 years (except Russia, which first received IMF funds in 1992), the economies of most of the IMF recipients are today “mostly unfree” according to the Index – except Mexico and Argentina, which are only marginally better. As a result, the recipient countries’ per capita income went from between US$259 and US$5,419 in the 1960s to between US$494 and US$6,579 in 2002. South Korea is the only country that grew and developed to a significant degree, enjoying a per capita income of US$14,280; but the reasons for that development are an extensive opening of the economy and the preservation of a strong rule of law – a very different story from other IMF recipient countries (Cooter, 1996).

5.12 Reforming the World Bank and IMF – A Priority

World Bank and IMF activities are a major cause of continued poverty in the developing world. In order to foster a more stable and peaceful world, these institutions should address their own failure to provide the developing world with incentives to move towards economic freedom. To that end, they should control their ability to interfere with the international economy, particularly through their lending practices. Clients of these international financial institutions must meet certain criteria to qualify for funds. These criteria should be based on the “evidence that they contribute or are complementary to long-term growth and prosperity rather than on subjective, political motivations unrelated to development” (O’Driscoll, et al, 2003). There should be a solid framework for reforming the IMF and further reforming the World Bank. There should be a new system of preconditions that countries must meet to qualify for an IMF/World Bank loan. These should include sound fiscal policy, freedom of entry and operation for foreign financial institutions, and adequately capitalised commercial banks. Dependence on foreign loans and future economic crises around the world will decline only in an environment that promotes the efficiencies and benefits of open markets.

5.12.1 How to Reform Aid Agencies?

A major challenge for aid agencies in recent years has been to adapt their institutional strategies, cultures, and capacities to work with participatory development. New patterns of staffing, recruitment, and personnel performance assessment, new project management approaches, and new criteria for judging success—all have emerged progressively. How far has this process gone, and what remains to be done? For multilateral development banks, self-commissioned reports led to a fundamental reconsideration of the effectiveness of their traditional instruments—project loans. According to DAC as quoted in OECD (1999), beginning with the World Bank’s Wapenhans Report, followed by similar reports of the Inter-American Development Bank, the
Asian Development Bank, and the African Development Bank, the conclusion was that loan quantity had been given primacy over loan quality. Securing loan approvals was a more powerful motivator for staff than working to ensure project success or larger development goals. Institutional factors that are critical for sustainable development impact had been neglected. Changes are now under way in each of the multilateral agencies, and sector-wide approaches are replacing individual projects. The World Bank has embodied its new objectives and organizational culture in a partnership strategy that reaches out to counterparts within and outside government.

Similar changes are evident in bilateral agencies, which have also often been disbursement-driven. But their main instrument has been grants not loans, with more flexibility in preparation and technical assistance. The emphasis has shifted from capital projects to capacity building and support for policy reform. In all these changes the focus is on development results—on the human progress and the economic, political, and social advance generated by the efforts of the developing countries and their partners.

5.13 Conclusion

This chapter has attempted at exploring the policies and practices of major aid donors such as the World Bank and the IMF in Bangladesh, suggesting that these institutions can better serve the world if they bring about reforms and create incentives for countries to increase economic freedom. Work of these institutions deters economic freedom, and therefore, the vast majority of recipient countries have been unable to develop fully even after years of dependence on them.

Some of the literature reviewed in this chapter strongly and actively supports reforming these institutions’ lending practices. The literature specifically upholds that reforms of the World Bank and the IMF should maximise these institutions’ effectiveness, increase accountability for their lending decisions, and limit their harmful influence in the developing world. Such reforms would bring about more stability, economic growth, and peace around the world.

Chapter Six will explore to what extent aid funds are channelled through NGOs in Bangladesh, in which sectors and activities have NGOs used aid funds, what conclusion can be drawn about the effectiveness of NGOs as aid delivery agents, particularly from the point of view of poverty alleviation, in contrast with the delivery mechanisms of the government, what are the major concerns of NGO funding and what potentials can be reaped through government-NGO collaboration.
## Table 5.1: World Bank Loans by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Cumulative IDA loans received (in US$ billion) as at 2002</th>
<th>GDP per capita when first receiving aid (in US$)</th>
<th>GDP per capita in 2002 (in US$)</th>
<th>2003 index score</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>28,844</td>
<td>183 (1961)</td>
<td>494</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>China</td>
<td>9,947</td>
<td>169 (1961)</td>
<td>942</td>
<td>3.55 (Mostly unfree)</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>9,914</td>
<td>213 (1973)</td>
<td>396</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>6,642</td>
<td>186 (1961)</td>
<td>527</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>Ghana</td>
<td>4,016</td>
<td>447 (1962)</td>
<td>432</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3,910</td>
<td>181 (1988)</td>
<td>204</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3,862</td>
<td>185 (1984)</td>
<td>412</td>
<td>3.70 (Mostly unfree)</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>3,779</td>
<td>117 (1981)</td>
<td>124</td>
<td>3.50 (Mostly unfree)</td>
</tr>
<tr>
<td>Uganda</td>
<td>3,401</td>
<td>236 (1982)</td>
<td>367</td>
<td>3.85 (Mostly unfree)</td>
</tr>
<tr>
<td>Kenya</td>
<td>3,237</td>
<td>205 (1964)</td>
<td>325</td>
<td>3.10 (Mostly unfree)</td>
</tr>
</tbody>
</table>

CHAPTER SIX
AID AND NON-GOVERNMENTAL ORGANISATIONS IN BANGLADESH

6.1 Introduction
About significant amount of aid is channelled through non-governmental organisations (NGOs) in Bangladesh. Donors argue that aid disbursement through NGOs is more effective for poverty reduction. This argument is partly based on the dwindling confidence in the delivery mechanisms of the government. On a more positive note, it is argued that NGOs with their flexible structure and absence of bureaucratic red-tape can be more expeditious than the government in delivering aid benefits. Moreover, they are more adept in involving beneficiaries in the design and implementation of projects that can be effective in poverty reduction. On the contrary, the government is often sceptical of the role of NGOs. It is alleged that NGOs tend to use aid money to further their own political agenda and that they are accountable to none.

This chapter will explore NGO-SNGO relationship and how it impacts the efficiency of SNGOs. This chapter will examine to what extent aid funds are channelled through NGOs in Bangladesh; in which sectors and activities NGOs have used aid funds; what the geographical distribution of aid funds used by NGOs is; what conclusion can be drawn about the effectiveness of NGOs as aid delivery agents, particularly from the point of view of poverty alleviation, in contrast with the delivery mechanisms of the government; and what the major concerns of NGO funding are and what potentials can be reaped through government-NGO collaboration. This chapter is based on secondary information and data. However, there is very little reliable information on aid flow to different sectors through NGOs, and there is hardly any consistent time series and disaggregated data available in government and NGO offices. The data on geographical coverage of sector-wise NGO activities are also difficult to obtain. From the ‘ex-post’ evidence and various studies a broad picture of aid NGOs is available, and this is no less important.

6.2 NNGO-SNGO Relationships and Its Impact on Efficiency of SNGOs
NGO agendas complement, intersect, compete and contradict one another. The type of NGO accountability exercised includes “downward” accountability to a membership base, “upward” accountability to a Board of Directors and fund-providers, and “horizontal” accountability to NGO partners. In general, NGOs have multiple relationships of accountability. According to Alexander and Abouagre (1998), there are instances when the power relationships between Northern NGOs (NNGOs) and Southern NGOs (SNGOs) are reasonably symmetrical and NNGOs support and empower their southern colleagues by means such as:

- providing information and rigorous analysis of developments in policies and practices of Northern governments and inter-governmental institutions;
• mobilizing concern about, and financial support for, sustainable development programs among Northern constituencies; and

• providing financial, technical and political support for SNGO projects and programs to promote social justice.

When power relations are symmetrical, NGO activities have a better chance of success; they are more likely to foster pluralism and influence development projects and programs by giving voice to poor and minority groups and by efficiently channelling social services to poor populations. NNGOs which do not accept bilateral official aid have a stronger emphasis on empowering SNGOs than those which depend upon official aid. Asymmetrical power relationships between Northern and Southern NGOs mirror those between Northern and Southern governments in terms of financial dependence and conditionality. SNGOs are often forced to deal not only with conditions imposed by NNGOs but also those required by the agencies funding NNGOs.

When the term “partnership” is applied to relationships between NNGOs and SNGOs, it connotes equality and mutuality. SNGOs increasingly challenge NNGOs when “partnership” rhetoric is misused to, for instance, make policies with little, if any, consultation with SNGO counterparts.

When dealing with a North-South NGO relationship, assessments of the accountability of an NNGO are often based upon the extent to which the NNGO supports SNGOs which are, in turn, accountable to a membership of community-based organizations (CBOs). Such relationships have potential to strengthen Southern societies in certain circumstances – for instance, when there are decentralized and accountable decision-making mechanisms.

The revolution in information technology has accelerated information-sharing and coalition-building among some NGOs while excluding many others. For instance, connectivity is far more prevalent in Latin America than in Africa. NNGO advocacy positions will be more adequately informed by SNGO views as barriers to access and use of information technology are lowered. Greater symmetry in power and access to information technology is essential to tapping the reservoirs of expertise in the South in ways that build Southern capacity and self-reliance.

It is in the interest of NNGOs that a stronger role for SNGOs is crucial in speaking to domestic and international issues on behalf of the South. But, there are cases (e.g. when a Southern government does not respect internationally accepted human rights) when NNGOs will speak out in solidarity with their SNGO counterparts or the oppressed groups. In general, it is not sufficient for NNGO to speak on a country’s behalf by virtue of the passions of its constituency (e.g. rain forest preservation) or by virtue of its capacity to deliver relief or social services.
To effectively support their Southern counterparts, many NNGOs are reorienting and restructuring their activities to provide solidarity with those in the South, which have a legitimate role or social base from which to transform their own societies. For instance, NNGOs are strengthening their support for SNGOs through providing information dissemination services and links to Northern policymakers. Several NGOs are taking leadership by clarifying roles, relationships, and responsibilities in ways that build accountability.

6.2.1 Power Issues

One of the key issues within partnerships of Northern and Southern NGOs is the inequality of power which may exist within the relationship (Lister, 1997). This is acknowledged by the BOND statement of principles (BOND, 2002c). Research in Latin America has revealed that such ‘asymmetric’ relationships are the rule and cannot really be described as partnership (Lister, 1997). The same author has concluded that NNGOs were mostly interested in partnerships with SNGOs because of their desire to survive in a changing environment in which donors are increasingly funding SNGOs directly and, hence, their need to demonstrate ‘added value’ (Lister, 1997). The term ‘partnership’ is only used by the powerful ‘partner’ to describe the relationship, whereas the weaker ‘partner’ describes the more powerful as their donor. Thus bilateral agencies regard NNGOs as partners with SNGOs viewing them as donors. Similarly, NNGOs see SNGOs as partners, whilst SNGOs regard them as donors (Buchanan, 1996; Lister, 1997; Keengwe et al., 1998). Many SNGOs see themselves as ‘sub-contractors’ of NNGOs and the relationships being ‘parent-child’ in nature (Simbi and Thom, 2001; Transform, 1998).

Power is not only exerted from NNGO to SNGO but also both organisations operate in an environment in which there are complex power dynamics. For instance, many NNGOs feel that they are at a power disadvantage when compared to their ‘back donors’. Increasingly, NNGOs are working with support organizations in the South who in turn are working with individual SNGOs (Garbutt, 1997). This may shift some of the power/partnership issues to the relationships between SNGOs. A study of NGOs in Latin America came up with a classification scheme for SNGOs, which included these as intermediary NGOs (Carroll, 1992). The issue of power shapes aspects of partnership, and learning is no exception. It has led some to conclude that learning within such partnerships is largely one way (North-South) with little evidence that Southern voices are heard (Wallace, 2002). The following ‘mechanisms’ through which power is exerted have been identified:

- **Money** – power comes from holding the ‘purse strings’ and being a ‘gateway’ to funders (Wallace, 2002). In such partnerships, accountability to donors for funds and their use may come to dominate the relationship (Buchanan, 1996);
- **Language** – namely the dominance of English in interactions between partners; and
• Means of communication, i.e. the domination of written media (Wallace, 2002).

In addition, a number of other issues through which power is exerted in a North-South direction are as follows:

• Historical/colonial baggage which engrains the dominance of Northern power in much thinking in the South;
• Levels of technology – e.g. video cameras, computers and software which are often seen as more advanced in the North; and
• Modernisation paradigms which emphasise the positive side of everything modern as compared to traditional things.

There are many other sources of power, such as knowledge, information, credibility, skills, legitimacy and personal contacts, which may be available to Southern organizations. However, these need to be recognized and claimed if Southern NGOs are to assert themselves more positively from a powerful base. An issue related to power is that of vulnerability. There are instances of Southern organizations asserting themselves and finding that they had more power than they realized. Many organizations do not do this because they feel vulnerable to loss of NGO support. This may be because there are many SNGOs for each NNGO, and it may be easier for an NNGO to walk away from an unsatisfactory relationship than for an SNGO to do so.

6.3 Aid Flows to Government and NGOs in Bangladesh

There are many thousands of local NGOs, over 21,000 according to Fernando and Devine (2003, p.229), who are not registered with the NGO Affairs Bureau of the Bangladesh government despite that they receive foreign aid. However, not all of them have development programs. The Association of Development Agencies in Bangladesh (ADAB) listed a total of 2,152 NGOs in Bangladesh in 2004 (World Bank, 2006).

As the numbers of NGOs increased rapidly, the amount of international aid funds coming to NGOs “ballooned from roughly US$150 million in 1990 to nearly US$450 million in 1995, the peak year of the decade” to 2000 (Stiles, 2002, p.837). Interestingly 1995 was also a peak year internationally, with gross outflows of US$18,000 million from all NGOs in OECD countries (van Rooy, 2001, p.22). Since the early 1990’s, 15% of all foreign aid to Bangladesh has been going to NGOs (Begum, 2004, p.102). Table 6.1 on p.104 shows the number of NGOs registered to receive foreign aid in Bangladesh between 1991 and 2006, and an incomplete Table 6.2 on p.104 shows a comparison of aid disbursed to NGOs and the Bangladesh government. However, data from more than one source are shown to illustrate the ambiguity of the data because it has not been possible to verify one correct data set. Table 6.2 indicates that the proportion of foreign
aid to Bangladesh going to NGOs increased very significantly from 1991 to 2006. The following is a summarised picture of the NGOs operating in Bangladesh and their activities vis-à-vis the foreign and domestic financing they receive (World Bank, 2006):

a) There are about 2000 development NGOs which mostly operate in a couple of districts across the country. The proportion of rural communities with at least one NGO program doubled over the past decade.

b) The total aid to NGOs has remained at around 0.7% of the GDP over the past decade when the total aid to the country has fallen from 5% of the GDP in the 1990s to 3% of the GDP after that period.

c) Foreign aid constitutes 34% of total NGO expenditure (including microfinance) but as high as 88% of non-microfinance programs.

d) Interest income on microfinance is the main source of internal finance for NGOs. Private charitable contributions have not been tapped by development NGOs. Corruption has plagued government financing of NGOs in social sectors. However, contracting has been successful in microfinance (PKSF) and solar energy (IDCOL).

e) 81% of total microcredit loans outstanding are spread among 3 NGOs: Grameen Bank (35%), BRAC (24%), and ASA (22%). The rest are among Proshika (7%) and other NGOs (12%).

f) A survey conducted by World Bank (2006) on 300 NGO branches across the country in 2003 shows that the most common services provided by NGOs (microcredit, health, sanitation, and primary education) are in line with community preferences.

6.4 Capacities and Weaknesses of NGOs in Bangladesh

The trend towards democratisation and consequent weakening of authoritarian tendencies has made it more feasible for NGOs to work with the government, and has, in some cases, made the government more flexible. Furthermore, the conditions of donors for realising more efficient and accountable use of their aid through better governance have created a space for NGOs in the states’ functions. In a vicious way, the structural adjustment and other reform measures recommended by major donors have created further space for NGOs in the context of political economy (Clark, 1991). Administrative decentralisation in the public sector and dependence on market mechanisms has also made the government more accessible for many NGOs.

According to Clark (1991), voluntary organisations concerned with poverty alleviation and rural development may be broadly classified according to three criteria: spatial, functional, and clientele.
a) **Spatial**: The majority of voluntary organisations tend to be local in character and operate in a village or a few villages. These NGOs are small in size, have limited resources and are simple in structure. There are also sub-regional and regional organisations, each of which covers a district or a cluster of districts with large populations. Regional organisations would ordinarily have local branches or local affiliates or both.

b) **Functional**: Some voluntary organisations undertake one or a few schemes covering fields, such as agriculture, livestock, small rural industries, irrigation, forestry, and health. Others combine a few of these functions. Several organisations focus on social activities, such as primary healthcare, sanitation, food, water supply, nutrition, adult and elementary education, vocational training, and family welfare. A few organisations try to mobilise public cooperation in environmental improvement – air, water, flora and fauna. There seems to be an increasing realisation among voluntary organisations that a sectoral approach has only a limited impact upon the well-being of target groups or on the development of an area. A suitably designed multi-sectoral strategy, in which each sectoral activity is meshed with other allied objectives, tends to optimise the impact of an NGO on people and areas.

c) **Clientele**: In every society, there are various socioeconomic classes and sub-classes of people. While some voluntary organisations may be concerned with development needs of all or most classes of people, others have targeted specific classes. A problem that arises in respect of the clientele orientation of voluntary organisations is that unless appropriate and timely actions are taken, these may start competing among themselves for promoting the interests of their respective clientele groups negating the broader interests of the poor.

Besides addressing NGO definitions and typologies, an important issue for donor-NGO cooperation is assessment of NGO strengths and weaknesses. While having much strength, NGOs also have limitations.

A major strength of developmental NGOs, especially operational NGOs, is their linkage to communities at the local level. NGOs have an ability to reach the poor and other disadvantaged populations, and they identify groups not served by existing development initiatives. This capacity emerges from NGOs’ local level orientation, social commitments, field-based presence, development orientation, and expertise.

Stemming from their administrative flexibility and freedom from many constraints affecting government, many NGOs can respond quickly to new circumstances and can experiment with innovative solutions that respond to immediate beneficiary needs. An important aspect of NGOs is their ability to mobilise local resources and foster people’s organisations, through which beneficiaries can more directly participate in development. NGOs can often identify emerging
Chapter Five: Aid and Non-Governmental Organisations in Bangladesh

development issues and concerns overlooked by other actors of the development community. Through popular consultation they can identify various perspectives in the development process, not readily captured by development institutions, the government and the private sector.

Some NGOs command limited technical capacity for undertaking large complex projects due to their small size and limited resource base. Often focusing only on their priorities and not recognising the larger environment in which they function, NGOs sometimes have a narrow strategic prospective and weak linkage with other important actors in development. Such constraints limit NGOs’ capacity to scale up innovative and successful projects or to develop organisations and programmes that are sustainable. NGOs are often successful in experimentation and pilot efforts but such successes on the ground are often the result of unique circumstances that cannot easily be replicated. Again, because of their limited size and resource base, NGOs often have limited managerial and organisational capabilities.

Many NGOs do not use conventional or generally accepted evaluation criteria for their programmes, but it is not unusual for some NGOs to systematically and objectively evaluate their work. Because of this it is often difficult to gauge the overall impact or viability of NGOs, as well as to compare individual NGOs based on their relative impact and success.

Other actors in the development arena sometimes have difficulty in identifying NGOs with which cooperation can be established. Many NGOs prefer to work alone, without links to government or development agencies. While many countries recognise NGOs as legitimate participants in national development processes, in some countries the relationship between NGOs and the government may be constrained by political, legal, ideological and administrative barriers.

Because of their voluntary nature, questions frequently arise in respect of the credibility and responsibility of NGOs: to whom or to what authority NGOs are accountable and from where they draw their legitimacy and mandate. Similarly, and again because of their voluntary nature, a persistent question relates to constituencies that NGOs claim to represent. Questions also sometimes arise about the motivation and ultimate objectives of NGOs. It can be pointed out that NGOs may not always bear final accountability for the impact of policies and positions they advocate. The focus on these questions is becoming increasingly intense with the expanding breadth and depth of the social, political and financial dimensions of the NGO sector. As the NGO sector comes to employ private sector-type structures and controls, in addition to traditional participatory structures and controls, such concerns may become even more strident.
6.5 Poverty Alleviation Efforts of NGOs in Bangladesh

NGOs as a group have emerged as one of the most effective institutions in poverty alleviation interventions in Bangladesh. Starting with their relief and rehabilitation role after independence in 1971, NGOs have vastly expanded their programs and proved to be effective change agents in Bangladesh society. These organisations now form an integral part of the institutional structure for addressing poverty alleviation as well as rural development, gender equality, environmental protection, disaster management, human rights, and other social issues. NGOs, with their concern in bringing about a positive change in the lives of the poor, largely follow a ‘process by which members of a society develop themselves and their institutions in ways that enhance their ability to mobilise and arrange resources to produce sustainable and justly distributed improvements in their quality of life consistent with their own aspirations’ (Brown and Korten, 1989). In order to support social and economic empowerment of the poor, the range of NGO activities has widened to include group formation, microcredit, formal and non-formal education, training, health and nutrition, maternal and child health, family planning and welfare, women’s development, agriculture, fisheries, forestry, poultry and livestock, the environment, water supply and sanitation, advocacy, human rights, legal aid, land and asset distribution, and many other areas. Within this broad spectrum, NGOs have pioneered and successfully experimented with a number of innovative approaches to poverty alleviation in the country. Some of the notable examples include the following (World Bank, 1996):

Group-based mobilisation and beneficiary participation: A group-based or target group mobilisation strategy to (a) ensure economic improvement through direct targeting and beneficiary participation, and (b) social and institutional development through strengthening the organising capacity of the poor. Such group mobilisation is considered as a key element in ensuring the success of credit programs through strengthening financial discipline and peer responsibility.

For instance, the Bangladesh Rural Advancement Committee (BRAC), the biggest NGO in Bangladesh, pursues an integrated approach and provides training, credit, agricultural inputs and other services to the poor. BRAC organises the rural poor in small groups of 20 persons for men and women separately. Proshika, another big NGO, follows the approach of “development through the empowerment of the poor” (Wood and Sharif, 1997). Empowerment of the poor is achieved through providing them with organisational and practical skills, providing them with

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4 NGOs generally encompass the private not-for-profit voluntary sector with organizations operating along a wider spectrum concerned mainly with welfare aimed at social change, on the one hand, and development, on the other. In this Chapter, focus is placed mainly on development-oriented NGOs.

5 Since 1991, more than 19,000 NGOs have been registered, most of which are small clubs or cultural groups. Others exist in name only. Till April 2003, the number of foreign-funded NGOs was 1767. These can be regarded as active NGOs. In December 1995, 754 NGOs were enlisted as members of the Association of Development Agencies of Bangladesh (ADAB), which is an apex body of local and international NGOs engaged in development activities in Bangladesh.
credit and other resources and motivating them to participate in development projects. ASA, another big NGO, has been working to empower the landless and disadvantaged people by providing them with credit to facilitate income-generating activities of the poor. All of their activities can be characterised as follows (Smillie, 1997; Murshid, 2003):

- **Microcredit**: The identification of credit as a critical need and the design of efficient and cost-effective credit delivery mechanisms (e.g. Grameen Bank, PKSF, and other NGO-models of microcredit).

- **Targeting Women as Beneficiaries**: Successful targeting of women as the principal beneficiary group.

- **Access to Common Property Resources**: Innovations that allow the poor to access land in non-traditional ways in the fields of social forestry and formation of landless and irrigation groups. In the former, government-owned lands (commonly referred to as *khas* lands), in particular roadside strips, are accessed by NGOs for various afforestation programmes by landless groups. In the latter, landless people are organised and given assistance to own modern irrigation equipment to emerge as stakeholders in the water market in agriculture. Landless groups are also organised to collectively lease government-owned *khas* lands and dry river-beds for fish cultivation, protect the fish released into the open water, production of seedlings in village-based nurseries, etc.

- **Healthcare**: Promotion of primary healthcare concerns, notably immunisation and control of diarrhoeal diseases, and effective dissemination of health messages through innovative media campaigns. The country has achieved dramatic success, with the innovative programmes of NGOs to popularise the oral re-hydration therapy and immunisation coverage to reduce child mortality rates.

- **Non-formal Primary Education**: Introduction of a system of satellite primary schools based on non-formal education principles with parent and community involvement. The role of NGOs in this sector is worth mentioning. NGOs are cooperating with the government to implement non-formal primary education programs in rural areas. BRAC programs have earned global recognition. They are cost-effective, 25-40 percent lower than that of the formal system.

- **Non-traditional Agricultural Program**: Innovative programs of technology transfer, e.g., ground-breaking farm-level innovations in fertiliser-use and pest management, training of local people, national advocacy campaigns, and extension systems for appropriate technology transfer to homestead agriculture.
• Development of Appropriate Irrigation Technologies: Low-cost irrigation technologies through research and experiment, e.g., treadle pumps and bamboo tube-wells, roarer pumps, and tara (a local type of) pumps to extract water from deeper aquifers.

In rural Bangladesh, NGOs have pioneered programs that benefit families who don’t have any land or who own less than half an acre of land. The NGO Proshika initiated the program of using low-lift pumps and shallow tube-wells for groups of landless and marginal farmers in 1980. These groups sell water for irrigation to local farmers in exchange for a share of the harvest. The income of the groups helps to create demand for the produce. Since Proshika’s efforts, similar ventures of BRAC, Grameen Bank and other NGOs have followed.

The Poverty Reduction Strategy Paper (PRSP) entitled “Bangladesh: A National Strategy for Economic Growth, Poverty Reduction and Social Development” provides the major thrusts of government organisations, NGOs, and the private sector in reducing poverty in Bangladesh. The document mentions five main avenues that should be followed simultaneously for poverty reduction: pro-poor economic growth, faster human development, women’s advancement and closing the gender gap, social protection to the poor people, and participatory governance. In all these five avenues, NGOs play an important role. The future poverty reduction strategy of Bangladesh envisages building a development coalition of the main actors, i.e., the central government, local governments, NGOs, civil society organisations, community-based organisations, and the private sector.

6.6 Sectoral Activities of NGOs and Donor Preferences

For many years, the main focus of NGOs has been on social welfare activities. These activities have also been increasingly incorporated into mainstream national development programs. NGOs are recognised as important development institutions in the non-profit sector and are now acknowledged as partners in development. In Bangladesh, external assistance plays a key role and part of this assistance is channelled through development NGOs. Allocation of funds through NGOs is indicative of donor preference, and reflects the international context of the aid regime.

As suggested in a study sponsored by ADB/IDSS (1989), most of Bangladesh’s NGOs (59 percent) implemented their programs with an accent on social welfare, while 38 percent implemented mainly development programs, meaning poverty alleviation and economic development, and 3 percent focused on religious affairs. The non-profit sector is making breakthroughs in different fields, and many NGOs are undertaking multi-sectoral initiatives. They are implementing projects parallel or complementary to government initiatives. According to ADB/IDSS (1989), major areas of current involvement include
• Relief and rehabilitation;
• Rural and urban development;
• Education, health, and family planning;
• Microcredit and women’s development;
• The environment and forest;
• Agriculture, livestock, poultry and fishery;
• Legal aid, and policy advocacy;
• Consumer and disability issues;
• Infrastructure development;
• Research, communication and vocational training; and
• Sectoral networking.

As emphasised by Sobhan (2003a), major donors such as the World Bank and the IMF have taken a sharp departure from their “project funding” to the “institution and capacity building” approach at the national level. As a leading multilateral donor, the World Bank has influenced other multilateral and bilateral donors to emphasise the efficient utilisation of aid and to ensure sustainable development. This donor focus has inspired support to NGOs as development partners, advocacy agencies, and service providers. According to James Wolfensohn (1996), the former World Bank President, “Development is not just about or even about numerical targets to be achieved by 2015, as important as they are. It is about people… too often, services fail the poor people.” Donors have sought to address the short-term needs of the poor through national and international NGOs, social funds, UN agencies, or a combination of these providers.

The foremost concern of donors in Bangladesh is reducing poverty and promoting human development in the country. Donors underscore the need for the promotion of the government-NGO-donor relations within this broad framework. The country strategy of each donor does not specifically mention the amount of aid to be channelled through NGOs, but the strategy does mention the fields where the involvement of NGOs, CSOs (civil society organisations), and CBOs (community-based organisations) is envisaged. According to Sobhan (2003a), some areas where donors prefer NGOs’ involvement are as follows:

1. The World Bank: The World Bank, especially its soft loan window (IDA), in its Country Assistance Strategy (CAS) for 2001-03, identifies the following areas where NGO involvement will be funded:
i)  *Health and family planning*: From about US$40 million, the aid has increased to almost to US$1 billion;

ii)  *Arsenic, and HIV/AIDS*: IDA along with UNICEF and SDC is supporting programs in these fields;

iii)  *Nutrition*: IDA, ADB, the Netherlands, CIDA, UNICEF, SDC and DFID are supporting programs;

iv)  *Microcredit*: IDA and ADB are supporting programs;

v)  *Education*: IDA, ADB, NORAD, GTZ, UNICEF, SDC and DFID are supporting programs; and

vi)  *Social Investment*: IDA, DFID and CIDA are supporting programs.

2. **The Asian Development Bank**: The Country Strategy and Program (CSP) of 2002-07 points out the following fields where NGOs will be supported:

   i)  Basic and non-formal education, and skill development;

   ii)  Basic health and nutrition; and

   iii)  Microcredit programs.

3. **The Canadian International Development Agency (CIDA)**: The new Country Development Programming Framework (2003-08) states the following fields where NGOs will be supported:

   i)  Health care system, and nutrition;

   ii)  Microcredit programme;

   iii)  Social investment projects; and

   iv)  Capacity building of the government, NGOs, and the private sector.

4. **The US Agency for International Development (USAID)**: The Programme Briefing on Bangladesh mentions the following fields where NGOs will be supported:

   i)  Health, fertility, nutrition, HIV/AIDS;

   ii)  Arsenic mitigation;

   iii)  Pre-primary education for children; and
iv) Human rights, and human trafficking.

5. The International Fund for Agricultural Development (IFAD): The planned project activities include such fields as livestock and poultry, microcredit for the poor, and small Farmers’ lending where NGOs may be involved.

6. UNDP: The Second Country Cooperation Framework (CCF) for Bangladesh (2001-05) envisages channelling about US$102 million to Bangladesh. Some of this fund is supposed to be used to leverage cost-sharing and parallel financing by other donors, NGOs, CSOs and participating communities. UNDP core (TRAC1, TRAC2), UN Capital Development Fund (UNCDP), Global Environment Facility (GEF), UN Fund for International Partnership (UNFIP), and Women in Development (WID) Fund underscore management of CCF as follows:

i) Support national execution (NEX); and

ii) NEX to involve NGOs for efficient delivery of services, transparency and accountability.

7. The Department for International Development (DFID), UK: The Country Strategy Paper (CSP) of DFID for 1998-2002 notes that NGOs are likely to be the most effective instruments in bringing direct benefits to the poor. From 1999 to 2002, DFID spent about £205 million in Bangladesh in basically two project areas: “poverty focused” and “enabling” projects. Health and population, education, social investment, microcredit, and public administration were the major sectors of emphasis. In future, DFID is likely to continue supporting major sectors of interest.

8. The Swedish International Development Agency (SIDA): Poverty eradication is the overarching objective of SIDA in Bangladesh. Swedish support is targeted mainly at social sectors such as health and education, and infrastructures such as roads, market places, and job creation measures. SIDA encourages NGOs to participate in these sectoral programs and cooperates directly with local NGOs in the spheres of social and economic mobilisation, human rights, and democracy.

Organisations such as the BRAC, Grameen Bank, PKSF and Proshika are increasingly shifting their focus from charity work to social and economic development of vulnerable groups. The oldest form of organised philanthropy has been succour to the distressed in the form of relief and rehabilitation. A host of organisations have emerged to get involved in the delivery of social services, particularly in the field of health and education. Since the 1980s, organisations have been engaging more in the economic development of the poor. Policy advocacy on different issues of concern is a recent issue that has been taken up by a number of citizens’ groups and organisations. There are also civil society and human rights forums involved in campaigning and lobbying on
issues such as conservation of the environment, gender equality, trafficking of women and children, good governance, and donor aid conditions.

6.7 Laws Governing NGOs

While registration is not mandatory for any NGO or association, most development NGOs do so for the sake of legal recognition. There are two parts of the legal framework that govern NGOs in Bangladesh (Ahmed, 2003):

a) Laws for Incorporation are legislation under which voluntary, non-government associations of people are incorporated and given a legal identity. These enable organisations to be set up with a management structure and legal status and allow for a governing body to be formed by people who are responsible for making decisions on behalf of organisations but they themselves are not beneficiaries. There are such legislation in the country as follows:

- The Societies Registration Act 1861;
- The Trust Act 1882;
- The Cooperative Societies Act 1925; and

b) There are three laws and ordinances for regulating the relationships of such associations with the government:

- The Voluntary Social Welfare Agencies (Regulation and Control) Ordinance 1961;
- The Foreign Donations (Voluntary Activities) Regulation Ordinance 1978 (amended in 1982), which forms the basis for registering with the NGO Affairs Bureau (NGOAB); and
- The Foreign Contributions (Regulation) Ordinance 1982.

The ambiguities, inconsistencies and definitions of the types of activities allowed under the existing government acts, laws and ordinances create problems in terms of the scope of NGO operations. Moreover, the rigidity of ordinances and rules limits NGO capacity to respond to needs in a flexible and fully participatory ways. Thus the laws and ordinances have less of a facilitating role and more of a controlling and regulating function. In 1993, the government issued a circular entitled “Working Procedures of Foreign and Foreign Assisted Bangladesh Voluntary Organisations, NGOs” that provides the rules and regulations governing the NGOs.
6.8 Concerns in Respect of Foreign Funding

The growth of the non-profit sector has been characterised by easy access to external finance. According to BIDS (2001), at least until the mid-1990s, development NGOs overwhelmingly depended on foreign funds. The proportion of local funds has never exceeded 4 percent. However, most of the external economic assistance was concentrated in the hand of only a few big NGOs. According to an estimate (World Bank 1996), in 1992, 30 large NGOs (8 percent of out of 195 registered NGOs) received 80 percent of the total foreign funds allocated to NGOs. In 1999/2000, four big NGOs (BRAC, Proshika, Caritas, and RDRS) received a quarter of foreign donations to the sector. BRAC alone received around 17 percent of the resources. Donors believe that

Most NGOs that have managed projects successfully can be relied upon to continue to make the best use of their funds. Moreover, endowing those NGOs with proven track records with large sums significantly reduce donors’ management time. This polarised distribution of foreign resources has caused a concern on the part of the government. There is also a general concern that the rapid growth of the bigger NGOs might stifle the growth of smaller, local and innovative NGOs (World Bank, 1996).

Whatever the argument of the donor community, some find more prestige in aligning themselves with big and prosperous NGOs as partners. In some cases, donors delegate the responsibility to big national NGOs of funding small and local NGOs, as they find it more convenient from a management point of view but this often creates factionalism in this sector. Current trends of the increasing flows of foreign funds to NGOs have given rise to a number of government concerns (World Bank, 1996). Six aspects of these concerns are as follows:

- Government officials consider NGOs as competitors for scarce foreign assistance. The pronounced increase in foreign funds available to NGOs in Bangladesh (about US$208 million which is equivalent to about 14.4 percent of the ODA received by the government in 2002, compared to US$107 million which is equivalent to about 6 percent in 1991) has often been cited as the backdrop for such sentiments. However, it is important to see the circumstances in its correct perspective. Bilateral and multilateral donors are increasing their funding to NGOs across the world – so it is not a Bangladesh-specific phenomenon. Globally, the limitations of public bureaucracies are widely recognised. Donors are channelling less money to government agencies. To the extent that NGOs are evaluated by donors as effective development agencies, the trend should be seen as positive and for the common good. Moreover, strong NGOs strengthen civil society – a crucial ingredient for long-term development (World Bank, 1996).

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6 This is estimated from data received from the annual reports of BRAC (1999), Caritas (2000), RDRS (2000), and Proshika (1999). NGOs larger than Caritas and RDRS do exist but their data was not available.
• Government officials are sometimes worried that foreign funds may be used for “anti-national” and/or “anti-social” activities. These worries span the spectrum from armed insurgency to religious proselytisation.

• Government officials claim that they have a responsibility to ensure that foreign funds made available to NGOs are properly used. But NGOs say this has no foundation because the primary responsibility for ensuring the proper use of foreign funds lies with parties to the agreement. The government has in place legal remedies that can be applied should there be any evidence of breach of contract or fraud.

• Coordination between the government and NGOs is crucial to make the best use of foreign funds. This is indeed a complex issue, and not one that is best handled through the current practice of financial control at the government level. The answer lies in designing a coherent national development strategy supported by spatial and sectoral participatory planning.

• Government officials sometimes suspect that some donors bypass government procedures in providing funds to NGOs. Disbursement of small funds is often made directly to NGOs, and funding of NGOs under regional programs is also done this way. Such practices prompt the government to be more control-oriented when these are brought to government attention. This issue can also be easily handled by requiring donors and NGOs to report such types of practices to the government.

6.9 Delivery of Services to the Public/Poor

Services provided by the government to the public, especially the poor section of people, tend to be of inadequate quantity and often also of poor quality. The poor need essential services such as education, health, sanitation, credit and the like, which are failing to benefit recipients because of problems in both delivery and receiving mechanisms. While the government delivery system is overburdened with corruption and bureaucratic redtapism, the delivery system of NGOs is often fragile and unsustainable. On the receiving mechanism side, there is a lack of an effective organisational set-up for the poor. Both the successes and failures of the service delivery systems point to the need for strengthening three key relationships: between poor people and providers, between poor people and policymakers, and between policymakers and providers. The role of donors should be to reinforce these relationships to make the delivery systems pro-people and pro-poor. NGOs have proved to be effective service providers – so they can also play a role in linking stakeholders on donors’ side with stakeholders on recipients’ side. NGOs can also help articulate the voices of the poor which will help them to monitor and discipline service providers.

The thrust of aid by multilateral donors is now on the efficacy of institutional capacity in utilising aid. World Bank (1998) publication *Assessing Aid: What Works, What Doesn’t, and Why* has forcefully
emphasised this point. The efficacy of aid is reflected in propelling growth and development whilst reducing poverty. NGOs in Bangladesh, engaged in a host of development and advocacy activities, have changed the social dynamics of the country. The poor have now become more conscious and motivated and are actively participating in various development programs. These development programs are largely attributed to aid regime and are considered as steps in the right direction. Thus, one report states that “government programs that collaborate with NGOs are often more successful than those that do not” (World Bank, 1998a).

6.10 Conclusion

It has been widely recognised that an increasing amount of aid is being channelled through NGOs. This chapter argues that donors tend to believe that aid disbursement through NGOs is more effective in reaching the target groups. It is also cost-effective for realising poverty alleviation. Moreover, in the context of the new political economy that has taken shape globally, NGOs have created a space for themselves, usually complementing and sometimes displacing the state’s functions. Emphasising the importance of NGO activities in Bangladesh, this chapter has focused on the challenges NGOs are facing in realising their declared objective of poverty alleviation in Bangladesh. This chapter has pointed out that the efficacy of donor support towards NGOs will improve if the capacity of NGOs to design poverty alleviation programs and their ability to effectively utilise the funds are enhanced.

However, one point must be noted that the flow of foreign funds to NGOs and the rapid increase in NGO activities in Bangladesh have given rise to government concern that NGOs are competitors to government in several activities. It must be emphasised that NGOs should not be considered as competitors to the government, and that a fruitful cooperation between government departments and NGOs has to be established. Once it is recognised that the records of foreign aid in Bangladesh have been less than satisfactory, it is necessary to draw another conclusion for the future direction of foreign aid. A helpful relationship between government departments and NGOs must be established. A constructive dialogue based on an honest concept of partnership between government departments and NGOs may be a key to successful utilisation of aid in Bangladesh.

Chapter Seven will analyse the impact of foreign aid on public investment in Bangladesh. An attempt will also be made to explore the sectoral pattern of foreign aid dependency of the Annual Development Plan in terms of various explanatory indicators.
### Table 6.1: Number of NGOs and Flows of Foreign Aid in Bangladesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
<th>Total Commitment</th>
<th>Total Disbursement</th>
<th>Approved projects</th>
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<tr>
<td>1991</td>
<td>395</td>
<td>99</td>
<td>494</td>
<td>US$1,589,143,121</td>
<td>US$11,203,125,18</td>
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<td>523</td>
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<td>634</td>
<td>US$4,602,379,783</td>
<td>US$2,336,932,630</td>
<td>1021</td>
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<tr>
<td>1993</td>
<td>600</td>
<td>125</td>
<td>725</td>
<td>US$4,590,800,74</td>
<td>US$4,293,709,32</td>
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<td>1994</td>
<td>683</td>
<td>124</td>
<td>807</td>
<td>US$11,609,320,29</td>
<td>US$6,003,841,58</td>
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<tr>
<td>1995</td>
<td>790</td>
<td>129</td>
<td>919</td>
<td>US$16,016,194,27</td>
<td>US$8,098,890,03</td>
<td>2807</td>
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<td>1996</td>
<td>887</td>
<td>134</td>
<td>1021</td>
<td>US$16,769,359,88</td>
<td>US$10,691,084,01</td>
<td>3509</td>
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<tr>
<td>1997</td>
<td>1002</td>
<td>141</td>
<td>1143</td>
<td>US$21,383,076,04</td>
<td>US$12,777,168,36</td>
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<td>1998</td>
<td>1102</td>
<td>149</td>
<td>1251</td>
<td>US$21,551,672,85</td>
<td>US$13,820,839,81</td>
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<td>1999</td>
<td>1221</td>
<td>152</td>
<td>1373</td>
<td>US$24,118,492,05</td>
<td>US$15,764,024,66</td>
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<td>2000</td>
<td>1354</td>
<td>164</td>
<td>1518</td>
<td>US$24,012,289,58</td>
<td>US$15,835,967,36</td>
<td>6781</td>
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<tr>
<td>2001</td>
<td>1435</td>
<td>169</td>
<td>1624</td>
<td>US$27,607,538,07</td>
<td>US$18,344,934,05</td>
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<tr>
<td>2002</td>
<td>1500</td>
<td>171</td>
<td>1671</td>
<td>US$29,146,001,19</td>
<td>US$19,462,231,70</td>
<td>8389</td>
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<tr>
<td>2003</td>
<td>1591</td>
<td>176</td>
<td>1767</td>
<td>US$31,165,028,73</td>
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<td>2004</td>
<td>1612</td>
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<td>US$36,844,871,33</td>
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<td>2006</td>
<td>1846</td>
<td>193</td>
<td>2039</td>
<td>US$44,606,532,20</td>
<td>US$31,604,856,94</td>
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</table>

Source: NGO Affairs Bureau, 2006

### Table 6.2: Foreign Aid Disbursed to Government and NGOs

<table>
<thead>
<tr>
<th>Year</th>
<th>Total foreign aid disbursed to Bangladesh</th>
<th>Total foreign grants disbursed to Bangladesh</th>
<th>Foreign grants disbursed to NGOs</th>
<th>Grants disbursed to NGOs as % of total foreign grants</th>
<th>Grants disbursed to NGOs as % of total foreign aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1732</td>
<td>831</td>
<td>107</td>
<td>12.9</td>
<td>6.2</td>
</tr>
<tr>
<td>1992</td>
<td>1611</td>
<td>817</td>
<td>122</td>
<td>14.9</td>
<td>7.6</td>
</tr>
<tr>
<td>1993</td>
<td>1675</td>
<td>818</td>
<td>196</td>
<td>24.0</td>
<td>11.7</td>
</tr>
<tr>
<td>1994</td>
<td>1559</td>
<td>710</td>
<td>171</td>
<td>24.1</td>
<td>11.0</td>
</tr>
<tr>
<td>1995</td>
<td>1739</td>
<td>890</td>
<td>210</td>
<td>23.6</td>
<td>12.1</td>
</tr>
<tr>
<td>1996</td>
<td>1443</td>
<td>677</td>
<td>259</td>
<td>38.3</td>
<td>17.9</td>
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<tr>
<td>1997</td>
<td>1481</td>
<td>736</td>
<td>250</td>
<td>34.0</td>
<td>16.9</td>
</tr>
<tr>
<td>1998</td>
<td>1251</td>
<td>503</td>
<td>207</td>
<td>41.2</td>
<td>16.5</td>
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<tr>
<td>1999</td>
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<td>669</td>
<td>274</td>
<td>41.0</td>
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<tr>
<td>2000</td>
<td>1588</td>
<td>726</td>
<td>182</td>
<td>25.1</td>
<td>11.5</td>
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<tr>
<td>2001</td>
<td>1369</td>
<td>504</td>
<td>251</td>
<td>49.8</td>
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<tr>
<td>2002</td>
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</tbody>
</table>

Note: No reliable data are available for the period from 2002 to 2006.

CHAPTER SEVEN
IMPACT OF AID ON PUBLIC SECTOR INVESTMENT IN BANGLADESH

7.1 Introduction
Public sector investment is one of the crucial determinants of economic growth of a country but its financing has been constrained by the scarcity of domestic resources in developing countries such as Bangladesh. As a result, countries like Bangladesh have to resort to foreign aid to augment their resource availability for investment in the public sector. However, this process has come under intense scrutiny in development literature.

The major focus of this chapter is on analysing the evolving structure of the ADP and dynamics of foreign aid contribution to financing the ADP. An attempt has also been made to illustrate the sectoral pattern of foreign aid dependency of the ADP in terms of various explanatory indicators. This chapter also concentrates on the ADP (both investment and non-investment component) to investigate the foreign aid intensity of Bangladesh’s public sector investment. An analysis of investment programs and technical assistance projects has been done to examine the distinction between sectors in terms of foreign aid dependency for these two types of outlays. A comparison between various time points has also been made to see whether there is any inter-temporal shift or change in patterns of the aid intensity of public investment in Bangladesh.

7.2 Foreign Aid Contribution to Public Sector Investment
According to traditional views, foreign aid in the form of grant and concessional loan contributes to long-run development by releasing bottlenecks associated with low income–low savings–low investment cycle. The Harrod (1939) and Domar (1946) growth model or the financing gap model, further developed by Chenery and Strout (1966), is popularly used in international financial institutions to calculate the short-run investment requirements by estimating the gap between the required investment and available resources, and to fill the gap with foreign aid. However, the usefulness of this model has been contested. Easterly (1999), for instance, notes that the financing gap model has died in the development literature. He empirically shows that the underlying assumptions of this model are firmly rejected by data. The protagonists of the necessity of aid for development in low income countries often predict that foreign assistance displaces the process of institutional capacity building that is essential to economic development (Bauer, 1971; Friedman, 1958) and thereby promote “perpetual aid dependency syndrome”. Besides, the negative effect of foreign aid flow on growth of domestic savings rate and the effectiveness of foreign aid in reducing poverty are widely debated issues in the development literature. Given the range of conditionality associated with foreign aid including procurement-tied aid, the real contribution of foreign assistance to the recipient is also a subject which has been extensively analysed. However,
notwithstanding the debates on the nature and effectiveness of foreign assistance for development, low-income countries remain in desperate need of resources from the developed world. This transfer is to take place either in the form of grant and loan or as foreign direct investment and portfolio investment to supplement their domestic resources in their efforts to implement their national development program including activities envisaged under the Poverty Reduction Strategy Paper (PRSP).

According to the External Resources Division of the government of Bangladesh (2002), Bangladesh has transcended from the position of an extremely aid dependent country to a predominantly trading economy. The share of disbursed Official Development assistance (ODA) was 5.6 percent of the GDP in 1991 which declined gradually over time to reach 3.1 percent in 2003. Conversely, the share of export rose to 12.6 percent of the GDP in 2003 from 5.5 percent in 1991. Similarly, in 1991 the share of foreign contribution to the ADP financing was 78.8 percent which also declined gradually to reach 48.2 percent in 2003. But, as Sobhan (2003a) deplores, the government’s development budget remains visibly dependent on external aid flows. In Bangladesh, public sector investment comprises investment components of the ADP, capital expenditure components of the revenue budget and own investment of the parastatals. The realised ADP in 2003 was 5.1 percent of the GDP and 83 percent of the total public investment. Besides this, over the period from 1992 to 2003, on an average the proportion of the realised ADP to public investment was 87 percent demonstrating the fact that the ADP dominates public investment in Bangladesh.

In the 1990s, the average share of project aid in financing the ADP was 45.2 percent which was significantly lower than that of the previous decade (51.1 percent). In 2003, the share of project aid came down to 37.2 percent of the total outlay of the ADP which was the lowest share recorded in the recent past. These figures do not fully express the extent to which Bangladesh’s development efforts at present hinge on external assistance as project aid forms only one of the components of the total aid. Unfortunately, it was not possible to segregate the commodity and food aid from the local currency component of the ADP due to the current reporting format of the ADP. Analyses done by Bhattacharya (2002, 2003, and 2003a) show that the share of project aid in total aid disbursed has been increasing to reach more than 86 percent in 2003 from 64 percent in 1990, which was below 50 percent in the 1980s. These figures provide the justification for using the project aid component as the proxy of the total foreign assistance channelled to Bangladesh for public sector investment.

There are also significant inter-sectoral variations in the ADP in terms of aid intensity. Sobhan and Islam (1990) explore that “… project aid is an important factor in the realisation of programs. However, the significance of this aid varies considerably from sector to sector.” The issues of
allocative efficiency and priority regarding the inter-sectoral allocation and utilisation of resources in public investment are very crucial. To attain sustainable development and thereby reducing poverty and inequality, policymakers seek to prioritise the economic sectors according to the needs of the country and complement the investible domestic resources with foreign assistance in order to ensure the most efficient utilisation of available resources. Admittedly, the priority list may change over time on the basis of responses to varying emphases attached to different sectors to meet the needs of the development strategy and thereby reallocating the resources.

7.3 Foreign Aid Dependence of ADP: An Analysis

The major trend in the Annual Development Program (ADP) is that the overall dependence on foreign assistance has declined discernibly in the late 1990s and early 2000s. Indeed, in some years the contribution of domestic resources to the ADP financing was higher than foreign contribution. This has happened notwithstanding that the share of project aid in total foreign aid inflow to Bangladesh has increased over the past years. As the share of domestic resources increased over the years, the contribution of project aid in the ADP gradually decreased. In the revised ADP for 2003, project aid constituted 37.2 percent of the total development outlay for that year, while in 1996 and 1992, the corresponding shares of aid were 42.7 percent and 58.8 percent respectively. Thus the contribution of foreign aid to financing development projects in Bangladesh has been dropping significantly, suggesting that the economy is acquiring the strength, to some extent, to move forward in the journey to self-reliance (Bhattacharya, 2002, 2003 and 2003a).

The total numbers of projects included in the revised ADP of 2003, 1996 and 1992 were 1220, 1200 and 894 respectively. Of these 331 (27 percent), 555 (46 percent) and 597 (67 percent) correspondingly had a project aid component. In the revised ADP of 2003, the average foreign aided project size was Tk.306 million whilst for all projects (both locally financed and foreign aided) the average project size came down to Tk.134 million. In the revised ADP of 1996, the average foreign aided project size and average size of all projects were Tk.231 million and Tk.82 million respectively, while in the revised ADP of 1992, the matching figures were Tk.91 million and Tk.63 million respectively. In other words, the average size of foreign aided projects was systematically bigger than that of non-aided projects. The total allocation of foreign aided projects, which is the sum of local currency and project aid, constituted 59.2 percent of the total development expenditure in 2003, 63.6 percent in 1996 and 75.6 percent in 1992. This is an indication that foreign aided ADP projects continue to play an important role in addressing investment intensive development needs (Bhattacharya and Shadat, 2003).

It may be noted that the aggregate indicators of the dependence of the ADP on project aid do not reflect the significant inter-sectoral variations well as the variations between investment and TA
projects. Therefore, these variations in sectoral aid intensity have been discussed in the subsequent analysis in terms of the same indicators of sectoral aid intensity, mentioned earlier. The analysis for TA projects has been carried out only in terms of Allocative Project Aid Intensity (API) and Normalised Weighted Allocative Project Aid Intensity (NWAPI), while for investment projects and for all types of projects the analysis has been done for the indices.

7.3.1 Seven Simple Indicators

7.3.1.1 Sectoral Aid Propensity (SAP) for All Projects

The Sectoral Aid Propensity (SAP) for all projects is measured in terms of the proportion of foreign aided projects of all types to the projects. The sectors in the ADP are ranked in accordance with the aid propensity for 1992, 1996 and 2003, and top five sectors have been presented in Table 7.1 on p.126. One should note that a sector having the highest propensity by the number of projects receiving project aid does not necessarily receive the highest volume of project aid (Planning Commission, 2004).

According to Planning Commission (2004), the diminishing trend in aid propensity of the sector in terms of share of foreign aided prospects is quite visible as it came down to 27.1 percent in 2003 from 46.3 percent in 1996 and 66.8 percent in 1992. One can also observe that a few sectors, such as Oil, Gas and Natural Resources, Rural Development and Institutions, and Public Administration, have had fluctuating degree of aid propensity over the years. Since 1996, the Health, Population and Family Welfare sector topped the list of sectors having high aid propensity. The propensity for the sector was 77.8 percent and 78.1 percent in 1996 and 2003 respectively. Incidentally, in 1991 it was not even within the top five.

Development expenditure in Public Administration (not the expenditure for running the government which is coming from the government’s revenue budget) has remained heavily dependent on foreign aid, in particular on project aid. The ranking on aid dependence of Public Administration was 5 with 77.5 percent of projects with project-aid components in 1992. The ranking of this sector improved to secure the second position both in 1996 and 2003, i.e., relatively dependence increased; however, the aid propensity declined to 64.5 percent and 62.5 percent in 1996 and 2003 respectively (Planning Commission, 2004).

Similarly, the Rural development and Institutions sector also experienced diminishing dependence on foreign aid. In 1992 the aid propensity of the projects in this sector was high because 88.1 percent of the projects had foreign aid components (Ranking 3); this came down to 56.2 percent in 1996 with a Ranking 4. The aid propensity reduced further for this sector in 2003 (37.5 percent); however, the ranking remained unchanged compared to 1996. The ranking of Oil, Gas and Natural
resources for 1992 was 2 with 88.9 percent foreign aided projects out of a total of 27 projects which indicates high dependence of this sector on foreign aid. The ranking and propensity of the sector has gradually reduced over the years and in 2003 the ranking was 5 with aid propensity of 37.1 percent. The fluctuating trend in project-based SAP ranking is revealed by the case of the water resources and communications sectors. The aid propensity in the Water Resources sector was high in 1992 (90.1 percent) with ranking 1; however, this sector was not in top 5 in 1996 and 2003. The aid propensity for this sector was only 21.8 percent in 2003. Similarly, the aid propensity of the Communications sector was also high in 1992 (86.7 percent) with ranking 4, which diminished to only 13 percent in 2003 with ranking 14 (Planning Commission, 2004).

7.3.1.2 Sectoral Aid Propensity (SAP) for Investment Projects

As mentioned earlier, all projects are divided into three broad groups: investment projects, technical assistance, and self-financed projects. Although investment projects generally dominate in terms of financial allocation as the size of TA projects is generally small. However, in terms of the numbers of foreign aided projects, TA projects dominate some key sectors. By definition, all TA projects are foreign aided, therefore, the sectoral aid propensity (SAP) for investment projects is separately estimated which indicate the share of foreign aided investment projects in total investment projects. Like the SAP for all types of projects, analysis reveals the systemic diminishing trend in SAP for all sectors – sharply dropping to 18.2 percent in 2003 from 32.5 percent in 1996 which was 59.5 percent in 1992. The aid propensity in the number of top ranked sectors in 1992 (i.e. Oil, Gas and Natural Resources) was 95 percent, which reduced to 68.9 percent in 1996 (i.e. Health, Population and Family Welfare). In 2003 aid propensity reduced further to 47.8 percent for the power sector (Table 7.1 on p.126).

Sectoral level analysis reveals that Oil, Gas and Natural Resources, Rural Development and Institutions, and Power – these three sectors have remained among top five in all the three observed years. The dependence of Oil, Gas and Natural Resources sector reduced over the years from a propensity of 95 percent (Rank 1) in 1992 to 31.6 percent (Rank 4) in 2003. On the other hand, notwithstanding its reduced aid propensity (from about 76 percent in 1992 to nearly 48 percent in 2003), the dependence of the power sector, at least in terms of ranking, ascended from 5 to 1.

The ranking of the Rural Development and Institutions sector remained almost unchanged – remains at 3rd, 4th and 3rd positions in 1992, 1996 and 2003 respectively. However, the sector’s aid propensity reduced from 84.8 percent in 1992 to 37.3 percent in 2003. In this context, the emergence of the Health (topping the list in 1996 and second in 2003) and Education (acquiring the fifth place in 2002) sectors as two key recipients of foreign aid needs to be particularly noted.


7.3.1.3 Allocative Aid Intensity (AAI) for All Projects

The Allocative Aid Intensity (AAI) for all projects has been estimated as the proportion of allocation for foreign aided projects (i.e., sum of local currency and project aid allocation) for a particular sector in the total sectoral allocation. Top fives sectors, in terms of the magnitude of the AAI for the years 1992, 1996 and 2003, are presented in Table 7.2 on p.126. Over the past years, the AAI experienced a declined trend. In 1992, the AAI for all sectors was 95.6 percent, which indicates high dependence of the economy on foreign aid. The aid intensity reduced to 67.8 percent in 1996, which declined further in 2003 to 62.2 percent. In other words, in 2003, 37.8 percent of the total sectoral fund or Tk.61.60 billion was allocated to completely government-funded projects while it was 32.2 percent or Tk.31.54 billion in 1996. The share of the government-funded projects in total sectoral allocation was only 4.4 percent in 2002, amounting to Tk.2.51 billion.

Top five sectors in terms of the AAI for all types of projects in 1992 were Communications (99.1 percent), Rural Development and Institutions (98.6 percent), Oil, Gas and Natural Resources (97.9 percent), Water Resources (97.2 percent), and Public Administration (94.5 percent) indicating high concentration of funds in foreign aided projects.

It is interesting that ranking of the Communications and Rural Development and Institutions sectors dropped in subsequent periods and did not appear in top five aid intensity sector list. The Communications sector went to Rank 14 in 1996 while the Rural Development and Institutions sector went to the 7th position. In 1996, the Oil, Gas and Natural Resources sector alone remained among the top five sectors in 1992, and the new four sectors – Health, Population and Family Welfare, Power, Transport, and Water Resources – entered the top five ranking. However, higher dispersion in AAI was observed among the top five sectors in 1996. The highest aid intensity was in the Health sector (93.8 percent), and the lowest was in the Water Resources sector (77.7 percent). In 2003, Public Administration again enters the list of top five sectors in terms of the AAI. The relative dispersion of aid intensity in sectoral allocation increased further. The AAI of the top ranked sector (Health, Population and Family Welfare) was 95.6 percent while the Transport Sector was ranked 5th with the AAI of 73.4 percent.

As a whole, sectors dealing with physical and social infrastructure dominated the ADP in terms of the AAI. This trend appears totally consistent with the country’s development objectives. Among social sectors, the Health sector was relatively aid intensive. But the position of the Education and Religious Affairs sectors was 12 in 2003 with 38.7 percent AAI. In 2003, allocation in foreign aided project for the Education sector was Tk.10.03 billion out of a total allocation of Tk.25.91 billion. This may have been so because a large part of the public expenditure is subsumed in the revenue budget.
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7.3.1.4 Allocative Aid Intensity (AAI) for Investment Projects

As the allocation in investment projects dominates in total allocation, significant variation between the ranking in terms of the AAI for all projects and the ranking in terms of the AAI for investment projects was not expected. However, there are projects which are relatively more investment intensive than others. In 1992, the Power sector entered into the list of top five sectors as defined by the AAI for all projects replacing public administration, as foreign assistance in the Public Administration sector is basically channelled to TA projects, not to investment projects. In 2003, Public Administration was replaced by the Communications sector. Otherwise, the ranking remained almost the same for the AAI for investment projects and the AAI for all projects (Table 7.2 on p.124). The overall AAI for investment projects observed a similar secular reduction over the years, as in the case of the overall AAI for all projects (Table 7.2). However, the trend slowed down in recent years as the rate of reduction in aid intensity was very low between 1996 (67.3 percent) and 2003 (63.0 percent). It may be mentioned that the comparable share was 90.6 in 1992.

7.3.1.5 Allocative Project Aid Intensity (API) for All Projects

While earlier rankings show aid intensity, which include the project aid as well as the local currency counterpart, the following analysis focuses solely on project aid component. The API for all projects in a sector has been estimated as a ratio of the volume of project aid to all projects of the sector and total sectoral allocation to all projects in the sector (Table 7.3 on p.127).

One can observe that the variation in the API is high over the years. In 1992, top five sectors with high project aid intensity were: Public Administration (87.4 percent), Rural Development and Institutions (85.9 percent), Labour and Employment (72.4 percent), Oil, Gas and Natural Resources (69.9 percent), and Education (67.7 percent). In 1996, all new five sectors captured the top five positions with project aid intensity: Health, Population and Family Welfare (66.0 percent), Water Resources (55.9 percent), Agriculture (55.1 percent), Transport (51.0 percent), and Industries (47.6 percent). In the ranking for 2003, Health, Population and Family Welfare maintained the top position with higher API of 73.7 percent. Public Administration (73.5 percent), and Oil, Gas and Natural Resources (47.4 percent) re-entered the top five ranking followed by Agriculture (46.1 percent) and the newcomer Mass Media (42.1 percent).

Like the SAP and the AAI, the API also experienced a downward trend with the value of 72.5 percent in 1992, 45.0 percent in 1996, and 38.8 percent in 2003. The changes in the aid intensity of sectors indicate that the development priorities of the country have changed over the years. However, for commenting on the focus of aid – whether it was spent on investment projects or TA projects – one should look into the project aid intensity of investment projects and TA projects separately.
7.3.1.6 Allocative Project Aid Intensity (API) for Investment Projects

Project aid intensity for investment projects is important because it reveals the critical dependence of Bangladesh’s public sector efforts on foreign aid in the backdrop of the overall scarcity of investible resources. Allocative Project Aid Intensity (API) for a sector has been calculated as the proportion of project aid for investment projects in the total sectoral allocation for investment projects.

Among the top five sectors in 1992, in terms of the API for investment projects, Public Administration (86.4 percent) was top in rank. The other sectors are: Rural Development and Institutions (85.6 percent), Oil, Gas and Natural Resources (71.2 percent), Labour and Employment (68.9 percent), and Education (67.0 percent). In 1996, except Oil, Gas and Natural Resources, all other four sectors left the top positions to Health, Population and Family Welfare, Water Resources, Agriculture, and Transport. Health, Population and Family Welfare was on top of the list in 1996 with the AAI of 62.3 percent, compared to the AAI of the top-ranked Public Administration (86.4 percent) in 1992. In 2003, Power replaced Water Resources and got included in top five. The overall API for investment projects was low in 2003 (38.4 percent) compared to that in 1996 (43.6 percent) and 1992 (62.1 percent). But it does not imply that these sectors can sustain their development activities without foreign assistance (Table 7.3 p.127).

7.3.1.7 Allocative Project Aid Intensity (API) for TA Projects

TA projects are developed on the basis that these projects will receive financial support from overseas. The domestic resource components in these projects generally come as matching them. Therefore, the API for TA projects is expected to be very high (Table 7.3). TA is generally related to human resource development and capacity building. Consequently, the recipient sectors are different from the investment projects. In a few cases, investment projects are supplemented by TA projects. In 1992, top five sectors in terms of the API for TA projects were Labour and Employment (100 percent), Mass Media (100 percent), Communications (100 percent), Physical Planning, Water Supply and Housing (97.9 percent), and Power (96.9 percent). Among these five sectors, foreign aid channelled to Communications and Power for investment projects was supplemented by foreign aided TA projects.

In 1996, only Mass Media (100 percent) retained its position in top five from the list of top five sectors of 1992. The new four sectors that entered the top five list were: Science and ICT (100 percent), Social Welfare, Women Affairs and Youth Development (96.9 percent), Industries (95.5 percent), and Rural Development and Institutions (95.3 percent). Health, Population and Family Welfare (99.0 percent), and Education and Religious Affairs (98.9 percent) secured the top two positions in 2003.
7.4 Normalised Weighted Aid Intensity Indices

Although the analysis of aid propensity and allocative intensity through SAP, AAI and API, as presented above, is useful to understand the dependence of the ADP sectors on foreign aid, it could not capture the variation in allocative priorities of the ADP sectors since all these indicators for a particular sector are measured as a proportion of the total number of aided projects or total resource allocation for that sector. As a result, sectors with relatively less total resource allocation but with high aid intensity may have showed up in the top five sectors. To overcome this limitation, the aid intensity has been adjusted, with the relevant weight to capture the inter-sectoral allocative variations, to get the weighted intensity indices. This weighted intensity indices are then normalised to convert the indices in a percentage form (See ‘A’ under the Appendix on p.124 for a detailed methodology of constructing simple aid intensity indicators and weighted indices).

7.4.1 Normalised Weighted Allocative Aid Intensity (NWAAI) for All Projects

Aid intensity of the sectors, and therefore their ranking, with mobilisation and weight adjustment, has been significantly changed than that of unweighted indicators. Normalised Weighted Allocative Aid Intensity (NWAAI) for all projects has been estimated by weighting the AAI for all projects and then normalising it. These two estimates reveal significant differences in terms of the ranking of the sectors. In 2003, the total of NWAAI for top five sectors was 75.96 percent, indicating that almost 76 percent of the allocation for foreign aided projects for the entire ADP was distributed among these five sectors. In 1992, the share of top five sectors was 65.18 percent, which increased to 73.31 percent in 1996. These figures indicate that over the years the concentration of foreign aid has been increasing.

According to Table 7.4 on p.128, in 1992, Communications was on top of the list based on the AAI for all projects. However, according to the matching NWAAI, the sector went to the tenth position. The AAI of the sector was 99.1 percent, which indicates that the share of allocation for foreign aided projects in total sectoral allocation was 99.1 percent. According to the NWAAI, the sector’s share in the total allocation of foreign aided projects for the entire ADP was only 2.8 percent. Thus the NWAAI index shows that this sector was relatively less aid dependent than the other nine sectors.

Similarly, in 1992, Rural Development and Institutions was in the second position in AAI ranking, and in weighted ranking it went up to the eighth position. Oil, Gas and Natural Resources, and Water Resources remained in the list of top five even after normalisation. Transport, Power, and Health, Population and Family Welfare entered the list of top five with shares of 15.28 percent, 14.79 percent and 9.47 percent respectively in total allocation for foreign aided projects for the entire ADP. Similar shift in positioning of sectors is quite visible for 2003 and 1996 as well. In
1996, in terms of NWAAI, only Education entered the list of top five by replacing Oil, Gas and Natural Resources, and all other four sectors remained in the list after normalisation with changed positions of Health, Population and Family Welfare, Power, Transport, and Water Resources. In 2003, NWAAI included Transport (25.52 percent), Power (19.89 percent), Health, Population and Family Welfare (14.54 percent), Education (9.9 percent), and Rural Development and Institutions (8.11 percent). Education, and Rural Development and Institutions replaced Public Administration, and Oil, Gas and Natural Resources that were in top five in terms of AAI in 2003. Of the top sectors, Health, Population and Family Welfare, and Education together received 24.44 percent of the total allocation for foreign aided projects. However, Bangladesh’s significant dependence on foreign aid is in the infrastructural sector. In 2003, Power and Transport together received 45.41 percent share in total allocation for foreign aided projects.

7.4.2 Normalised Weighted Allocative Aid Intensity (NWAAI) for Investment Projects

The Normalised Weighted Allocative Aid Intensity (NWAAI) index for investment projects is estimated as the AAI for investment projects (percentage share of allocation for foreign aided investment projects in the total sectoral allocation for investment projects) adjusted by sector-specific relative size of investment programs and then normalised it to 100. Table 7.5 on p.129 details the top five sectors according to the index. This total of NWAAI index for top five sectors indicate high concentration of foreign aided investment projects over the years. Since 1992, this concentration even increased further (Table 7.5). The shares of top five sectors were 77 percent in 2003, 74 percent in 1996, and 66 percent in 1992, suggesting an increasing trend of concentration of foreign aided investment in a few sectors.

The ranking based on NWAAI index for investment projects has also changed significantly in comparison to that based on unweighted AAI index for investment projects. In 2003, Transport had the highest weighted allocation for foreign aided investment projects (24.50 percent), followed by Power (19.89 percent), Health, Population and Family Welfare (14.54 percent), Education and Religious Affairs (9.90 percent), and Rural Development and Institutions (8.11 percent). It may be noted that Education and Religious Affairs, and Rural Development and Institutions entered the top five by replacing Oil, Gas and Natural Resources, and Communications from the list of top five sectors based on unweighted AAI for investment projects.

In 1996, Transport had the largest weighted allocation for foreign aided investment projects (26.92 percent), followed by Power (17.00 percent), Health, Population and Family Welfare (11.46 percent), Education and Religious Affairs (9.67 percent), and Water Resources (9.02 percent). Oil, Gas and Natural Resources, which was on top of the list based on unweighted AAI for investment projects, did not appear in the top five ranking and was replaced by Education and Religious
Affairs. In 1992, Power was the leading sector with 15.52 percent of weighted allocation for foreign aided investment projects, followed by Transport (15.44 percent), Water Resources (14.55 percent), Oil, Gas and Natural Resources (10.33), and Health, Population and Family Welfare (9.73 percent).

7.4.3 Normalised Weighted Allocative Project Aid Intensity (NWAPI) for All Projects

As noted earlier, due to data structure, only project aid figures can be extracted separately. Thus, earlier analysis dealt with allocation in projects with foreign aid components. In this section, project aid volume and total allocation to a particular sector have been used for the estimation of the normalised weighted allocative aid intensity (NWAAI) index of project aid. In 2003, Transport ranked atop in terms of the weighted volume of project aid (21.59 percent), followed by Health, Population and Family Welfare (17.96 percent), Education and Religious Affairs (13.26 percent), Power (13.16 percent), and Rural Development and Institutions (7.58 percent). In 1996 also, Transport was the leader in terms of the weighted volume of project aid (24.89 percent), followed by Health, Population and Family Welfare (13.37 percent), Power (12.62 percent), Water Resources (10.80 percent), and Education and Religious Affairs (10.65 percent). In 1992, Transport received the highest weighted volume of project aid (16.18 percent), followed by Power (15.92 percent), Water Resources (13.81 percent), Oil, Gas and Natural Resources (9.29 percent), and Education and Religious Affairs (8.23 percent) (Table 7.6 on p.129).

Over the years, Transport was the topmost recipient of foreign aid. The sector had a significant proportional increase from 1992 to 1996, going from 16.18 percent to 24.89 percent. Health, Population and Family Welfare did not register in the top five rankings in 1992 but jumped into the second position in both 1996 and 2003. The share of top five sectors was 74 percent in 2003, 72 percent in 1996, and 63 percent in 1992, signifying an increasing trend of concentration of aid on few sectors over time.

7.4.4 Normalised Weighted Allocative Project Aid Intensity (NWAPI) for Investment Projects

This index has been calculated by weighting the API for investment projects and then normalising it. Table 7.6 details the top five sectors in terms of NWAPI for investment projects for selected years. As the investment projects dominate the project aid, the ranking of sectors has not experienced any significant changes in comparison with the NWAPI for all projects. Transport appears as the most dominant sector according to the index in Table 7.6. The shares of top five sectors were 77 percent in 2003, 73 percent in 1996, and 63 percent in 1992 showing once again the increasing trend of concentration of project aid for investment projects on a few sectors over time. But the degree of concentration for investment projects was higher than all types of projects as demonstrated by NWAPI for investment projects and NWAPI for all types of projects respectively.
Having remained at the top of ranking, the Transport sector experienced a significant increase in relative share of foreign aid from 1992 to 1996, going from 15.31 percent to 26.51 percent. Health, Population and Family Welfare also experienced significant increases in its proportions at every interval, going from sixth to third to second between 1992, 1996 and 2003.

7.4.5 Normalised Weighted Allocative Project Aid Intensity (NWAPI) for TA Projects

This index has been calculated by normalising the weighted volume of project aid for TA projects as a percentage of Total Sectoral Allocation for TA projects. Table 7.6 details the top five sectors according to this index. The weighted shares of the top five sectors were 80 percent in 2003, 75 percent in 1996 and 1992, showing that the concentration of project aid for TA projects increased in 2003. Water Resources was ranked first and second in 1992 and 1996 respectively, but in 2003 it fell from the top five ranking in spite of its previous high proportions. Public Administration experienced a steady increase in its proportions, going in the ranking from sixth in 1992 to third in 1996 and to first in 2003.

7.5 Correlation Analysis of Sectors Based on the Indices

According to Centre for Policy Dialogue (2004), the importance of Spearman’s Rank Correlation cannot be ignored in correlation analysis of sectors. To measure the extent to which two sets of the ranks of sectors as assigned by different indices are in agreement/disagreement, Spearman’s Rank Correlation is used in this analysis. The significance of correlation coefficients is tested with the null hypothesis that there is no significant association between the rankings of sectors as assigned by relevant indices. The underlying assumptions for testing Spearman’s Rank Correlation are:

a) The relationship should be linear;

b) Data points within samples should be independent from each other; and

c) The data should be ordinal scaled.

Table 7.7 on p.130 presents the rank correlation and their p-value for 10 pairs of indices while other combinations of indices are discarded either on the grounds of second assumption or on the possibilities of spurious correlation. It is evident from the table that in the first four cases, the number of total foreign aided projects (as measured by SAPI) is positively correlated with the allocation for all foreign aided projects (as measured by AAI-1 and NWAAI-1), and with the volume of project aid for all projects (as measured by API and NWAPI) for all three selected years. Also, the coefficients are significant at 5 percent level of significance except the SAP-1, and NWAPI-1 pair for 1992. In the case of investment projects (in the next four cases), the number of foreign aided investment projects (as measured by SAP-2) is positively correlated with the allocation for foreign aided investment projects (as measured by AAI-2 and NWAAI-2) and the volume of project aid for investment projects (as measured by
API-2 and NWAPI-2) for all three selected years. For investment projects, the rank correlations are stronger than the overall scenario and all of them are significant at 1 percent level of significance except the SAP-2 and API-2 pair for 1992 in which case it is significant at 5 percent level of significance. The results of these correlations coincide with the a priori assumption that a sector which acquires more foreign aided projects is supposed to receive more allocation (both foreign aid and local contribution).

In the last two cases in Table 7.7, the rank correlations between the allocation for investment projects and the allocation for TA projects are estimated. The result is not clear as in the earlier cases. There is no significant rank correlation (at 5 percent level of significance) between the volume of project aid for investment projects and the volume of project aid for TA projects in any of the three years when they are measured in terms of API-2 and API-3. When measured in terms of weighted index NWAPI-2 and NWAPI-3, a significant rank correlation is observed at a 5 percent level of significance only for 1996. This result indicates that the same sector is not always equally aid intensive for investment projects and TA projects. In other words, sector-specific intensity of foreign aid varies in accordance with the types of projects, i.e., investment or TA projects. For instance, sectors such as Public Administration depend heavily on foreign aid for TA projects, while its investment projects are financed by domestic resources. On the other hand, sectors such as Transport, Power or Health historically rely greatly on project aid for investment projects but these sectors are not that dependent on TA projects.

7.6 Criticality of Foreign Aid: An Analysis of Key Sectors
For an in-depth analysis of the contribution of foreign aid to the ADP, five key sectors for investment projects and three sectors for TA projects are selected for further investigation with the RADP (Revised ADP) of 2003 as the point of reference. The selection is made drawing on the analysis presented in the previous sections of this chapter, and the analysis is adapted from data provided in “Revisiting Foreign Aid: A Review of Bangladesh’s Development 2003”, published by Centre for Policy Dialogue (2004). More specifically, the selection is based on normalised weighted aid intensity of sectors in 2003. The selected five sectors for investment projects constitute 77 percent of the total project aid allocated for investment projects (Tk.58.91 billion) and 84.5 percent of the total allocation for investment projects (Tk.153.70 billion).

On the other hand, the chosen three sectors for TA projects comprise 61 percent of both the total project aid allocated for TA projects (Tk.4.19 billion) and of the total allocation for TA projects (Tk.4.52 billion) in the RADP of 2003 (Table 7.8, Table 7.9, and Table 7.10 on pp.131-132). Table 7.11 on p.133 provides an analysis of the structures of the TA projects for three most aid intensive sectors (Public Administration, Agriculture and Industry) in the revised ADP of 2003. Table 7.12
on p.133 details the top 10 foreign aided TA projects, and depicts the contributions of foreign aid to these sectors from different donors based on project aid allocation in the revised ADP of 2003).

7.6.1 Investment Projects for Transport Sector

Historically, the Transport sector in Bangladesh has been highly aid intensive, and a large amount of project aid is channelled to the Transport sector for economic infrastructure development. The Transport sector is divided into sub-sectors: Roads, Railway, Civil Aviation, and Shipping. The Road sub-sector was the highest recipient of the total resources allocated within the Transport sector ((79.7%) in 2003 with 132 projects (78.6%) out of a total of 168 investment projects of the Transport sector. Among these 168 projects in the Transport sector, 27 projects had a project aid component and 20 (74.1%) were under the Roads sub-sector. The contribution of project aid in financing the investment program was 43.9% for the whole sector. It is to be noted that the Reimbursable Project Aid (RPA) component was 19.4% of the total sectoral allocation (which was 44.2% of the total project aid), and that this RPA component appeared only in the Road sub-sector and counted almost half of the total project aid received by the Road sub-sector. Nine of the top ten foreign aided investment projects of the Transport sector came from the Roads sub-sector. The foreign aided investment projects for the Transport sector were financed mainly by two multilateral donor agencies, such as the IDA and the ADB, and one bilateral donor, the JBIC.

7.6.2 Investment Projects for Health, Population and Family Welfare Sector

Health, Population and Family Welfare is one of the major sectors that receive significant aid flows through investment projects for developing social infrastructure for health service delivery. The Health sector usually conceives large projects for implementation and the number of projects was significantly lower than in the Transport sector. Out of 12 investment projects for the sector, five (41.7%) had a project aid component. The share of project aid in financing the investment program for the Health sector was 73.4%. The RPA component was 31.5% of the total sectoral allocation (which was 42.9% of the project aid). Three investment projects under the Ministry of Health and Family Welfare received 95% of the total sectoral allocation and out of these three projects, two were foreign aided projects with 97% of the total project aid received by the sector.

The foreign aided investment projects for the Health sector were financed by multilateral donor agencies such as the UNFPA, the IDA, the World Bank, and the ADB, and bilateral agencies such as the CIDA, the GTZ, the DFID, and the NDF. The Health and Population Sector Program (HPSP) was the largest project in the whole RADP of 2003 with the allocation of Tk.12.37 billion, of which 74% was project aid that was financed jointly by the CIDA, the DFID, the GTZ,
and the World Bank. The HPSP held more than 80 percent of resources, both in terms of local and foreign, allocated for the entire Health sector.

### 7.6.3 Investment Projects for Power Sector

The Power sector in Bangladesh is heavily dependent on foreign aid. The Power sector is divided into three sub-sectors: generation, transmission, and distribution. In the 2003 RADP, the power distribution sub-sector received the largest portion of resources within the Power sector (78.4 percent) with 26 out of a total of 46 investment projects, followed by the power generation sub-sector with 12.5 percent of resources and 12 projects, and power transmission with 9.1 percent of resources and 8 projects. Out of the 46 projects, 22 (47.8 percent) projects had a project aid component and 13 of them were under the distribution sub-sector. The contribution of project aid in financing investment program was 34.9 percent of the whole sector while for power transmission, distribution and generation it was 44.3 percent, 35.3 percent and 26.1 percent respectively. The data shows that transmission is the most aid intensive among these three sub-sectors. In terms of implementing agencies, the Dhaka Electric Supply Authority (DESA) was allocated Tk.33.11 billion which was 55 percent of the total sectoral allocation, with only 4 projects. Interestingly, there was no RPA component for the entire sector.

The foreign aided investment projects for the Power sector were financed through multilateral donors such as the ADB and the OPEC, and bilateral donors such as China and the CIS (Supplier’s Credit), the JBIC, the Norad, the SFD, Kuwait, and the Netherlands. The Greater Dhaka Power Distribution Project (Phase IV) was the largest project in the Power sector for 2003 with an allocation of Tk.3.06 billion of which 53 percent was project aid, financed jointly by the ADB and China’s Supplier’s Credit.

### 7.6.4 Investment Projects for Education and Religious Affairs Sector

For developing the social infrastructure and enhancing the quality of human resources, various aid agencies provide funds for investment projects in the Education and Religious Affairs sector. In the RADP of 2003, primary education was allocated the largest portion of resources within the Education sector (57.4 percent) with 20 out of a total of 84 investment projects for the Education sector, following by secondary and higher education with 33.6 percent of resources and 18 projects. As most of the allocation goes to primary and secondary education, there remains very little for other sectors. Technical education (with 3.4 percent of resources and 11 projects) receives insignificant resources. Out of a total of 84 projects, 22 (26.2 percent) projects had a project aid component and 11 of them were under primary education. The contribution of project aid in financing investment programs was 30.9 percent for the whole sector while for primary education, secondary and higher education, and technical education it was 35.7 percent, 29.6 percent and 8.3
percent respectively. Thus far primary education is the most aid intensive among these three sub-sectors. Contrasting the Power sector, RPA component constituted more than three-fourths of the total project aid allocated for this sector. The foreign aided investment projects for the education sector were financed through both multilateral donor agencies like the ADB, the IDA, and the UNICEF, and bilateral aid agencies like Germany, Norway, the EC, and the SDC.

7.6.5 Investment Projects for Rural Development and Institutions Sector

The Rural Development and Institutions (RDI) sector is an important sector that receives foreign aid aiming at improving the living standards of rural people. In the 2003 RADP, the fund for the RDI sector was allocated through nine government agencies for the implementation of investment projects. Among these nine agencies, the Local Government Engineering Division (LGED) received the highest portion of resources (78 percent) of the total sectoral allocation with 42 projects of a total of 67 projects. The LGED played an important role in developing rural infrastructure, particularly rural roads and culverts, which improved significantly the communication of urban centres with villages. Out of a total of 67 projects, 25 (37.3 percent) projects had a project aid component and 17 of them were under the LGED. The contribution of project aid in financing the investment program was 29.2 percent for the entire sector. The share of the RPA for this sector was 24.7 percent of total sectoral allocation which was 85 percent of total project aid allocated for this sector. Both multilateral donor agencies such as the ADB, the IFAD, and the IDB, and bilateral aid agencies such as the JBIC, the SDC, the GTZ, the KFW, the DANIDA, the EC, and the JICA financed investment projects for the RDI sector. The Rural Development Project-21 was the highest foreign aid intensive project with a project aid share of 88 percent out of Tk.1.37 billion, financed jointly by the ADB, the IFAD, the JBIC, and the SDC.

7.6.6 TA Projects for Public Administration Sector

Public Administration is one of the sectors, which relies heavily on foreign aid. TA projects are generally designed for improving the level of efficiency of the public sector officials. In the 2003 RADP, Public Administration was the highest recipient of technical assistance in terms of funds (local and foreign) and number of projects. The fund for TA projects was allocated through eleven government agencies. Among these eleven agencies, the Internal Resources Division received the highest portion of resources (29.8 percent) of the total sectoral allocation with 3 projects out of a total of 30 projects followed by the Finance Division with 28.4 percent of resources and 5 projects and the Investigation, Monitoring and Evaluation Division (IMED) with 12.3 percent of resources and 2 projects. The contribution of project aid in financing TA was 92.5 percent, which shows dependence of Public Administration on foreign aid. The share of project aid in financing TA projects was more than 80 percent for all other agencies except the Parliament Secretariat for which
the share was 50 percent. The share of the RPA for this sector was 6.2 percent of total sectoral allocation which was 6.7 percent of total project aid allocated for this sector.

Both multilateral donor agencies such as the ADB, the IDA, the UNDP and bilateral aid agencies such as the DFID and Japan financed TA projects for the Public Administration sector. The Customs Administration Modernisation project, financed by IDA, was the highest foreign aided project with a project aid share of 89 percent out of Tk.280 million, followed by the DFID funded project “Financial Management Reform Program” with a project aid share of 96 percent in Tk.125 million and the IDA funded project “Public Procurement Reform Project” with a project aid share of 95.5 percent in Tk.100 million.

7.6.7 TA Projects for Agricultural Sector

In the 2003 RADP, Agriculture received the second highest allocation for TA projects which was allocated through four broad sub-sectors, namely, Crops, Forestry, Fisheries, and Livestock. Among these four sub-sectors, Forestry obtained half of the resources (48.03 percent) of the total sectoral allocation with 11 projects out of a total of 30 projects, followed by Crops with 22.03 percent of resources and 8 projects, Livestock with 16.11 percent of resources and 5 projects, and Fisheries with 13.83 percent of resources and 6 projects. The contribution of project aid in financing TA was 93.8 percent for the whole sector while for Fisheries, Forestry, Livestock and Crops it was 99.1 percent, 96.6 percent, 95.9 percent and 82.8 percent respectively. There was no RPA for the Agriculture sector for TA projects. In terms of implementing agencies, the Ministry of Environment and Forest received the highest allocation followed by the Department of the Environment, the Department of Fisheries, and the Department of Agricultural Extension.

Both multilateral donor agencies like the UNDP, the FAO, and the ADB, and bilateral donors like the CIDA, the DANIDA, the DFID, and the GEF financed TA projects for the Agriculture sector. Sustainable Environment Management Program (SEMP) financed by the UNDP was the highest foreign aid allocated project with a project aid share of 97 percent out of TK 309.4 million, followed by the CIDA funded Bangladesh Environment Project with a project aid share of 99.2 percent in Tk.70.5 million, and the DANIDA funded Seed Industry Development Project with a project aid share of 93.6 percent in Tk.53.4 million.

7.6.8 TA Projects for Industry Sector

The Industry sector received foreign aid through TA projects for capacity building, mainly under the WTO framework. In the 2003 RADP, the Industry sector received Tk.702 million for TA projects, which was allocated through six implementing agencies. Among these six agencies, the Ministry of Commerce received almost 90 percent of resources allocated for the entire sector with
one project out of a total of 8 projects. The allocations for the other 7 projects were relatively small. The Dhaka Chamber of Commerce and Industries (DCCI) was the only private sector body which received technical assistance with 6.6 percent of resources. The contribution of project aid in financing TA projects was 92.7 percent of the entire sector. Interestingly, the only TA project “North West Region Development Cell” allocated under the Planning Commission did not have any project aid component for 2003. The share of the RPA in total sectoral allocation was 64 percent which was 69 percent of the total project aid.

Both multilateral donor agencies such as the IDA, the ADB, the UNDP, the WIPO, and the ITC, and bilateral aid agencies such as the DFID and the EC financed TA projects for the Industry sector. The Export Diversification Project (Product and Market Development, Project Coordination, and Development Support Component) financed by the IDA was the highest foreign aided project with a project aid share of 93.9 percent out of Tk.630 million, followed by the ADB funded project Preparatory Technical Assistance for Small and Medium Enterprise and Export Expansion Program (SMEEEP) with 100 percent project aid share in Tk.34 million.

7.7 Conclusion

The above analysis of the allocations of aid among competing sectors and the aid intensity of various public projects reveals a number of useful thoughts. On the one hand, the inter-temporal dynamics corroborates the observed continuing erosion in the importance of foreign aid for public investment outlay, and on the other hand, the analysis indicates the emergence of a sub-group of sectors where aid continues to play an important role. If these trends are juxtaposed with national development priorities, one can notice a close association between the allocation of aid and the emphasis of public policy on the development of physical and social infrastructure, i.e., transport and energy, on the one hand, and health and education, on the other.

The dynamics of the decreasing importance of foreign aid in public investment in Bangladesh is clearly visible from the analysis. Foreign contribution to financing the ADP has come down to 48 percent in 2003 from 75 percent in 1992. The fact is further supported by the diminishing trend in the share of project aid in the total development outlay and the decreasing number of foreign aided projects. Project aid constituted almost 59 percent of the ADP in 1992 which dropped to 37 percent in 2003. Similarly, the number of foreign aided projects were 597 (67 percent of the total projects) in 1992 which came down to 331 (27 percent of the total projects) in 2003. In spite of the declining trend, foreign assistance still plays an important and strategic role as far as Bangladesh’s public investment is concerned. Particularly, in the cases of larger projects, project aid constitutes a substantive proportion of the total project outlay. This is supported by the fact that in 2003, 27 percent projects with foreign aid component received 62.2 percent of total sectoral allocation,
indicating that those projects were of larger size in terms of financial allocation. The average sizes of foreign aided projects were Tk.306 million, Tk.231 million and Tk.91 million in 2003, 1996 and 1992 respectively whereas the matching overall project sizes were to the tune of Tk.134 million, Tk.82 million and Tk.63 million.

This analysis also shows significant inter-sectoral variations in aid dependence among the ADP sectors – the sectoral intensity of aid also varies with the type of projects. Some sectors are aid intensive in the case of investment projects, while others are in the case of TA projects. This fact is revealed in the correlation analysis presented in Section 7.5 on p.116 and Table 7.7 on p.130 where no significant correlation was found between allocation for investment projects and for TA projects. This analysis reveals that the infrastructure and social sectors like Transport, Health, Population and Family Welfare, Power, Education and Religious Affairs, and Rural Development and Institutions were the most aid intensive sectors in the case of investment projects in 2003. In 1996, the list of top five aid intensive sectors for investment projects was almost the same as was in 2003, except for Rural Development and Institutions which was replaced by Water Resources. In 1992, Health lost its position in the list of top five sectors for 1996 and was replaced by Oil, Gas and Natural Resources.

Foreign aid was channelled to finance investment projects in the ADP with an objective to either create new infrastructural facilities or strengthen the existing infrastructure or invest in human capital with an emphasis on attaining the much discussed Millennium Development Goal (MDG). Relatively, little changes in the composition of top receipts of foreign aid between 1996 and 2003 suggest the continuity of development policy in spite of the change of government. Rather, it seems that the government has substantially revisited its allocative priorities. In the case of TA projects, the list of most aid-intensive sectors was dominated by productive and service-oriented sectors. For instance, in 2003, Public Administration, Agriculture, and Industries were the top three aid-intensive sectors for TA projects. However, in 1996, the top three sectors were Health, Water Resources, and Public Administration, while in 2002, Water Resources, Agriculture, and Transport were the top three air-recipient sectors in terms of TA projects. Both in the cases of investment and TA projects, a marginal shift in allocative priorities of the sectors was discernible over the period under analysis.

Chapter Eight will examine the impact of aid on poverty reduction in Bangladesh. An attempt will be made at exploring the relationship between foreign aid inflow and poverty alleviation endeavours in the country.
Methodology of Constructing Simple Aid Intensity Indicators and Weighted Indices

Let \( A_{ij} \) be the total allocation for \( i \)-th sector and \( j \)-th type of projects.

for \( i = 1, 2, \ldots 17 \) and \( j = 1, 2, 3 \); where \( j = 1 \) indicates all types of projects, \( j = 2 \) indicates investment projects, and \( j = 3 \) indicates technical assistance projects.

Such that \( A_{ij} = B_{ij} + Z_{ij} \)

Where \( B_{ij} \) and \( Z_{ij} \) be the local currency and project aid component respectively of the total sectoral allocation for \( i \)-th sector and \( j \)-th type of projects.

\( X_{ij} \) be the total allocation of foreign aided projects for \( i \)-th sector and \( j \)-th type of projects.

Where \( i = 1, 2, \ldots 17 \) and \( j = 1, 2, 3 \);

Such that \( X_{ij} = Y_{ij} + Z_{ij} \)

Where \( Y_{ij} \) and \( Z_{ij} \) be the local currency and project aid component respectively of total sectoral allocation for \( i \)-th sector and \( j \)-th type of projects. Note that project aid component, \( Z_{ij} \), in equation (1) and (2) is the same and \( Y_{ij} \leq B_{ij} \) implying \( X_{ij} \leq A_{ij} \).

\( N_{ij} \) be the total number of projects and \( N'_{ij} \) be the number of foreign aided projects for \( i \)-th sector and \( j \)-th type of projects.

A. Simple (Unweighted) Indicators of Foreign Aid Dependence of the ADP Sectors

Sectoral Aid Propensity (SAP)

Sectoral Aid Propensity (SAP) for \( j \)-th type of projects is defined as the proportion of foreign aided projects for \( j \)-th type of projects to the total number of projects for \( j \)-th type of projects and presented in percentage form which is denoted as,

\[
SAP_{ij} = \frac{N'_{ij}}{N_{ij}} \times 100
\]

Where \( i = 1, 2, \ldots 17 \), \( j = 1, 2 \)

It is to be mentioned that SAP has been calculated for \( j = 1 \) and 2, i.e., sectoral aid propensity for technical assistance (TA) projects is not considered as by definition all TA projects should be foreign aided.

Allocative Aid Intensity (AAI)

Allocative Aid Intensity (AAI) for \( j \)-th type of projects is defined as the proportion of allocation for foreign aided projects for \( j \)-th type of projects to the total sectoral allocation for \( j \)-th type of projects and presented in percentage form which is denoted as,

\[
AAI_{ij} = \frac{N'_{ij}}{N_{ij}} \times 100
\]

Where \( i = 1, 2, \ldots 17 \), \( j = 1, 2 \)

Like the SAP, AAI has also been calculated for only all types of projects (\( j = 1 \)) and investment projects (\( j = 2 \)).

Allocative Project Aid Intensity (API)

Allocative Project Aid Intensity (API) for \( j \)-th type of projects is defined as the proportion of volume of project aid for foreign aided projects for \( j \)-th type of projects to the total sectoral allocation for \( j \)-th type of projects and presented in percentage form which is denoted as,

\[
API_{ij} = \frac{Z_{ij}}{A_{ij}} \times 100
\]

Where \( i = 1, 2, \ldots 17 \), \( j = 1, 2 \)
B. Normalised Weighted Indices of Foreign Aid Dependence of the ADP Sectors

The above three indicators SAP, AAI and API are useful to reveal the sectoral intensity on foreign aid but they do not consider the difference in allocative priorities of the sectors. In order to capture the variation in allocative priorities of the ADP sectors, weighted indices have been constructed. Instead of using a single set of weight for all types of projects, three different sets of weights (each for \( j = 1, 2, 3 \)) are defined as follows:

\[
W_{ij} = \frac{A_{ij}}{\sum_i A_{ij}}
\]

where \( i = 1, 2, \ldots, 17 \)

Applying these weights to AAI and API, the weight adjusted indices are calculated. For a meaningful and clear interpretation, these weighted indices are normalised in such a way that the values of indices take the value for all sectors (i.e., for the grand total); for individual sectors, values are determined according to their respective weighted index value. The idea is to distribute the total aid dependence of ADP among the sectors in percentage form by combining two strings of information: one is the sector specific weight in total ADP allocation and the other is the information contained in the simple indicators.

**Normalised Weighted Allocative Aid Intensity (NWAAI)**

Normalised Weighted Allocative Aid Intensity (NWAAI) for \( j \)-th type of projects is defined as,

\[
NWAAI_{ij} = WAAI_{ij} \times NF(WAAI_{ij}) = W_{ij} \times AAI_{ij} \times NF(WAAI_{ij})
\]

Where,

\[
AAI_{ij} = \frac{X'_{ij}}{A'_{ij}} \times 100
\]

\[
NF(WAAI_{ij}) = 100 / \sum_i WAAI_{ij}
\]

For \( i = 1, 2, \ldots, 17, j = 1, 2; \) where NF (WAAI) is the normalising factor.

Like the SAP and AAI, NWAAI has also been calculated for only all types of projects (\( j = 1 \)) and investment projects (\( j = 2 \)).

**Normalised Weighted Allocative Project Aid Intensity (NWAPI)**

Normalised Weighted Allocative Project Aid Intensity (NWAPI) for \( j \)-th type of projects is defined as,

\[
NWAPI_{ij} = WAPI_{ij} \times NF(WAPI_{ij}) = W_{ij} \times API_{ij} \times NF(WAPI_{ij})
\]

Where,

\[
API_{ij} = \frac{Z'_{ij}}{A'_{ij}} \times 100
\]

\[
NF(WAPI_{ij}) = 100 / \sum_i WAPI_{ij}
\]

For \( i = 1, 2, \ldots, 17, j = 1, 2; \) where NF (WAPI) is the normalising factor.

### Table 7.1: Top Five Sectors in RADP of 2003, 1996 and 1992 Based on Sectoral Aid Propensity (SAP) for All Projects and Investment Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SAP for All Projects (%)</td>
<td>SAP for Investment Projects (%)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Water Resources (90.1)</td>
<td>Health, Population and Family Welfare (77.8)</td>
<td>Health, Population and Family Welfare (78.1)</td>
</tr>
<tr>
<td>2</td>
<td>Oil, Gas and Natural Resources (88.9)</td>
<td>Public Administration (64.5)</td>
<td>Public Administration (62.5)</td>
</tr>
<tr>
<td>3</td>
<td>Rural Development and Institutions (88.1)</td>
<td>Oil, Gas and Natural Resources (62.8)</td>
<td>Power (52.5)</td>
</tr>
<tr>
<td>4</td>
<td>Communication (86.7)</td>
<td>Rural Development and Institutions (56.2)</td>
<td>Rural Development and Institutions (37.5)</td>
</tr>
<tr>
<td>5</td>
<td>Public Administration (77.5)</td>
<td>Power (54.9)</td>
<td>Oil, Gas and Natural Resources (37.1)</td>
</tr>
</tbody>
</table>

For All Sectors

| (%) | 66.8 | 46.3 | 27.1 |

<table>
<thead>
<tr>
<th>Sectoral Aid Propensity for Investment Projects (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Oil, Gas and Natural Resources (95.0)</td>
</tr>
<tr>
<td>2 Communication (85.7)</td>
</tr>
<tr>
<td>3 Rural Development and Institutions (84.8)</td>
</tr>
<tr>
<td>4 Water Resources (80.0)</td>
</tr>
<tr>
<td>5 Power (75.9)</td>
</tr>
</tbody>
</table>

For All Sectors

| (%) | 59.8 | 32.5 | 18.2 |

Source: Based on RADP, Planning Commission (2004)

### Table 7.2: Top Five Sectors in RADP of 2003, 1996 and 1992 Based on Allocative Aid Intensity (AAI) for All Projects and Investment Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SAP for All Projects (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Communication (99.1)</td>
<td>Health, Population and Family Welfare (93.8)</td>
<td>Health, Population and Family Welfare (95.6)</td>
</tr>
<tr>
<td>2</td>
<td>Rural Development and Institutions (98.6)</td>
<td>Oil, Gas and Natural Resources (94.2)</td>
<td>Power (86.1)</td>
</tr>
<tr>
<td>3</td>
<td>Oil, Gas and Natural Resources (97.9)</td>
<td>Power (84.8)</td>
<td>Oil, Gas and Natural Resources (85.0)</td>
</tr>
<tr>
<td>4</td>
<td>Water Resources (97.2)</td>
<td>Transport (79.1)</td>
<td>Public Administration (79.4)</td>
</tr>
<tr>
<td>5</td>
<td>Public Administration (94.5)</td>
<td>Water Resources (77.7)</td>
<td>Transport (73.4)</td>
</tr>
</tbody>
</table>

For All Sectors

| (%) | 95.6 | 67.8 | 62.2 |
### Allocated Aid Intensity (AAI) for Investment Projects (%)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Sector</th>
<th>Sector</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oil, Gas and Natural Resources</td>
<td>Oil, Gas and Natural Resources</td>
<td>Health, Population and Family</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(94.2)</td>
<td>Welfare (95.5)</td>
</tr>
<tr>
<td>2</td>
<td>Communication (99.1)</td>
<td>Health, Population and Family</td>
<td>Oil, Gas and Natural Resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Welfare (92.7)</td>
<td>(90.1)</td>
</tr>
<tr>
<td>3</td>
<td>Rural Development and</td>
<td>Power (86.2)</td>
<td>Power (86.1)</td>
</tr>
<tr>
<td></td>
<td>Institutions (98.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Power (98.4)</td>
<td>Transport (80.4)</td>
<td>Transport (76.9)</td>
</tr>
<tr>
<td>5</td>
<td>Water Resources (96.8)</td>
<td>Water Resources (74.6)</td>
<td>Communication (64.9)</td>
</tr>
</tbody>
</table>

For All Sectors

| (%)  | 59.8  | 32.5  | 18.2  |

**Source:** Based on RADP, Planning Commission (2004).

### Table 7.3: Top Five Sectors in RADP of 2003, 1996 and 1992 Based on Allocative Project Aid Intensity (API) for All Projects, Investment Projects, and Technical Assistance Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(87.4)</td>
<td>(66.0)</td>
<td>(73.7)</td>
</tr>
<tr>
<td>2</td>
<td>Rural Development and</td>
<td>Water Resources</td>
<td>Public Administration</td>
</tr>
<tr>
<td></td>
<td>Institutions (85.9)</td>
<td>(55.9)</td>
<td>(73.5)</td>
</tr>
<tr>
<td>3</td>
<td>Labour and Employment</td>
<td>Agriculture</td>
<td>Oil, Gas and Natural Resources</td>
</tr>
<tr>
<td></td>
<td>(72.4)</td>
<td>(55.1)</td>
<td>(47.4)</td>
</tr>
<tr>
<td>4</td>
<td>Oil, Gas and Natural Resources</td>
<td>Transport</td>
<td>Agriculture</td>
</tr>
<tr>
<td></td>
<td>(69.9)</td>
<td>(51.1)</td>
<td>(46.1)</td>
</tr>
<tr>
<td>5</td>
<td>Education and Religious Affairs</td>
<td>Industries</td>
<td>Mass Media</td>
</tr>
<tr>
<td></td>
<td>(67.7)</td>
<td>(47.6)</td>
<td>(42.1)</td>
</tr>
</tbody>
</table>

For All Sectors

| (%)  | 72.5  | 45.0  | 38.8  |

### Allocative Project Aid Intensity (API) for Investment Projects (%)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Sector</th>
<th>Sector</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Administration</td>
<td>Health, Population and Family</td>
<td>Health, Population and Family</td>
</tr>
<tr>
<td></td>
<td>(86.4)</td>
<td>Welfare (62.3)</td>
<td>Welfare (73.4)</td>
</tr>
<tr>
<td>2</td>
<td>Rural Development and</td>
<td>Water Resources</td>
<td>Oil, Gas and Natural Resources</td>
</tr>
<tr>
<td></td>
<td>Institutions (85.6)</td>
<td>(53.1)</td>
<td>(49.9)</td>
</tr>
<tr>
<td>3</td>
<td>Oil, Gas and Natural Resources</td>
<td>Agriculture</td>
<td>Transport (43.9)</td>
</tr>
<tr>
<td></td>
<td>(71.2)</td>
<td>(52.9.2)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Labour and Employment</td>
<td>Transport</td>
<td>Agriculture (39.6)</td>
</tr>
<tr>
<td></td>
<td>(68.9)</td>
<td>(51.4)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Education and Religious Affairs</td>
<td>Oil, Gas and Natural Resources</td>
<td>Power (35.3)</td>
</tr>
<tr>
<td></td>
<td>(67.0)</td>
<td>(47.8)</td>
<td></td>
</tr>
</tbody>
</table>

For All Sectors

| (%)  | 62.1  | 43.6  | 38.4  |
### Allocative Project Aid Intensity (API) for Technical Assistance Projects (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Labour and Employment (100)</td>
<td>Mass Media (100)</td>
<td>Health, Population and Family Welfare (99.0)</td>
</tr>
<tr>
<td>2</td>
<td>Mass Media (100)</td>
<td>Science and ICT (100)</td>
<td>Education and Religious Affairs (98.9)</td>
</tr>
<tr>
<td>3</td>
<td>Communications (100)</td>
<td>Social Welfare, Women Affairs and Youth Development (96.9)</td>
<td>Rural Development and Institutions (98.0)</td>
</tr>
<tr>
<td>4</td>
<td>Physical Planning, Water Supply and Housing (97.9)</td>
<td>Industries (95.5)</td>
<td>Social Welfare, Women Affairs and Youth Development (95.4)</td>
</tr>
<tr>
<td>5</td>
<td>Power (96.9)</td>
<td>Rural Development and Institutions (95.3)</td>
<td>Labour and Employment (94.8)</td>
</tr>
</tbody>
</table>

**For All Sectors (%)**

| (%) | 89.1 | 85.4 | 92.7 |

**Source:** Based on RADP, Planning Commission (2004).

### Table 7.4: Variations in Ranking for Top Five Sectors in RADP of 2003, 1996 and 1992 Based on AAI and NWAAI for All Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Communications (99.1)</td>
<td>Water Resources (15.75)</td>
<td>Health, Population and Family Welfare (93.8)</td>
<td>Transport (25.66)</td>
<td>Health, Population and Family Welfare (95.6)</td>
<td>Transport (23.52)</td>
</tr>
<tr>
<td>2</td>
<td>Rural Development and Institutions (98.6)</td>
<td>Transport (15.28)</td>
<td>Oil, Gas and Natural Resources (94.2)</td>
<td>Power (15.97)</td>
<td>Power (86.1)</td>
<td>Power (19.89)</td>
</tr>
<tr>
<td>3</td>
<td>Oil, Gas and Natural Resources (97.9)</td>
<td>Power (14.79)</td>
<td>Power (84.8)</td>
<td>Health, Population and Family Welfare (12.61)</td>
<td>Oil, Gas and Natural Resources (85.0)</td>
<td>Health, Population and Family Welfare (14.54)</td>
</tr>
<tr>
<td>4</td>
<td>Water Resources (97.0)</td>
<td>Oil, Gas and Natural Resources (9.89)</td>
<td>Transport (79.1)</td>
<td>Water Resources (9.96)</td>
<td>Public Administration (79.4)</td>
<td>Education and Religious Affairs (9.90)</td>
</tr>
<tr>
<td>5</td>
<td>Public Administration (94.5)</td>
<td>Health, Population and Family Welfare (9.47)</td>
<td>Water Resources (77.7)</td>
<td>Education and Religious Affairs (9.11)</td>
<td>Transport (73.4)</td>
<td>Rural Development and Institutions (8.11)</td>
</tr>
</tbody>
</table>

**Total for five sectors (%)**

|     | 65.18 | --   | 73.31 | --   | 75.96 |

**For all sectors (%)**

| (%) | 95.6 | 100  | 67.8  | 100  | 62.2  | 100  |

**Source:** Based on RADP, Planning Commission (2004).
Table 7.5: Top Five Sectors in RADP of 2003, 1996 and 1992 Based on NWAAI for Investment Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NWAAI for Investment Projects (%)</td>
<td>NWAAI for Investment Projects (%)</td>
<td>NWAAI for Investment Projects (%)</td>
</tr>
<tr>
<td>1</td>
<td>Power (15.52)</td>
<td>Transport (26.92)</td>
<td>Transport (24.50)</td>
</tr>
<tr>
<td>2</td>
<td>Transport (15.44)</td>
<td>Power (17.00)</td>
<td>Power (19.89)</td>
</tr>
<tr>
<td>4</td>
<td>Oil, Gas and Natural Resources (10.33)</td>
<td>Education and Religious Affairs (9.67)</td>
<td>Education and Religious Affairs (9.90)</td>
</tr>
<tr>
<td>5</td>
<td>Health, Population and Family Welfare (9.73)</td>
<td>Water Resources (9.02)</td>
<td>Rural Development and Institutions (8.11)</td>
</tr>
<tr>
<td>Total for Top five sectors (%)</td>
<td>65.57</td>
<td>74.07</td>
<td>76.94</td>
</tr>
<tr>
<td>Total for All sectors (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


Table 7.6: Top Five Sectors in RADP of 2003, 1996 and 1992 Based on NWAPI for All Projects, Investment Projects and TA Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NWAPI for All Projects (%)</td>
<td>NWAPI for All Projects (%)</td>
<td>NWAPI for All Projects (%)</td>
</tr>
<tr>
<td>1</td>
<td>Transport (16.18)</td>
<td>Transport (24.89)</td>
<td>Transport (21.59)</td>
</tr>
<tr>
<td>4</td>
<td>Oil, Gas and Natural Resources (9.29)</td>
<td>Water Resources (10.80)</td>
<td>Power (13.16)</td>
</tr>
<tr>
<td>5</td>
<td>Education and Religious Affairs (8.23)</td>
<td>Education and Religious Affairs (10.65)</td>
<td>Rural Development and Institutions (7.58)</td>
</tr>
<tr>
<td>Total for Top five sectors (%)</td>
<td>63.43</td>
<td>72.33</td>
<td>73.55</td>
</tr>
<tr>
<td>Total for All sectors (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

### Table 7.7: Spearman’s Rank Correlation between Indices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>p-value</td>
<td>Correlation Coefficient</td>
</tr>
<tr>
<td>SAP-1, AAI-1</td>
<td>.892**</td>
<td>.000</td>
<td>.779**</td>
</tr>
<tr>
<td>SAP-1, API-1</td>
<td>.618**</td>
<td>.008</td>
<td>.681**</td>
</tr>
<tr>
<td>SAP-1, NWAAI-1</td>
<td>.492*</td>
<td>.045</td>
<td>.705**</td>
</tr>
<tr>
<td>SAP-1, NWAPI-1</td>
<td>.411</td>
<td>.101</td>
<td>.783**</td>
</tr>
<tr>
<td>SAP-2, AAI-2</td>
<td>.961**</td>
<td>.000</td>
<td>.897**</td>
</tr>
<tr>
<td>SAP-2, API-2</td>
<td>.567*</td>
<td>.018</td>
<td>.849**</td>
</tr>
<tr>
<td>SAP-2, NWAAI-2</td>
<td>.626**</td>
<td>.007</td>
<td>.829**</td>
</tr>
<tr>
<td>SAP-2, NWAPI-2</td>
<td>.630**</td>
<td>.007</td>
<td>.819**</td>
</tr>
<tr>
<td>API-2, API-3</td>
<td>.005</td>
<td>.985</td>
<td>.028</td>
</tr>
<tr>
<td>NWAPI-2, NWAPI-3</td>
<td>.457</td>
<td>.065</td>
<td>.518*</td>
</tr>
</tbody>
</table>

Notes: The subscripts to the indices indicate the types of projects: 1 indicates all types of projects, 2 indicates investment projects, and 3 indicates technical assistance projects.

** indicates that correlation is significant at the .01 level (two-tailed), and * indicates that correlation is significant at the .05 level (two-tailed).

**Source**: Based on RADP, Planning Commission (2004).
### Table 7.8: Selected Sectors for Analysis of Critical Dependence of Sectors on Foreign Aid

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Share in Total Project Aid for Investment Projects in 2003 (%)</th>
<th>Sectors</th>
<th>Share in Total Project Aid Allocation in 2003 for TA Projects (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) For Investment Projects</td>
<td>(b) For TA Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Transport</td>
<td>22.9</td>
<td>1. Public Administration</td>
<td>23.8</td>
</tr>
<tr>
<td>3. Power</td>
<td>13.9</td>
<td>3. Industry</td>
<td>15.5</td>
</tr>
<tr>
<td>4. Education and Religious Affairs</td>
<td>13.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Rural Development and Institutions</td>
<td>8.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Based on RADP, Planning Commission (2004).

### Table 7.9 Structures of Investment Programs for Five Most Aid Intensive Sectors in RADP of 2002-2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Projects</th>
<th>No. of Foreign Aided Projects</th>
<th>Local Currency</th>
<th>Projected Aid</th>
<th>Reimbursable Project Aid (RPA)</th>
<th>Total Allocation (in Billion Tk.)</th>
<th>Major Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>168</td>
<td>27</td>
<td>56.1</td>
<td>43.9</td>
<td>19.4</td>
<td>30.84</td>
<td>IDA, ADB, JBIC, OPEC</td>
</tr>
<tr>
<td>Health</td>
<td>12</td>
<td>5</td>
<td>26.6</td>
<td>73.4</td>
<td>31.5</td>
<td>15.22</td>
<td>IDA, CIDA, DFID, Netherlands, GTZ, UNFPA, NDF, ADB, WB</td>
</tr>
<tr>
<td>Power</td>
<td>46</td>
<td>22</td>
<td>67.3</td>
<td>34.9</td>
<td>0.0</td>
<td>42.25</td>
<td>ADB, Supplier’s Credit (China and CIS), JBIC, NORAD, Netherlands, SFD, Kuwait, OPEC</td>
</tr>
<tr>
<td>Education</td>
<td>84</td>
<td>22</td>
<td>69.1</td>
<td>30.9</td>
<td>23.5</td>
<td>25.20</td>
<td>ADB, IDA, SDC, UNICEF, Germany, Norway, EC</td>
</tr>
<tr>
<td>Rural Developments and Institution</td>
<td>67</td>
<td>25</td>
<td>70.8</td>
<td>29.2</td>
<td>24.7</td>
<td>16.31</td>
<td>ADB, IFAD, JBIC, SDC, GTZ, JICA, DANIDA, EC, IDB, Netherlands, KFW</td>
</tr>
</tbody>
</table>

**Source:** Based on RADP, Planning Commission (2004)
### Table 7.10: Top 10 Foreign Aided Investment Projects Based on Project Aid Allocation in RADP of 2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project Name</th>
<th>Implementation Period</th>
<th>Total Allocation in 2003 (Billion Tk.)</th>
<th>Local Currency</th>
<th>Project Aid</th>
<th>RPA Source of Aid</th>
<th>Share (%) in Total Allocation</th>
<th>Source: Based on RADP, Planning Commission (2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>Third Road Rehabilitation and Maintenance Project</td>
<td>1/7/98 – 30/6/2003</td>
<td>5.55</td>
<td>36.9</td>
<td>63.1</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>Expansion/ Installation of Digital Telephone Exchanges in Different District of Bangladesh</td>
<td>1/7/99 – 30/6/2003</td>
<td>3.79</td>
<td>49.3</td>
<td>50.7</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Construction of Pakshi Bridge over the Padma</td>
<td>1/7/97 – 30/6/2003</td>
<td>2.49</td>
<td>25.7</td>
<td>74.3</td>
<td>34.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health, Population and Family Welfare</td>
<td>National Nutrition Project-1</td>
<td>1/7/98 – 30/6/2003</td>
<td>1.75</td>
<td>2.3</td>
<td>97.7</td>
<td>85.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power</td>
<td>Greater Dhaka Power Distribution Project (Phase IV)</td>
<td>1/7/96 – 30/6/2003</td>
<td>3.06</td>
<td>47.1</td>
<td>52.9</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil, Gas &amp; Natural Resources</td>
<td>Barapukuria Coal Mine Development Projects</td>
<td>1/7/93 – 30/6/2002</td>
<td>2.75</td>
<td>38.3</td>
<td>61.7</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education and Religious Affairs</td>
<td>Development of Primary Education in Chittagong, Sylhet and Barisal Division (Phase II) (Revised)</td>
<td>1/7/97 – 30/6/2003</td>
<td>1.89</td>
<td>23.3</td>
<td>76.7</td>
<td>66.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education and Religious Affairs</td>
<td>Development of Primary Education in Dhaka, Rajshahi and Khulna Division (Phase II) (Revised)</td>
<td>1/7/98 – 31/12/2003</td>
<td>1.97</td>
<td>28.8</td>
<td>71.2</td>
<td>56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>Dhaka Urban Transport Project</td>
<td>1/7/98 – 30/6/2003</td>
<td>1.57</td>
<td>18.5</td>
<td>81.5</td>
<td>42</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 7.11: Structures of TA Project for Three Most Aid Intensive Sectors in RADP of 2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Projects</th>
<th>No. of Foreign Aided Projects</th>
<th>Local Currency</th>
<th>Projected Aid</th>
<th>Reimbursable Project Aid (RPA)</th>
<th>Total Allocation (In Billion Tk.)</th>
<th>Major Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Administration</td>
<td>30</td>
<td>30</td>
<td>7.47</td>
<td>92.53</td>
<td>6.23</td>
<td>1079.4</td>
<td>IDA, DFID, UNDP, Japan, DANIDA, DFID, FAO</td>
</tr>
<tr>
<td>Agriculture</td>
<td>30</td>
<td>30</td>
<td>6.22</td>
<td>98.78</td>
<td>0</td>
<td>957.0</td>
<td>ADB, IDA, EC, ITC, UNDP, WIPO</td>
</tr>
<tr>
<td>Industry</td>
<td>8</td>
<td>8</td>
<td>7.27</td>
<td>92.73</td>
<td>64.03</td>
<td>702.2</td>
<td>DFID</td>
</tr>
</tbody>
</table>

**Source:** Based on RADP, Planning Commission (2004)

### Table 7.12: Top 10 Foreign Aided TA Projects Based on Project Aid Allocation in RADP of 2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project Name</th>
<th>Implementation Period</th>
<th>Total Allocation in 2003 (Million Tk.)</th>
<th>Local Currency</th>
<th>Project Aid</th>
<th>RPA</th>
<th>Source of Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Export Diversification Project: Product and Market Development, Project Co-ordination and Development and Support Component</td>
<td>1/7/99 – 31/12/2003</td>
<td>626.9</td>
<td>6.1</td>
<td>93.9</td>
<td>60.6</td>
<td>IDA, World Bank</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Sustainable Environment Management</td>
<td>1/7/98 – 30/9/2003</td>
<td>309.4</td>
<td>3.0</td>
<td>97.0</td>
<td>0</td>
<td>UNDP</td>
</tr>
<tr>
<td>Education and Religious Affairs</td>
<td>Effective School Through Enhanced Education Management (ESTEEM)</td>
<td>1/7/99 – 30/9/2003</td>
<td>292.5</td>
<td>0.9</td>
<td>99.1</td>
<td>0</td>
<td>DFID</td>
</tr>
<tr>
<td>Public Administration</td>
<td>Customs Administration Modernisation</td>
<td>1/7/97 – 31/12/2003</td>
<td>280.0</td>
<td>10.7</td>
<td>89.3</td>
<td>0</td>
<td>IDA</td>
</tr>
<tr>
<td>Public Administration</td>
<td>Financial Management Reforms Programme</td>
<td>1/7/2002 – 30/6/2004</td>
<td>125.0</td>
<td>4.0</td>
<td>96.0</td>
<td>0</td>
<td>DIFD</td>
</tr>
<tr>
<td>Public Administration</td>
<td>Public Procurement Reform Project</td>
<td>1/5/2002 – 30/4/2005</td>
<td>100.5</td>
<td>4.5</td>
<td>95.5</td>
<td>45.8</td>
<td>IDA</td>
</tr>
<tr>
<td>Social Welfare</td>
<td>Empowerment and Protection of Children and Women (EPCW)</td>
<td>1/1/2001 – 31/12/2005</td>
<td>96.0</td>
<td>2.1</td>
<td>97.9</td>
<td>0</td>
<td>UNICEF</td>
</tr>
<tr>
<td>Public Administration</td>
<td>Financial Institutions Development Project</td>
<td>11/2/2000 – 1/2/2005</td>
<td>92.8</td>
<td>3.0</td>
<td>97.0</td>
<td>0</td>
<td>IDA</td>
</tr>
<tr>
<td>Mass Media</td>
<td>Advocacy on Reproductive Health and Gender issues through Department of Mass Communication</td>
<td>1/7/99 – 30/6/2003</td>
<td>98.0</td>
<td>24.9</td>
<td>75.1</td>
<td>0</td>
<td>UNFPA</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Bangladesh Environmental Management Project</td>
<td>1/11/99 – 30/6/2004</td>
<td>70.5</td>
<td>0.7</td>
<td>99.3</td>
<td>0</td>
<td>CIDA</td>
</tr>
</tbody>
</table>

**Source:** Based on RADP, Planning Commission (2004)
8.1 Introduction

This chapter aims to explore the relationship between foreign aid inflow and poverty alleviation in Bangladesh. This is in the context of the medium term experiences of using foreign aid in the country over the last ten years of the 20th century. But to have a wider perspective, more recent experiences will be used. The following specific issues will be discussed in this chapter:

a) How aid has affected the economic growth of Bangladesh and the distribution of the fruits of growth among various socioeconomic classes of Bangladesh. The logic for concentrating on these growth and distribution variables is quite obvious since the impact of aid on poverty is mainly mediated through growth and distribution of its results.

b) There is a widespread belief in Bangladesh that aid also has sectoral as well as policy biases towards the richer section of people and that there may be numerous leakages in the aid delivery system even when it is targeted towards the poor. All these may have an important bearing upon relative and absolute poverty both in terms of missed opportunity for absolute poverty reduction and socially unjustified utilisation of aid towards the enrichment the already richer classes of the society.

c) In Bangladesh, food aid merits closer attention since this particular aid is claimed to have direct employment effects on the rural poor. In Bangladesh, food aid is often used for undertaking labour intensive projects in rural areas, which may benefit the poor through generating employment opportunities in the lean seasons. However, some economists argue that food aid may exert an adverse impact on the growth of agriculture, and through that it may again cause a negative impact on poverty. Furthermore, on occasions, food aid was historically used for serving the geopolitical interests of donors.

d) Donors have been increasingly attaching various conditions to their aid disbursement. Whether these conditions were favourable for the poor section of people needs to be examined. The initiation of the Structural Adjustment Programs in the 1980s by the World Bank and the IMF and latest move by the World Bank for the Poverty Reduction Strategy Paper (PRSP), as a precondition for getting aid should also be examined to see whether these were effective to channel aid for poverty reduction.

8.2 Studies on the Impact of Aid on Poverty in Bangladesh

The first major study on the impact of aid on poverty in Bangladesh is *Aid and Influence* (Islam, 1981) where the story of the country’s post-independence experience with aid is described by Professor Nurul Islam, who was Deputy Chairman of the first Planning Commission of Bangladesh. The book describes a story of a nation struggling hard to retain its control over its
non-conventional policies in the face of heavy pressures from donors for a conventional course of
development and ultimately compromising on the part of the helpless country. An important
difference from today was that in those days of hardship, policymakers were trying their best to
retain their policy independence and sustain national dignity. What Just Faaland (then Resident
Chief of the World Bank in Dhaka) in his book (Faaland, et al, 1981) says expresses the dilemma of
those days most vividly:

The situation evolved economically, socially and politically in a way that left few options open: it
was better to depend on aid than to starve; it was better to have the prospect of development at a
rate sufficient to escape the poverty trap than to refuse to face up to the problem of establishing
satisfactory relationships with donors.

One much discussed event of that period is the 1974 famine. Although in 1974 the average per
capita output index was 10 percent higher than that of 1973, yet in the critical months of
September and October the famine broke out mainly because of the lack of supplementary food
import and general failure of entitlement for the poorer section of people (Sen, 1973). The
disruption in food import was due to the US government’s decision to take Bangladesh off the list
of food aid recipients for pressurising the country not to export jute goods to Cuba. As Jack
Parkinson (Faaland, et al, 1981, p.99) puts it, “… the Cuban incident might have been no more than
a pretext to take Bangladesh off the list of food aid recipients. It may be recalled that Egypt’s trade
with Cuba was said not to be in contention; cotton shipments from that country to Cuba appeared
to be excludable under the terms of the 1967 law although no such exclusion appeared for gunny
sacks made in Bangladesh”. Jack Parkinson’s comment testifies that it was a blatant example of
using food aid for political purpose. Now, more than thirty years later, Professor Nurul Islam
(2003, p.443) offers a still very relevant insight gathered from the experiences of those stormy days:
“After all, few deny that aid relationship is not an honourable or equal relationship. It creates a
dependency syndrome and discourages self-reliance.” Professor Islam even goes to the extent of
suggesting a “no-aid situation” to be more preferable to the prevailing situation in Bangladesh.

Another important study on the impact of aid on poverty was by Cassen, et al, (1986). They carried
out a cross-country study, as part of a global study, on the overall effectiveness of aid in terms of
poverty alleviation. The study was commissioned by a joint ministerial committee of the Board of
Governors of the World Bank and the IMF. In contrast to the earlier study, this gives us an
international perspective. As Cassen, et al, (1986, p.329) observe, “The impact of aid on poverty has
been disappointing, more effective monitoring of aid is necessary. The formulation of a more
coherent strategy for tackling the problems of functional landlessness should be an important focus
of attention for those donors who place high priority on meeting the needs of this group.”
The study by Cassen, et al, (1986) shows that except for a minor part of the food aid, which was used for the Food for Works (FFW) program, all other aid was bypassing the poor people of rural areas. Cassen’s study also shows that given the dependence of the government development budget on aid, any bias in the ADP ultimately affected the bias of the aid allocation and the sectoral pattern of the use of aid in Bangladesh. The study finds that there was a distinct bias in the ADP of Bangladesh towards relatively more capital-intensive projects and urban projects. And that bias was automatically transmitted into the aid flow.

There was and is a perpetual tug of war between the bureaucracy of Bangladesh and that of donor agencies disbursing aid to the recipient country where donors have the upper hand. However, in most cases, local bureaucrats are held responsible for the failure to implement projects financed by aid. The study by Cassen, et al, (1986) establishes that part of the failure is also due to the complex aid system itself. The study, however, recognises that “Food Aid” was playing an important role in Bangladesh. Firstly, by filling up the food gap and secondly, through FFW programs, it directly helps the rural poor. However, a part of food aid was also going to urban middle class consumers and members of the army who were not necessarily poor. Finally, the study by Cassen, et al, (1986) warns Bangladesh about the piling up of debt burden in the near future. As a whole, the study does not evaluate the impact of aid on poverty positively.

Another comprehensive and well-known study on foreign aid to Bangladesh was carried out in the early 1980s by a very capable team of researchers under the guidance of Sobhan (1990). The final report of the study was entitled From Aid Dependence to Self-Reliance: Development Options for Bangladesh. The conclusion of the research was also not so positive about the “Aid-Poverty” relationship. At the time of publication of the report, Bangladesh was still a highly aid dependent country and there was a wide concern in the society about the misappropriation of aid for private enrichment. It is perhaps best to quote from the introductory section of the published report where Sobhan (1990, p.3) himself has summarised the contemporary relevance of the study:

Whilst some of the data in this paper is slightly dated, the issues discussed in this volume remain very much alive. Bangladesh remains no less dependent on aid today than when the study was undertaken. In 1988, the debt-servicing ratio came to 24.4 percent of Bangladesh’s export. The incidence of foreign aid still remains both pervasive and skewed. Large numbers of Bangladesh people remain dependent directly or indirectly on the employment, income and nutrition derived from various aid programs. At the same time, a narrow class of beneficiaries of the fruits of foreign aid has today scaled new heights of affluence and realises even higher levels of conspicuous consumption. Donors remain more pre-occupied with the misdirection of aid and its inefficient use and are mere strident in their call for policy reforms to ensure better use of their aid.
Chapter Eight: Impact of Aid on Poverty in Bangladesh

So, all the three studies on the aid-poverty relationship in Bangladesh reviewed here reveal a more or less negative attitude towards foreign aid. In all of these studies, aid is best regarded as a “necessary evil”.

8.2.1 How Can Aid Impact Poverty?

Foreign aid can impact poverty in different ways. Firstly, aid increases domestic income and aggregate demand. If any amount of the aid inflow that a recipient country receives is spent in the non-tradable sector such as services and construction, it causes the price of these goods to rise. Since developing aid recipient countries are price-takers, the price of tradable goods remains unchanged, and the price of services provided by the people appreciates. This is known as an aid-induced spending effect. Secondly, the production of tradable goods and exports are likely to decline given that resources are reallocated to the non-tradable sector as investments bring higher returns. In developing countries such as Bangladesh, this often relates to a shift from labour intensive agricultural production. This is known as the resource movement effect. These effects may negate the positive impact of aid on economic growth. A third effect relates to distortions in the export sector. An economy may suffer from the loss of ‘learning by doing’ externalities in the tradable sector which could have led to productivity gains for exporters.

There are a number of theories which argue that aid can also lead to either depreciation or appreciation in exchange rate. Bhaduri and Skarstein (1996) demonstrate that aid flows may have a deflationary effect by dampening domestic demand depending on the impact of aid on consumption and investment. Moreover, White (1998) finds that for the case of Nicaragua and to some extent Zambia, aid reduced inflation was able to reduce deficit financing in these countries. A further anti-inflationary impact is identified by Hjertholm, et al., (2000). They recognise that inflows of foreign aid goods may reduce the price of such goods by increasing their supply, mitigating inflationary pressures. Hjertholm, et al., (2000) also assume that inflows of aid goods may increase the productivity of the tradable goods sector, thereby increasing its competitiveness. This may be achieved by lowering transportation costs or by increasing the level of education. Due to these counteracting effects, the impact of aid on the exchange rate of recipient countries becomes an empirical issue. But Chowdhury (1999) finds that foreign aid has led to real exchange rate appreciation in Bangladesh.

Donors need to be aware of the dangers of an aid-induced real exchange rate appreciation, especially when foreign aid is provided in the form of budget support and is large relative to the recipient’s economy. However, with the effective management of aid inflows, researchers have argued that real exchange rate appreciation can be avoided. For example, Heller and Gupta (2002) note that if aid was used to finance imports, the balance of payments would remain unchanged as
the increase in imports would be financed entirely by aid. This should have little impact on the recipient country’s money supply and level of aggregate demand. Project aid directed towards the tradable goods sector may lessen the likelihood of aid-induced real exchange rate appreciation. However, with the effective management of aid inflows, researchers have argued that real exchange rate appreciation can be avoided. For example, Heller and Gupta (2002) note that if aid is used to finance imports, the balance of payments would remain unchanged as the increase in imports would be financed entirely by aid. This should have little impact on the recipient country’s money supply and level of aggregate demand. Project aid directed towards the tradable goods sector may lessen the likelihood of aid-induced real exchange rate appreciation.

8.3 Aid-Growth-Poverty-Equity-Human Development

Because a comprehensive study on foreign aid to Bangladesh for the 1990s is lacking, it is necessary to begin by ascertaining the basic facts. The more recent time series data of the five crucial macro variables may be relevant to the study for the period from 1990 to 2003: “Net Aid Inflow”, “Growth Rate of GDP”, “Gini Index” for measuring the degree of inequality, “Head Count Ratio of National Poverty”, and “Human Development Index (HDI)”. All these data have been collected from the standard official sources and all sources are mentioned in Table 8.1 on p.155. Although continuous information for all the years for five variables is not available as yet, the data available say something significant about the nature of the correlation among these variables.

Table 8.1 clearly establishes the fact that while the “Net Aid Inflow” was generally declining in the nineties, the “Growth Rate of GDP” as well as the “Gini Index of Inequality” were more or less showing a positive trend of increase. During 1990-96, an average net aid flow per year was 1232 million dollars but an average GDP growth rate was 4.22 percent during this period. On the other hand, during the period from 1996-2000, the average net aid inflow per year came down to only 903.27 million dollars, 27 percent lower, but the average growth rate increased to the level of 5.32 percent which was 26 percent higher. The “Gini Index” for consumption inequality for rural and urban areas also increased by 16 and 19 percent respectively during the period from 1991 to 2001. It is also interesting to note that the Gini Index for urban areas increased very rapidly, especially during the first half of the decade when the average aid inflow was also relatively higher.

Another indicator, HDI, also consistently moved upward despite the generally falling net aid flow. From other relevant indicators, it is observed that HDI improved at a faster rate, especially in the second half of the 1990s when the annual net aid inflow was shrinking at a faster rate.

Finally, if we look at the trend of the national “Head Count Ratio of National Poverty”, we again find quite a puzzling situation. For consistency’s sake, we can take Bangladesh Bureau of Statistics
data on poverty rates estimated for both urban and rural areas by the using the Direct Calorie Intake (DCI) method\(^7\). From Table 8.1 it is clear that the total number of urban poor who consume below 2122 calorie has increased from 6.8 million to 9.6 million, by almost 41 percent during the period from 1991 to 1996. But from 1996 to 2001 the total number of urban moderate poor again increased from 9.6 million to 13.2 million which is an increase of 37 percent, slightly lower than the rate of the increase in the previous five years. It should also be noted here that the net aid inflow was higher during the first period when the number of urban poor was increasing more rapidly. If we look at the figures of the urban extreme poor separately, the picture becomes even more contradictory. Table 8.1 also shows that actually the number of the urban extreme poor increased by 37 percent during the first period of higher aid inflow. But during the second period of lower aid inflow, the number of the urban extreme poor increased only by 15 percent which is just half of the previous rate. In the case of rural poverty, the contrast is sharper. The number of moderate poor in rural areas increased from 44.8 million to 49.7 million, an almost 11 percent despite the relatively higher inflow of aid during the period from 1991 to 1996. On the contrary, the total number of moderate poor in rural areas actually decreased from 49.7 million to 42.6 million, a decrease by almost 8 percent during the period from 1996 to 2001 when the aid inflow was actually relatively lower.

It is true indeed that such co-variations do not signify causality. It may not be that lower aid has caused higher growth, but rather that higher growth reduced the relative significance of aid. Whatever may be true, data shows that the chosen indicators of development, such as growth, poverty, inequality, and human development, were showing improved development achievements in spite of the decline in foreign aid. What is more interesting is that the pace of economic growth, improvement in HDI, and reduction of poverty were all taking place at a faster rate in the second period when the absolute aid inflow had come down significantly. Perhaps the key question is how the Bangladesh economy was able to achieve a higher growth rate and relatively faster improvement of other development indicators in spite of the declining volume of foreign aid.

It is hypothesised that if aid is utilised productively, i.e., to finance investment instead of consumption, then it is sure to have a positive impact on the existing rate of economic growth, provided that domestic savings for investment is not merely substituted by that aid and the marginal capital-output ratio does not fall. In the 1990s, we know for sure that the total aid disbursement has been decreasing; hence it is expected that the contribution of aid to national investment would also be decreasing. Therefore, in order to sustain the same level of investment

\(^7\) Although the World Bank argues that the Cost Basic Needs (CBN) method of estimating poverty is more reliable but this could not be used since poverty data generated by the CBN method are available only from 1996 onwards.
and growth rate, Bangladesh was required to compensate for the shortfall of the foreign aid financed part of investment by increasing national savings. Either domestic savings and/or foreign savings earned by migrant workers must have come forward to share the increasing burden of the increasing investment and growth of the economy of Bangladesh in the second half of the 1990s. The above argument is testified from the data presented in Table 8.2 and Table 8.3 on p.156.

According to economists of Bangladesh today, the relatively higher growth performance of the country in the second half of the 1990s was not constrained by the savings gap since during this decade the gross national savings rate was either more or almost equal to the gross national investment rate (Table 8.2).

It can also be established from the data presented in Table 8.3 that during the whole 1990s export earnings and total foreign exchange earnings (i.e., export + remittance) were growing at a faster rate than the import. That is why export as a percentage of import increased to become 59 percent in 2000 from 49 percent in 1991. On the other hand, the total foreign exchange earnings used to finance about 70 percent of the import bill in 1991. This ratio also improved to become 82 percent in 2000.

Thus, foreign aid was not necessary for filling the savings-investment gap. It still had a role to fill up the export-import gap but that gap was also consistently closing down throughout the 1990s. And poverty alleviation cannot be attributed to the increased volume of aid since poverty was rather increasing when the aid volume was higher and it started declining very slowly when aid was shrinking (Table 8.1 on p.155). The HDI also improved at a faster rate when aid was relatively low. On the other hand, inequality of consumption was increasing at a faster rate when the aid volume was relatively higher. Here again, also merely on the basis of this data, one cannot establish a causal relationship between aid and inequality. All these facts and correlations point to the general proposition that the development achievements in the second half of the 1990s took place not because of increased aid but despite a declining volume of aid.

But it should be remembered that these somewhat positive signs of development are not a projection of a long-term trend. It is true that in the early post-independence period and also in the 1980s, aid used to fill up three important gaps that kept the whole nation critically dependent on foreign aid.

Firstly, aid supplied the crucial food aid to fill the food gap; secondly, aid financed almost the entire ADP; thirdly, since aid was sometimes given in terms of free hard currency (especially enhanced Structural Facility, ESAF, loans during the 1980s), it was also very useful in underwriting the export-import gap. But in the 1990s, especially in the later half, the Bangladesh economy not only
became more self-reliant with respect to ADP financing but also was able to increase cereal production at a higher rate than the population growth rate, and therefore, its food gap steadily decreased and closed completely. Moreover, Bangladesh was able to open a new channel of foreign exchange earnings coming from the remittances of migrant workers of Bangladesh working overseas, which also helped Bangladesh to significantly ease its foreign exchange constraints (Table 8.4 on p.156).

These domestic achievements enabled Bangladesh to establish a better development record in the last decade in terms of certain selected development indicators. A recent study of the relatively improved growth performance of Bangladesh’s economy in the later half of the 1990s actually attributed to mainly three domestic agents of the economy largely serving the domestic market. Thus, neither aid nor export, rather the increase in the domestic productive capacity of farmers, small industrialists and migrant workers was able to modestly lift the economy in recent years but whether it would be sustainable is a different question.8

8 A recent study of the growth process of the 1990s by Osmani, et al (2003) presents the following interesting finding: “The report finds that at least two-thirds to two-fourths in the 1990s growth originated from the non-tradable sectors, mainly services, construction, and small-scale industry.” (See Macroeconomics of Poverty Reduction: the Case of Bangladesh, UNDP, April 2003).

8.4 Aid-Induced SAP and Its Impact on Poverty in Bangladesh

The impact of aid on poverty is, of course, not just a function of the aggregate volume of aid and high growth. It actually is largely contingent upon the types of aid, the nature of the aid delivery mechanism, the degree of the productive utilisation of aid, and the nature of the macroeconomic policy framework of the recipient country as well as is dependent on the level of the capacity and commitment of the state to implement pro-poor macro-politics. Growth must be pro-poor to reduce poverty significantly. The necessary condition of pro-poor growth is that it must be “Inequality Reducing” at the same time (Ravallion 2004).9

9 A report entitled “Chronic Poverty in Bangladesh” observes that “Had growth in Bangladesh been distributionally neutral, the head count index of rural poverty would have declined by 2.4 percent points per annum instead of 0.9 actually observed between 1984 and 1992. Similarly, the incidence of urban poverty would have dropped by additional 10.8 percentage points instead of 7.3 during that period.” (Sen, B. and David Hulme, 2004, p.27).
Even the World Bank and the IMF, the co-sponsors of this particular set of policies, have lately been recognising the necessity of various safety net programs for the poor to absorb the so-called short-run negative effects of the SAP. But in countries where aid and the SAP did not work and the negative effects continued even in the long run, the World Bank ultimately tried to put the blame of such failures on the so-called “governance failures of the recipient country” (World Bank, 1998). But this kind of logic begs a question: Why then was aid continued to support the misrule of a bad government? The commonly offered answer is that reducing aid would not only punish the bad government but also the poor section of people. Given this, it would be quite interesting to see how the SAP has been evaluated in Bangladesh and how it has impacted on the poverty scene of Bangladesh.

The SAP was initiated in Bangladesh with emphasis on privatisation, liberalisation and withdrawal of agricultural subsidies, and the immediate short-run effects of the SAP were neither beneficial to growth nor helpful for reducing poverty [Sobhan, (ed.), 1991]. All of the SAP initiatives were adding more people to the stock of the unemployed and poor and were simultaneously resulting in the so-called “stability at the cost of growth”. The immediate effect of privatisation was transfer of assets from the public sector to the richer section of the private sector. Public institutions were privatised and bank loans were diverted to private enterprises. Unfortunately, most of the new owners proved incapable of enhancing the performance of privatised industries and eventually these industries were closed down contributing to the enhancement of unemployment (Sobhan, 1998). Similarly, liberalisation and devaluation also failed to boost industrial exports with the sole exception of the garment industry which had a limited impact on the economy due to its incapacity to develop significant backward linkages. Rather, devaluation increased the cost of imports in general which affected the profit as well as the amount of re-investible surplus accruing to all those export and import substituting industries, which had high import content in their investment.

On the other hand, the SAP induced an indiscriminate and rapid pace of tariff withdrawal which struck deathblow to many indigenous import-substituting industries, many of which had to face sudden and unequal competition with foreign import in the open market and failed to survive. A nation-wide survey of private sector enterprises in Bangladesh was carried out from March to June 2003. The survey results show that there are approximately six million small and medium enterprises, of which 0.6 million were closed down over the past five years whilst almost two and a half million workers had to lose their jobs during that period (Midas, 2003).

Critiques of the SAP argue that the impact of the so-called human development policies accommodated within the SAP was bound to be very limited due to the unequal competition in the market and unequal ownership and access to resources by the poor. In Bangladesh, as the public
sector was withdrawing from the economy due to the privatisation policies of the SAP, a new rich class was developing in the private sector which so far had failed to create any dynamism in the industrial sector through diversifying and expanding the production structure. In Bangladesh, SAP-induced privatisation programs successfully dismantled the state-manufacturing sector which was also not running efficiently, but privatisation also did not result in a healthy rise of a rejuvenated private sector. Thus, the major outcome of this policy was the sudden rise of a huge contingent of jobless industrial workers who then had to eke out their livings mainly from the low paying informal service sector. As soon as the initial capital that they had obtained at the time of their retirement from their formal jobs was eaten up, they were pauperised. Thus, in Bangladesh, during the late 1990s there was actually not only a decline in the absolute level of employment in the manufacturing sector but also a general deceleration in the real wage rate in the manufacturing sector which also impacted on the levels of living of the employed workers as well. Thus, the optimism expressed in a World Bank (1995a) document “Bangladesh, Recent Economic Developments and Priority Reform Agenda for Rapid Growth” that “… by expanding opportunities for formal employment, reforms would benefit the vast majority of the poor” has proved wrong (Rahman, 2001).

While the SAP was taking its toll in the industrial sector, side-by-side at the same time a new group of donor-driven NGOs sprang up in Bangladesh that were slowly taking over at the grassroots level the various service delivery functions of the state. Although NGOs had generally proved more efficient than the state in the fields of microcredit, education and health but among them there has already arisen a concentration of power and wealth in the hands of a few large corporate NGOs, e.g., the BRAC, the PROSHICA, the ASA, etc. Questions about who are owners of the concentrated corporate assets of these big NGOs, and about the transparency and accountability of their budgets have recently become matters of controversy in the public domain. This is so because they actually accumulated a part of their wealth by using public money (i.e., that part of aid which was channelled through NGOs) and public savings (the savings of millions of micro-savers). As of June 2000, an aggregate savings to the tune of US$700 million saved by micro-members of Micro-Finance Institutions (MFIs) can be found. Of this huge savings, US$160 million is recycled by MFIs to finance their own microcredit (CIRDAP, 2000).

Even supporters of the SAP have started expressing doubt about it. Inside critiques complain that the three major policy thrusts of the SAP, privatisation, liberalisation and tight government expenditure policy, were followed at such a pace that they were creating more problems than
solutions.\textsuperscript{10} Perhaps one simple but quite informative way of judging the overall impact of the SAP on poverty would be to compare poverty trends in the pre-SAP period with that of the post-SAP period. Such before-after comparison models are always fraught with the problem of keeping other relevant parameters constant. There is another problem of obtaining comparable estimates of poverty for estimating the trend of poverty for the relevant periods. Much cannot be done with respect to the first problem but can just be noted that the pre-SAP period began with a more vulnerable payments situation, much higher dependence on aid, a very high incidence of poverty, a large public sector and a more inward looking policy regime. But from 1984 onwards, SAP policies were precisely directed towards dismantling the public sector and opening up the economy at a rapid pace. The twin policy of greater emphasis on exports whilst reducing all kinds of subsidies and tariffs were also an important part of the policy package. That is why in the post-SAP period the economy quite rapidly turned out to be far less vulnerable with respect to the Balance of Payment situation, far less dependent on aid, more and more outward-looking and also ended up with a significantly reduced public sector. But the main question remains about what happened to poverty. Poverty, of course, declined in the post-SAP period but so too was the case during the pre-SAP period. Thus, to answer the above question, specially the trend rates of decline in poverty of the two relevant periods will have to be compared. The SAP, pursued by Bangladesh, has actually passed through three stages. The first phase began in 1982 when Bangladesh was exposed to policy-based lending from the World Bank, which continued till 1987. The second phase (1987-91) began with the initiation of the three-year Structural Adjustment Facility (SAF) by the IMF, and finally, the third phase was initiated from 1992, preceded by the IMF-sponsored ESAF. The SAP has now been continued within the purview of the so-called Poverty Reduction Strategy Paper (PRSP), and keeping this old agenda intact within the PRSP, the World Bank has taken a new strategy, especially since 1995 to emphasise the second generation reforms such as governance reforms, poverty reduction, safety net programs, human resource development, etc.

Luckily, we have with us consistent and comparable poverty estimates of both the urban and rural sectors for at least two definite periods. The first period happens to be a period of eight years, from 1974 to 1982. This period actually fully coincides with the pre-SAP period. The second period, for which also comparable data is available, is a period of twelve years, from 1984 to 1996. This period can be treated as the post-SAP period. Table 8.5 on p.157 presents relevant data on the comparison of poverty trends between the 1974-1982 and 1984-1996 periods.

\textsuperscript{10} Former Finance Minister Saifur Rahman, once a staunch supporter of SAP, made bitter comments about donors “that in formulating adjustment policies, the country’s specific situation and condition have to be taken into account. And there has to be a dialogue, and not a monologue. Also, there should not be any element of arrogance on the part of the people coming to negotiate.” (Rahman, 1991).
Table 8.5 shows that in the pre-SAP period, the pace of the reduction of urban, rural and national poverty was higher than those in the post-SAP period. Actually, the main limitations of the SAP in Bangladesh lie in its inability to address the basic issue of the redistribution of land, asset, and political power in favour of the poor. As external donors cannot tackle this type of distributional constraint, they depend mainly on the domestic balance of political power. What donors do at best is not to support an anti-poor or non-democratic regime with increased aid flows. But in the case of Bangladesh, the donor-driven SAP strategy in general has not only failed to appreciate the pre-existing distributional constraint of unequal asset base and unequal market power but also provided lavish aid to an incumbent non-democratic regime till its last days in December 1990 where it financed the whole of the national development budget. Donors had also failed to address the problems of the extreme poor who remain beyond the reach of education or health services or microcredit because they remain pre-occupied with the problem of subsistence and a minimum security of life. Traditional safety net programs have not been designed to reach these groups.

To all, these must be added to the political constraint arising out of the SAP. If state power does not own the SAP package as a whole, and generally pays only lip service to donors in order to access aid, however small it may be, then even donors recognise that the SAP process cannot be sustained.

8.5 Findings of an International Study on SAP

The World Bank had introduced the so-called “Structural Adjustment Loans” (SAL) to impose a neo-liberal strategy of development on many aid recipient countries along with Bangladesh since the mid-1980s. But by 1990 it was clear that SAL had failed to boost economic growth and investment in most of the countries. Internationally renowned scholars such as Paul Mosley, John Harrigan and John Toye (Mosley, et al, 1991) had carried out an early evaluation of the consequences of SAL in 1991 by using different methodologies, e.g., simple tabular comparison of SAL and non-SAL countries, regression based results to isolate the SAL effects and model based simulation exercises of different SAL policies on selected countries. All the three methods of analysis yielded the following common conclusions (Mosley, et al, 1991, p.305):

1. The influence of the Structural Adjustment Programs on aggregate investment is almost everywhere negative.

2. The influence of the Structural Adjustment Programs on national income and on financial flows from overseas is on balance neutral.

3. The implementation of the Structural Adjustment Programs under World Bank guidance almost everywhere had a favourable impact on the growth of export.
The study recommended going slow with the SAL in a more pragmatic way, which was not heeded by the World Bank. Some of the recommendations have relevance for Bangladesh even today:

1. Particularly in poorer countries, the Structural Adjustment Programs, on which program lending is contingent, should, where appropriate, expand the economic role of the state in addition to taking measures to remove harmful state interventions.

2. The policy changes on which program finance is contingent should be introduced, where possible, on an experimental basis.

3. The models which the World Bank uses for the forecasting of the macroeconomic impact of its recommended policy changes should be lodged with the recipient in the form of a micro-computer disk in order that recipients can simulate the effect of their own preferred policies.

In spite of the late efforts by the World Bank and the IMF to give a human face to their original package of the SAP, no less than the former chief economist of the World Bank, Joseph Stiglitz, offered the following trenchant criticism of the SAP:

The first step is Privatisation, which is rather Briberisation. The dishonest ministers sell state assets under-priced and deposit 10 pc commissions in the Swiss bank. The biggest briberisation scheme was carried out in 1995 in the former USSR with the full knowledge of the US government. Step two is Capital Market Liberalisation. This is nothing but causing a hot money cycle. Speculative money inflow buys real estate or currencies! And as soon as there is a minimum sign of trouble, it goes out. Within a day the reserve is finished. To attract foreign capital, again interest rates are raised even up to 30 percent to 80 percent!!! The third step is market based pricing and with this slogan actually the prices of food, water and cooking gas are increased. This leads to the “IMF RIOT”. In Indonesia, the withdrawal of food and fuel subsidies caused it in 1998. In Bolivia, riots started over the issue of WATER Prices. In Ecuador, it was over cooking gas prices. Step four is PRSP that means Free trade. Actually, like the Opium War in the 19th Century, when Europe and North America tried to penetrate markets forcibly, now they do the same thing by using a financial blockade. Particularly harmful is TRIPS. Now life is endangered because life-saving branded medicines have become private exclusive property and unless you pay millions of dollars you cannot reproduce or use them (Stiglitz, 2002).

The above critique from an ex-insider of the World Bank too carries relevance to Bangladesh.

8.6 Unfavourable Composition of Aid to Bangladesh

The impact of foreign aid on poverty also depends on the composition of aid. If the proportion of loans in total aid is higher, then it may result in a higher repayment burden on the future generation of Bangladesh. That again over time may increase the burden of debt-services and in the extreme case net disbursement of aid may become negative when aid is taken to repay aid, or in other
words, a country becomes bankrupt. Similarly, if donors together form a single group and aid is then negotiated multilaterally, then the bargaining power of donors becomes stronger and then they can impose all their conditions on the recipient country. In terms of their impact on poverty, both the situations are not at all helpful, if not negative. Table 8.6 on p.157 presents the trend of net foreign aid disbursement after 1973 till 2002. This long period of thirty-two years is divided into different sub-periods corresponding to different political regimes that have ruled Bangladesh during this time. It is clear from the table that over time the debt servicing of Bangladesh were growing at a faster rate than the disbursed aid. As a result, debt servicing was eating up an increasing portion of the total aid disbursed. During the periods from 1973-75, the debt servicing constituted an average 4.75 percent of the total aid disbursed. But in 2002, debt servicing constituted about 41 percent of the total aid disbursed. The thing is that this trend has been continuing without an exception over the periods. If the twin trend of declining aid disbursement and increasing debt servicing continues in the future, then in the future the country’s net disbursement of aid may become negative. However, it is true that even then the country may not face much difficulty in repaying debt if the foreign exchange earnings remain high. Table 8.7 on p.157 presents the evolution of the yearly composition of aid in terms of loans, grants and bilateral-multilateral structures starting from 1971-73 and for the subsequent period of 1990-2001. Here also, over time the composition of aid has been moving against the interest of Bangladesh. In the early post-independence period, most of the foreign aid used to come in the form of grant, and negotiation was pressed hard against any policy imposition. During those days, only 11 percent of foreign aid came as loans and 89 percent as grant, and 71 percent was bilateral aid and 29 percent multilateral. By 1990, the proportion of grant came down from 89 percent to 61 percent and it further declined to become 37 percent in 2001. On the other hand, the proportion of multilateral aid increased from 29 percent in 1971-1973 to 61 percent in 1991, and came down to 49 percent in 2001 (Islam, 2003).

8.7 Beneficiaries of Aid in Bangladesh

If we look carefully at the pattern of the use of foreign aid and the classes of beneficiaries who are associated with its delivery and use, then we find the following: Foreign consultants, local consultants, local politicians and bureaucrat, foreign equipment suppliers, local commission agents, local contractors, rural and urban elites, rural and urban poor, and NGOs. Studies by Sobhan (1990) point out that foreign aid benefits could be conceptualised at two levels: flow of funds and flow of benefits. While the flow of funds traces the direct recipients of aid money, the flow of benefits covers all classes who are benefited by the flow of goods and services generated from the use of foreign aid. Foreign aid comes to Bangladesh in the form of commodity aid, food aid and project aid. Commodity aid and sometimes a large part of the project aid expenditure are generally tied to particular sources, often donors themselves. It is used to purchase commodities from donor
countries (sometimes at inflated prices), to pay inflated freight rates, and also to pay lucrative fees to foreign consultants whose expertise in most cases is not superior to that of their Bangladeshi counterparts (Sobhan, 1990). This does not mean that buying goods from foreign countries or hiring a foreign consultant necessarily benefits the non-poor or foreigners. It means that direct payment for these goods and services go to foreigners and their relatively rich agents, and that they mostly spend them in their own countries, which in most cases does not have any domestic multiplier effect in the recipient country. On the domestic front, there are local consultants who receive a part of the aid for making various kinds of feasibility studies and evaluations of different aid-financed programs for which they are handsomely compensated. Indenting firms or commission agents of foreign suppliers also get a share of foreign funds for their services as intermediaries. Bureaucrats and politicians also enjoy unofficial rent in the form of foreign travel, highly paid project directorships, kickbacks, etc. Funds for these unofficial payments also come from the disbursed aid. Local contractors who mainly participate in the infrastructure building also get paid out of foreign funds, a small part of which may go to workers employed by them.

Rural and urban elites sometimes access direct credit from foreign aid financed loans intermediated by Development Financing Institutions (DFIs). For example, aid financed almost all the loans given by the Bangladesh Shilpa Bank (BSB) and the Bangladesh Shilpa Rin Sangstha (BSRS) during the 1970s and 1980s, which were largely defaulted in their repayment. This led to the default culture which culminated in the bankruptcy of the two DFIs which were the main sources of financing industrial investment in Bangladesh. The only aid that might have directly gone to the rural poor is that part of the food aid, which is used for relief, the Food for Work and Open Market Sales programs. But that part of aid accounted for less than half of the total food aid coming to Bangladesh up to 1984 (Sobhan and Islam, 1990). Two decades have now passed since Sobhan made that study in 1984. One could always restudy the current flow of foreign aid funds by using a similar methodology. The results will not vary too much. Table 8.8 on p.157 has been prepared by Sobhan and Islam (1990) for a rough idea about the direct flow of project aid money to different beneficiaries of aid.

Recently, NGOs, another group of direct recipient of foreign aid fund, are emerging as a growing group of beneficiaries of aid inflows. The World Development Report 2001 (World Bank, 2001a) records that NGOs channelled some US$10 billion to developing countries in 1998, about half of

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11 A study on Development Financing Institutes (DFIs) estimates in the post-liberation period (1974-1984) shows that the Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha sanctioned US$170 million in long-term loans. Of this, 93 percent went to the private sector. The study indicates that out of the outstanding dues against these loans as of 30 September 1984, 44 percent was overdue (Sobhan and Ahsan, 1985).

12 A similar study by Barakat (2002) has estimated that roughly only 25 percent of foreign aid goes to the poor.
which was derived from the Official Development Assistance (ODA). In Bangladesh, NGOs received US$106 million as foreign grant in 1991 (about 6 percent of the gross aid). That amount increased to US$273 million in 1999, which was about 18 percent of the gross aid flow in that year (Table 8.9 on p.158).

One may argue that this part of aid is more likely to benefit the poor since most of the NGOs are delivering services to the poor. This is most probably true but one should also remember that NGOs in Bangladesh should be accountable to their poor clients and the question of monitoring them has already been raised not only in Bangladesh but also internationally (World Bank, 2001a). Since monetary resources are fungible assets, they can be easily transferred to other non-planned uses, which is quite hard to detect. However, this is an endemic problem with all kinds of monetary aid. For example, it has been reported in a research report authored by Fiedler, et al, (1996) that if Asia Foundation, an international NGO working in Bangladesh, spends 100 dollars for its health programs, then only 44 dollars reach the grassroots level and only 18 dollars to the consumers as direct health services.

8.8 Food Aid to Bangladesh

It has been noted in Section 8.2 that food aid has a direct poverty alleviation impact on Bangladesh. The two main poverty-alleviation effects of food aid to Bangladesh have been identified as: (1) prevention of famine in the early days when Bangladesh had food grain deficit of about 3 million tons; and (2) filling the supply-demand gap in the food market. Food aid also helps to keep food-grain price low enough to prevent large-scale entitlement failure of the poor.13

Table 8.12 on p.159 presents the trend of aided food imports, commercial food grain imports and the supply from the net inventory to fill up the food gap in Bangladesh for the period from 1990 to 2001 for which the data is available. The table shows clearly the decreasing importance of food aid in fulfilling the food gap. In absolute term, it came down from 1.54 million tons in 1991 to only .54 million ton in 1998. However, in 1999 it suddenly increased due to the extraordinary situation caused by a severe flood in that year. But even then at that time, the government mainly depended on commercial imports to fill up the gap, and thanks to the emergency policy support to the agricultural sector, the overall food gap at the end of the year turned out to be 27 percent less than that of the preceding year. And thenceforth, Bangladesh was able to produce a food-grain surplus over and above its requirements (Centre for Policy Dialogue, 2001).

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13 It has been pointed out before that low foodgrain price in the absence of price support to the growers may discourage domestic food production.
In 1991, there was a food gap of 1.86 million tons when 83 percent of the gap had to be met by foreign aided import. Since then, the food gap has continued to increase and reached its all time peak of 3.92 million tons in 1995. But during the same time, commercial import of foodgrain increased from 0.03 million to 2.082 million tons and at that time only 24 percent of that peak gap had to be filled up by foreign aided imports of foodgrain. From 1995, the food gap slowly but steadily continued to decrease again, and by 2000, the country became self-reliant in foodgrain production. However, the paradox of continuing food aid and food import can be explained by the fact that on the one hand, the government wanted to increase its net food inventory by accepting food aid to meet future emergency situations, and on the other, commercial importers were importing heavily from India due to the relatively cheaper and subsidised prices of Indian cereals.

Moreover, although the overall food gap was negative, there was a positive gap in the supply of wheat inducing at least some import of wheat/fLOUR. Thus, with a few exceptions of flood years as in 1995 and 1999, a decline was observed in the level of food aid in the 1990s. Bangladesh was able to substitute food aid with domestic production and/or commercial import of foodgrain in the decade. Thus the contribution of food aid in avoiding famine or high food price was actually negligible over the last decade. This may be more clearly manifested from data in Table 8.10 and Table 8.11 on p.159.

Table 8.11 clearly shows that from 1990 to 1996, although food aid volume declined by 52 percent, the price of coarse rice did not increase more than 5 percent, and more importantly, the real agricultural wage during the same period actually increased by 9 percent. In 1996, as compared with the preceding year, figures for food aid increased considerably (by 128 percent), yet the price of coarse rice increased by 23 percent, and the agricultural real wage decreased by 6 percent. This also suggests that with a disastrous flood the increase in food aid could not prevent the rising price of foodgrain and falling real agricultural wages. The fact would not appear to be a surprise if we look at Table 8.12 on p.159 where it is shown that food aid was always below 8 percent of the total domestic supply of foodgrain during the whole 1990s. It was actually only 5.10 percent of the total supply in the worst year of 1999, and in the year 2001 it further fell as low as 1.93 percent.

Another issue to be examined is whether increased food aid causes a depression in the harvest price of paddy at the grower level and thereby discourages agricultural growth. Table 8.13 on p.159 presents the time series data on the harvest time price of the two main crops: rice and wheat, along with the old series of food aid. Comparison of the trends shows that in general there were unidirectional changes in the volume of aid and the grower level price of rice. From 1990 to 1994,

---

14 In 1996, the opening inventory of foodgrain in the hands of the government was 5.2 million tons. By 2001, it reached the level of 7.17 million tons, i.e., almost 38 percent increase within the short interval of five years only (Centre for Policy Dialogue, 2002).
the volume of food aid declined by 58 percent whilst the harvest price of rice declined by 20 percent. From 1994 to 1998, food aid declined by 42 percent whilst the harvest price of rice declined by 23 percent. From 1998 to 2001, food aid decreased by 50 percent and the harvest price of rice decreased by 29 percent. In the case of wheat, the same relationship is observed but a little weaker for the first and the third period. In the second period, the harvest price of wheat increased by only 2.4 percent whilst the volume of food aid decreased by 42 percent. So, it can be suggested that the growers’ price of foodgrain was declining during the nineties but that was not due to the increase in the aided import of foodgrain. Rather, one may observe that the harvest price of foodgrain was declining during the nineties in spite of the declining volume of food aid.

Food aid is also used for various target group oriented programs, such as the Food for Works (FW), the Vulnerable Group Feeding (VGF), and the Food for Education (FE) programs. The main weakness of these programs lies in their non-accountability, mismanagement and leakages in the delivery channel. Sen (1997) carried out a survey of news items published in the Daily Ittefaq from July 1996 to June 1997 and identified 269 cases of governance failures related to various types of poverty alleviation projects, many of which are supported by food aid. Among all poverty projects, the worst problem of governance has been recorded in the primary (preventive, promotive and curative) health sector (87 out of 289). This has been followed by primary education (59 cases), road maintenance (34 cases), rural electrification (17 cases), targeted food assisted programs such as the Food for Development (FFD) and the VGF (17 cases), whilst the miscellaneous relates to 38 cases (Sen, 1997).

It seems from the above evidence that aid-based specialised poverty alleviation programs are relatively free from so-called governance problems. A research conducted by Osmani and Chowdhury (2001) shows that at least 69 percent of the people working for FFW were functionally landless. However, there was still another problem of leakage and wheat loss during the transportation of wheat from regional store to project site. This loss was estimated to be as high as 35 percent (Osmani and Chowdhury, 2001). Perhaps part of this 35 percent loss was a genuine cost of transportation and a large part might have been simply misappropriation by delivery agencies. There were also occasional reports of underpayment of wages to the extent of 40 percent. To overcome these and other problems, the government had decided to pay in cash instead of food. But it is assumed that cash money is a fungible asset and may even provide greater scope for misuse. Afterwards, the government started a new program, the Food for Education (FFE). A novel program aimed at bringing poor children into the orbit of education by offering free food. The program was indeed successful in bringing the target group to the schools. According to a BIDS survey, FFE schools attracted a considerably higher proportion of
children from landless poor households compared with non-FFE schools (74 percent vis-à-vis 56 percent). But here also, the teacher-student ratio declined sharply which could adversely affect the quality of education received by FFE beneficiaries.

8.9 Critique of the Process of PRSP

The World Bank, in recent years, focussed its programs on poverty alleviation. However, this focus on poverty has been without prejudice to the World Bank’s original SAP program. The World Bank is now underscoring “Participating” and “Domestic Ownership” though it expects such “owned” policies to remain faithful to SAP. The Poverty Reduction Strategy Paper (PRSP) process thus cannot escape the imprint of donors.

The Bangladesh government, in response to the expectations of donors, first tried to prepare a PRSP in a hurried manner. The PRSP exercise sought to reflect some elements of public consultations, and an NGO named BRAC was contracted to arrange 21 dialogues. Drawing on these consultations, two local consultants were contracted to prepare a draft PRSP. The draft PRSP was completed just before a donors’ meeting in Paris in 2005 and the Bangladesh’s Finance Minister took it with him to Paris, describing it as interim PRSP. But whatever negotiations took place in Paris, it seems that the country’s Finance Minister was not at all happy with donors’ standpoint on the interim PRSP. On his return home, the Finance Minister told the media that “donors ask us to sit in the driver’s seat but after sitting there we find that the steering wheel is in the hands of donors and his task is just to repair the tires and tubes after the accident” (Daily Star, 2005). Subsequently, it was found that the name ‘PRSP’ was dropped and the government circulated a draft paper described as “Bangladesh: A National Strategy for Economic Growth and Poverty Reduction” for discussion. However, the government appeared to have reverted to the interim PRSP process which seems to have now superseded the preparation of the Five Year Plan. A focal point has been located in the General Economics Division (GED) of the Planning Commission to prepare a three-year rolling investment programme on the basis of funds available from donors for the interim PRSP targets. The final PRSP was prepared by a constituted team under the leadership of the Principal Secretary to the Prime Minister. The degree of domestic ownership over the PRSP still remains elusive, and the SAP which was underway over the last decade, continues, under donor pressure, to provide the macroeconomic model around which the PRSP is being constructed.

8.10 Are Donors Serious About Poverty Reduction?

If one looks into the aid literature of the 1990s, one can find the continuing reiteration of commitments by international donors to fight poverty. But the fact is that aid commitments during the 1990s actually declined at the global level. And this happened despite the optimism expressed at
the start of the 1990s that development cooperation would reap a post-cold war peace dividend from the cut back in the military spending. 16 out of 21 member countries of the Development Assistance Committee of the OECD disbursed a smaller share of their GNP on development assistance in the 1990s compared to the period of 1988-90 (World Bank, 2001a). In fact, the total volume of development assistance fell in every region of the world, except Latin America and the Caribbean countries, during the period of 1992-98. Furthermore, this reduced aid flow tended to be more targeted towards relatively better off developing countries.

In 1988, Least Developed Countries (LDCs) received 36 percent of total ODA, and in 1998, their share came down to 32 percent. On the other hand, the share of aid going to the middle income and rich countries remained stable around 36 percent during the same period. Currently, about a third of ODA goes to middle-income countries whose average GNP per capita is roughly six times that of low-income countries. Obviously, donors have not followed the precept of concentrating on poorer countries while allocating their aid. Economic and geopolitical motives perhaps still determine the aid priorities today. An interesting international study, carried out in 1999 by Paul Collier and David Dollar (1999) at the World Bank on “Marginal Effects of Aid” (MEA), defined as “the number of poor people becoming non-poor due to an increment of foreign aid by one unit”, found a wide variation of MEA among aid recipient countries. The implementation of this finding was that a redirection of aid from a country with lower MEA to a country with higher MEA would reduce the global level poverty without any extra cost. In their study, the authors conclude that aid now lifts about 30 million people a year out of absolute poverty. With a poverty efficient allocation, the same amount of aid would lift about 80 million people out of poverty (Collier and Dollar, 1999).

Thus, at present many poor countries are actually under-aided while the rich and geopolitically important countries are receiving more than they should get from the perspective of poverty reduction (Table 8.14 on p.160). This surely raises a question at the international level regarding the sincerity of donors about the generally agreed Millennium Development Goals (MDG) whose central aim is to halve global poverty by 2015.

8.11 Conclusion
This Chapter has sought to address four key questions: the effect of aid on economic growth and the distribution of its fruits to various socioeconomic classes of society; the extent of bias in aid favouring the richer class of society, and the leakages that deprive the poor from the benefits of the programs designed for them; the role and impact of food aid on agricultural production; and finally, how far the Poverty Reduction Strategy Paper (PRSP) departed from the earlier the Structural Adjustment Programs (SAP) promoted by development partners in the 1980s and 1990s. Referring
to a number of studies on the impact of aid on poverty, this chapter presents a synthesis of their major findings, which points to the limited capacity of aid to alleviate poverty. In its attempt to trace the aid-growth-poverty-equity-human development chain effect, this chapter makes an analysis of the latest poverty and growth trends in Bangladesh. This chapter concludes that foreign aid was not essential for bridging the savings-investment gap; nor can poverty reduction, whatever the level that has been achieved in Bangladesh, be attributed to the increased volume of aid. This chapter also argues that the SAP has generally resulted in poor economic and social outcomes, with only a few exceptions. The analysis presented in this chapter identifies nine groups of direct beneficiaries of aid who could not be described as “poor” by any measure. This chapter expresses doubt as to whether donors are at all serious about poverty alleviation. At the global level, many poor countries remain “under-aided”, whereas some rich and geopolitically important countries were receiving more than what they should have received if poverty alleviation was the priority of development partners.

Chapter Nine will attempt at exploring the evolution of aid-driven policy reforms in Bangladesh, ascertain issues that have been faced while carrying out reforms, and how these issues have been dealt with, and ascertain the socioeconomic impact of reforms that have been carried out.
# Table 8.1: Correlation between Aid, Growth, Poverty, Inequality and Human Development

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Aid Flow (in US$ million)</th>
<th>Growth Rate of Net Aid Inflow (%)</th>
<th>Growth Rate of GDP</th>
<th>Head Count Ratio of Poverty Rural</th>
<th>Head Count Ratio of Poverty Urban</th>
<th>Gini Index R-U</th>
<th>National Human Development Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Below 2122 calorie</td>
<td>Below 1805 calorie</td>
<td>Below 2122 calorie</td>
<td>Below 1805 calorie</td>
</tr>
<tr>
<td>1991</td>
<td>1415.40</td>
<td></td>
<td>3.34</td>
<td></td>
<td>47.8 (44.8m)</td>
<td>28.3 (26.5m)</td>
<td>46.7 (6.8m)</td>
</tr>
<tr>
<td>1992</td>
<td>1274.90</td>
<td>(-) 10</td>
<td>4.35</td>
<td>47.8 (44.8m)</td>
<td>28.3 (26.5m)</td>
<td>46.7 (6.8m)</td>
<td>26.2 (3.8m)</td>
</tr>
<tr>
<td>1993</td>
<td>1300.60</td>
<td>(+) 2</td>
<td>4.34</td>
<td></td>
<td>47.1 (49.76m)</td>
<td>24.6 (23.9m)</td>
<td>49.7 (9.6m)</td>
</tr>
<tr>
<td>1994</td>
<td>1156.44</td>
<td>(-) 11</td>
<td>4.19</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
<tr>
<td>1995</td>
<td>1271.19</td>
<td>(+) 9.9</td>
<td>4.61</td>
<td></td>
<td>47.1 (49.76m)</td>
<td>24.6 (23.9m)</td>
<td>49.7 (9.6m)</td>
</tr>
<tr>
<td>1996</td>
<td>974.54</td>
<td>(-) 23.3</td>
<td>4.47</td>
<td>47.1 (49.76m)</td>
<td>24.6 (23.9m)</td>
<td>49.7 (9.6m)</td>
<td>27.3 (5.2m)</td>
</tr>
<tr>
<td>1997</td>
<td>1018.05</td>
<td>(+) 4.5</td>
<td>5.21</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
<tr>
<td>1998</td>
<td>807.40</td>
<td>(-) 20.7</td>
<td>5.34</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
<tr>
<td>1999</td>
<td>997.16</td>
<td>(+) 23.5</td>
<td>4.99</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
<tr>
<td>2000</td>
<td>968.85</td>
<td>(-) 2.83</td>
<td>5.94</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
<tr>
<td>2001</td>
<td>772.20</td>
<td>(-) 20.3</td>
<td>6.04</td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
<td>25.0 (6.0m)</td>
</tr>
<tr>
<td>2002</td>
<td>856.00</td>
<td>(-) 10.8</td>
<td>4.40</td>
<td></td>
<td>44.3 (42.6m)</td>
<td>18.7 (18.8m)</td>
<td>52.5 (13.2m)</td>
</tr>
</tbody>
</table>

**Notes and sources:**

1. Net aid flow is estimated by deducting the repaid principal plus interest from the total disbursed aid of the respective year. And all the necessary figures are taken from *Flow of External Resources into Bangladesh (As of 30 June 2002)*, External Resources Division, Ministry of Finance, Government of Bangladesh, Dhaka.

2. The “Growth Rate of GDP” data is also taken from *Flow of External Resources into Bangladesh (As of 30 June 2002)*, External Resources Division, Ministry of Finance, Government of Bangladesh, Dhaka.


4. HDI index data is taken from various issues of the *World Human Development Report*, UNDP.
Table 8.2: Growth Rates of GDP and Trends in Foreign Aid, Gross Domestic Investment, Gross Domestic Savings, and Gross National Savings

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Aid as Percentage of Real GDP</th>
<th>Growth Rate of GDP</th>
<th>Gross Domestic Investment as Percentage of GDP</th>
<th>Gross Domestic Savings (GDS) as Percentage of GDP</th>
<th>Gross National Savings (GNS) as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>5.48</td>
<td>5.04</td>
<td>17.31</td>
<td>13.86</td>
<td>19.30</td>
</tr>
<tr>
<td>1993</td>
<td>5.41</td>
<td>4.57</td>
<td>17.95</td>
<td>12.30</td>
<td>17.96</td>
</tr>
<tr>
<td>1994</td>
<td>4.81</td>
<td>4.08</td>
<td>18.40</td>
<td>13.10</td>
<td>18.79</td>
</tr>
<tr>
<td>1997</td>
<td>3.50</td>
<td>5.39</td>
<td>20.72</td>
<td>15.90</td>
<td>20.72</td>
</tr>
<tr>
<td>1998</td>
<td>2.90</td>
<td>5.23</td>
<td>21.63</td>
<td>17.27</td>
<td>21.63</td>
</tr>
<tr>
<td>1999</td>
<td>3.41</td>
<td>4.88</td>
<td>22.19</td>
<td>17.66</td>
<td>22.26</td>
</tr>
<tr>
<td>2000</td>
<td>3.20</td>
<td>5.47</td>
<td>22.41</td>
<td>17.78</td>
<td>22.60</td>
</tr>
</tbody>
</table>

Notes and sources:
1. “Real Aid as Percentage of Real GDP” figures are taken from External Resources Division (ERD) (2002).
2. The growth rates are based on the new series of GDP estimates based on 1996 constant prices and are taken from Abdullah (2000), p.2, Table 1.
3. GDS equals GDP at market prices minus consumptions, GNS equals GDS plus net factor income and net current transfers from overseas. They are also taken from Abdullah (2000).

Table 8.3: Trends in Export, Import and Remittance (in BDT 10 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Remittance</th>
<th>Total Foreign Exchange Earning</th>
<th>Import</th>
<th>Export as Gross % of Import</th>
<th>Total Foreign Export Earning as Gross % of Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>6125</td>
<td>2725</td>
<td>8850</td>
<td>12521</td>
<td>48</td>
<td>70</td>
</tr>
<tr>
<td>1992</td>
<td>7522</td>
<td>3241</td>
<td>10763</td>
<td>13452</td>
<td>55</td>
<td>80</td>
</tr>
<tr>
<td>1993</td>
<td>8798</td>
<td>3697</td>
<td>12495</td>
<td>15934</td>
<td>55</td>
<td>78</td>
</tr>
<tr>
<td>1994</td>
<td>9799</td>
<td>4354</td>
<td>14153</td>
<td>16766</td>
<td>55</td>
<td>84</td>
</tr>
<tr>
<td>1995</td>
<td>13130</td>
<td>4814</td>
<td>17944</td>
<td>23455</td>
<td>55</td>
<td>76</td>
</tr>
<tr>
<td>1996</td>
<td>13857</td>
<td>4970</td>
<td>18827</td>
<td>28304</td>
<td>48</td>
<td>66</td>
</tr>
<tr>
<td>1997</td>
<td>16564</td>
<td>6300</td>
<td>22864</td>
<td>30540</td>
<td>54</td>
<td>74</td>
</tr>
<tr>
<td>1998</td>
<td>20393</td>
<td>6934</td>
<td>27327</td>
<td>34183</td>
<td>59</td>
<td>79</td>
</tr>
<tr>
<td>1999</td>
<td>20851</td>
<td>8197</td>
<td>29048</td>
<td>34480</td>
<td>60</td>
<td>84</td>
</tr>
<tr>
<td>2000</td>
<td>24923</td>
<td>9807</td>
<td>34730</td>
<td>42131</td>
<td>59</td>
<td>82</td>
</tr>
</tbody>
</table>


Table 8.4: Flows of Foreign Aid and Remittance (in US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Aid Inflow (Gross)</th>
<th>Remittance from Workers Overseas (Gross)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1450</td>
<td>680</td>
</tr>
<tr>
<td>1992</td>
<td>1300</td>
<td>810</td>
</tr>
<tr>
<td>1993</td>
<td>1350</td>
<td>950</td>
</tr>
<tr>
<td>1994</td>
<td>1200</td>
<td>1200</td>
</tr>
<tr>
<td>1995</td>
<td>1250</td>
<td>1350</td>
</tr>
<tr>
<td>1996</td>
<td>1000</td>
<td>1350</td>
</tr>
<tr>
<td>1997</td>
<td>1050</td>
<td>1500</td>
</tr>
<tr>
<td>1998</td>
<td>850</td>
<td>1600</td>
</tr>
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<td>1999</td>
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<td>1700</td>
</tr>
<tr>
<td>2000</td>
<td>950</td>
<td>2000</td>
</tr>
<tr>
<td>2001</td>
<td>800</td>
<td>1900</td>
</tr>
</tbody>
</table>

### Table 8.5: Comparison of Poverty Trends between 1974-1982 and 1984-1996

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage Point Change Per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>2.97</td>
</tr>
<tr>
<td>Rural</td>
<td>1.10</td>
</tr>
<tr>
<td>National</td>
<td>1.29</td>
</tr>
</tbody>
</table>

**Source:** Binayak and Hulme, (eds.), (2004).

### Table 8.6: Trends in Net Foreign Aid Disbursements: 1973 to 2002 (Per Year on Average)

<table>
<thead>
<tr>
<th>Year Disbursed</th>
<th>Disbursed Aid</th>
<th>Debt Services</th>
<th>Net Disbursed Aid</th>
<th>Net Disbursed Aid as % of Disbursed Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-75</td>
<td>637.67</td>
<td>29.67</td>
<td>608.00</td>
<td>95.35</td>
</tr>
<tr>
<td>1976-82</td>
<td>972.71</td>
<td>77.86</td>
<td>894.86</td>
<td>92.00</td>
</tr>
<tr>
<td>1983-90</td>
<td>1466.63</td>
<td>217.00</td>
<td>1249.63</td>
<td>85.20</td>
</tr>
<tr>
<td>1991-95</td>
<td>1663.20</td>
<td>380.20</td>
<td>1283.00</td>
<td>77.14</td>
</tr>
<tr>
<td>1996-2000</td>
<td>1459.80</td>
<td>506.60</td>
<td>953.20</td>
<td>65.30</td>
</tr>
<tr>
<td>2001</td>
<td>1369.00</td>
<td>597.00</td>
<td>772.00</td>
<td>56.39</td>
</tr>
<tr>
<td>2002</td>
<td>1442.00</td>
<td>586.00</td>
<td>856.00</td>
<td>59.36</td>
</tr>
</tbody>
</table>

**Source:** External Resources Division, Ministry of Finance, Government of Bangladesh (2002).

### Table 8.7: Composition of Aid Disbursements: 1971-1973 and 1990-2001 (in percentage of total)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bilateral</th>
<th>Multilateral</th>
<th>Grant</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-73</td>
<td>71</td>
<td>29</td>
<td>89</td>
<td>11</td>
</tr>
<tr>
<td>1991</td>
<td>39</td>
<td>61</td>
<td>48</td>
<td>52</td>
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<td>1992</td>
<td>47</td>
<td>53</td>
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<td>1993</td>
<td>55</td>
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<td>1994</td>
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<td>1995</td>
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<td>1996</td>
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<td>48</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>1997</td>
<td>48</td>
<td>52</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>1998</td>
<td>39</td>
<td>61</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>1999</td>
<td>43</td>
<td>57</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>2000</td>
<td>50</td>
<td>50</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>2001</td>
<td>51</td>
<td>49</td>
<td>37</td>
<td>63</td>
</tr>
</tbody>
</table>

**Source:** External Resources Division, Ministry of Finance, Government of Bangladesh (2002).

### Table 8.8: Comparative Picture of Foreign Aid Flow among Beneficiaries of Project Aid

<table>
<thead>
<tr>
<th>Sponsoring Agency</th>
<th>Foreign Suppliers (% Share of the total flow)</th>
<th>Foreign Consultants (% Share of the total flow)</th>
<th>Local Consultants &amp; Bureaucrats (% Share of the total flow)</th>
<th>Local Contractors and Indenters (% Share of the total flow)</th>
<th>Domestic Producers (% Share of the total flow)</th>
<th>Common People (% Share of the total flow)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB: Various projects</td>
<td>86.29</td>
<td>5</td>
<td>0.7</td>
<td>6.26</td>
<td>0</td>
<td>.05</td>
</tr>
<tr>
<td>WB: Agricultural Projects</td>
<td>48.90</td>
<td>6</td>
<td>9.8</td>
<td>2.90</td>
<td>23.60</td>
<td>3.4</td>
</tr>
<tr>
<td>Non-Agricultural Projects</td>
<td>44.70</td>
<td>5.3</td>
<td>2.5</td>
<td>&lt;3</td>
<td>23.56</td>
<td>0.1</td>
</tr>
<tr>
<td>USAID PL480 Projects to buy grain and edible oil</td>
<td>99</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>USAID: Various Projects</td>
<td>53</td>
<td>10.7</td>
<td>11.80</td>
<td>3.8</td>
<td>2.2</td>
<td>1.6</td>
</tr>
</tbody>
</table>

**Source:** Sobhan, (ed), (1991).
Table 8.9: Foreign Grants for the NGOs of Bangladesh

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Number of NGOs</th>
<th>Total Foreign Grant (in US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>494</td>
<td>106</td>
</tr>
<tr>
<td>1992</td>
<td>534</td>
<td>121</td>
</tr>
<tr>
<td>1993</td>
<td>725</td>
<td>195</td>
</tr>
<tr>
<td>1994</td>
<td>807</td>
<td>171</td>
</tr>
<tr>
<td>1995</td>
<td>919</td>
<td>209</td>
</tr>
<tr>
<td>1996</td>
<td>1014</td>
<td>259</td>
</tr>
<tr>
<td>1997</td>
<td>1132</td>
<td>250</td>
</tr>
<tr>
<td>1998</td>
<td>1219</td>
<td>206</td>
</tr>
<tr>
<td>1999</td>
<td>1361</td>
<td>273</td>
</tr>
</tbody>
</table>

Source: Barakat (2002).

Table 8.10: Foodgrain Balance Sheet of Bangladesh: 1991 to 2001 (in million tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Production of Foodgrain</th>
<th>Total Foodgrain Need @ 16.4 oz/capita/day</th>
<th>Food- Gap (3-2)</th>
<th>Current Use of Inventory (Opening Stock-Closing Stock) (5 as % of 4)</th>
<th>Commercial Import by Government and Private Sector (6 as % of 4)</th>
<th>Aided Import (7 as % of 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>16.97</td>
<td>18.83</td>
<td>1.86 (1.9)</td>
<td>.103 (1)</td>
<td>.037 (5.5)</td>
<td>1.54 (83)</td>
</tr>
<tr>
<td>1992</td>
<td>17.38</td>
<td>19.17</td>
<td>1.79 (-.294 (16)</td>
<td>.150 (8.4)</td>
<td>.037 (5.5)</td>
<td>1.54 (83)</td>
</tr>
<tr>
<td>1993</td>
<td>17.56</td>
<td>19.51</td>
<td>1.95 (.132 (6.7)</td>
<td>.448 (23)</td>
<td>.448 (23)</td>
<td>.448 (23)</td>
</tr>
<tr>
<td>1994</td>
<td>17.62</td>
<td>19.85</td>
<td>2.59 (.603 (23)</td>
<td>.312 (12)</td>
<td>.312 (12)</td>
<td>.312 (12)</td>
</tr>
<tr>
<td>1995</td>
<td>16.27</td>
<td>20.19</td>
<td>3.92 (.080 (2))</td>
<td>.208 (53)</td>
<td>.208 (53)</td>
<td>.208 (53)</td>
</tr>
<tr>
<td>1996</td>
<td>17.15</td>
<td>20.53</td>
<td>3.38 (-.395 (-12)</td>
<td>1.691 (50)</td>
<td>1.691 (50)</td>
<td>1.691 (50)</td>
</tr>
<tr>
<td>1997</td>
<td>18.30</td>
<td>20.87</td>
<td>2.57 (-.237 (-9))</td>
<td>.414 (16)</td>
<td>.414 (16)</td>
<td>.414 (16)</td>
</tr>
<tr>
<td>1998</td>
<td>18.59</td>
<td>21.21</td>
<td>2.61 (-.298 (8))</td>
<td>1.383 (53)</td>
<td>1.383 (53)</td>
<td>1.383 (53)</td>
</tr>
<tr>
<td>1999</td>
<td>19.63</td>
<td>21.55</td>
<td>1.92 (-.843 (-43)</td>
<td>4.245 (221)</td>
<td>4.245 (221)</td>
<td>4.245 (221)</td>
</tr>
<tr>
<td>2000</td>
<td>22.41</td>
<td>21.89</td>
<td>-1.84 (-.710 (2))</td>
<td>1.234 (87)</td>
<td>1.234 (87)</td>
<td>1.234 (87)</td>
</tr>
<tr>
<td>2001</td>
<td>24.08</td>
<td>22.23</td>
<td>-1.84 (-.292 (2))</td>
<td>1.063 (.49)</td>
<td>1.063 (.49)</td>
<td>1.063 (.49)</td>
</tr>
</tbody>
</table>

Notes:
1. A negative food gap implies a surplus production of food over and above the total requirements.
2. The current use of inventory becomes negative when the closing stock of foodgrain becomes higher than the opening stock which implies that the initial inventory was not at all used to fill the food gap rather part of the other sources of supply was saved and added to the initial inventory.

Table 8.11: Diminishing Dependence on Food Aid

<table>
<thead>
<tr>
<th>Year</th>
<th>Food Aid (Index)</th>
<th>Price of Coarse Rice (Index)</th>
<th>Real Agricultural Wage (Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>91</td>
<td>105</td>
<td>103</td>
</tr>
<tr>
<td>1993</td>
<td>47</td>
<td>94</td>
<td>110</td>
</tr>
<tr>
<td>1994</td>
<td>42</td>
<td>97</td>
<td>111</td>
</tr>
<tr>
<td>1995</td>
<td>60</td>
<td>101</td>
<td>108</td>
</tr>
<tr>
<td>1996</td>
<td>48</td>
<td>104</td>
<td>109</td>
</tr>
<tr>
<td>1997</td>
<td>40</td>
<td>107</td>
<td>115</td>
</tr>
<tr>
<td>1998</td>
<td>35</td>
<td>108</td>
<td>113</td>
</tr>
<tr>
<td>1999</td>
<td>80</td>
<td>133</td>
<td>107</td>
</tr>
<tr>
<td>2000</td>
<td>56</td>
<td>118</td>
<td>108</td>
</tr>
<tr>
<td>2001</td>
<td>32</td>
<td>104</td>
<td>113</td>
</tr>
</tbody>
</table>

Notes:
1. Data on price of coarse rice were collected from Centre for Policy Dialogue database.
2. Data on real agricultural wage rate was taken from External Relations Division (2002).


Table 8.12: Proportions of Food Aid in Total Domestic Supply (in million tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Domestic Supply of Foodgrain</th>
<th>Total Food Aid</th>
<th>(3) As Percentage As (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>18.60</td>
<td>1.54</td>
<td>8.27</td>
</tr>
<tr>
<td>1992</td>
<td>18.60</td>
<td>1.41</td>
<td>7.58</td>
</tr>
<tr>
<td>1993</td>
<td>18.84</td>
<td>0.73</td>
<td>3.87</td>
</tr>
<tr>
<td>1994</td>
<td>18.80</td>
<td>0.65</td>
<td>3.45</td>
</tr>
<tr>
<td>1995</td>
<td>18.84</td>
<td>0.93</td>
<td>4.93</td>
</tr>
<tr>
<td>1996</td>
<td>19.11</td>
<td>0.74</td>
<td>3.87</td>
</tr>
<tr>
<td>1997</td>
<td>19.06</td>
<td>0.61</td>
<td>3.20</td>
</tr>
<tr>
<td>1998</td>
<td>20.69</td>
<td>0.54</td>
<td>2.60</td>
</tr>
<tr>
<td>1999</td>
<td>24.10</td>
<td>1.23</td>
<td>5.10</td>
</tr>
<tr>
<td>2000</td>
<td>23.74</td>
<td>0.87</td>
<td>3.66</td>
</tr>
<tr>
<td>2001</td>
<td>25.29</td>
<td>0.49</td>
<td>1.93</td>
</tr>
</tbody>
</table>

Notes: Domestic supply equals net production plus all kinds of import including the food aid plus the current use of the initial inventory of foodgrain in the hands of the government.


Table 8.13: Trends in Food Aid and Harvest Time Price Index of Foodgrain

<table>
<thead>
<tr>
<th>Year</th>
<th>Food Aid Index</th>
<th>Harvest Time Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>Wheat</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>91</td>
<td>106</td>
</tr>
<tr>
<td>1993</td>
<td>47</td>
<td>76</td>
</tr>
<tr>
<td>1994</td>
<td>42</td>
<td>80</td>
</tr>
<tr>
<td>1995</td>
<td>60</td>
<td>115</td>
</tr>
<tr>
<td>1996</td>
<td>48</td>
<td>114</td>
</tr>
<tr>
<td>1997</td>
<td>40</td>
<td>85</td>
</tr>
<tr>
<td>1998</td>
<td>35</td>
<td>90</td>
</tr>
<tr>
<td>1999</td>
<td>80</td>
<td>135</td>
</tr>
<tr>
<td>2000</td>
<td>56</td>
<td>105</td>
</tr>
<tr>
<td>2001</td>
<td>32</td>
<td>97</td>
</tr>
</tbody>
</table>

### Table 8.14: Actual and Poverty Efficient Allocations of Aid (1998)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population with below 2 dollars a day (%)</th>
<th>Population with below 2 dollars a day (No. of People in million)</th>
<th>Actual Aid (% of Real GDP)</th>
<th>Poverty Efficient Allocation (% of Real GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>87.63</td>
<td>101.72</td>
<td>1.02</td>
<td>3.38</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>89.00</td>
<td>48.53</td>
<td>2.90</td>
<td>3.75</td>
</tr>
<tr>
<td>Nepal</td>
<td>86.70</td>
<td>17.64</td>
<td>1.70</td>
<td>2.70</td>
</tr>
</tbody>
</table>

**A Few Examples of Under Aided Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population with below 2 dollars a day (%)</th>
<th>Population with below 2 dollars a day (No. of People in million)</th>
<th>Actual Aid (% of Real GDP)</th>
<th>Poverty Efficient Allocation (% of Real GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>68.28</td>
<td>4.69</td>
<td>4.51</td>
<td>2.52</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>74.50</td>
<td>3.07</td>
<td>10.21</td>
<td>2.31</td>
</tr>
<tr>
<td>Mongolia</td>
<td>57.29</td>
<td>1.35</td>
<td>4.34</td>
<td>2.13</td>
</tr>
</tbody>
</table>

**Source:** Collier and Dollar (1999), Table 3, p.35.
CHAPTER NINE
IMPACT OF AID ON POLICY REFORMS IN BANGLADESH

9.1 Introduction
The aid regime has become increasingly characterised by the proliferation of donor conditionality. Much of the conditionality relates to policy reforms. The conditionality is imposed either as a part of overall aid conditionality or as a component of technical assistance to the relevant area. The objective of this chapter is to (a) analyse the evolution of aid-driven policy reforms in Bangladesh; (b) identify the problems that have been faced while implementing the reforms and how these problems have been dealt with; and (c) ascertain the socioeconomic impact of reforms that have been carried out. However, in order to delimit this chapter to a reasonable size, attention will be focused on the following areas and restricted to the experience of the 1990s:

- Fiscal management: the analysis would deal with reforms in the structure of taxes and non-tax revenues as well as in tax administration. Attention would be paid to public expenditure management (priority determination, disbursement procedures, monitoring practices, etc);
- Financial sector: the principal elements of reforms in this area will comprise the liberalisation of the entry of domestic and foreign operators, privatisation, deregulation of bank interest rates and credit allocation, and prudential supervision;
- Foreign Direct Investment (FDI) policies and institutions;
- Privatisation;
- Governance; and
- Ownership of policy reforms.

This chapter will attempt to explore the pattern of aid-induced policy reforms in the above areas, examine the problems encountered while implementing the reforms and the way on how these have been dealt with, establish if there is any relationship between conditionality and the effectiveness in achieving the objectives aid is supposed to promote, and determine the socioeconomic consequences of the reforms and how they are likely to impact the future development potentials of the country.

9.2 Aid Utilisation Capacity of Bangladesh and Donor Conditionality
The aid utilisation capacity of Bangladesh and donors’ conditionality are two important factors of contention in relationship between Bangladesh and donors. Bilateral donors are guided by policy considerations of their own governments. Questions such as promoting governance and market
mechanism are pushed by their respective national legislatures, and aid officials have little flexibility in respect of that. Multilateral donors as well impose conditionality. They also look for a capable government and efficient organisations for the proper use of their loans. They also prefer governments who have clear ideas and better programs for aid utilisation.

Donors think that limited aid adsorption capacity because of ill-conceived project planning, bureaucratic inefficiency and lack of coordination between different agencies has acted as a major disincentive to increasing aid volume to Bangladesh. On the other hand, Bangladesh officials insist that decline in the quality of aid and imposition of more stringent conditionality are major issues of concern for them. They argue that a change in the modality of commodity aid disbursement, tied to domestic sources of aid disbursing country, severely undermines the quality of aid. In addition, supply-based technical assistance, instead of being demand-driven, also erodes the quality of aid. One of the difficult problems associated with technical assistance is a lack of synthesis between donor preference and recipient priority. The problems of diverse priority, time frame and attitudes and preferences on many occasions may turn out to be critical.

Normally conditionality is imposed multilaterally – they come not as requests but as directives. Human rights, transparency, and the environment are some of the relatively newer elements in conditionality. Conditionality may be at various levels: project, sectoral or macroeconomic. For projects like power plants it deals with where they will be located, who will implement them, what will be the work schedule and how the product will be sold, who will manage the facility, supply of inputs, operation and maintenance, pricing the delivery of services flowing from projects, etc. For sectoral issues like the power sector, it involves input pricing, sector management (both public and private), distribution system (whether there will be monopoly or competition), control of decisions, etc. For macroeconomic issues, money supply, inflation, trade pattern, exchange rate and budget are some of the important considerations.

From 1987 to 1995, many elements of conditionality were imposed on commodity aid or project aid, under structural adjustment aid and concessionary loans. In 1997, the World Bank and other donors highlighted a couple of policy issues and drew government attention after a new government had taken over in mid-1996 (Bhattacharya, 1999). These can be enlisted as follows:

a) Restrain deficit financing to preserve the reasonable macroeconomic stability achieved in the first half of the nineties;

b) Accept the leading role of the private sector in promoting economic growth in the right direction but there is a need for a supporting policy environment;
c) Adopt market-friendly policies for helping the agricultural sector including those relating to sale and distribution of seeds and fertilisers, foodgrain procurement, agricultural research and extension. This is for reducing public intervention in fertiliser production and distribution, and making agricultural credit available to poor farmers;

d) Support sectors such as primary education and health with emphasis on government-NGO cooperation in carrying out education and health sector policies envisaged by donors; and

e) Emphasise private sector participation in the energy and infrastructural sectors, rationalise gas pricing policy, and open up the telecommunication sector to more private parties for ensuring competition. Improve port management for the benefit of trade, commerce and exports.

9.3 Reform Agenda of the Nineties

The government opted for the continuation of the whole list of policy reforms suggested by donors during the nineties. According to Bhattacharya (1999), the policy reforms were as follows:

a) Agricultural sector reform which means a greater role for the private sector in input distribution and elimination of subsidies;

b) Rationalisation of the public food distribution system by phasing out subsidies thus gradually moving towards “Open Market Sales” operation, and an end to the protection of targeted programs for the poor;

c) Providing industrial incentives including the easing of private investment approval procedure, opening of the stock market to foreign investors, redefining the role of the Board of Investment, permitting 100 percent foreign ownership outside the EPZs (Export Processing Zones), reviewing the list of investments banned for domestic and foreign private investment;

d) Comprehensive tax reform for raising revenue in relation to the GDP (Gross Domestic Product), and introduction of VAT (Value Added Tax);

e) Reorientation of public expenditure to support growth and poverty alleviation;

f) Strengthening of public sector enterprises through cost-recovery of goods and services provided by them, improved cost control and performance evaluation, privatisation of jute and textile mills, closure of non-viable enterprises, reducing the system loss, and improving financial management of the electric power sector, and voluntary retirement of workers;

g) Financial sector reforms through the adoption of more market-oriented methods of monetary management, flexible structure of bank interest rates, surveillance of non-performing assets of the national commercial banks to bring them down including legal measures, introduction of indirect monetary instruments for conducting monetary policy flexibly;
h) Trade policies to strengthen export growth, diversification and removal of export subsidies, import liberalisation, rationalisation of the tariff structure, introduction of pre-shipment inspection, and extension of bonded warehouse facility to all exporters;

i) Exchange rate policy to ensure competitiveness;

j) A three-year prioritised public investment program, assuring adequate funding for social sector projects, and expenditure for poverty alleviation;

k) Simplification of the clearance procedure for NGO programs; and

l) Environmental impact assessment of major new projects, and strengthening of the capacity of the Ministry of Environment.

9.4 Socioeconomic Impact of Aid Induced Reforms

According to Sobhan (2001), policy reforms associated with foreign aid can be related directly and indirectly with a number of socioeconomic changes. On the positive side, one can identify small farmers, a new class of working women, and growth of NGOs and microcredit institutions. On the negative side are the growth of default culture, emergence of middlemen, and adverse impact on small entrepreneurs.

Due to the priority given to growth in agricultural production, small farmers have come to assume a critical role in the economy. Increase in output of foodgrains from about 10 million tons in 1970 to 25 million tons in 2001 is the direct result of the efforts of small farmers, supported over a period of nearly two decades with modern inputs, extension work, and rural infrastructure development. This growth has been achieved in the face of an increasingly open regime for foodgrains where imports have been both liberalised and privatised, whilst the extent of official support to the sector has sharply contracted, particularly in the first half of the 1990s. Bangladesh’s significant output growth remains a remarkable achievement and demonstrates the enterprise and capacity for innovation of country’s farmers.

The emergence of the female working class in the garment industry is another noticeable socioeconomic change which can be linked to trade policy reforms, industrial policy reforms and population planning activities supported by foreign aid. Originating mostly from poor rural backgrounds these women have had to experience a socio-cultural revolution that has transformed them from the seclusion of their village homes to an exposure to urban life and to be the followers of factory labour. Their labour accounts, at least in real terms, for much of the value added generated by Bangladesh’s export industry although they only take home 10 percent of the value added from the sector. As pointed out by Sobhan (2001), this class of workers remains both a
beneficiary of globalisation and one of its principal victims. Access to a global market for ready-made garment has generated new employment for up to 1.5 million of the rural poor. However, an increasingly competitive global regime for ready-made garment exports is leading to a squeeze on the already low wages of these workers.

We have to recognise the growth of microcredit institutions and microcredit clients as a major socioeconomic change starting in the middle of the 1980s. Their numbers grew significantly in the 1990s. The pioneering contributions of the Grameen Bank (and later the Rural Credit Program of the BRAC) were the driving forces behind this. These organisations received significant support from both bilateral and multilateral donors. In the 1990s, based on the Grameen Bank model, the Palli Karma Sahayak Foundation (PKSF) helped to expand the role of systematically organised NGOs which entered the field of microcredit lending. Once the PKSF had established its credentials and track records based entirely on government resources and initiatives of local professionals led by Dr Mohammad Yunus, and foreign aid support came in increasing volume from the IDA with very little or no conditionality. This was a significant departure from the condition-ridden non-project aid of the IDA but this was made possible by the strong capacity of a domestically grown organisation. Again, to quote Sobhan (2001:45):

If we recognise the contribution of the microcredit clients, we cannot overlook the contribution of the microcredit institutions as well as the contribution of a large number of NGOs that are playing the role of delivery agents for providing the poor with a variety of services, such as non-formal education, healthcare, and skill development. The NGO community also includes a number of organisations exclusively concerned with policy advocacy, gender, legal and human rights activism, whose contributions also need to be recognised. Here again, one need not be drawn into a debate on the merits and demerits of NGOs or the hazards associated with their overdependence on aid donors, or the lack of accountability to their clients. However, what we do need to recognise is that a fairly large number of educated young men and women drawn largely from middle-class backgrounds, have been exposed to the concerns of the poor and the problems of the rural areas. At the same time, a variety of institutions, now recognised as world leaders, have developed an institutional capacity to mediate resource transfer and professional services to a wide constituency of the poor, and to access the rural areas and urban slums of Bangladesh.

On the sidelines of financial sector and industrial policy reforms, small entrepreneurs have been put to considerable squeeze with no visible support from the formal or NGO sector. The small-scale industries have created substantial employment opportunities mostly with their own resources. They have access neither to bank, microcredit, government assistance, policy support nor professional advice. They can hardly put up collaterals for formal bank borrowings and do not qualify for microcredit. Around the end of the 1990s, the second IDA credit for the PKSF
provided assistance to micro-enterprises which create employment opportunities for at least 20 million people. The Grameen Bank on their own and the BRAC with their own resources and donor support started programs for financing small entrepreneurs/micro-entrepreneurs. As a potential creator of employment, this sector has been bypassed by policy reforms and remains a strong candidate for support of the formal sector and of public institutions.

With emphasis on the private sector support under the successive industrial policies of the 1980s and 1990s, and the absence of an effective institutional industrial financing mechanism, the commercial banks in the public sector and also in the private sector became a major source of new industrial investment. As is well-known, this process has been bedevilled by political patronage and insider lending, giving rise to unprecedented levels of bank loan default. A new rich class, whose fortune can be linked to bank borrowing and default culture, has emerged as an undesirable by-product of industrial and financial sector policies. Over the years, this class has expanded its hold on the political machinery making reversal of the situation extremely difficult in spite of repeated government attempts. The situation has also provided an opportunity for donors to press for legislation to be enacted in order to address the problem, and to have a plan of action for the privatisation of a number of nationalised commercial banks.

Aid flow has also created a class of middlemen, with links at home and abroad, to share a part of aid mainly through procurement action. This has happened through project procurement as well as procurement of foreign and domestic consultancy services. It is widely believed that in many cases project implementation and appointment of consultants have been delayed due to influence of these middlemen who leave no stones unturned to be the beneficiaries of the procurement awards. Over the 1990s, donors have been pressing for a transparent procurement process that seems to be getting into shape in the recent time.

9.4.1 Inequality

An important aspect of Bangladesh’s policy reforms, economic growth and poverty reduction strategy is their impact on inequality. Unfortunately, the respectable growth rate, improving social indicators and reduction of poverty in the 1990s have been accompanied by increased inequality.

According to Bhattacharya (2002: 51),

Inequality increased in both urban and rural areas but more so in the former. This explains why urban poverty incidence declined at the same rate as rural poverty despite the fact that average per capita expenditures grew faster in urban areas (HES data show real per capita expenditures increasing by 27 percent and 16 percent respectively in urban and rural areas). A decomposition of the National Gini coefficient suggests that the increase in the National Gini was due not only to
rising inequality within sectors but also to rising inequality between the urban and rural sectors. It has been estimated that had the growth in the 1990s been distribution neutral, poverty would have fallen by 17 percentage points or almost twice the actual observed rate.

9.4.2 Poverty Alleviation

Consistent with the evolving aid policy of donors in the 1990s, there was general consensus between the government and donors that poverty alleviation should be the overarching goal of national policy as well as the priority theme of all aid policies of donors. But there was no consistent and comprehensive policy and action program either of the government or of donors. In the Five-Year Plan, the government’s commitment to poverty alleviation was based upon accelerated economic growth for raising the income and meeting the basic needs of the poor. Although there were isolated programs undertaken by the government and NGOs, there was no comprehensive program with indicated resource allocation for poverty alleviation either in the first half or the second half of the 1990s. Donors also failed to articulate any comprehensive strategy or to adopt any comprehensive program. The result was that (as pointed out by Rehman Sobhan in his paper *The Political Economy of Bangladesh’s External Relations* of 1 April 2000) donors were pursuing their own individual programs without much or any coordination. The World Bank, the ADB, the UNDP, the DFID, the CIDA, the EC, the Nordic countries, and the Netherlands were pursuing their separate programs. The World Bank anchored their strategy on broad-based higher growth rate, driving from policy reforms and higher investment, with special emphasis on the social sector. The vehicles in their lending program were sector and project credits. Other donors were driving their programs mainly through specific projects whereas with the ADB a “Partnership Agreement” was signed in 2000, concentrating on a narrow medium-term program. As pointed out by the Centre for Policy Dialogue (2001:95), Bangladesh does not have “a home-grown, holistic dynamic, strategic framework to combat poverty. Rather, the agenda for poverty alleviation have remained largely donor-driven and thus potentially unsustainable. What has served as a strategy for poverty alleviation in Bangladesh has been like more of an aggregation of a large number of donor-funded micro-projects supplemented by some discrete domestically financed projects”.

As regards the guiding principles adopted by multilateral and bilateral donors, Centre for Policy Dialogue (2001a) observed that most of the country assistance strategy papers emphasised upon “investing in people”, “building human capital”, “promotion of food security”, “growth with equality”, etc. Despite a broader consensus on “economic growth” as a necessary condition for poverty reduction, donors were to a certain degree divided on the operationalisation of their strategy. The World Bank emphasis was on fast job creating economic growth with projects in the social sectors to directly assist the poor. The DFID also focused on rapid economic growth with active participation to help provide livelihood to the poor. Nordic countries approached the subject
by pointing out that “growth wouldn’t automatically lead to a reduced level of poverty, and that poverty reduction was conditional upon a more equitable distribution of income and employment opportunity”. This state of affairs was ultimately overtaken by the push for the “PRSP” route ably backed by the IDA and the IMF. All donor commitments and programs for poverty alleviation are now being fitted into the PRSP framework including policy reforms, action programs, institutional building, domestic capacity building, and good governance. The government has committed itself fully to this strategy to the extent that the Five-Year Plan cycle has been overtaken by the PRSP framework in terms of policies, program and resource envelope.

9.4.3 Factors for Slowdown in Policy Reforms

One reason why policy reforms have stalled in many areas is the attitude of the government itself. The government has appeared to have become more sensitive to some reform measures not on the basis of the inherent merits of those reforms, but on political perception. Mahmud (1997a) has pointed out that a striking feature of Bangladesh’s experience of economic liberalisation since the early 1980s is that much of the reform could be implemented without serious political resistance. These reforms were mostly in the nature of getting prices right, such as the withdrawal of subsidy on inputs, abolition of urban food rations and a lowering of industrial protection through import liberalisation. Similar reforms in other developing countries have often met with violent civil unrest and political upheavals.

In fact, a careful analysis of the way import tariffs have been reduced suggests that the government’s revenue concerns rather than protectionist appeals from domestic producer groups have been a stronger deterrent to faster import liberalisation. According to Mahmud (1997a), reforms that have so far been ineffective or have been delayed are mostly the governance related ones, such as administrative, legal and financial sector reforms as well as privatisation-cum-reform of state enterprises. It is true that these reforms, being of an institutional nature, are administratively more difficult to implement compared to price reforms but there are also other reasons for resistance to such reforms. Much of these reforms are essentially to deal with economic crimes that generate huge illegal incomes, whether it be from wilful default of bank loans, or corruption in tax administration, or electric pilferage, leakage in public development expenditures, or illegal financial deals in the running of state enterprises. It is most likely that effective policy measures in respect of these will meet with strong popular support, except among the few who are the beneficiaries of the system. One would, therefore, ponder as to why resistance to such reforms has apparently proved so insurmountable. The situation has not changed much over the past decade or so.

A remarkable failure of successive governments has been that some of the important economic reforms have not been placed in their proper perspective. All structural reforms basically have led
higher investments in the concerned sectors, given a minimum of infrastructural support and transparency in administrative and financial dealings. These would invariably result in the creation of employment opportunity and corresponding reduction in poverty. Poverty reduction being the central theme of the policies of all governments, a proper presentation of reform proposals and their consequences could make it easier for them to undertake the reforms. Instead, successive governments have made it a habit of shifting the blame either on donors (for putting pressures) or on the Opposition of the day for creating obstacles.

9.4.4 Weaknesses of Trade and Financial Sector Reforms

Some important policy reforms have been looked at in isolation by donors as well as the government. Examples are the Financial Sector Reform Program (FSRP) and the Trade Liberalisation Program. The large education sector projects also need to be mentioned in this context. For government, the temptations were large chunks of non-project aid (in support of the reform programs). According to Rashid (2001), the first FSRP did not succeed as expected for several reasons:

i) Inadequate strengthening of the regulatory authority (the central Bangladesh Bank) with professional expertise and enabling legislation to effectively supervise the banking sector;

ii) Political considerations stood in the way of raising efficiency of nationalised commercial banks (NCBs) through appropriate Board structures, reduction in the number of branches and staff, and influence of trade unions linked to political parties;

iii) Inadequate legal framework to take action against default accounts, particularly large default accounts; and

iv) Positive impact of financial sector reforms is contingent upon successful restructuring of the state-owned enterprises. The inherent weaknesses of public enterprises were not seriously addressed, and the nationalised commercial banks were made to finance loss-making state-owned enterprises. In this way, the capital adequacy ratios continued to remain a problem year after year.

So, many of the commitments made under the umbrella of the first Financial Sector Action Committee (FSAC) had to be renewed under subsequent credits/projects. In the case of trade liberalisation measures, there was absence of a coordinated approach with development of trade related infrastructure and reform of the revenue administration. These should have received high priority to take full advantage of trade liberalisation. Reform of the revenue administration, particularly customs, still remains incomplete and weak. In respect of trade policy reforms, it was almost entirely designed by the World Bank and the IMF with negligible national input in the
process. The major thrust of reform measures was to stimulate export growth through reducing and eventually eliminating the anti-export bias of trade policy. Import liberalisation was, therefore, adopted as a major strategy, the objective being to reduce levels of effective protection to low levels prevailing in internationally competitive developing countries, presumably the so-called East Asian Tigers and Southeast Asian countries, reflects a perception of growth and development which ignores the socioeconomic and political peculiarities of Bangladesh. Furthermore, the possibility of differential impacts of reform on different manufacturing sub-sectors (according to size), with obvious implications for employment and poverty, was apparently not taken into consideration while designing trade policy reform.

The World Bank and the IMF carried assessments of the impact of trade policy reform and concluded that any shortcoming in the performance of the tradable sector was attributable to the slow pace of reform and not to any design flaw. Hence, there was no need for redesigning the reform process. On the other hand, existing published documents seem to indicate that no serious effort was made by the government to assess the impact of import liberalisation. Consequently, no suggestion was forthcoming from the government to alter the design of reform in the light of actual experience (Rashid, 2001). But it cannot be denied that despite some shortcomings and absence of some complementary measures, trade liberalisation has helped Bangladesh to enter an era of integration with the world economy.

9.4.5 Weaknesses of Education Sector Reforms

Bangladesh has prided itself on reaching the 20:20 compact for social expenditure. But questions remain. Expansion of physical capacity with increasing public investment supported by substantial amount of aid can fail to produce the desired impact if not accompanied by policy and institutional reforms. The quality of service delivery in the health and education sectors is a clear example. The absence of institutional arrangements for quality control through local government framework has been identified as the main reason for poor quality service. An OECD evaluation (Report No. 19548 of 30 June 1999) on the education sector of Bangladesh points out as follows:

The provision of primary education for the poor, particularly girls, has been impressive and has attracted considerable financing from other donors. While the IDA made an important contribution to this effort, the goal was achieved primarily due to the government's long term commitment to make the country's population literate and halt population increase. Although quality must still improve, the foundations of the system have been laid.

Overall, IDA interventions focused more on the concrete aspects (building, equipment, fellowships) and less on the linkages that would enable students to acquire and use relevant information. Thus IDA projects have opened many doors for many students on every level of education but the doors
do not necessarily lead to the acquisition of useful knowledge. Primary education students have low levels of basic skills while graduates of other IDA financed sub-sectors acquire few skills applicable to the work they are expected to do (OECD, 1999: 45).

According to Ahmed (1996), the IDA has no comparative advantage in improving the quality of education particularly of classroom instruction. Unless there is a clear decision to hire expert educators and to spend considerable time during supervision on instructional issues, the institution should identify other donors who can do this work. Such donors will have developed technical competency and will be able to put in the field experts with long-term commitment. These reflect broadly the evaluation and findings of local experts and civil society groups in the country.

9.5 Aid for Policy Reform – Has It Worked?
In the nineties, the country faced a complex period of economic, social and political changes. However, on the whole, the period has been characterised by some sort of macroeconomic stability. Visible changes due to policy reforms and investments took place in the agricultural and social sectors. The country achieved near-self-sufficiency in food-grains with the liberalisation of input trade, and the productivity and income of small and marginal farmers marked distinct improvement. Food policy on procurement, marketing and distribution reforms helped to ensure a satisfactory level of food security. In the social sector, life expectancy improved with a decline in infant mortality. Primary education coverage improved significantly with marked improvement in girl attendance. Reforms in the area of trade policy helped in the growth of exports and imports. Energy production increased, especially after gas exploration and development and generation of power was opened to the private sector. National savings and investments improved throughout the nineties with occasional dips due to natural disasters and external shocks. Steady reduction in poverty took place throughout the decade with GDP growth averaging around 5 percent.

But problems remain. Quality of service delivery in the social sectors and the infrastructural sectors remain poor. Accountability in these sectors and in rural development efforts remains subdued in the absence of an effective local government system. Tax administration and tariff reforms remain incomplete. State-owned enterprises continue to burden the budget with stagnation in the process of privatisation. The financial sector reforms have a long way to go for efficient allocation of savings towards investment, and growth of a sustainable capital market. The infrastructural sectors remain a major bottleneck with incomplete reforms in the energy sector and inadequate policy reforms and investment in the improvement of ports. The disappearing progress in reforms can be traced to two basic issues: governance problem and uncertainty in pursuing policy reforms in most reform areas. Therefore, questions remain about sustainable food security, future demographic
Chapter Nine: Impact of Aid on Policy Reforms in Bangladesh

...trends, sustainable macroeconomic balances and reduction of dependency on external assistance for the country’s investment needs to meet the poverty reduction goals.

A natural question is how far aid has influenced policy reforms. To understand this, one has to have a closer look at what kind of policy reforms has been undertaken, how these can be related to aid inflow and how far reforms have helped to realise the desired objectives. In the 1970s, a major policy reform was in the area of exchange rates. The other policy reforms were in the areas of family planning and population control which was then described as the “No. 1 priority jointly with growth in food production” (Sobhan, 2001). In the area of food policy, the only reform was in the pricing of agricultural inputs. But the quantum of aid was quite high in terms of the GDP, although in the early 1970s most of the aid received went for relief and rehabilitation.

The government’s own initiative after the change of regime in 1975 was in the area of industrial investment in the private sector and legal reforms to attract foreign investment and expanding the volume of agricultural credit. These reforms later created problems for the publicly owned commercial banks and specialised financial institutions. Together with fiscal profligacy and the second oil shock, balance of payment deficit and budget deficits became unsustainable, inflation soared, and the loss of state-owned enterprises continued to grow. This was largely due to government inaction in the area of expenditure control, resource mobilisation, exchange rate adjustment, and price adjustment of goods publicly produced and distributed.

In the 1980s, the early part saw disruption in aid relationship, change of government, and a period of demand management to restore macroeconomic stability. The new government introduced radical changes in industrial policy, opening up more areas for the private sector, undertaking large scale privatisation and adjustment in the exchange rates. Continued reforms took place in the areas of food and agriculture through price adjustment on input and output, induction of the private sector, and gradual reduction of the scope of food rationing. Expansion of public expenditure on education and health continued. But policy reforms in the second half of the 1980s produced much less than expected, and commitments in many areas were not fulfilled. As a result, there was hardly any improvement in domestic savings and investment, and publicly owned financial institutions were used to help political allies in the private sector, as the specialised industrial financing institutions were in moribund condition due to huge accumulation of non-performing loans and loan defaults. Project implementation continued to lag in many cases. Reforms of the state-owned enterprises and energy sector were slow, resource mobilisation effort was slow, and public administration reform was also slow.
The situation was influenced by the evolving political scene, and donors realised that the government was unlikely to keep commitments once aid agreements were signed. In fact, government commitments for reforms pressed by donors (led by the IDA and the IMF) were taken in good faith, with large gaps between undertakings and performance at the end of the day.

In the second half of the 1980s, donors (especially the IDA) while addressing sectoral reforms imposed sharply focused conditionality. This was related to improving the environment for the private sector, raising domestic resources, financial sector reform, trade policy reform, and multi-year framework for planning and ADP allocation. In this process, the issues of privatisation, public enterprise reform and public administration reform were less vigorously pursued as they involved strong political commitment. The result was that the government in the late 1980s demonstrated more apparent seriousness about resource mobilisation, trade policy reform, financial sector reform, agricultural sector reform encompassing trade in agricultural inputs, input and output pricing, the energy sector, and primary education, especially girl education (World Bank, 2001).

According to World Bank (2001), in the early 1990s, the new government took up seriously the commitments made with donors. Reforms were introduced in the following sectors:

- Resource mobilisation such as the introduction of VAT (similar to GST in Australia);
- Trade policy liberalisation;
- Financial sector reform;
- Industrial policy liberalisation;
- Social sectors, education and health; and
- The dollar-taka exchange rate policy.

Unfortunately, in 1994, as the political situation heated up, there was a slowdown in reform efforts, project implementation did not improve, the fiscal position eased with an impact on macroeconomic balance and in the financial sector. It is from this period that the IDA began to raise governance issues as fallout of major policy realignment in the bilateral and multilateral aid institutions.

Improvement in macroeconomic balances in the early 1990s and growth in domestic savings, both public and private, were direct results of policy reforms supported by aid. The investment environment and trading environment improved. In the social sector all indicators were showing improvement – human fertility rate, population growth, infant mortality, life expectancy, etc, but the overall budget deficit remained high due to the poor performance of state-owned enterprises.
continued with inadequate supply, unrealistic pricing and poor collection of bills/revenues. In spite of the separation of power generation and distribution as a result of donor pressure, the system loss remained high, and donors were urging for the private sector to be involved in this area. The quality of primary education and lack of accountability in the education and health sectors continued to cause concern. This could be traced to the disappearance of an effective local government system but donors appeared to remain at a distance on this issue. Commercial bank lending continued to remain under political influence and strengthening of the central bank was yet to be visible. Annual Development Plans were being politicised by increase in the number of politically mandated and domestically financed projects with no appropriate links to the declared priorities. With a new government in position, from the second half of 1996, the political reform agenda came for a fresh look. The new government raised issues of the pace and sequence of reforms, particularly in the trade and financial sectors. The policy of reduction or elimination of subsidies on agricultural inputs pursued by the previous government was not fully acceptable to the new government. Donors felt the need for policy dialogue and consensus building. Efforts were made to involve all stakeholders in the public and private sectors, the NGOs and the civil society in the process of generating greater acceptability of reforms.

Reform policies undertaken by the new government in the early 1990s proceeded quite well until the end of 1994. From mid-1995 reform measures slowed down as has been pointed out earlier. The new government of 1996 did not appear to be mechanically following the footsteps of the preceding government while dealing with donors. The result was that the unfinished reform agenda slowed down further. This slowdown affected the fiscal balance and the balance of payment. But the economy continued to grow and the second half of the 1990s saw the average GDP growth rate exceeding 5 percent, except the year 1999 when the country faced unprecedented floods. The emphasis of the new government was on agriculture and infrastructure. The development of infrastructure was partly based on private sector involvement, in addition to the government’s own program through ADP. Fiscal deficit went down from the beginning of the 1990s till the end of 1998. In 1999 and 2000, fiscal deficit increased and public borrowing went up. Revenue/GDP ratio reached 9.5 percent in 1997 and went down to 8.9 percent in 2000. Lack of understanding with donors and slow or no development in trade policy reforms and exchange rate reforms impacted on the country’s external sector in the face of slowing international economic activities. Export growth slowed down both in 1990/2000 and 2000/2001, and continued pressure on the foreign exchange reserves left the private sector in an uncertain environment. It is interesting to note that differing attitudes towards policy reform and dialogue with donors did not have much impact on the level of aid commitment but there was considerable impact on disbursement.
According to the Statistical Year Book 2001 (Bangladesh Bureau of Statistics, 2001), the annual level of aid commitment in the second half of the 1990s was roughly US$1750 million on an average, more or less the same as was in the first half of the 1990s (Table 9.1 on p.180). Whereas the average level of disbursement was US$1600 million in the first half, it went down in the second half, and the decline was even more pronounced. The impact was visible on the foreign exchange reserves. But on the macro-level, foreign aid as a percentage of a growing GDP as well as in real terms was going down throughout the 1990s.

In the second half of the 1990s, donors drew the new government’ attention to two important dimensions of development for reducing poverty through the promotion of rapid economic growth, interventions that could create job opportunities, and accelerate human development. These two important dimensions were strategic priorities, and institutional development. In the area of institutional development, donors focused on the development of domestic capacity for articulating appropriate policies, drawing up action programs and projects, and their implementations. To this was added the importance of improving governance through public administration reforms and judicial reforms, reducing corruption and improving the quality of public service delivery. In the area of planning priorities – strategic and sectoral, donors reiterated the issues pursued in the first half of the 1990s, e.g., improving macroeconomic management; improving public sector management; promoting private sector-led growth; agricultural growth and rural development, especially non-farm rural development; and expansion of human development endeavours with greater attention to the quality of the services provided.

These broadly reflected the IDA’s Country Assistance Strategy (World Bank, 2002).

The new government in 1996 undertook the preparation of the Fifth Five-Year Plan, set up a Commission on Agricultural Reforms, a Commission on Public Administration Reforms, and declared publicly their commitment for the continuation of financial sector reforms by appointing a Banking Reforms Committee. Reform measures were also undertaken in the energy sector more or less in line with recommendations of donors which attracted substantial foreign investment. The telecommunication sector was opened up to the private sector by ending a monopoly situation.

But in several areas policy reforms slowed down. These were privatisation, improvement in the performance of the public sector, reduction in non-performing loans provided by nationalised banks, legal and judicial reforms, and raising domestic resources.

These issues came to the forefront when the government approached the IMF and IDA for emergency assistance in the context of the 1998 floods. The IMF provided emergency assistance of
US$116 million and the IDA provided US$200 million (World Bank, 2002) on condition that the government must:

- take measures to ensure sustainable macroeconomic management; and
- continue discussion for an ESAF arrangement with the following policy reform contents:
  a) restructure current expenditure;
  b) strengthen tax administration;
  c) increase the price of natural gas;
  d) pursue a flexible exchange rate policy; and
  e) avoid any commercial borrowing.

According to World Bank (2002), the government was expected to:

- make a public statement on their strategy for banking sector reform;
- submit proposals to Parliament for an amendment to the Banking Company Act, and undertake a necessary amendment to the Bangladesh Bank Order;
- restructure the national commercial banks and strengthen the audit of private commercial banks (PCBs); and
- arrange for legal measures to allow privatisation of state-owned enterprises.

When aid as percent of the GDP was much higher, reforms were poor or slow although commitments were freely made to donors. When aid as percent of the GDP sharply fell in the 1990s, pressure for policy reforms increased significantly, reflecting the new paradigm of international aid. According to Islam (2003), some ministries remained disproportionately dependent on project aid to underwrite their ADP. This was as high as 60 percent in 1991.

Despite substantial reduction over time, project aid continues to play an important role in the ADP, amounting to over 40 percent by 2000 in terms of allocation, and has practically remained unchanged since 1995. All donor projects have been in the public sector, and therefore, the government has a major responsibility in their implementation. A Centre for Policy Dialogue analysis (2003) shows that the following sectors have continued to remain dependent on project aid for their ADP allocation to a significant extent:

- Health and Population;
- Oil, Gas and Natural Resources;
- Transport;
• Agricultural and Rural Development;

• Water Resources; and

• Power.

Needless to say, commitments and disbursement of project aid from multilateral development institutions will remain contingent upon the progress of policy dialogues in the context of the Poverty Reduction Strategy Paper (PRSP).

9.6 Government Stand vis-à-vis Donor Conditionality

As Islam (2002) has observed, two factors have worked behind Bangladesh’s adoption of liberalisation, private sector-led growth and move towards a market economy. These factors are “conviction and reappraisal of past experience, and donor pressure.”

In the first half of the 1970s, the privatisation of a large number of small abandoned units was based on difficulties in the management of a number of them. After a political transition in 1975, the only visible liberalisation was raising the ceiling of private investment (taking into account the exchange rate and price of machinery), and the privatisation of the jute trade to some extent. In the early 1980s, one of the initiatives was large scale privatisation of jute and textile mills, and opening up of new areas for the private sector. The policy, designed to promote export-oriented industries, introduced a range of specific incentives, such as tax holiday, duty drawback scheme, etc. Some of the measures taken were dictated by growing public pressure. Reforms suggested by donors, such as macroeconomic measures for stabilisation, were easy to take. The steps taken on gradual reduction of subsidies for food and agricultural inputs, marginal changes in resource mobilisation, and beginning of trade policy liberalisation did not provoke any opposition from any organised groups. But the then government, being an unelected military regime, avoided any major reforms keeping in view the need for political legitimacy although commitments were made to donors on a couple of issues as noted above.

When a democratically elected government took over in 1991, the need for donor support and then emerging international economic and aid environment prompted many enthusiastic reforms. But a number of those slowed down or came to halt when the political environment heated up in the middle of the 1990s, except in the social sector. In the second half of the 1990s, the new government appeared to have multiple considerations for:

• Reviving some of the basic social considerations of the 1970s, such as subsidies on agricultural inputs, support for primary education, and designing population and health programs; and
• Avoiding mechanical continuation of some of the reforms initiated by the previous government, such as trade reform, tax reform, exchange rate policy reform, and privatisation of state-owned enterprises, etc.

But the government could not ignore the views of donors and realised the need for taking into account the reform issues highlighted by donors in the light of the new development paradigm. These were importance of the social sector for poverty reduction, reform in the infrastructural sectors for attracting private investments, continued reform of the trade and financial sectors for improving competitiveness of export production, attention to governance issues through public administration reforms, and support for the private sector through a new industrial policy.

In short, most of the reforms undertaken by successive governments will thus appear to have been under donor pressure. As has been rightly pointed out by donors as well as Bangladesh’s civil society, potentials for Bangladesh’s performance are much greater than what has been achieved; and lower performance has been because of inadequate or incomplete reforms, and inability to make use of available funds and/or aid. The new international aid philosophy gives greater opportunities to the recipient country through importance given to “ownership” of policies and programs. Needless to say, this needs political commitment, capacity to formulate the right policies, inspiring leadership and improved governance for the use of potential aid resources, and flow of foreign private funds through direct investment.

Bangladesh’s success stories are in food production, reduction of population growth rate, growth of readymade garment industry, growth of a civil society and NGOs to address the poverty issue, growth of the microcredit system, rural electrification, and establishment of a widespread network of roads and highways that have helped farm and non-farm sectors. Aid and policy reform pressures from donors can be directly and indirectly related to all of them. But there have been numerous examples of failure.

There are two common threads behind each failure: a human factor and a policy factor. Considering the cases of success and failure, the future role of donors in general and the World Bank, in particular, can be put as follows:

• Help the government complete the reform agenda already taken up, particularly those related to public investment, and improvement of the environment for domestic and foreign private investments;

• Help sustain the level of resource flow;
• Maintain a continuous dialogue with the government on the poverty situation, particularly the implementation of the PRSP;

• Catalyse large investments for infrastructure and social sectors for poverty reduction; and

• Pursue the goal of strengthening institutional development and regulatory mechanism to put them on a permanent footing.

Strong domestic institutions and capacity are needed for interaction and dialogue with strong international institutions. If that capacity can be built, then it will be possible for donors to engage in a more constructive dialogue to make use of international support in the most optimum, if not in the best, possible way.

9.7 Conclusion
This chapter draws upon a set of questions to investigate the effectiveness of policy reforms through foreign aid. One of the questions this chapter asks is how to determine whether elements of aid conditionality that try to initiate policy reforms are acceptable to the people whose well-being the aid is supposed to ensure in the first place. This chapter notes that the government is more accountable to donors than the people affected. This chapter sees the objectives of policy reforms as reducing three gaps: food, fiscal and the current account. Recognising the positive impact of foreign aid in some particular areas, the chapter also takes a closer look at the failures of policy reforms. If a country is highly dependent on foreign assistance, then economic policymaking may be unduly geared to the mobilisation of foreign aid alone. There is a vicious circle operating here. This chapter highlights that policy reforms in Bangladesh have slowed down despite donors’ increasing emphasis on conditionality, the main reason being the government’s attitude towards reforms. This attitude has been characterised as “political perception” and not because of sensitivity to, or agreement with, the inherent merits of these reforms. This chapter suggests that most of the reforms undertaken by successive governments appear to have been taken under donor pressure. The analysis poses the question as to whether Bangladesh could have done better “without aid” or “with aid but without conditionality”. This chapter emphasises the need for strong domestic institutions and a capacity to interact with the formidable international financial institutions.

The next (final) chapter will provide an extract of what this thesis has explored. It will sum up what the findings of this thesis are, what the impact of foreign aid is on Bangladesh, and make some policy recommendations resulting from this thesis. The next chapter will consider some of the limitations of this thesis, and provide recommendations for further research in the field.
# CHAPTER NINE TABLES

## Table 9.1: Aid Commitments and Disbursements at a Glance (in US$ million)

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<th>Year</th>
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<td>1539</td>
<td>1491</td>
</tr>
<tr>
<td>2005</td>
<td>1744</td>
<td>1280</td>
</tr>
</tbody>
</table>

Source: Statistical Year Book 2006, Bangladesh Bureau of Statistics (various years).
CHAPTER TEN
CONCLUSION, POLICY RECOMMENDATIONS, AND LIMITATIONS

10.1 Introduction
There are a number of reasons why the role of foreign aid in the economic development of Bangladesh warrants a systematic analysis. Firstly, the role of foreign aid in the country has not been a subject of comprehensive study in recent times. The first major book on the subject was written by Rehman Sobhan, a distinguished economist of Bangladesh, published in 1982. The book was entitled *The Crisis of External Dependence: the Political Economy of Foreign Aid to Bangladesh*. It was followed by another book, contributed and edited by him, entitled *From Aid Dependence to Self-Reliance: Development Options for Bangladesh*. This book was published in 1990, and more than a decade has passed since then. So, it has become necessary that the country’s experience with foreign aid should be a subject of an objective review.

Secondly, despite a notable reduction of the dependence of Bangladesh on external assistance, such dependence remains quite substantial. According to Sobhan (2003), the ODA as a proportion of the GDP declined from 7.4 percent in 1991 to 4.3 percent in 2000. Viewed from another perspective, the disbursed ODA as a proportion of the ADP allocation fell from 100 percent to a mere 46.8 percent over the same period. This trend is partly a result of increased domestic efforts, partly due to deceleration in aid disbursement. During the 1990s, aid disbursement rose to a peak of US$1739 million in 1995, roughly the same as in 1991 at US$1732 million, but it came down substantially to US$1369 million in 2001 (Statistical Year Book, 2001). This decline in the importance of aid is also reflected in the outstanding debt/GDP ratio that fell from 39.8 percent in 1991-92 to 32.1 percent in 2001. A similar trend is noticeable in respect of debt service ratio: it fell from 16.9 percent to 9.2 percent over the same period. Therefore, at any rate, costs and benefits of foreign aid need to be re-evaluated in the light of this observed reduction in aid dependence.

Thirdly, the 1990s and subsequent years are characterised by major changes in donor perspectives on foreign aid. Apart from a marked fall in global aid flows, both in absolute term and as a proportion of the GDP of major donor countries, the strings attached to aid have multiplied in recent years. Elements of conditionality imposed on recipients now pertain to areas beyond the traditional structural adjustment policies, codified in the Washington Consensus. Among the new areas of interest to donors, either as preconditions for or as corollary to aid, are commitments to free economy, human rights, good governance, democracy, and the like. The latest addition is the requirement that recipient countries prepare a PRSP to be approved by leading donors such as the World Bank and the IMF in order for countries to be considered for aid. There has also occurred a
distinct shift in the relative emphasis from program-based to project-based approach. So, the aid scene of Bangladesh deserves a revisit from that point of view as well.

This thesis has examined the effectiveness of foreign aid provided to Bangladesh. Assuming from empirical studies that aid has not worked in the country, the underlying research question is: why has aid not worked? Past research has used time-series and cross-country regression analysis to answer this question. Such studies unreservedly assume that aid recipients are a homogenous group and that the impact of aid is more or less the same in all countries and at all times. In practice, the impact of aid is recipient- and time-specific, and this thesis will hopefully have contributed to the aid effectiveness literature by investigating the impact of aid on a single country which is rich in human resources. The fact is that after receiving large amounts of foreign aid, the country has failed to prosper, its growth rates are poor or in some cases they are static, and its social indicators are not as high as expected. Recent studies have reported that World Bank aid (the largest source of aid to Bangladesh) may have contributed to the country’s present state (Barakat, 2005). Given this backdrop, this final chapter (a) concludes with what this thesis has found; (b) outlines the policy recommendations resulting from the findings; and (c) identifies the limitations of this thesis and opportunities for further research in the future.

10.2 Concluding Outlines of the Thesis

Chapter Two has presented a discussion on the geography, history, politics and governance of Bangladesh, and provided an overview of its economy. It has examined the country’s economy in terms of broad economic indicators including growth rates in the GDP, its composition and stability. The chapter has discussed the performance of the external sector and implications of the changes that the economy has experienced. It has been argued that despite significant changes, the Bangladesh economy lacks diversification and rests on a narrow base. The chapter has reviewed the environmental implications of growth and changes in the Bangladesh economy, revealed the potential impact of global warming, and explained the socioeconomic indicators of development in the country.

Chapter Three has discussed the historical background of the aid dependence of Bangladesh with a short note on development theory and a brief history of foreign aid itself. The history of the aid dependence of Bangladesh is unlike that of other recipients of the developing world in the sense that the country’s aid dependence reflects an inherited structural weakness. Bangladesh was a part of Pakistan since 1947 and became independent only after a long bloody liberation war in 1971. Although Pakistan began to receive foreign aid in as early as the sixties, after independence Bangladesh received little compensatory benefits from this aid flow, and, at the outset of liberation, had a large external resource gap. Moreover, Bangladesh subsequently had to accept an inherited
Chapter Ten: Conclusion, Policy Recommendations, and Limitations

debt liability of US$483 million against the projects that were completed before independence and physically located on the territory of then East Pakistan which is now Bangladesh. The chapter has provided significant motivation for the current research.

Chapter Four has given a contemporary outline of foreign aid and its disbursement in Bangladesh. It has provided a general definition of foreign aid and discussed the role foreign aid has been playing in Bangladesh since its independence in 1971. In fact, foreign aid has all through been playing a crucial role in the country. Two factors have made the country dependent on foreign aid. Firstly, the country has not been able to mobilise enough resources on the domestic front; and secondly, it has failed to gather adequate foreign exchange to repay foreign loans. But despite the decreasing share of aid in Bangladesh’s development endeavours, donors still try to retain a considerable degree of leverage over the country because its dependence on aid makes it receptive to considerable pressure from donors. Critics say, the psychology of dependence on donors has become ingrained in the minds of military, political and bureaucratic decision-makers of Bangladesh who are convinced that donors’ goodwill is an important factor in the domestic politics of the country. The chapter has also provided the current debt servicing situation of the country.

Chapter Five has provided an overview of what major aid donors (such as the World Bank and the IMF) claim in their policies and what they do in practice for Bangladesh which is one of the poorest aid recipient countries in the developing world. The chapter has examined American influence on IFIs and neo-conservative influence on the World Bank and IMF. It has explored why these institutions should begin thinking about reforming themselves and how they could do it and create conditions by which countries could increase their own economic freedom. The chapter has reviewed literature that strongly supports reforming these institutions’ lending practices. The literature reviewed has endorsed that these reforms would augment their capability, enhance accountability for their lending practices, and restrict their harmful impact on the developing world. Such reforms would produce more stability, economic development, and peace across the world.

Chapter Six has argued that donors believe that aid disbursement through NGOs is more effective in reaching the target groups. It is also cost-effective for realising poverty alleviation endeavours. Moreover, NGOs have created a space for themselves, complementing and sometimes displacing the state’s functions. The chapter has examined the relationships between NNGOs and SNGOs and their impact on the efficiency of SNGOs, and investigated the aid flows to the government and NGOs in Bangladesh. Emphasising the importance of NGO activities in Bangladesh, the chapter has focused on the challenges NGOs are facing in carrying out their declared objective of poverty alleviation in the country. The chapter has pointed out that the efficacy of donor support towards NGOs will only improve if the capacity of NGOs to design poverty alleviation programs and their
ability to effectively utilise the funds are enhanced. However, the flow of foreign funds to NGOs and the rapid increase in NGO activities in Bangladesh have given rise to a government concern that NGOs are competitors to the government. It must be emphasised that NGOs should not be considered as competitors to the government, and that a fruitful cooperation between government departments and NGOs has to be established. A relationship between government departments and NGOs must be established. A constructive partnership between government departments and NGOs may be a key to successful utilisation of aid in Bangladesh.

Why has foreign aid had a poor record when it comes to increasing economic growth in Bangladesh? A large part of the explanation is revealed in Chapter Seven. The chapter has investigated the impact of foreign aid on Bangladesh’s public sector investment and fiscal behaviour. It has examined the response of various government expenditure and revenue categories to the inflow of foreign aid. The major focus of the chapter has been on analysing the evolving structure of the ADP and dynamics of foreign aid contribution to financing the same. An attempt has been made to illustrate the sectoral pattern of foreign aid dependency of the ADP in terms of various explanatory indicators. A comparison between various time points has also been made to see whether there is any inter-temporal shift or change in patterns of aid intensity of public investment in Bangladesh.

Chapter Eight has explored the relationship between foreign aid inflow and poverty alleviation in Bangladesh. This is in the context of the medium term experiences of using foreign aid in the country over the last ten years of the 20th century. But to have a wider perspective, more recent experiences have been used. Donors have been increasingly attaching various conditions to their aid disbursements. Whether these conditions are favourable for the poor section of people needs to be examined. The initiation by the World Bank and the IMF of the Structural Adjustment Programs in the 1980s, and the recent move by the World Bank to set the Poverty Reduction Strategy Paper (PRSP) as a precondition for getting aid, should also be examined to see whether these were effective to channel aid for poverty reduction.

Chapter Nine has drawn upon a set of questions to investigate the effectiveness of policy reforms through foreign aid. One of the questions the chapter has asked is how to determine whether elements of aid conditionality that try to initiate policy reforms are acceptable to the people whose well-being the aid is supposed to ensure in the first place. The chapter has noted that the government apparently is more accountable to donors than the people affected. The chapter has considered the objectives of policy reforms for reducing three gaps: food, fiscal and the current account. Recognising the positive impact of foreign aid in some particular areas, the chapter has also taken a closer look at the failure of policy reforms. If a country is highly dependent on foreign
assistance, economic policymaking may be unduly geared to the mobilisation of foreign aid alone. There is a vicious circle operating here. The chapter has highlighted that policy reforms in Bangladesh have slowed down despite donors’ increasing emphasis on conditionality because of the government’s attitude towards reforms. This attitude has been characterised as “political perception” and not because of sensitivity to, or agreement with, the inherent merits of these reforms. The chapter has suggested that most of the reforms undertaken by successive governments appear to have been taken under donor pressure. The analysis has posed a question as to whether Bangladesh could have done better “without aid” or “with aid, without conditionality”. The chapter has emphasised the need for strong domestic institutions and a capacity to interact with the formidable international financial institutions.

Chapter Ten has concluded with a brief summary of what this thesis has explored and found along with an outline of policy recommendations. The chapter has summarised what the findings of this thesis are, what the impact of foreign aid is on Bangladesh, and has made some policy recommendations resulting from this thesis. The chapter has also enlisted the limitations, mainly relating to data quality, and opportunities for further research. This thesis is reliant on data from domestic sources such as the Bangladesh Bank, the Bangladesh Bureau of Statistics, the Ministry of Finance and a handful of local think-tanks such as the Centre for Policy Dialogue and the Bangladesh Institute of Development Studies, and international sources such as the World Bank, the IMF, and the OECD. It is noted that these data-sets are not perfect due to reporting errors and manipulation of the accounts although the country has relatively good historical records of data collection and accuracy. The chapter has ended with recommendations for further research.

10.3 Policy Recommendations

The following policy recommendations for donors as well as the recipient arise from this thesis:

a) This thesis has examined and found that bilateral and multilateral donors such as the World Bank and the IMF consider their own agenda and interests when allocating aid to Bangladesh, in addition to development requirements of the country. Donors’ agenda and interests have probably disturbed the country’s aid effectiveness. If Bangladesh wants to attain the MDG (Millennium Development Goal), foreign aid should be allocated and used considering the actual needs of the people and the country.

b) It appears that foreign aid was some times more effective during the World Bank’s Structural Adjustment Program periods. It is therefore recommended that donors encourage and support policy changes with the use of foreign aid. This does not imply that donors should only provide foreign aid if certain policies are implemented. However, donors should not
dictate which policies Bangladesh should adopt but the country should be given the right and freedom to decide. However, donors should reward policies which are clearly good for the people and for the economy.

c) External shocks such as the increase of fuel prices on the world market have an important and very negative impact on the economic growth rate of Bangladesh. But regrettably donors pressurise the Bangladesh government to increase the fuel prices in line with those on the world market. If the fuel prices are increased, the action in turn leads to further increase in the prices of electric power, gas, and water, and thus multiply the sufferings of the poor people of the country. So, it is recommended that donors use foreign aid in manners to protect the economy from external shocks rather than aggravate the situation.

d) Project aid has more favourable impact on the behaviour of the Bangladesh government in relation to aid provided as budget support. It is therefore recommended that donors continue the trend of providing a greater proportion of their aid in the form of projects. Project aid has had more favourable impact on investment and is less likely to be used for government consumption. Moreover, donors should also continue favouring grants over loans since there is no evidence that aid loans are more likely to be invested, and that these loans will therefore increase the levels of debt. Aid loans are more likely to be fungible – resulting in the majority of them being misused or used in unnecessary projects.

e) Aid projects should encourage a diverse range of activities which contribute to growth in the country. Given that Bangladesh is an agrarian country, donors can play a role in developing new agricultural methods, assist in expanding agricultural production, and identify niche markets in assisting with the more effective marketing of Bangladesh’s agricultural products. Bangladesh can seek to develop agro-based industries in areas where mainly agricultural goods and crops are produced, of course in rural areas and far beyond the fringe areas of the cities, because the overall environment of the cities, especially the capital city, is getting from bad to worse due to the huge exodus of job-seeking people migrating from rural areas.

f) This thesis has observed that public sector decision-makers of Bangladesh have reduced the amount of money directed towards social sectors such as health and education in response to foreign aid flows. It is recommended that donors use counterpart funding to ensure that aid funds are at least partially used to increase social expenditures in sectors such as the above because the improved health and education of people contributes a lot to a country’s overall development. But evidence suggests that high proportions of aid funds are used for unproductive purposes which do not impact the vast majority of the population.
g) Less than one-third of the people of Bangladesh have access to safe drinking water. The provision of clean water supply must take a high priority in donor-aided programs. Difficulties in securing clean water for Bangladesh’s very isolated and remote villages are recognised. However, it is fair to deduce that this area has not been a high priority in aid programs for long up till now. Securing a clean water supply for the greater proportion of the population can be expected to have favourable effects on the country’s people, leading to improvements in both health and education indicators.

h) This thesis has found that a very high rate of inequality prevails in Bangladesh. The inequality is between the rich and the poor and between one region and another. It is recommended that donors should target their foreign aid to a greater extent to those in the poorest regions of the country. Reducing inequality is likely to reduce disparity between different areas of the country. Recent research indicates that growth is more likely to reduce poverty in countries with less inequality. A greater number of aid projects should therefore be established in the poorest areas of the country. Aid projects could be redirected from relatively affluent areas to disadvantaged regions.

i) The rural population of Bangladesh is vulnerable to natural disaster and illness. Donors should assist in making financial and other services available to the poor in rural areas. Bangladesh is the cradle and pioneer in the field of the microfinance scheme. The scheme should be further encouraged to enable poor people’s greater access to credit and insurance. Not only will this help those rural areas take advantage of profitable investment opportunities but also it will enable them to manage risks through savings. Donors could provide greater assistance to local NGOs to assist in establishing and accelerating this scheme.

j) Significant changes have taken place in the transportation sector of Bangladesh over the past decade. However, in some areas of the country a poor transport infrastructure has been found to be a severe constraint on the country’s development. It is recommended that donors should prioritise the construction of new roads in addition to the maintenance of existing ones. Not only will this ensure greater access to health and education services but also it will guarantee that small scale producers face lower transportation cost, have greater opportunity to get their product to market and raise their rural incomes. Improving the transport networks across the country will facilitate communications between regions which will in turn facilitate easy transportation of products to be sold at reasonable prices.
10.4 Limitations of the Thesis and Opportunities for Further Research

Chapter Four has provided a contemporary profile of aid disbursements in Bangladesh. It has also tried to shape aid allocation to Bangladesh since its independence in 1971. But despite the decreasing share of aid allocation in the country’s development endeavours, donors still try to hang on to a considerable degree of influence over the country because its dependence on aid makes it open to considerable pressure from donors. Why and to what extent the psychology of dependence on donors has been ingrained in the minds of decision-makers and how to overcome it would be an area of future research. Given the recent focus on policies of selectivity it would also be useful to include measures of policy and or governance in the empirical model of aid disbursements. Aid bureaucrats have started considering such factors over the 1990s, and their inclusion is a potential area for future research.

Chapter Five has investigated the aid policies and practice of donors. It has contributed to the existing literature by providing an overview of what major donors claim in their policies and what they do in practice. Critics think that because these institutions hinder economic freedom, most of the recipient countries have been unable to develop fully even after decades of dependence on them. The chapter has reviewed some of the literature that strongly and actively supports reforming these institutions’ lending practices. The literature reviewed in this chapter especially endorses that these reforms would augment donors’ capability, enhance accountability for their lending practices, and restrict their harmful impact on the developing world. Such reforms would produce more stability, economic development, and peace across the world. However, due to data constraints, the research is largely exploratory. So, it would be useful to obtain better measures to employ in order to investigate which policies donors should give up, which policies they should reform, and what new policies they should take on.

Chapter Six has examined that globally an increasing amount of aid is channelled through NGOs. This is also true for Bangladesh. Donors believe that aid disbursement through NGOs is more effective in reaching the target groups and that it is more cost-effective in realising poverty alleviation goals in developing countries. But the donor conviction has been contended by many local academics such as Barakat (2005) to the extent that up to 75 percent of aid received by the country is misappropriated in the form of operational expenses by NGO executives and consultants, and that only upto 25 percent goes to those whom the aid is targeted for. However, the accurate estimation of the extent of misappropriation is an important sector for future research.

In Chapter Seven, the contributions of foreign aid to public sector investment in Bangladesh have been analysed. The analysis is limited by the assumption that the country’s public sector fiscal behaviour is fixed throughout the period. It is likely that successive Bangladesh governments have
responded to aid flows differently. This is particularly true when the provision of aid is conditional upon policy reforms, for example, during the World Bank’s Structural Adjustment Program. The chapter has adopted the existing theoretical framework of fiscal response models to reflect the decision-making behaviour of Bangladesh officials. In doing so, it overcame the need for estimating target variables, arguably the major criticism of past studies. However, it can still be argued that the model is *ad hoc* in nature. The fiscal response framework is based on the Heller-type approach (Heller and Gupta, 2002) which has been around for many years. While there have been many appropriate improvements, it could be argued that it is time for a shift to more modern macroeconomic approaches. Morrisey, *et al.*, (2002) provide a useful start to this move.

**Chapter Eight** investigated the impact of foreign aid on poverty in Bangladesh. The methodology of the chapter involved comparing the mix of donor aid policies aimed at the promotion of economic growth, the direct targeting at the poor section of people, and the provisioning of safety nets, with the poverty and well-being situation in the country. To quantify the amount of poverty reduction resulting from foreign aid aimed at promoting economic growth remains an area for further research. The chapter tried to provide an economic analysis which was limited due to a paucity of data relating to poverty and human well being. It has, however, tried to investigate the impact foreign aid has on policy changes and therefore on poverty reduction.

**Chapter Nine** has investigated the fact that the global aid regime has become increasingly characterised by the proliferation of conditionalities. Much of these conditionalities relate to policy reforms. The chapter has attempted to determine the extent to which conditionalities have been imposed and/or implemented in Bangladesh in the form of policy reforms as part of the overall aid conditionalities or as components of technical assistance to the relevant area. Of course, there is some lack of data to provide a comprehensive picture. However, despite being a difficult issue to evaluate, the impact of aid on policy reforms is an important area for future research.

**10.5 Conclusion**

The pressures on limited resources of Bangladesh are extreme. Large population, small land area, and vulnerability to natural disasters would mean severe hardship for any agricultural society based on traditional methods of cultivation. In addition, social and institutional barriers compound the difficulties of endeavours to improve the economic prospects of the country. This thesis has examined the effectiveness of foreign aid in confronting these problems blocking development in Bangladesh. The introductory chapters have provided the historical setting and the international background for the study while the remaining chapters have examined the qualitative and quantitative impact of aid on the country. The qualitative and quantitative changes offer high hope of rapid growth than would be projected on the basis of the continuation of present trends. In fact,
under the present rates of population growth and per capita incomes in rural areas, it can be expected for at least the bottom half of the population. It is argued that the effects of aid have not been sufficient to improve the ability of the country to reduce the poverty level that prevails.

This thesis has looked at developments in the Bangladesh economy; explored the historical background of Bangladesh’s aid dependence; provided a contemporary overview of the aid scene; examined donors’ aid policies and practice; addressed the efficacy of NGOs to channel aid to the poor; and investigated the impact of aid on the public sector, poverty, and policy reforms in the country. These areas of research are of considerable amount of interest and importance to policymakers of both donors and the recipient. However, this list is not exhaustive, and other areas of aid effectiveness lie outside the scope of this thesis. Arguably the most important for the case of Bangladesh is the impact of aid on poverty alleviation. However, the fact is that poverty alleviation and economic development of Bangladesh is basically a task of the Bangladeshi people, with donors’ influence dependent upon their acceptance within the country. Given the situation in the country today, the Bangladesh government must have the leading role in promoting economic change and technical advancement. Donors are not expected to have dependable long-term strategies for economic development given the limitations innate in aid. In addition, donors have failed to adapt policies and programs to the special circumstances of the country. This thesis identifies that these considerations underline the responsibilities of the Bangladesh government to initiate new policy directions and exercise effective leadership as well as ownership in policy matters.

A limitation of this thesis relates to data quality. This thesis has been reliant on data from the Bangladesh Bank, the Bangladesh Bureau of Statistics, the Ministry of Finance, local think-tanks and local sources such as the CPD, the BIDS, the Grameen Bank, and the BRAC, and international sources such as the World Bank, the IMF, the ADB, and the OECD. It is noted that these data-sets may not be perfect due to reporting errors and manipulation of accounts although the country has relatively good historical records of data collection and accuracy in relation to other developing countries. Therefore, data provided in some places may appear inconsistent with data provided in the same or other context elsewhere in this thesis. It is also recognised that this thesis is driven by the examination of qualitative as well as quantitative data using correlation analysis. This reproach can be defended by the findings of this thesis being largely in accordance with the perceptions of experts and those involved with aid programs in Bangladesh.
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