

**ROLE OF FOREIGN AID FOR POVERTY ALLEVIATION: EVIDENCE FROM  
BANGLADESH**

**By**

**A S M Sohrab Hossain**

**THESIS**

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

**MASTER OF PUBLIC POLICY**

2011

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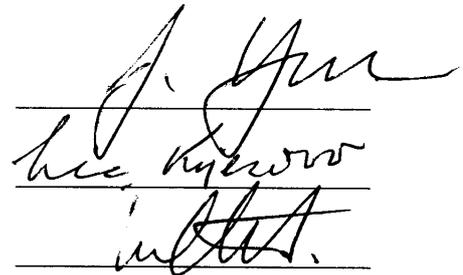
**MASTER OF PUBLIC POLICY**

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Three handwritten signatures are written over three horizontal lines. The top signature is 'J. You', the middle is 'Kye-Woo Lee', and the bottom is 'Victor Hsu'.

Approval as of December, 2011

## **ABSTRACT**

### **ROLE OF FOREIGN AID FOR POVERTY ALLEVIATION: EVIDENCE FROM BANGLADESH**

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Development economics could not able to give any direct answer about the impact of foreign aid on poverty alleviation specifically. Different economists opined differently. Some argued that it has a positive impact on poverty alleviation or economic growth and some opposed that. In consideration with the alleviation of poverty of Bangladesh through foreign aid is still an unresolved issue.

Bangladesh is one of the poorest countries in the world. Bangladesh has received a huge amount of foreign aid since her independence in 1971 from various country of the world for economic development. Although Bangladesh achieved some specific areas of progress but still aggregate poverty rates remain dauntingly high. Pockets of extreme poverty persist. Inequality is a rising concern. The paper examines the effectiveness of foreign aid in eradicating poverty through human poverty indicators in Bangladesh. In this paper the basic questions which will be discussed about is ‘does foreign aid play any role to eradicate poverty in Bangladesh?’

**Dedicated to my respected parents**

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This note of acknowledgement would not be completed if I do not say few words regarding great sacrifices and encouragement of my family including my new born son and my loving wife with my parents and well wishers who always are aware about my higher education and shining future.

## ACRONYMS

ADB – Asian Development Bank  
ADP- Annual Development Programme  
BANBEIS – Bangladesh Bureau of Education Information System  
B. Ed. – Bachelor of Education  
CPD- Centre for Policy Dialouge  
DFID – Department for International Development of the United Kingdom  
DP – Development Partner  
DPE– Directorate of Primary Education  
DSHE – Directorate of Secondary and Higher Education  
EFA – Education for All  
ERD- External Resource Division, Bangladesh  
GOB – Government of Bangladesh  
HDI- Human Development Index  
HRD – Human resources development  
IDA – International Development Association  
JICA – Japan International Cooperation Agency  
MDG – Millennium Development Goal  
NGO – Nongovernment organization  
OED – Operations Evaluation Department  
PE – Primary Education  
PTI – Primary Teacher Training Institute  
SE – Secondary Education  
SIDA – Swedish International Development Agency  
SSC – Secondary School Certificate

SWAp – Subsector-wide approach

TA – Technical Assistance

TTC – Teacher Training College

UNICEF – United Nations Children’s Fund

UPEO – Upazila/Subdistrict Primary Education Office  
UPEP – Upazila Primary Education Plan  
URC – Upazila Resource Center

## Table of Contents

<b>1 INTRODUCTION.....</b>	<b>1</b>
1.1 BACKGROUND.....	1
1.2 OBJECTIVE OF THE THESIS .....	2
<b>2 LITERATURE REVIEW AND METHODOLOGY.....</b>	<b>3</b>
2.1 LITERATURE REVIEW .....	3
2.2 DATA SOURCE AND METHODOLOGY .....	9
<b>3 STATE OF THE FOREIGN AID IN BANGLADESH .....</b>	<b>10</b>
3.1 FOREIGN AID .....	10
3.2 DEPENDENCE BY TYPES OF AID IN BANGLADESH .....	11
3.2.1 FOOD AID DEPENDENCE .....	11
3.2.2 COMMODITY AID DEPENDENCE.....	15
3.2.3 PROJECT AID DEPENDENCE .....	17
3.3 TRENDS OF AID FLOW IN BANGLADESH .....	21
<b>4 CORRELATIONS AMONG THE KEY VARIABLES.....</b>	<b>29</b>
4.1 CORRELATIONS AMONG AID-GROWTH-POVERTY-EQUITY-HUMAN DEVELOPMENT .....	29
<b>5 EFFECTS OF AID ON HDIS AND STRUCTURAL ADJUSTMENT POLICY (SAP) ..</b>	<b>39</b>
5.1 EFFECT OF AID ON TWO HDIS-HEALTH AND EDUCATION.....	39
5.1.1 HEALTH. ....	39
5.1.2 EDUCATION.....	48
5.2 AID INDUCED STRUCTURAL ADJUSTMENT POLICIES (SAP) AND ITS EFFECT ON POVERTY.....	55
5.3 FINDINGS OF AN INTERNATIONAL STUDY ON SAP REGARDING POVERTY. .	61
<b>6 CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>64</b>

## LIST OF TABLES

1.	Food grain balance sheet of Bangladesh	12
2.	Commodity Aid and commodity imports	16
3.	Data on ADP and project Aid	18
4.	Changing pattern of Aid disbursement	23
5.	The net aid flow and growth rate of GDP	27
6.	Correlation between Aid, Growth, Poverty, Inequality and Human Dev.	30
7.	Growth Rate of GDP and Trends in Foreign Aid, Gross Domestic Investment, Gross Domestic Savings and Gross National Savings	34
8.	Trends in Export, Import and Remittance	35
9.	MDG Goal 4-Reduce child mortality	41
10.	MDG Goal 5-Improve maternal health	43
11.	MDG Goal 6- Combat HIV/AIDS, malaria other diseases	46
12.	List of malaria cases and deaths by different year	47
13.	Cumulative disbursement of all aid agencies combined by sector and year	49
14.	MDG Goal 2 –Achieve Universal Primary Education	50
15.	Comparison of poverty trends (FY1974-FY1982 and FY 1984-FY 1996)	60

## LIST OF FIGURES

1.	Disbursement of Aid by purpose	19
2.	Project Aid disbursement by major sector	20
3.	Aid commitment and disbursement	24
4.	Disbursements on behalf of 20 major donors	24
5.	Aid commitment	25
6.	Aid disbursement	26
7.	Trend of foreign aid and GDP growth	28
8.	Flow of foreign aid and remittance	37
9.	Under five mortality rate	41
10.	Infant mortality rate	42
11.	Maternal mortality ratio	44
12.	Proportion of births attended by skilled health personnel	45
13.	Primary school enrolment	52
14.	Primary cycle completion rate	53
15.	Current trend and required growth in adult literacy rate	54

# CHAPTER 1

## 1 INTRODUCTION

### 1.1 Background

Bangladesh is considered as one of the developing country in the world. It is also world's most densely populated country. She has the total population is around 159 million (2008), the geographical area is 147570 sq. km. annual per capita GNI is US\$ 470 (2008). Bangladesh got her independence in 1971 by nine months long bloody war with Pakistan so a foreign aid was inevitable to revive the war ravaged, dilapidated infrastructure and fragile economy right after 1971. As a result, naturally at the post war period the trend of receiving foreign aid was very high for promoting economic growth. This trend gradually decreased day by day. But after around four decades of the independence we need to reassess what benefits did foreign aid bring on poverty alleviation in the present context? The paper aims to explore the interrelationship between aid inflow and poverty alleviation under three specific issues.

## **1.2 Objective of the thesis**

Firstly, how did foreign aid affect the economic growth as well as the distribution of growth among various socioeconomic classes in Bangladesh? The reason for concentrating on growth and the distribution variables is very important because affect of foreign aid on poverty is mainly mediated via growth and the distribution of its results.

Secondly, whether foreign aid can help to reach the goals of MDGs through measuring the effects of aid on two human development indicators health and education? We select these two because health and education indicators are more concrete measures to evaluate poverty.

Finally, the donors over time have been increasingly including a variety of conditions to their aid disbursement. Whether those conditions were beneficial for the poorer section of the society need to be assessed? One of such programs is the Structural Adjustment Programmes (SAPs) which was initiated in 1980 by the Breton Woods Institutions, the World Bank (WB) and International Monetary Fund (IMF) as a precondition for getting aid, should also be examined to find out how effective were that weapon to channelize aid for reduction of poverty?

## CHAPTER 2

### 2 LITERATURE REVIEW AND METHODOLOGY

#### 2.1 Literature review

Foreign aid that has been played a positive role for economic development in many developing countries over the past four decades is a highly controversial issue. The debate on foreign aid began in 1950s when the United States, then a capital surplus country, started a foreign assistance program towards developing country with a view to achieve rapid economic growth. Unfortunately, the growth experience of many of those aid recipient countries has not been satisfactory. The failure to bring about targeted economic prosperity as well as alleviation of poverty induced a series of debates among economists, policy makers and social reformers in developed and developing countries.

A large volume of literature exists on this issue describing different viewpoints in the context of ideological orientation and theoretical and empirical point of view. The existing literature expressed two views, the traditional pro-aid view and the radical anti-aid view. The traditional view contends that foreign aid exerts significant beneficial effects on the recipient countries. It is argued that foreign aid not only augments (complements) domestic resources of the capital-deficient countries, but also helps them mitigate-severe foreign exchange constraints, provides access to modern technology and managerial skills, and allows easier access to foreign markets, all positively contributing towards economic growth (Chenery, 1960; Chnery and Strout, 1966; Papanek, 1972; Papanek, 1973).

However, the growth experience of many aid receiving developing countries over the last four decades have not fully been conform to the conventional wisdom. Some countries including Bangladesh may even have witnessed a negative experience with foreign aid. Along with other

factors, this empirical phenomenon encourages to the impression of anti-aid view which ultimately exerts significant negative impacts on the recipient countries. According to this view, foreign aid substitutes rather than complements domestic resources, helps import inappropriate technology, distorts domestic income distribution, and is biased towards a bigger, inefficient and corrupt government in those countries (Griffin, 1970; Griffin and Enos, 1970; Bauer, 1971; Weisskoff, 1972a,b).

In order to assess the effectiveness of foreign aid most of the studies usually give emphasize on to find out the impact of aid flows on GDP growth and other macroeconomic indicators like public consumption, investment , implicitly focusing on the notion that aid is a means of bridging the saving-investment gap that poor countries like Bangladesh face.

According to two gap model (Chenery and Strout, 1966) developing countries face difficulties on savings which impede on investment and economic growth. Usually aid flows are considered as a tool of fill up the gap between investment requirements and domestic savings. Earlier most authors opined that aid had no significant impact on growth, savings and investments. Aid was induced to augment unproductive public consumption (Mosely and others, 1992) and failed to encourage investment. Boone (1996) and Reichel (1995) both confirmed the latter remark, and found a negative relationship between savings and aid and point to a substitution effect. Hadjimichael (1995) amended that result, who specified that aid and domestic savings are negatively related in most countries but has a positive impact for good adjustments. Again, the latter remark is shown by both Burnside and Dollar (2000) (henceforth BD), who revealed that when policies are good then aid can be effective for countries. There are three main remarkable results of most aid effectiveness studies: aid is misallocated (allocated to wrong recipients), aid is misused (recipient countries exercise for non-development agendas) and finally not considering

GDP growth as a tool to measure of effectiveness of aid. Firstly, when the donor's ultimate objective is to promote the economic growth or alleviation of poverty in the aid recipient countries, a parallel nature of description of aid allocation <sup>1</sup> has revealed that most development partners pursue to a different agenda and most of the case they pursue for their own strategic interest. Secondly, most studies on aid effectiveness shows that aid recipient countries experienced the DPs altruistic objectives, which should not be expected. According to Svensson (2000) and Murshed and Sen (1995),- aid recipients country and a perfectly altruistic DPs have the conflicting objectives, as the former holds a variety of stakeholders, including influential stakeholders who may make influence on the distribution of aid. If aid is misused and misallocated, then it cannot ensure any positive impact on poverty alleviation or growth. In many cases donor countries take back lion share of allocated aid from the recipient countries in the name of consultancy and transportation cost (transport used from the donor countries for importation of goods).

Finally, according to Boone (1996), aid effectiveness should not be evaluated by its affect on GDP growth. Aid increases consumption rather than investment, which would describe the dismal results of studies on growth, but still decrease poverty through either "higher consumption of the poor or greater provision of services to the poor." Boone examined the effect of aid on changes in basic human development indicators like infant mortality, primary schooling ratios and life expectancy. To evaluate the aid effectiveness of donor countries regarding alleviation as reflected to achieve the goal of MDGs in Bangladesh this paper will measure the impact of foreign aid on social indicators i.e. Human Development Indicators instead of macroeconomic variables.

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<sup>1</sup> Alesina and Dollar (2009), Collier and Dollar (2002)

All of the above mentioned empirical analyses of aid effectiveness are exclusively based on Official Development Aid (ODA). Edwards and Hulme (1997) analyzed the donor-state and NGO relationships could compromise the work of civil organizations or modify their approaches. Gauri and Fruttero (2003) revealed and tested that NGO motivation and show that these organizations are influenced in allocating aid by a concern for donor funding.

In order to assess the effectiveness of foreign aid most of the studies usually give emphasize on to find out the impact of aid flows on GDP growth and other macroeconomic indicators like public consumption, investment , implicitly focusing on the notion that aid is a means of bridging the saving-investment gap that poor countries like Bangladesh face. On the other hand, the area of research i.e. the impact of foreign aid on Human Development Indicators (HDI) is much more neglected. But it is important to assess the role of foreign aid to achieve the goal of MDGs<sup>i</sup> with a view to alleviating poverty in Bangladesh. The first major study on the affect of foreign aid was conducted by Prof. Nurul Islam<sup>2</sup> in 1981(Aid and Influence). Prof. Islam expressed the negative impression about foreign aid. He echoed the same voice in his recent autobiography<sup>3</sup> that after all, few deny that aid relationship is not an honorable or an equal relationship. It creates a dependency syndrome and discourages self-reliance (Islam, 2003, p. 443).

Another study was made by the resident chief of WB in Bangladesh, Mr. Just Faaland. He rightly viewed that the situation evolved economically, socially and politically in a way that left few options opens; 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 (Just Faaland et al., 1981).

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<sup>2</sup> The Deputy Chairman of the first Planning Commission of Bangladesh.

<sup>3</sup> Islam, Nurul.2003. The birth of a Nation: A tale of an Economist. Dhaka: University Press Limited.

Another crucial study was accomplished by Robert Cassen and his Associates on “Aid Poverty” relationship up to 1987 in Bangladesh which was a cross country global study involving the case studies of 16 countries including Bangladesh. The study was actually commissioned by the joint Ministerial Committee of the Boards of Governors of the WB and IMF. The findings of their study are “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”.<sup>4</sup> Cassen also found that except for a minor part of the aid, which had been used for Food for Work (FFW) programs, all other aid had been bypassing the poorest people of the rural areas, i.e. the functionally landless. Historically, the position of the donors is at the upper hand and as a result there is a universal tug of war bureaucracy of the recipient country and that of the donors. So, in most cases the local bureaucrats are held responsible for all the failures to implement the projects which were financed by foreign aid. Cassen’s study warned Bangladesh about incurring the risk of debt burden in the near future. Above all, Cassen’s study did not reveal any positive impact of foreign aid on poverty.

Another very comprehensive study on Foreign Aid to Bangladesh was conducted by a group of researchers under the guidance of the well known Bangladeshi economist Rehman Sobhan in early 1980s under the heading “From Aid Dependence to Self Reliance: Development Options For Bangladesh”<sup>[1]</sup> which published by BIDS and UPL in 1990. The findings of that research were negative about the “Aid Poverty relationship”. When the report was published then Bangladesh was highly aid dependent country and there was a wide concern in the society about the misutilisation of aid for private benefits. Sobhan (1990, p.3) quoted as “whilst, some of the data in this paper is slightly dated, the issues discussed in this volume remain very much alive.

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<sup>4</sup> Cassen, Robert and Associates. 1986. Does Aid Work? Oxford: Clarendon Press.

Bangladesh remains no less dependent on aid today than when this study was undertaken. In FY 1998 the debt-servicing ratio came to 24.4 per cent of Bangladesh's export. The incidence of foreign aid still remains both pervasive and skewed. Large numbers of Bangladeshi remain dependent directly or indirectly on the employment, income and nutrition derived from various aid programs. At the same time, narrow classes of beneficiaries of the fruits of foreign aid have today scaled new heights of affluence and realize even higher level of conspicuous consumption. The donors remain more preoccupied 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".

Anisul Islam<sup>5</sup> in his study "Foreign aid and economic growth: an econometric study of Bangladesh" focused on the supply side of the economy, on the basis of an econometric model to quantify the effects of foreign aid and its various components on economic growth. The model was tested using available time series data on Bangladesh from 1971 to 1988, where Bangladesh received a cumulative sum of about 18.9 billion US dollars in foreign aid (grants and loans) from all donor countries combined. The empirical results indicate the domestic resources exert a stronger impact on growth than foreign resources. Islam also mentioned that foreign resources, in its highly aggregative form, do not show any significant contribution to growth.

In the above mentioned all of the study regarding foreign aid and poverty in Bangladesh there revealed a negative effect. In this paper I would like to discuss about the effect of foreign aid on poverty directly in Bangladesh but in other study so far made by others were not directly related to aid and poverty rather than about the relationship between aid and development.

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<sup>5</sup> Department of Business Management and Administrative Services, University of Houston-Downtown, USA which Published in 1992 by Chapman & Hall.

## **2.2 Data source and methodology**

The evidence in support of my study is based on secondary data materials. I did try my best to secure the secondary sources which I obtained from Bangladesh and from other international organization like World Bank, ADB, IMF, OECD and other aid providing agencies. The internet is another excellent source of data. Most of my thesis relies on empirical evidence. It also provides me to exchange ideas from some of the journals, books, periodicals. Due to the lack of reliability and scarcity of the data I compelled to choose qualitative analysis rather than quantitative or econometric analysis. As a result if I followed the quantitative analysis which might be inadequate.

## CHAPTER 3

### 3 STATE OF THE FOREIGN AID IN BANGLADESH

#### 3.1 Foreign Aid

Generally the idea behind foreign aid is “the benevolent donation of funds by rich nations to poor nations so that the poor nation can sufficiently meet the needs of its people” (Hoy 1998, 3). According to Morgenthau, foreign aid is a means of transfer of money, goods and services from one country to another (Morgenthau 1962, 301). Development Assistance Committee (DAC) cited more technically as Official Development Assistance (ODA). According to Robert Cassen’s view there are three requirements must be meet to avail ODA. Firstly, aid must be distributed by official agencies to another official agencies; an “official agency” is an organization that has some affiliation with a state’s government, whether the organization is the actual government or an NGO supported by several governments. The money given to countries by MNC’s or by private donors is not considered ODA. Secondly, the aid must be given with the intention of promoting economic development and welfare in the recipient nation. Lastly, 25% of the money transferred must be in the form of a grant-the money does not have to be paid back to the donor nation (Cassen 1986, 2).

ODA is aid given by developed and industrialized nations on a governmental basis to help and support developmental strategies in socially and economically backward countries. It is not a humanitarian assistance which is what is given in cases of natural catastrophe to save and protect people who are in distress. Any assistance in the form of ODA is at a very low rate of interest and has to be repaid over a long period of time or duration that makes it very attractive for poor countries.

On the other hand, as per the official definition of foreign assistance, money given to promote military expansion in a nation is not considered foreign aid because the motive is not clearly to promote economic growth or the welfare of a state.

### **3.2 Dependence by types of Aid in Bangladesh**

There are three types of foreign aid in Bangladesh – (i) Food aid dependence (ii) Commodity aid dependence and (iii) Project aid dependence. Among these three types only food aid had a direct poverty alleviation effect in Bangladesh.

#### **3.2.1 Food Aid dependence**

Food aid had two main poverty-alleviating effects<sup>6</sup>. One is prevention of famine in 1974(after 3 years of independence) when Bangladesh had a food grain deficit of almost 3 million tons. Another is by filling the supply –demand gap in the food market, food aid also helped to keep the food grain price low enough to prevent large-scale entitlement failure of the poor. That famine broke out in Bangladesh mainly because of lack of supplementary food import and a general failure of entitlement for the poorer sections of the society (A.K. Sen, 1982). The disruption in the supply for food import was actually due to the US Government decision to take Bangladesh off the list of food aid recipients on the pretext of putting pressure on Bangladesh Government not to export jute goods to Cuba and which testifies as a blatant example of using food aid for political purpose (Just Faaland et al., 1981, p.99).

Table-1 represents that the trend of aided food imports, commercial food grain import to meet up the food gap during the period from FY 1990-2005 in Bangladesh for which the data is available.

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<sup>6</sup> Akash, M.M. 2004. "Aid and Poverty", Revisiting Foreign Aid- A Review of Bangladesh's Development. Dhaka: The University Press Limited.

**Table-1****Food grain balance sheet of Bangladesh: FY1991 to FY2005 (in million ton)**

1	2	3	4	5	6
Fiscal Year	Net production of Food Grain	Total Food grain Need @ 16.4 oz/capita/day	Food-gap (3-2)	Commercial Import by Govt. and Private Sector (5 as % of 4)	Aided Import (6 as % of 4)
FY 1991	16.97	18.83	1.86	0.037 (5.5)	1.54 (83)
FY1992	17.38	19.17	1.79	.150 (8.4)	1.41 (79)
FY1993	17.56	19.51	1.95	.448 (23)	.73 (37)
FY1994	17.62	19.85	2.59	.312 (12)	.65 (25)
FY1995	16.27	20.19	3.92	2.082 (53)	.93 (24)
FY1996	17.15	20.53	3.38	1.691 (50)	.74 (22)
FY1997	18.30	20.87	2.57	.414 (16)	.61 (24)
FY1998	18.59	21.21	2.61	1.383 (53)	.54 (21)
FY1999	19.63	21.55	1.92	4.245 (221)	1.23 (64)
FY2000	22.41	21.89	-521	1.234	.87
FY2001	24.08	22.23	-1.84	1.063	.49
FY2002	23.3	24.5	1.2	1.7	.24 (20)
FY2003	24.0	24.8	.8	3.1	.28 (35)
FY2004	24.7	25.2	.5	2.7	.29 (58)
FY2005	23.7	25.6	1.9	3.2	.19 (10)

**Notes:** 1. a negative food gap actually implies a surplus production of food over and above the total requirement

**Source-**IRBD (2001), Bangladesh Bureau of Statistics (BBS) and Food Grain Digest, WFP, June 2005

The Table-1 shows clearly that the decreasing importance of food aid in fulfilling our food gap. In fixed term, it reduced from 1.54 million tons to only .54 million ton in FY1998. However, in FY 1999 it suddenly increased due to the unavoidable situation caused by severe flood in that year. But even then at that time 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 per cent less than that of the preceding year. And thenceforth, Bangladesh was able to produce a food grain surplus over and above its requirement<sup>7</sup> to the tune of .51 and 1.84 million ton in the two successive years of FY 2000 and FY 2001 respectively (IRBD 2001).

Table-1 also shows that in FY 1991 we started with a food gap of 1.86 million tons when 83 percent of the gap had to be met by aided import. Since then, the food gap has been continuing to increase and reached its all time peak of 3.92 million tons in FY 1995 (due to severe flood on that fiscal year) and then it decreased gradually (with rose negative figure in two subsequent fiscal years in 2000 and 2001) and slightly increased to 1.9 million tons in FY2004 due to flood at the same year. It may also notable that in FY 1995 the commercial imports of food grain increased from .03 million to 2.082 million tons and at that time only 24 per cent of that peak gap had to be filled up by aided imports of food grain. From FY 1995, the food gap slowly but steadily continued to decrease again and Bangladesh can safely say that by FY 2000 she became self-sufficient in food grain. Therefore, with a few exceptions of flood year as in FY 1995 and FY 1999, in general there is a secular decline in the level of food aid during the 1990s and beyond. Bangladesh was able to substitute food aid with domestic production and/ or commercial import

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<sup>7</sup> i. e. estimated as, gross cereal output minus 10 per cent of that output on account of seed and wastage minus total requirement of the total population @ 16 oz/capital/day.

of food grains in the 1990s. As a result, the contribution of food aid in avoiding famine or high food price was actually negligible in the last decade. Another issue to be examined is whether increased food aid causes a depression in the harvest price of paddy at the growers' level and thereby discourages agricultural growth.

Food aid is also used for various target group oriented programs such as Food for Works (FFW), Vulnerable Group Development (VGD) and Food for Education (FFE). The main weakness of these programs lies in their non accountability, mismanagement and leakages in the delivery channel.<sup>8</sup> According to a survey occurred from July 1, 1996 to June 30, 1997 and identified 269 cases of so called "governance failures" related to various types of poverty alleviating projects, many of which are actually supported by food aid. Among all poverty projects, the worst problem of governance has been recorded in the primary (preventive, promotive and curative) health (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 Food for Development (FFD) and VGD (17 cases), while the miscellaneous "other" relates to 38 cases (Sen 1997). However, there was still another problem of leakage of wheat during transportation from regional store to project site under the food aid program. This loss was estimated to be as high as 35 percent.<sup>9</sup> Perhaps part of this 35 percent loss is a genuine cost of transportation and a large part may be simply misappropriation by the delivery agencies. There were also occasional reports of underpayment of wages to the extent of 40 per cent.<sup>10</sup> To overcome these and other problems, the Government has now decided to pay in cash instead of

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<sup>8</sup> Akash, M.M. 2004. "Aid and Poverty", *Revisiting Foreign Aid- A Review of Bangladesh's Development*. Dhaka: The University Press Limited. P. 398.

<sup>9</sup> Osmani and Chowdhury, "Short run Impacts of Food for Works Programmes", *Bangladesh Development Studies*, Vol. XI, Nos. 1-2).

<sup>10</sup> *Ibid* 9.

food. But we all know cash money is a fungible asset and may even have the more opportunity for misuse.

Recently, the government has begun a new program, Food for Education (FFE). A very good program with a view to bringing poor children into the hub of education by dint of offering free food. The program was indeed, successful in bringing the poor target group to the schools. According to a BIDS Survey, FFE schools host a considerably higher proportion of children from land poor households' compared with Non-FFE schools (74 per cent vis-à-vis 56 percent). But here also, the teacher-student ratio has declined sharply which may adversely affect the quality of education received by the FFE beneficiaries.

### **3.2.2 Commodity aid dependence**

In principle, Commodity aid can be of considerable use in augmenting the availability of goods and services for the production of both domestically consumed and export products and in generating government revenues from import duty. Sobhan (1982) viewed that the contribution of commodity aid for the Bangladesh economy has become minimal. Ideally, one would like to relate the physical volumes of commodities imported under commodity aid to the total import of those commodities, as has been done in the case of food aid. However, such disaggregated data are not readily available. Therefore, in order to assess the quantitative dimension of the reduced dependence, current dollar values of commodity aid are related current dollar values of commodity imports.<sup>11</sup> Table-2 shows that the dependence of commodity aid has been on the wane since long. The percentages in the last column of that Table should provide a reasonably approximate indication of commodity aid dependence at the macro level. It also shows a drastic

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<sup>11</sup> Sobhan, Rehman. 1982. *The Crisis of External Dependence: The Political Economy of Foreign Aid to Bangladesh*. Dhaka: The University Press Limited.

decline in the proportion of commodity imports financed by commodity aid from 21 percent in FY 1991 to about 1.3 percent in FY 2007.

**Table-2**

**Commodity Aid and commodity imports (FY 1991 to FY2007)**

(In million Dollar and Percentage)

Fiscal Year	Commodity Aid Disbursement	Commodity* Imports	Commodity aid as % of Commodity Imports
FY 1991	408	1972	20.7
FY 1992	386	1986	19.4
FY1993	372	2604	14.3
FY1994	451	2773	16.3
FY1995	332	4009	8.3
FY1996	229	4841	4.7
FY1997	263	5124	5.1
FY1998	120	5443	2.2
FY1999	324	5872	5.5
FY2000	283	6128	4.6
FY2001	184	6912	2.7
FY2002	168	6992	2.4
FY2003	152	7214	2.1
FY2004	136	7312	1.9
FY2005	124	7432	1.7
FY2006	112	7512	1.5
FY2007	101	7668	1.3

\*Computed as total import-(import of food +import of capital goods).

**Source:** Ministry of Finance (2007), Bangladesh.

During the above review period of 17 years (Table-2), fourteen years were marked by a fall in the proportion compared to the preceding year. The only exceptions were FY 1994, 1997 and FY 1999. The rather substantial increase in FY 1999 was due to by the severe flood of 1998. A significant portion of relief-related imports were made through commodity aid in that year. Operationally, commodity aid is now absorbed in the balance of payments accounts. Now that imports have been more or less completely liberalized and Bangladesh no longer suffers from a

severe foreign exchange constraints.<sup>12</sup> As a result, we can now meet full need for commodity imports through the normal trade and payments system.

### **3.2.3 Project Aid Dependence**

The next issue is about the dependence of project aid on the development budget, that is, the Annual Development Program (ADP) of the government on aid. One problem in estimating this dependence is that the counterpart funds generated by food aid and commodity aid can be channelized to the development budget to finance projects wholly funded by the government or to cover the taka component of aided projects. However, there is no way of differentiating the counterpart funds to finance the Taka (Bangladeshi currency) component of the ADP and deployment of the revenue surplus.<sup>13</sup> Fortunately, as shown earlier, both food and commodity aid has drastically fallen over the years. This adds credibility to project aid as a close approximation of aid-dependence of the development budget.<sup>14</sup>

Table-3 provides the data on ADP and project aid allocation. It can be seen that as in the case of food and commodity aid, there has been a considerable reduction of dependence on project aid. However, the extent of the decline is much less than for other forms of aid. Project aid allocation as a proportion of total ADP allocation declined from 60 percent in FY 1990-91 to about 37 percent in FY 2006-07. Therefore, the dependence decreased gradually. There is also an important issue that the anticipation of aid availability induces the government to inflate the size of ADP to unrealistic levels which the government fails to deliver.

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<sup>12</sup> Centre for Policy Dialogue. 2004. Revisiting Foreign Aid – A Review of Bangladesh’s Development 2003 , Dhaka: The University Press Limited. P. 177

<sup>13</sup> Sobhan Rehman and Nazrul Islam. 1990 “The Role of Foreign Aid in Financing the Sectoral Programmes Under the ADP”. In Rehman Sobhan, ed. 1990. From Aid Dependence to Self-reliance. Dhaka: University Press Limited. Pp. 7-41.

<sup>14</sup> Ibid 12.

**Table-3****Data on ADP and Project Aid****Appendix - 17: Revised Annual Development Programme (Allocation and Expenditure)**  
(In crore Tk.)

FY	Allocation			Expenditure		
	Total	Taka	Project Aid	Total	Taka	Project Aid
1972-73	501	432	69	281 (56%)	242 (56%)	39 (57%)
1973-74	525	409	116	400 (76%)	308 (75%)	92 (79%)
1974-75	525	398	127	494 (94%)	380 (95%)	114 (90%)
1975-76	950	756	194	810 (85%)	649 (86%)	161 (83%)
1976-77	1006	756	250	999 (99%)	810 (107%)	189 (76%)
1977-78	1203	816	387	1257 (104%)	889 (109%)	368 (95%)
1978-79	1603	1079	524	1483 (93%)	1077 (100%)	406 (77%)
1979-80	2330	1568	762	2082 (89%)	1492 (95%)	590 (77%)
1980-81	2369	1569	800	2364 (100%)	1633 (104%)	731 (91%)
1981-82	2715	1715	1000	2391 (88%)	1614 (94%)	777 (78%)
1982-83	3126	1812	1314	2688 (86%)	1657 (91%)	1031 (78%)
1983-84	3585	1932	1653	3006 (84%)	1905 (99%)	1101 (67%)
1984-85	3498	1933	1565	3167 (91%)	1875 (97%)	1292 (83%)
1985-86	4096	1912	2184	3628 (89%)	1882 (98%)	1746 (80%)
1986-87	4513	2025	2488	4439 (98%)	1998 (99%)	2441 (98%)
1987-88	4651	2007	2644	4150 (89%)	2015 (100%)	2135 (81%)
1988-89	4596	1960	2636	4622 (101%)	1985 (101%)	2637 (100%)
1989-90	5103	1853	3250	5717 (112%)	2653 (143%)	3064 (94%)
1990-91	6126	2451	3675	5269 (86%)	2297 (94%)	2972 (81%)
1991-92	7150	3100	4050	6024 (84%)	2632 (85%)	3392 (84%)
1992-93	8121	3892	4229	6550 (81%)	3163 (81%)	3387 (80%)
1993-94	9600	5240	4360	8983 (94%)	4886 (93%)	4097 (94%)
1994-95	11150	6510	4640	10303 (92%)	5993 (92%)	4310 (93%)
1995-96	10447	5987	4460	10016 (96%)	6060 (101%)	3956 (89%)
1996-97	11700	6776	4924	11041 (94%)	6808 (100%)	4233 (86%)
1997-98	12200	7086	5114	11037 (90%)	6823 (96%)	4214 (82%)
1998-99	14000	8226	5774	12509 (89%)	7444 (90%)	5065 (88%)
1999-00	16500	9750	6750	15471 (94%)	9730 (100%)	5741 (85%)
2000-01	18200	10726	7474	16151 (89%)	10329 (96%)	5822 (78%)
2001-02	16000	9180	6820	14090 (88%)	8589 (94%)	5501 (81%)
2002-03	17100	10741	6359	15434 (90%)	10286 (96%)	5148 (81%)
2003-04	19000	12000	7000	16817 (89%)	11266 (94%)	5551 (79%)
2004-05	20500	14475	6025	18771 (92%)	13162 (91%)	5609 (93%)
2005-06	21500	14375	7125	19473 (91%)	13219 (92%)	6254 (88%)
2006-07	21600	13650	7950	17206(80%)	10998(81%)	6208(78%)

Note: Figures in parentheses indicate expenditure as percent of Allocation.

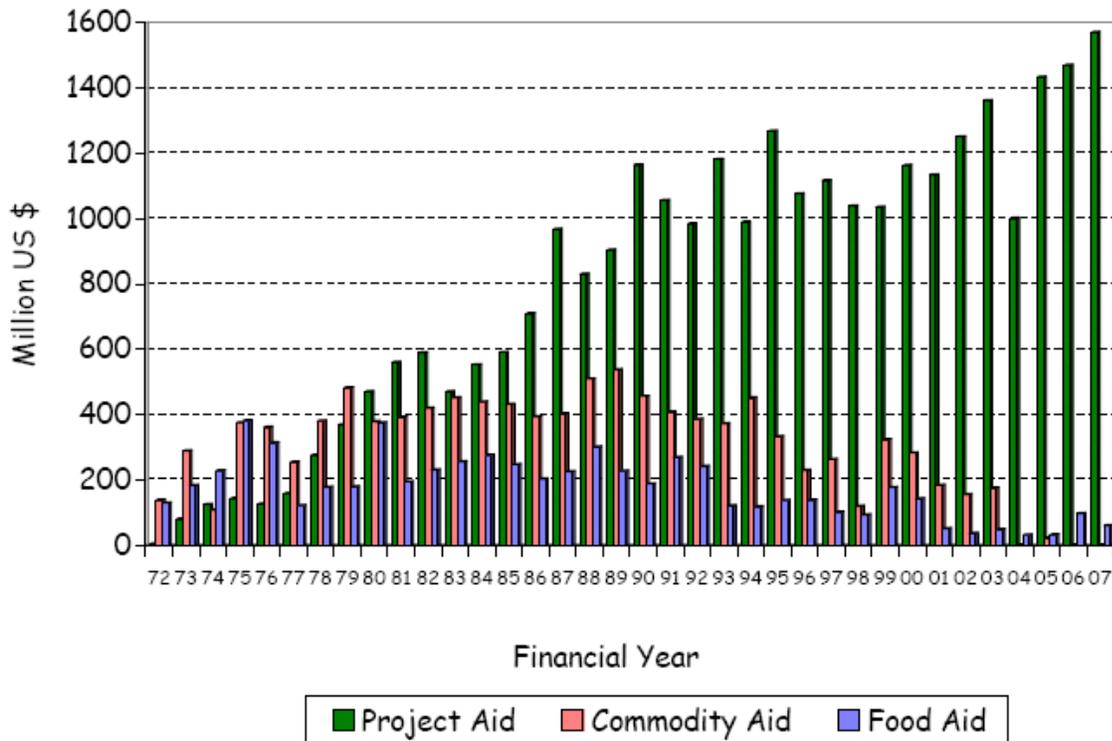
Source: IMED, Ministry of Planning

In order to review this issue, the disbursement of project aid is needed to compare to the allocation of project aid in ADP. The last column of Table-3 represents the project aid

disbursement as a percentage of project aid allocation. It is seen that in all fiscal years except FY 1988-89 the disbursement fell short of the allocation. It also shows the average shortfall in disbursement from FY 1972-73 to 2006-07 is 16 percent of the allocation.<sup>15</sup> Therefore, it is truth in proposition that unrealistic expectations of aid tend to inflate the ADP to unachievable level. Therefore, a more estimate of aid use is required to establish greater credibility about the viability of the government's development program.

**Figure-1**

**Disbursement of Aid by purpose (Year wise: 1971-72 to 2006-07)**



**Source:** Economic Relations Division, Bangladesh (2008).

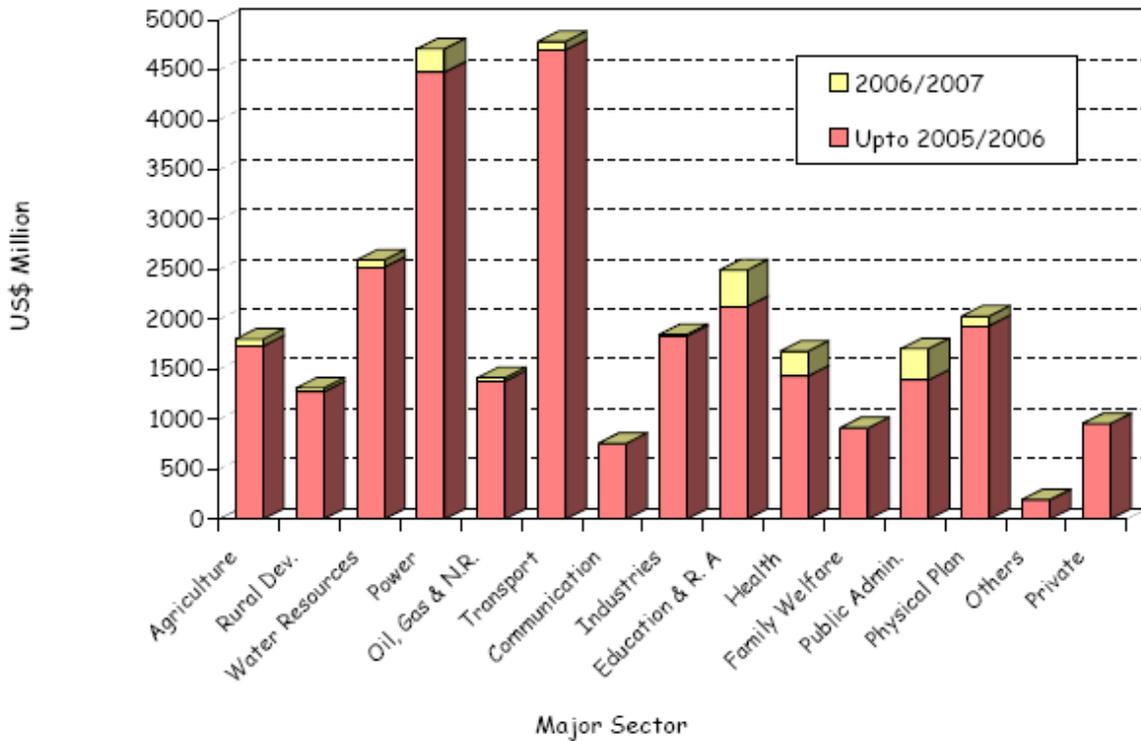
Figure-1 shows that the year wise (from 1971-72 to 2006-07) disbursed aid under the category of food aid, commodity aid and project aid. There is a decreasing trend of both food aid and

<sup>15</sup> The average of the parenthesis of last column of Table-3 is 84 percent which is the disbursement of aid. So the shortfall amount is 16 percent.

commodity aid (even then which is absent in the FY 2004, 2006 and 2007) and on the other hand there is increasing trend for project aid.

**Figure-2**

**Project Aid disbursement by major sector (FY 1971-72 to FY 2006-07)**



**Source:** Economic Relations Division, Bangladesh (2008).

Figure-2 shows the major sector wise disbursed foreign project aid from FY 1971-72 to 2006-07. The highest amount of project aid disbursed so far is in both in transport and communication sector which is more than 4500 million US Dollar in each. On the other hand, in two Human Development Indicators (HDIs) education and health sectors, which both have a positive relationship with poverty alleviation, the disbursed project aid are around 2500 and 1500 million US Dollars respectively for last 37 years of Bangladesh.

### **3.3 Trends of aid flow in Bangladesh:**

Since independence in 1971 up to 30 June 2007, Bangladesh has received a cumulative sum of about 46.46 billion US\$ in foreign aid (grants and loans), of which 44.44 percent grants and 55.66 percent was loans from all donor countries combined. If foreign aid is classified by purpose, 13.62 percent was disbursed as food aid, 23.48 percent as commodity aid and 62.90 percent as project aid. The year wise disbursement ratios by purpose are given at Figure-1.

If we analyze the trend of foreign aid we see that the significant changes have been taken place in the total aid scenario of Bangladesh. The changing pattern of aid flow into Bangladesh reflecting the ratios by type, source and purpose of aid since independence is shown in Table-4.

Table-4 shows that the share of grants has been declining gradually. Bilateral aid, which was 85.7 percent in total aid in FY 1971-72, has decreased to 24.3 percent in FY 2006-07. On the other hand, Multilateral Aid has risen from 14.3 percent to almost 75.7 percent during the same period. This implies that bilateral sources have been less important to Bangladesh. The proportionately greater importance of multilateral flows has a positive implication in that development and poverty alleviation considerations are likely to have greater influence on their aid-determination priorities. However, considering the other side of the coin that multilateral aid is typically associated with variety of conditionality which policy autonomy of the country.

The classification of aid into grants and loans reveals that loans constitute the larger portion of aid flows to Bangladesh. From Table-4 it reveals that Bangladesh received 25813.3 million US\$ as loans and 20647.6 million US\$ as grant from FY 1971-72 to FY 2006-07 so far. The decreasing volume of grants has resulted in a maximum proportion of loans in the total aid package. Overall, the share of grants seems to declining. The share of grants which was 90.5 percent in FY 1971-72, declined to 53.2 percent in FY 1979-80, 41.8 percent in FY 1985-86 and

36.2 percent in FY 2006-07 with some fluctuations in different fiscal years. The flip side is that the share of loans was 9.5 percent in FY 1971-72, 46.8 percent in FY 1979-80, 58.2 percent in FY 1985-86 and 63.8 percent in FY 2006-07. Thus, there is a need for more effective aid negotiation by Bangladesh from the perspective of increasing the grant portion, thereby reducing future debt-servicing obligations.

Furthermore, the flow of Food aid and Commodity aid has drastically declined. Again, the fall in the share of grant aid is largely attributable to the virtual disappearance of food aid. The reason is that food aid in it's entirety has been typically in the form of grants and the grant portion of commodity aid has been usually much higher than that of project aid. Food aid has declined consistently from 47.9 percent of total aid in FY 1971-72 to 3.7 percent in FY 2006-2007, Commodity aid has similarly fallen from 50.8 percent to nil during the same period, while project aid has increased sharply from 1.3 percent to 96.3 percent over the same period. Figure-3 shows year wise aid commitment and disbursement. Among the bilateral donors, Japan tops the list in terms of cumulative disbursement followed by USA and Canada. International Development Association (IDA, the soft lending window of the World Bank) is the largest amongst the multilateral development institutions followed by the Asian Development Bank (Figure-4).

**Table-4**

**CHANGING PATTERN OF AID DISBURSEMENT  
(1971/72 - 2006/07)**

(US\$ Million)

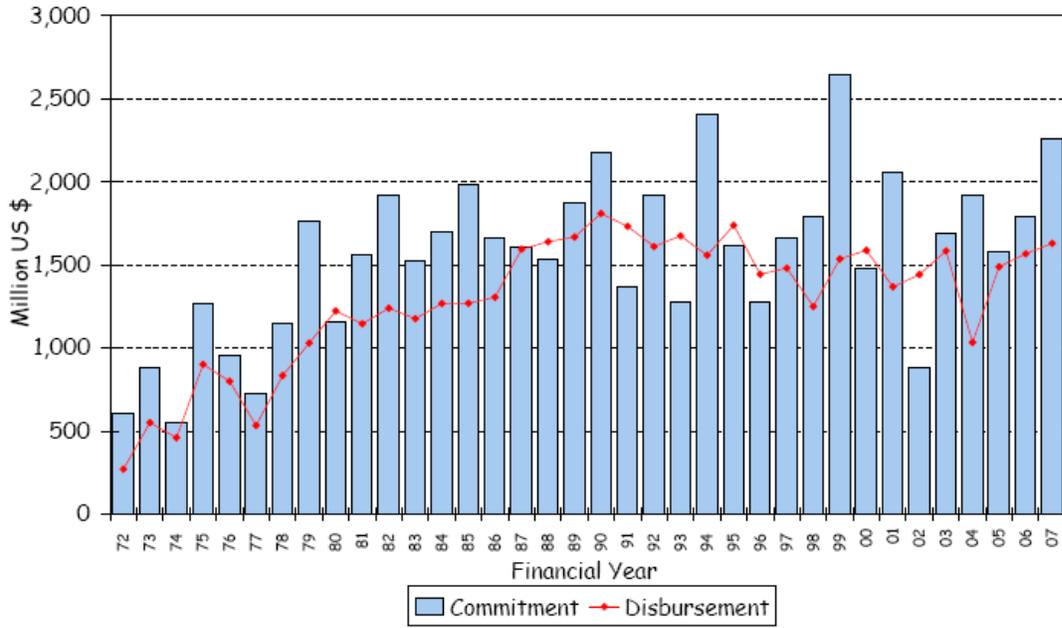
Period	Total	Purpose						Type				Source			
		Food Aid %		Com. Aid %		Proj. Aid %		Loan %		Grant %		Multilateral %		Bilateral %	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1971-72	270.8	129.6	47.9	137.7	50.8	3.5	1.3	25.6	9.5	245.2	90.5	38.7	14.3	232.1	85.7
1972-73	551.4	182.5	33.1	288.9	52.4	80.0	14.5	65.0	11.8	486.4	88.2	202.3	36.7	349.1	63.3
1971-73	822.2	312.1	38.0	426.6	51.9	83.5	10.2	90.6	11.0	731.6	89.0	241.0	29.3	581.2	70.7
1973-74	461.2	228.7	49.6	108.1	23.4	124.4	27.0	242.6	52.6	218.6	47.4	89.5	19.4	371.7	80.6
1974-75	901.0	382.3	42.4	375.7	41.7	143.0	15.9	526.2	58.4	374.8	41.6	220.4	24.5	680.6	75.5
1975-76	800.5	313.5	39.2	361.5	45.2	125.5	15.7	566.7	70.8	233.8	29.2	228.6	28.6	571.9	71.4
1976-77	534.7	121.5	22.7	254.6	47.6	158.6	29.7	279.2	52.2	255.5	47.8	147.0	27.5	387.7	72.5
1977-78	833.9	177.8	21.3	380.5	45.6	275.6	33.0	441.0	52.9	392.9	47.1	181.8	21.8	652.1	78.2
1973-78	3531.3	1223.8	34.7	1480.4	41.9	827.1	23.4	2055.7	58.2	1475.6	41.8	867.3	24.6	2664.0	75.4
1978-79	1030.0	179.0	17.4	482.6	46.9	368.4	35.8	528.2	51.3	501.9	48.7	303.8	29.5	726.3	70.5
1979-80	1223.0	374.6	30.6	378.5	30.9	469.9	38.4	572.4	46.8	650.7	53.2	333.5	27.3	889.6	72.7
1978-80	2253.0	553.6	24.6	861.1	38.2	838.3	37.2	1100.6	48.9	1152.6	51.2	637.3	28.3	1615.9	71.7
1980-81	1146.4	194.1	16.9	392.4	34.2	559.9	48.8	552.7	48.2	593.7	51.8	319.9	27.9	826.5	72.1
1981-82	1239.6	230.4	18.6	419.9	33.9	589.3	47.5	585.8	47.3	653.8	52.7	399.1	32.2	840.5	67.8
1982-83	1177.3	255.4	21.7	452.0	38.4	469.9	39.9	589.8	50.1	587.6	49.9	383.2	32.5	794.2	67.5
1983-84	1268.3	276.3	21.8	439.2	34.6	552.8	43.6	534.6	42.2	733.8	57.9	452.9	35.7	815.5	64.3
1984-85	1269.4	247.0	19.5	431.5	34.0	590.9	46.5	566.1	44.6	703.3	55.4	548.0	43.2	721.4	56.8
1980-85	6101.0	1203.2	19.7	2135.0	35.0	2762.8	45.3	2829.0	46.4	3272.2	53.6	2103.1	34.5	3998.1	65.5
1985-86	1305.9	202.7	15.5	393.4	30.1	709.8	54.4	760.3	58.2	545.6	41.8	680.4	52.1	625.5	47.9
1986-87	1595.1	225.4	14.1	402.5	25.2	967.2	60.6	933.6	58.5	661.6	41.5	541.0	33.9	1054.2	66.1
1987-88	1640.3	300.4	18.3	509.4	31.1	830.5	50.6	816.7	49.8	823.7	50.2	736.2	44.9	904.2	55.1
1988-89	1668.5	226.9	13.6	537.7	32.2	903.9	54.2	995.5	59.7	673.0	40.3	774.3	46.4	894.2	53.6
1989-90	1809.6	187.5	10.4	456.7	25.2	1165.4	64.4	1043.7	57.7	765.9	42.3	897.6	49.6	911.9	50.4
1985-90	8019.4	1142.9	14.3	2299.7	28.7	4576.8	57.1	4549.8	56.7	3469.8	43.3	3629.5	45.3	4390.0	54.7
1990-91	1732.6	268.6	15.5	408.1	23.6	1055.9	60.9	901.1	52.0	831.5	48.0	1051.9	60.7	680.7	39.3
1991-92	1611.5	241.2	15.0	386.1	24.0	984.2	61.1	794.2	49.3	817.3	50.7	859.9	53.4	751.6	46.6
1992-93	1675.0	121.0	7.2	372.1	22.2	1181.9	70.6	856.7	51.1	818.3	48.9	759.4	45.3	915.6	54.7
1993-94	1558.6	117.8	7.6	451.3	29.0	989.5	63.5	848.5	54.4	710.1	45.6	827.5	53.1	731.1	46.9
1994-95	1739.1	137.4	7.9	332.8	19.1	1268.9	73.0	849.0	48.8	890.1	51.2	821.1	47.2	918.0	52.8
1995-96	1443.8	138.0	9.6	229.4	15.9	1076.4	74.6	766.3	53.1	677.5	46.9	687.1	47.6	756.7	52.4
1990-96	9760.6	1024.0	10.5	2179.8	22.3	6556.8	67.2	5015.8	51.4	4744.8	48.6	5006.9	51.3	4753.7	48.7
1996-97	1481.2	100.9	6.8	263.1	17.8	1117.2	75.4	745.1	50.3	736.1	49.7	764.0	51.6	717.2	48.4
1997-98	1251.4	93.1	7.4	119.6	9.6	1038.7	83.0	748.5	59.8	502.9	40.2	762.8	61.0	488.6	39.0
1998-99	1536.1	176.9	11.5	323.9	21.1	1035.2	67.4	866.7	56.4	669.4	43.6	881.9	57.4	654.2	42.6
1999-00	1588.0	142.2	9.0	282.9	17.8	1162.8	73.2	861.9	54.3	726.1	45.7	792.7	49.9	795.2	50.1
1996-00	5856.8	513.1	8.8	989.5	16.9	4353.9	74.3	3222.2	55.0	2634.5	45.0	3201.4	54.7	2655.2	45.3
2000-01	1368.8	50.8	3.7	183.7	13.4	1134.3	82.9	864.7	63.2	504.1	36.8	672.4	49.1	696.5	50.9
2001-02	1442.2	36.0	2.5	154.9	10.7	1251.3	86.8	963.4	66.8	478.8	33.2	733.5	50.9	708.7	49.1
2002-03	1585.0	47.7	3.0	175.2	11.1	1362.1	85.9	1074.9	67.8	510.1	32.2	907.6	57.3	677.5	42.7
2003-04	1033.4	31.6	3.1	0.0	0.0	1001.9	96.9	695.0	67.2	338.5	32.8	527.4	51.0	506.1	49.0
2004-05	1488.4	32.5	2.2	22.0	1.5	1434.0	96.3	1244.2	83.6	244.2	16.4	1049.4	70.5	439.1	29.5
2000-05	6917.9	198.6	2.9	535.8	7.7	6183.5	89.4	4842.2	70.0	2075.8	30.0	3890.2	56.2	3027.7	43.8
2005-06	1567.6	97.2	6.2	0.0	0.0	1470.4	93.8	1067.1	68.1	500.5	31.9	1153.6	73.6	414.0	26.4
2006-07	1630.6	59.9	3.7	0.0	0.0	1570.7	96.3	1040.4	63.8	590.2	36.2	1233.8	75.7	396.7	24.3
<b>TOTAL</b>	<b>46460.4</b>	<b>6328.4</b>	<b>13.6</b>	<b>10907.9</b>	<b>23.5</b>	<b>29223.8</b>	<b>62.9</b>	<b>25813.3</b>	<b>55.6</b>	<b>20647.6</b>	<b>44.4</b>	<b>21964.2</b>	<b>47.3</b>	<b>24496.6</b>	<b>52.7</b>

Note: Small figures indicate percentages of total disbursement.

Source: Economic Relations Division, Bangladesh (2008).

**Figure- 3**

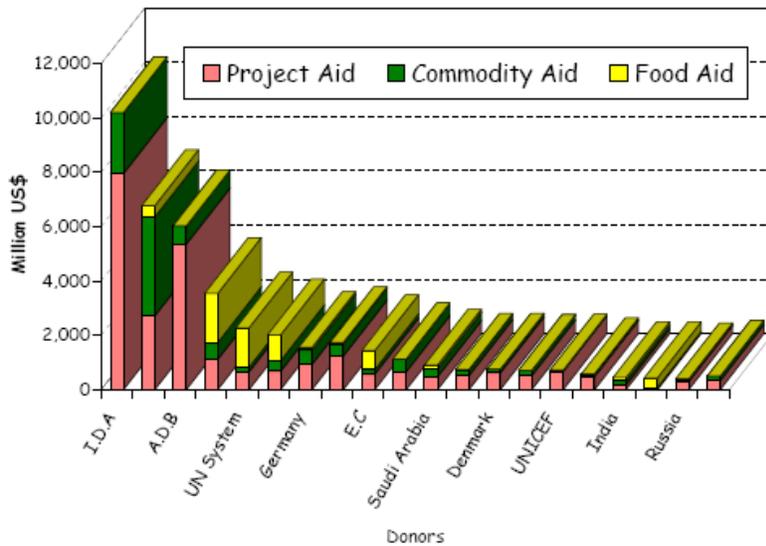
**Aid commitment and disbursement (Year wise, FY 1971-72 to FY 2006-07)**



**Source:** Economic Relations Division, Bangladesh (2008).

**Figure-4**

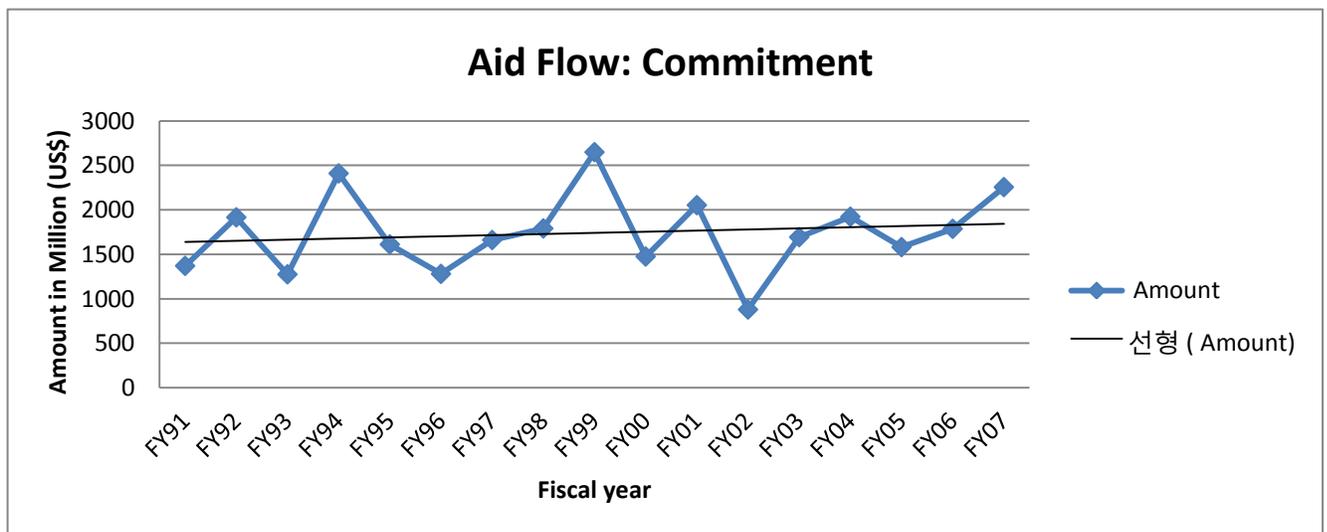
**Disbursements on behalf of 20 major donors (FY 1971-72 to 2006-07)**



**Source:** Economic Relations Division, Bangladesh (2008).

It will be recalled that the decade of the 1990s was characterized by declining aid flows to LDCs in absolute times. This was also accompanied by falls in the share of Bangladesh. The combination of these two forces led to a declining trend in the absolute amount of aid flows to Bangladesh as well. This is true in terms of disbursement. The picture with respect to commitment is shown in Figure-5 from the FY 1990-91 to FY 2006-07. There are considerable year-to-year variations, but the overall time trend is slightly positive, the linear trend line has a mild upward slope. However, from the point of view of the impact of aid in current prices is shown in Figure-6.

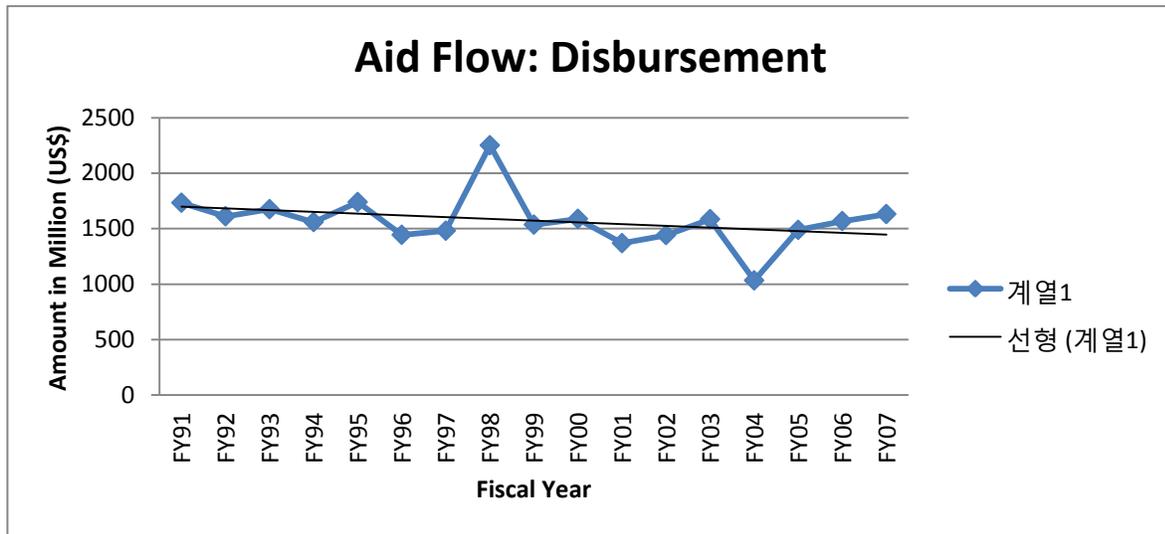
**Figure- 5**  
**Aid commitment (Year wise, FY 1990-91 to FY 2006-07)**



**Source:** Economic Relation Division, Bangladesh (2008).

In consideration of disbursement of aid, data shows that the peak year was FY 1999, with the amount of disbursement at US\$ 2251 million, marginally higher than in FY 1991. This extra aid was due to the catastrophic flood of 1998.

**Figure- 6**  
**Aid disbursement (Year Wise, FY 1990-91 to FY 2006-07)**



**Source:** Economic Relation Division, Bangladesh (2008).

The decline in aid flows to Bangladesh becomes more vivid in per capita terms. ODA per capita have become half from US\$ 19 in 1990 to US\$9 in 1999 and then it is also with decreasing trend (World Bank, 2008). It reminds the stark reality that market-oriented policy reforms implemented at the direction of the aid-giving institutions do not guarantee any accelerated aid inflows. The decade of 1990s considered as one of the most extensive policy reforms in fulfillment of aid conditionality, yet aid flow has considerably slowed down.<sup>16</sup> A cross-country comparison of per capita aid reveals another unsatisfactory fact; there is no relationship between aid and country's poverty status. Thus, Israel with a per capita income of US\$ 16,310 in 1999, higher than that of Spain, received per capita ODA of US\$148 in the same year (the highest in the world), the corresponding figures for Egypt being US\$1490 and US\$25 respectively.<sup>17</sup> Apart from these two countries which receive large amounts of aid for strategic reasons, many of the

<sup>16</sup> Ibid. 12 p-172.

<sup>17</sup> Ibid 12. P. 172.

countries of the former Soviet Block with much higher per capita income also receive much higher per capita ODA than Bangladesh.<sup>18</sup>

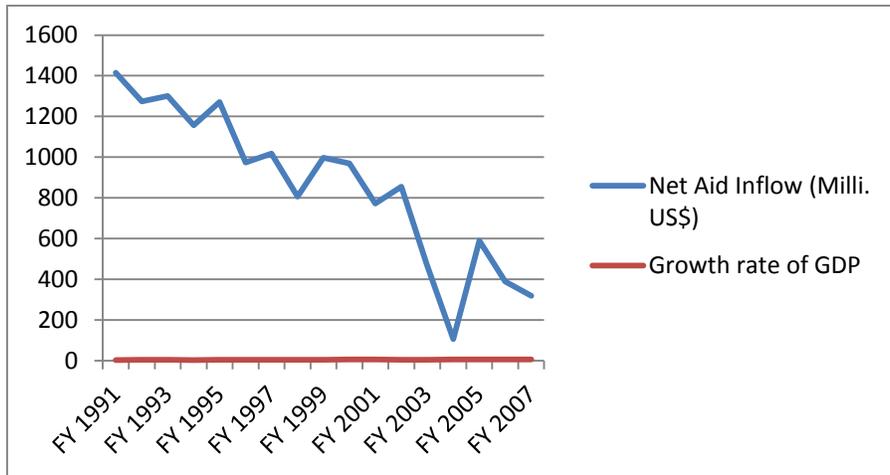
On the other hand, the flow of aid from the beginning to 1990s to the FY 2007 was chronologically decreased while the range of GDP was then around 4 to 5 and at the beginning of the FY 2000 and onward those GDP raised to around 6 which have shown from the Table 5 and Figure 7. That means there is merely a downward trend of foreign aid while a upward trend of GDP growth rate in Bangladesh.

**Table-5**

**The net aid flow and growth rate of GDP**

<b>Fiscal Year</b>	<b>Net Aid Inflow (Milli. US\$)</b>	<b>Growth rate of GDP</b>
FY 1991	1415.4	3.34
FY 1992	1274.9	4.35
FY 1993	1300.6	4.34
FY 1994	1156.4	4.19
FY 1995	1271.19	4.61
FY 1996	974.54	4.47
FY 1997	1018.05	5.21
FY 1998	807.4	5.34
FY 1999	997.16	4.99
FY 2000	968.85	5.94
FY 2001	772.2	6.04
FY 2002	856	4.4
FY 2003	466.9	5.26
FY 2004	106.1	6.27
FY 2005	588.9	6
FY 2006	389	6.63
FY 2007	318.5	6.51

<sup>18</sup> Ibid 12 p. 172.



**Figure-7: Trend of foreign aid and GDP growth**

## CHAPTER 4

### 4 CORRELATIONS AMONG THE KEY VARIABLES

#### 4.1 Correlations among Aid-Growth-Poverty-Equity-Human Development:

To judge the effect of foreign aid let us analyze the above correlation of 1990s and beyond to ascertain the basic facts. For this, let us first look at the more recent time series data of five macro variables which are relevant to our study. These are: Net Aid Inflow, Growth Rate of our GDP, Gini Index for measuring the degree of inequality, Head Count Ratio of National Poverty and the Human Development Index (HDI) for the period of 1990-2003. The sources of data have been collected from official sources which are mentioned in the Table- 6. Although we do not have continuous data of all five variables yet, they as a whole say something significant about the nature of the correlation among these variables.

Table-6 shows that while the “Net Aid Flow” was generally decreasing during the nineties, the “Growth Rate of GDP” and the “Gini Index of Inequality” were expressing more or less a positive trend of rise. During the FY 1991-96, average net aid flow per year was 1232 million US Dollar while the average GDP Growth rate was only 4.22 per cent. Again, during the FY 1997-2002 the average net aid flow per year came down to only 913 million US\$ and from FY 2003-2007 that has fallen more to 374 million US\$. In comparison with FY 1991-96 the net aid

**Table-6****Correlation between Aid, Growth, Poverty, Inequality and Human Development**

Fiscal Year	Net Aid Inflow (Million US\$)	Growth Rate of Net Aid Inflow (%)	Growth Rate of GDP	Head Count Ratio of Poverty				Gini Index R-U	National Human Develop- ment Index
				Rural		Urban			
				Below 2122 Calorie	Below 1805 Calorie	Below 2122 Calorie	Below 1805 Calorie		
FY 1991	1415.4	-	3.34						
FY 1992	1274.9	(-)10	4.35	47.8 (44.8 mi.)	28.3 (26.5 mi.)	46.7 (6.8 mi.)	26.2 (3.8 mi.)	25.5-31.9	
FY 1993	1300.6	(+)2	4.34						0.309
FY 1994	1156.4	(-)11	4.19						
FY 1995	1271.19	(+)9.9	4.61						0.368
FY 1996	974.54	(-)23.3	4.47	47.1 (49.76 mi.)	24.6 (23.9 mi.)	49.7 (9.6 mi.)	27.3 (5.2mi.)	27.5-37.5	
FY 1997	1018.05	(+)4.5	5.21						0.438
FY 1998	807.4	(-)20.7	5.34						
FY 1999	997.16	(+)23.5	4.99						
FY 2000	968.85	(-)2.83	5.94						
FY 2001	772.2	(-)20.3	6.04	44.3 (42.6 mi.)	18.7 (18.8mi.)	52.5 (13.2 mi.)	25 (6.0 mi.)	29.7-37.9	
FY 2002	856	(+)10.8	4.4						0.5
FY 2003	466.9	(-)45.45	5.26						
FY 2004	106.1	(-)77.27	6.27						
FY 2005	588.9	(+)455.04	6	39.5 (41.2 mi.)	17.9 (18.7 mi.)	43.2 (14.8 mi.)	24.4 (8.3 mi.)		
FY 2006	389	(-)33.94	6.63						0.6
FY 2007	318.5	(-)18.12	6.51						

**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 were taken from "Flow of External Resources into Bangladesh (As of June 30, 2007), External Relations Division, Ministry of Finance, Bangladesh."
2. The "Growth Rate of GDP" data is also taken from "Flow of External Resources into Bangladesh (As of June 30, 2007), External Relations Division, Ministry of Finance, Bangladesh."
3. Poverty data is collected from Bangladesh Bureau of Statistics (BBS). "Gini Index for Consumption Expenditure" for both rural and urban areas has been collected from Bangladesh: A National Strategy for Economic Growth and Poverty Reduction, Economic Relations Division (ERD), Ministry of Finance, Bangladesh.
4. HDI Index data for the different years have been taken from the different issues of the World Human Development Report, UNDP, New York.

flow decreased to 26 per cent during FY 1997-2002 and 70 per cent during the FY 2003-2007. On the other hand, during FY 1997-2002 the average GDP Growth rate has risen to 5.32 per cent and for the FY 2003-2007 it has increased to 6.13 per cent. In comparison with during FY 1991-96 the average GDP Growth has increased 26 per cent from FY1997 to FY 2002 and 45 per cent higher during FY 2003 to FY 2007. From FY 1991 to FY 2001 the Gini Index for consumption inequality has increased 16 per cent and 19 per cent in rural and urban areas respectively. It may note here that the Gini index for the urban areas increased very rapidly, especially during the first half of the decade when the average aid flow was also relatively higher. It is also important that the HDI had also consistently moved upward in spite of the declining trend of net aid flow. It is also observed that HDI improved comparatively faster rate, especially in the second half of the 1990s when the annual net aid flow was reducing at faster rate.

Now, let us look at the national Head Count Ratio of Poverty in Table-6. For the sake of consistency, we used the data which obtained from Bangladesh Bureau of Statistics (BBS) on poverty rates estimated for both urban and rural areas by using the Direct Calorie Intake (DCI) method.<sup>19</sup> From Table-6 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 i.e. by almost 41 per cent during the FY from 1991 to FY 1996. And in the case of second period i.e. FY from 1997 to FY 2001 the total number of urban moderate poor had again increased from 9.6 million to 13.2 million and in third period, from the FY 2002 to FY 2005 that had also increased to 14.8 million which is an increase of 37 per cent and 54 per cent respectively. It also should be noted that the net aid flow was in general higher during first period (FY 1991-1996) when the number of urban poor people had been increasing more rapidly. If we look at the figures of the urban extreme poor separately, the

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<sup>19</sup> Although WB argues that the Cost Basic Needs (CBN) method of estimating poverty is more reliable but we could not use it since poverty data generated by CBN method is available only for 1995/96 and thereafter.

picture becomes even more thought provoking. Table-6 shows that the number of the urban extreme poor had increased by 37 per cent during the first period (FY 1991 to FY 1996) of higher inflow of aid (average net aid flow 1232 million US\$). But in the second period (FY 1997 to FY 2001), despite the lower volume of aid (average net aid flow 913 million US\$) the number of urban extreme poor had increased by only 15 per cent, which is just half of the previous rate. And, for the third period (FY 2002 to FY 2005) against average net aid flow of 374 million US\$, the number of urban extreme poor had increased by only 38 per cent. In the case of rural poverty, the contrast is sharper. The number of moderate poor in the rural areas had increased from 44.8 million to 49.7 i.e. almost 11 per cent despite the relatively higher inflow of foreign aid during the FY 1991-96. In contrast, the total number of moderate poor in the rural areas had actually decreased from 49.7 million to 42.6 million i.e. a decrease of almost 14 per cent during the FY 1997-2001 period and 41.2 million during FY 2002 to FY 2005 with a decrease of 3 per cent comparing with during FY 1996 to FY 2001 when actually the inflow of aid was relatively lower during both period. On the other hand, in comparison with the FY 1991 to 1996, the total number of extreme poor in the rural areas had actually declined from 23.9 million to 18.8 million i.e. a decline of almost 21 per cent during the FY 1997-2001 and which also declined to 18.7 million i.e. a decline of 22 per cent during the FY 2002 to 2005 with a huge falling of average net aid flow.

It may importantly note that such co-variations do not testify causality. It might not be that smaller aid has caused higher growth but rather that higher growth slowed down the relative significance of aid. Whatever may be true, data at least shows that the discussed indicators of development e.g. 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 and third 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 with alleviation of poverty and a relatively faster improvement of other development indicators in spite of the declining volume of foreign aid?

It is hypothesized that if aid is utilized 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. During 1990s and beyond we already know that the total aid disbursement has been decreasing; hence, it is expected that the contribution of aid to national investment would also be declining. Therefore, in order to sustain the same level of investment and growth rate, Bangladesh was required to counterbalance for the shortfall of the foreign aid financed part of the investment by increasing national savings. Now it is important to analyze, either domestic savings and/or foreign savings earned by the 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 1990s and beyond. The data presented in Table-6 and Table-7 testifies to the above contention.

It may worth noted fact from the Table-6 that the relatively higher growth performance of Bangladesh in the second half of the 1990s and beyond was not constrained by the saving gap since during this decade in general the gross national savings rate was either more or almost equal to the gross national investment rat

**Table-7****Growth Rate of GDP and Trends in Foreign Aid, Gross Domestic Investment, Gross Domestic Savings and Gross National Savings**

<b>Fiscal Year</b>	<b>Real Aid as percentage of Real GDP</b>	<b>Growth Rate of GDP</b>	<b>Gross investment as Percentage of GDP</b>	<b>Gross Domestic Savings as Percentage of GDP</b>	<b>Gross National Savings as Percentage of GDP</b>
FY 1991	5.62	3.34	16.9	14.57	19.66
FY 1992	5.48	5.04	17.31	13.86	19.3
FY 1993	5.41	4.57	17.95	12.3	17.96
FY 1994	4.81	4.08	18.4	13.1	18.79
FY 1995	4.72	4.93	19.12	13.13	19.12
FY 1996	3.54	4.62	19.99	14.72	19.99
FY 1997	3.5	5.39	20.72	15.9	20.72
FY 1998	2.9	5.23	21.63	17.27	21.63
FY 1999	3.41	4.88	22.19	17.66	22.26
FY 2000	3.2	5.47	22.41	17.78	22.6
FY 2001	2.91	6.04	23.09	18	22.41
FY 2002	3.03	4.4	23.15	18.16	23.44
FY 2003	3.05	5.26	23.41	18.63	24.87
FY 2004	2.42	6.27	24.02	19.53	25.44
FY 2005	3.42	6	24.53	20.01	25.84
FY 2006	3.69	6.63	24.65	20.25	27.67
FY 2007	3.72	6.51	24.33	20.46	29.15

**Notes and Sources:**

1. "Real Aid as percentage of Real GDP" figures have been taken from the Economic Relations Division (2002, 2008) and Bangladesh Economic Review (2002, 2008), Ministry of Finance, Bangladesh.
2. The growth rates of GDP taken from the Bangladesh Economic Review (2002, 2008), Ministry of Finance, Bangladesh.
3. The Gross Investment as Percentage of GDP, Gross Domestic & National Savings as percentage of GDP is taken from the Bangladesh Economic Review (2002, 2008), Ministry of Finance, Bangladesh.
4. All the estimates of the Year 2000 are provisional.

It can also establish from the data presented in Table-7 that during the whole 1990s and beyond the export earning and total foreign exchange earnings (i.e. export + remittance) were growing at a faster rate than import. That is why export as a percentage of import had increased to 59 per cent in FY 2000 and 78 per cent in FY 2007 from 49 per cent in FY 1991. On the flip of the coin, total foreign exchange earnings used to finance about 70 per cent of import bill in FY 1991.

**Table-8**

### Trends in Export, Import and Remittance (In Crore-BD Taka)

Fiscal Year	Export	Remittance	Total Foreign Exchange Earning	Import	Export as Percentage of Import	Total Foreign Export Earnings as percentage of Import
FY 1991	6125	2725.62	8850.62	12521	48.9	70.6
FY 1992	7522	3241.45	10763.45	13452	55.9	80
FY 1993	8798	3697.04	12495.04	15934	55.2	78.4
FY 1994	9799	4354.9	14153.9	16766	58.4	84.4
FY 1995	13130	4814.47	17944.47	23455	55.9	76.5
FY 1996	13857	4970.47	18827.47	28304	48.9	66.5
FY 1997	16564	6300.04	22864	30540	54.2	74.8
FY 1998	20393	6934.6	27327.6	34183	59.6	79.9
FY 1999	20851	8197.78	29048.78	34480	60.4	84.2
FY 2000	24923	9807.03	34730.03	42131	59.1	82.4
FY 2001	34860	10266	45126	50370	69.2	89.59
FY 2002	34370	14377	48747	49050	70.07	99.38
FY 2003	37920	17730	55650	55920	67.81	99.52
FY 2004	44810	19870	64680	64260	69.73	100.65
FY 2005	53230	23647	76877	80890	65.81	95.03
FY 2006	69910	32211	102121	89220	78.36	114.46
FY 2007	84100	41304	125404	107080	78.54	117.11

**Source:** Data taken from “Bangladesh Economic Review, Ministry of Finance (2008)”.

It is also seen from the Table-8 that the total foreign export earnings as percentage of import increased chronologically from the FY 1991 and reached at 100 per cent in 2004 and beyond that. Foreign aid use as a tool of the bill of export-import gap has been closing down dramatically throughout 1990s and beyond. Therefore, we can say also that foreign aid is not necessary for

filling the saving-investment gap. And Table-6 it reveals that alleviation of poverty also cannot be attributed to the increased volume of aid since poverty had rather been increasing when the aid volume was higher and it started decreasing when aid was shrinking.

The HDI also improved at a faster rate when aid was relatively low. But, on the other hand, inequality of consumption had been increasing at a faster rate when the aid volume was relatively higher. All these facts and correlations point to the general proposition that the recent gradual development achievements of Bangladesh in the second half of the 1990s and beyond took place not due to increased aid volume rather in spite of a declining volume of aid.

But it is rather notable that these somewhat positive signs of development are not a projection of a long-term past trend. It is indeed true that in the early post independence period and also in the 1980s aid used to meet up three important gaps which kept the whole Bangladesh critically dependent on foreign aid. Firstly, supplied the crucial extra food aid to fill up the food gap; secondly, almost the entire ADP was financed by foreign aid; thirdly, as aid was sometimes given in terms of free hard currency<sup>20</sup>, which was helpful to underwrite the export-import gap. Again, especially in the latter half of the 1990s, the economy of Bangladesh has not only become more self-dependent with respect to ADP financing, but also was able to increase its food production at a rate higher than the population growth rate and as a result, her food gap declined chronologically and closed completely in FY 2000 and FY 2001<sup>21</sup>.

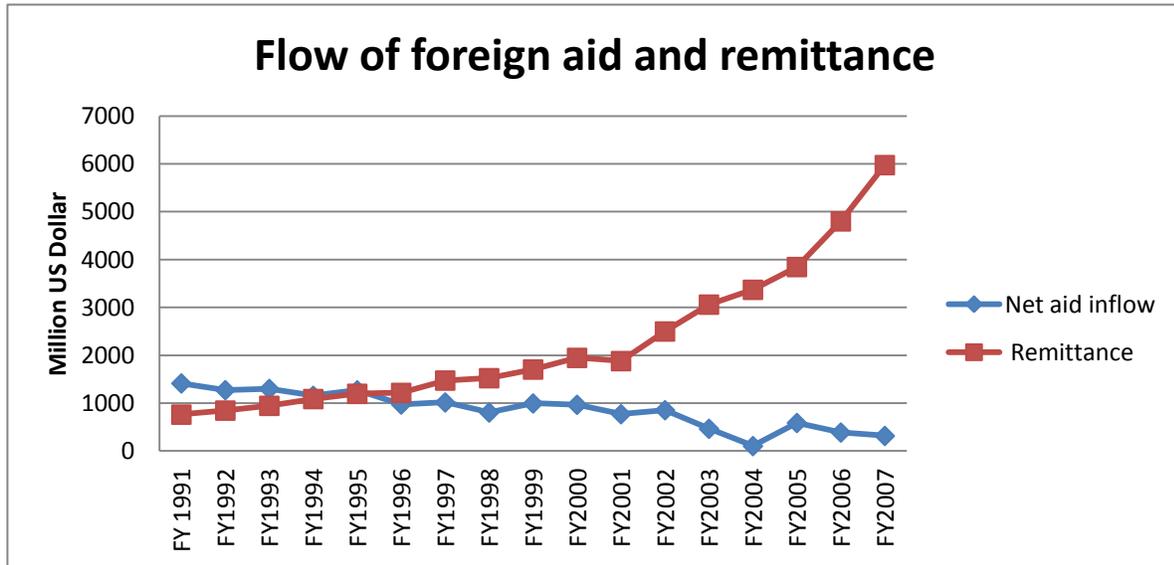
### **Figure-8**

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<sup>20</sup> as ESAF(Especially Enhanced Structural Facility) in 1980s in Bangladesh.

<sup>21</sup> Please see in the Table-1.

## Flow of foreign aid and remittance



**Source:** Data taken from “Bangladesh Economic Review, Ministry of Finance (2008)”.

Figure-8 also shows that, in comparison with net aid flow Bangladesh was able to open a new channel of foreign exchange earnings coming from the remittances of the unskilled migrant workers working different countries of the world, which also helped Bangladesh to significantly mitigate her foreign exchange constraints.

These sorts of domestic achievements enabled Bangladesh to establish a better development record in the last decade of last century in terms of certain selected indicators of development. A recent study of the relatively improved growth performance of the economy of Bangladesh in the latter half of the 1990s had actually attributed this higher growth 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 the peasant, small industrial enterprises and

vastly the migrant workers had been able to modestly lift the economy of Bangladesh in recent years but whether it will be sustainable, is a different question.<sup>22</sup>

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<sup>22</sup> In a recent study of growth process of the 1990s by Osmani et al. present this 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." [ Macro Economics of Poverty Reduction: The case of Bangladesh, UNDP, April 2003].

## CHAPTER 5

### 5 EFFECTS OF AID ON HDIS AND STRUCTURAL ADJUSTMENT POLICY (SAP)

#### 5.1 Effect of aid on two HDIs-Health and Education

##### 5.1.1 Health:

Bangladesh has well executed on a number of key health indicators since 1990s. Although, Bangladesh has only half the per capita income that of India, the infant mortality rate fell quickly in 1990s and is currently less than of India (World Bank, 2005). There is growing phenomenon that the vulnerable people possess a poor access to public health services, specifically maternal health services, even though these services are nominally free or subsidized (MOHFW 2005; Osman 2004a).

The public sector plays the leading role in financing in health sector and it is the only source of modern care affordable by the rural poor people of Bangladesh. From Figure-2 it is seen that only 1600 million US dollar has spent in health sector as foreign aid since from 1971 to 2007 in Bangladesh which is 8<sup>th</sup> in ranked from the top in terms of sector wise allocation.

There are 3 MDG goals under the issue of Health. These are :(a) MDG Goal 4- Reduce child mortality (b) MDG Goal 5- Improve maternal health and (c) MDG Goal 6-Combating HIV/AIDS, Malaria and other diseases.

According to the report<sup>23</sup>, it is estimated that around BD Tk. 322.64 billion equivalent to US\$ 4.71 billion would be needed under MDG4 on reducing child mortality between the year 2009 and 2015, at an average per capita cost of about BD Tk. 186.8 equivalent to US\$ 2.73 in 2009 growing to BD Tk. 365.3 (US\$ 5.34) in 2015. Again, the estimated cost around BD Tk.

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<sup>23</sup> 'Millennium Development Goals Needs Assessment & Costing, Bangladesh' published by General Economic Division, Planning Commission, and Government of the People's Republic of Bangladesh, July 2009

126.45 billion equivalent to US\$ 1.85 billion would be required under MDG 5 on improving maternal health between the year 2009-15, at an average per capita cost of about BD Tk. 76.3 ( US\$ 1.1) in 2009 growing up to BD Tk. 154.22 (US\$ 2.2) in the year 2015.

On the other hand, it is estimated that around BD Tk. 231.50 billion equivalent to US\$ 3.38 billion would be required under MDG 6 on combating HIV/AIDS, Malaria and other diseases between the year 2009 and 2015, at an average per capita cost of about BD Tk. 126.37 equivalent to US\$ 4.78 in the year 2015.

Under these circumstances, the total estimated costs for interventions in health covering three MDG goals- MDG4 on reducing child mortality, MDG5 on improving maternal health and MDG6 on combating HIV/AIDS, Malaria and other diseases including the health systems during the year 2009-2015 are BD Tk. 1459 billion equivalent to USD 21.33 billion at an average per capita costs about BD Tk. 865.7 equivalent to USD 12.6 in 2009 and about BD Tk. 1774.3 equivalent to USD 26 in 2015 with both foreign financing and government funding.

## MDG Goal 4-Reduce child mortality

**Table-9**

### Summary Statistics: MDG Goals, Targets, Indicators and Achievements

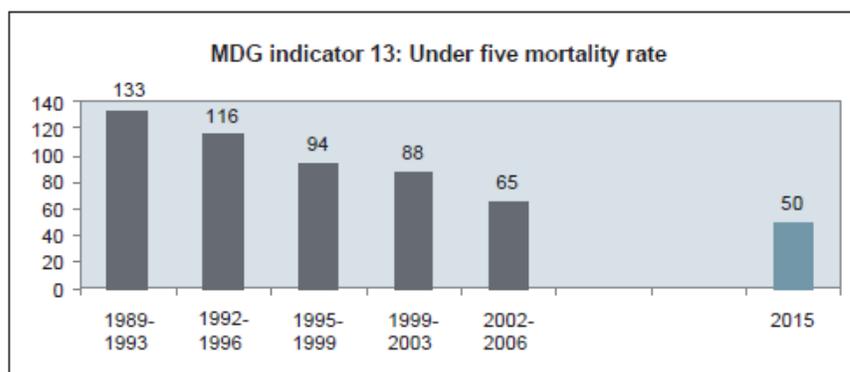
Goal	Target	Indicators	Base Year 1990-95	2005	2006	Target 2015	Status of Progress
<b>Goal4</b> Reduce Child Mortality	<b>Target5</b> Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	Under-five mortality rate	151	82	62	50	On-track
		Infant mortality rate	94	56	45	31	On-track
		Proportion of 1 year old children immunized against measles	54	69	87	100	On-track

**Source:** MDG mid Term Progress Report, SVRS, BBS Estimates

Bangladesh has attained significant progress in dropping the under-five mortality rate and infant mortality rate in the last two decades. Figure-9 shows that the under five mortality reduced from 133 to 94 for per 1000 lives from the year 1989 to 1999.

**Figure-9**

### Under five mortality rate



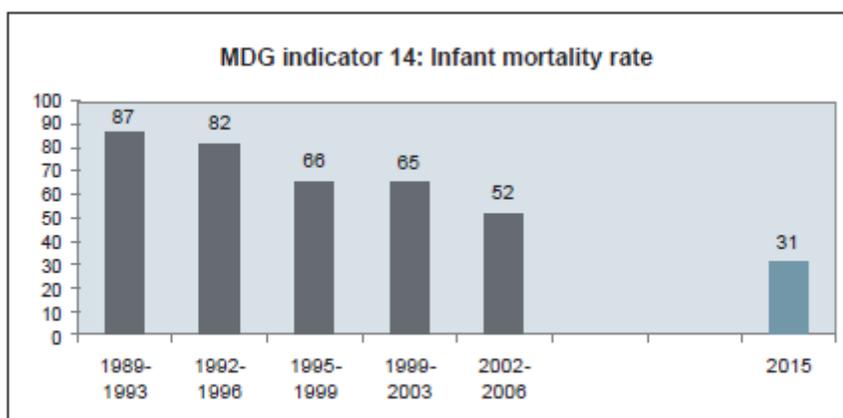
Source: BDHS, SVRS

Again from 1999 to 2006 the under-five mortality rate declined to 65 from 94 for per 1000 birth. As a result, Bangladesh will have to reduce the under-five mortality rate at the rate of only 2.6 percent per year to attain the MDG target level 50 per 1000 live birth<sup>24</sup> in 2015. Therefore, Bangladesh is on track towards mitigating the under-five mortality MDG target.

Like under-five mortality rate the infant mortality rate (mortality between zeros to one year old per thousand lives) also declined from 1990 to 2006 which is shown in Figure-10.

**Figure-10**

**Infant mortality rate**



Source: BDHS, SVRS

It also indicates that the infant mortality rate was 52 per 1000 live births in 2006, indicating that the trend of infant mortality rate is also on track to attain the MDG target of 31 per 1000 live birth<sup>25</sup> in 2015. But it is interesting to say that from Figure-8 when there were decreasing trend of foreign aid from the early 90s and the beginning of 21<sup>st</sup> century, then the MDG Goal-4 under health sector were achieving gradually with a good pace, which means in spite of less supply of

<sup>24</sup> As by Sample Vita Registration System (SVRS), the under five mortality was 151 per 1000 live births in 1991 and as it should reduce by two third by 2015, the MDG target in 50 per 1000 live birth.

<sup>25</sup> As by SVRS, the infant mortality in Bangladesh 94 per thousand live births, this should reduce to by 67% between 1991 and 2015. Therefore, the MDG target is 31 per thousand live births.

foreign aid there were having a positive achievement of MDG Goal 4 under health area. But, the challenges still ahead for achieving MDG Goal-4 are given below-

- The prevalence of malnutrition among children and women are very high which needs to be given special attention. In spite of taken different initiatives under National Nutrition Program (NNP), the low birth weight and continuous malnutrition are the important causes of both infant and under-five mortality.
- It is true that under-five mortality can be decreased considerably if the country can decrease the high neonatal mortality which is a major challenge of current health sector strategies.
- Safe delivery is very much needed for lessening child mortality. But the ratio of institutional delivery and births attended by trained personnel is very short in the country.

### MDG Goal 5-Improve maternal health

**Table-10**

#### Summary Statistics: MDG Goals, Targets, Indicators and Achievements

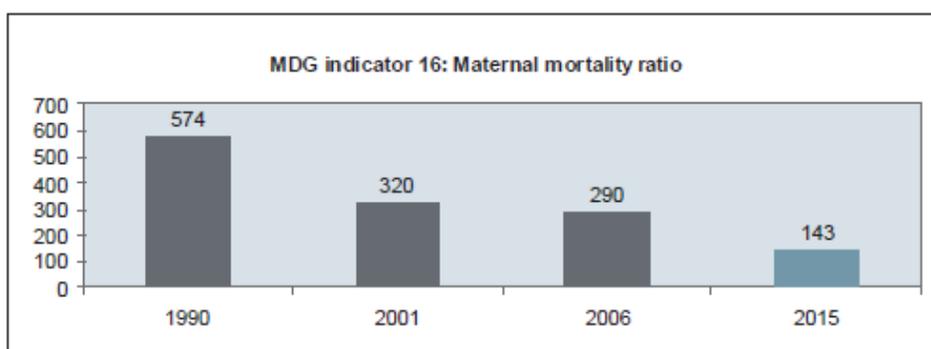
Goal	Target	Indicators	Base Year 1990-95	2005	2006	Target 2015	Status of Progress
Goal5 Improve maternal health	Target6 Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Maternal mortality ratio	574	320	290	143	Needs attention
		Proportion of births attended by skilled health personnel	5	12 (2005)	20	50	Needs attention

**Sources:** MDG Midterm Progress Report 2007, BBS, BDHS, SVRS

As per MDG 5, the maternal mortality ratio should be decreased by three-quarters between 1990 and 2015 in Bangladesh. Maternal mortality ratio has lessened from 574 per 100000 live births in 1991 to 320 per 100000 live births in 2001 while the estimated maternal mortality was 290 per 100000 live births (UNFPA) as shown in Table-10.

**Figure-11**

**Maternal mortality ratio**



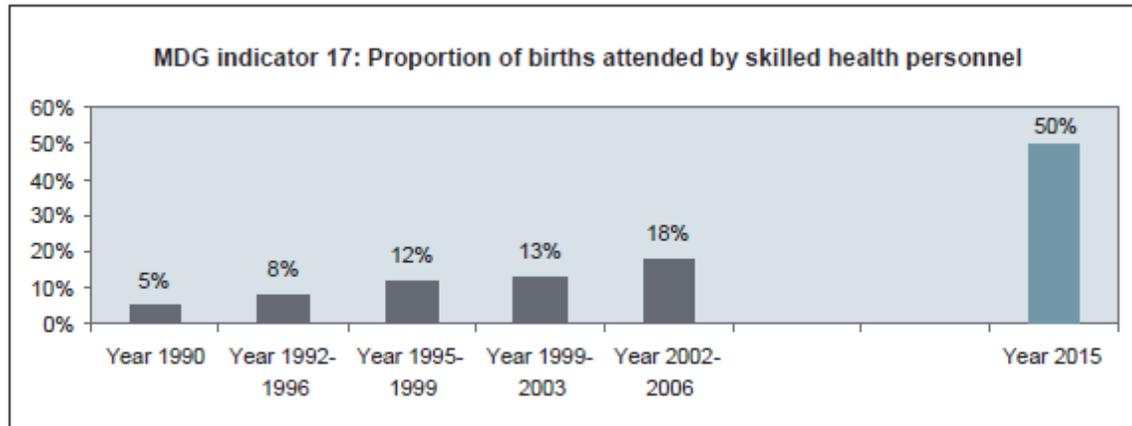
Source: SVRS, BDHS, UNFPA

From Figure-11, it shows that the country is more or less on track to meet the target of 143 per 100000 live births, by the year 2015.

The share of births delivered at health facility rose from 5% in 1989-93 to 18% in 2002-2006 at an annual average rate of 16.25% which is still considerably lower than the MDG target, which is 50% , in 2015 (In figure-12 ). That means, Bangladesh is still far lagging behind the MDG Goal of 2015, so it is highly needed to increase the present rate.

**Figure-12**

**Proportion of births attended by skilled health personnel**



Source: BDHS

Challenges still ahead to achieve the MDG Goal 5 are given below-

- In spite of taking various initiatives undertaken by the Government, improvement in number of births attended by trained personnel is not up to the mark. To achieve the MDG Goal rapid training for health attendees, increasing the infrastructure is needed.
- The accessibility of widespread emergency obstetric care (Em OC) especially in district and thana (sub-district) level are not up to the mark which needs to be more upgraded.

## MDG Goal 6- Combat HIV/AIDS, malaria other diseases

**Table-11**

### Summary Statistics: MDG Goals, Targets, Indicators and Achievements

Goal	Target	Indicators	Base Year 1990-95	2005	2006	Target 2015	Status of Progress
Goal6 Combat HIV/AIDS, malaria and other diseases	Target 7 :Have halted by 2015 and begun to reverse the spread of HIV/AIDS	HIV prevalence (per 100000 population)	0.005	0.173	0.319	Halting	Low Prevalence
		Condom use rate of CPR	4.30 (1999)	4.20 (2004)	4.50	-	Low Use
	Target 8 :Have halted by 2015 and begun to reverse incidence of malaria and other major diseases	Prevalence of malaria (per 100000 population)	43.00 (2000)	34.00	35.00	Halting	On-track
		Prevention of malaria (Death) (per 100000 population)	0.37 (2000)	0.34	0.17	Halting	On-track
		Prevalence of TB (per 100000 population)		406	391	Halting	On-track
		Prevention of TB (Death) (per 100000 population)		47.00	45.00	Halting	On-track

**Sources:** MDG Midterm Progress Report 2007, BBS, BDHS, SVRS

The HIV/AIDS prevalence among some of the high-risk groups is chronologically growing. According to the statistics, the HIV prevalence in Dhaka city has increased from 1.4% in 2000 to 7% in 2007.

**Table-12**

**List of malaria cases and deaths by different year**

Year	Cases	Deaths	Case fatality ratio (per 100,000)
2000	55,599	468	841
2001	55,646	470	846
2002	63,516	589	927
2003	55,909	577	1032
2004	59,514	498	837
2005	49,537	470	948
2006	34,346	442	1287
2007	50,634	239	472

**Source:** WHO, IECDR (Personal Communication)

Malaria is one of the major health problems and around 26 million citizens are at risk of malaria. There were 50,634 reported cases of malaria and 239 deaths due to malaria in 2007. The fatality case proportion was 472 per 100000 in the same year. Challenges still ahead to achieve the goal of MDG 6 are given below-

- The limitation of data on HIV/AIDS incidence is a major barrier in achieving the MDG target under MDG 6.
- Furthermore, cultural barriers and social stigma is another obstacle contributes to small scale of participation among general population in HIV/AIDS prevention program in Bangladesh.

### **5.1.2 Education**

Education is considered as one of the important Human Development Indicators to reduce poverty of any developing country. Speeding up economic growth and poverty reduction, along with human resources development (HRD), has been main strategic priorities of the Government's medium-term 5 year national development plans consisting of Third Plan (1985-1990) to the Fifth Plan (1997-2002). Besides, governance and economic growth, human development is one of the three pillars of government's current long-term National Poverty Reduction Strategy (NPRS) existing from 2006 to 2015.<sup>26</sup> The education strategy of NPRS focused on upgrading quality through improving participation in community level, management, delivery, and finance and assessment systems. Specific attention is provided to basic education and skills development. Assisted by the DP community, The Government of Bangladesh (GOB) also released the Poverty Reduction Strategy Paper (PRSP) to monitor the progress of the MDGs and NPRS, as the medium-term strategic agenda .As a result, GOB has put basic education as top in priority list, including primary education (PE) for grades 1-5 and non formal education (NFE), and afterward extended to cover grades 6-8 in secondary education (SE).

At the period of early 1990s, there only 35% people was literate and heavily tilted between males and females (44% vs. 22%) as well as between urban and rural areas. At the same time the PE gross enrollment rate (GER) was only 68% where the cycle dropout rate was around 60%.

In early 1990s, the adoption of Education for All (EFA) agenda indicated government's commitment to improve basic education, which provided the foundation for assistance from different development partners (DPs). In 2003, the EFA was developed to a national action plan. That plan was resultant from the GOB's long-term Perspective Development Plan (1980-2000), to aim at eradicating illiteracy by 2000 which subsequently altered to 2006 and then to 2015

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<sup>26</sup> GOB. 2005. Unlocking the Potential: National Strategy for Accelerated Poverty Reduction. Dhaka.

when it was failed to achieve. That is coinciding with the target of the Millennium Development Goals (MDGs).

With contribution external aid of Development Partner's in many sectors, the education share of 10% which is around half in comparison with biggest (Table-13).

**Table 13**

**Cumulative disbursement of all aid agencies combined by sector and year (1996-2006)**

Sector	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Cumulative Disbursements (1996-2006)	
											\$ million	%
Agriculture and Rural Dev.	115.70	96.40	109.70	111.60	127.80	97.00	128.80	118.70	82.40	99.40	1,087.50	8.43
Energy	283.20	272.00	277.50	333.60	190.80	262.10	293.20	296.70	337.20	266.00	2,812.30	21.81
Finance, Industry and Trade	3.50	3.00	4.50	22.30	44.70	22.00	21.20	13.90	47.90	62.30	245.30	1.90
Transport and Communications	325.80	244.50	202.00	289.30	332.70	402.30	231.10	231.20	242.30	76.80	2,578.00	19.99
Education	103.70	100.50	91.90	85.20	110.20	117.40	107.50	82.80	176.10	316.70	1,292.00	10.02
Health	50.10	46.80	152.00	128.20	137.50	117.60	90.50	77.80	56.70	173.90	1,031.10	8.00
Physical Planning and Housing	107.00	103.40	130.60	128.80	113.30	103.40	383.10	63.00	68.70	118.20	1,319.50	10.23
Others <sup>a</sup>	199.14	288.67	240.50	126.85	155.80	129.60	168.14	225.37	422.60	574.33	2,531.00	19.63
<b>Total</b>	<b>1,188.14</b>	<b>1,155.27</b>	<b>1,208.70</b>	<b>1,225.85</b>	<b>1,212.80</b>	<b>1,251.40</b>	<b>1,423.54</b>	<b>1,109.47</b>	<b>1,433.90</b>	<b>1,687.63</b>	<b>12,896.70</b>	<b>100.00</b>

Dev. = development.

<sup>a</sup> Including family welfare, social welfare, public administration, cyclone reconstruction, and private sector.

Source: Recalculated from data from the Ministry of Finance.

## MDG Goal 2 –Achieve Universal Primary Education

**Table-14**

### Summary Statistics: MDG Goals, Targets, Indicators and Achievement

Goal	Target	Indicators	Base Year 1990-95	2005	2007	Target 2015	Status of Progress
Goal 2 Achieve universal primary education	Target 3 Ensure that , by 2015, children everywhere, boys and girls alike, will be able to complete a full course or primary schooling	Net enrollment ratio in primary education	60.50	87.20	91.10	100	On-track
		Proportion of pupils starting grade 1 who reach grade 5	43.00	52.90	51.90	100	Needs attention
		Literacy rate of 15-24 year olds	36.90	51.50	53.50	100	Needs attention

**Source:** DPE 2006, MDG Mid-term Progress Report 2007

Bangladesh possesses one of the largest primary education systems in the world with as around 81,434 educational institutions of 10 different kinds like Govt. Primary School, Kindergarten, community school, NGO Schools etc. The ratios of boys and girls enrolled at the primary level are 49.3% and 50.7% respectively. At present, around 500 NGOs are running 48,855 learning centers which providing primary education to 10,24,495 girls and 6,06,802 boys in Bangladesh.

### **Progress made so far in achieving MDG 2 Goal- Universal Primary Education**

#### **Indicator 1 (of MDG 2 Goal): Net Enrolment Rate (NER)**

According to the Millennium Development Goals- Bangladesh Progress Report- February 2005 jointly published by United Nations and Bangladesh Government that in order to estimate the

cost of attaining MDG 2 goal, three population scenarios were considered- population stabilizing by the year 2035, 2040, and 2050 respectively. The financing was derived from three primary sources which were households, government and external. At the most optimistic view of population stabilization by 2035, to attain MDG goal 2 near about 17 million children will have to be covered in 2005, and in 2015, 213 million will have to achieve.

Under these circumstances, if population stabilizes by 2035, the total primary education programme cost will need US\$928 million in 2005, steadily rising to an amount of \$ 1.7 billion in the year 2015. Of this expenditure domestic financing must cover US\$ 564 million in the year 2005, growing to over one billion US dollars in the year 2015. The parallel external financing will be required as US\$ 364 million dollars in the year 2005, culminating at US\$ 666 million in 2015.

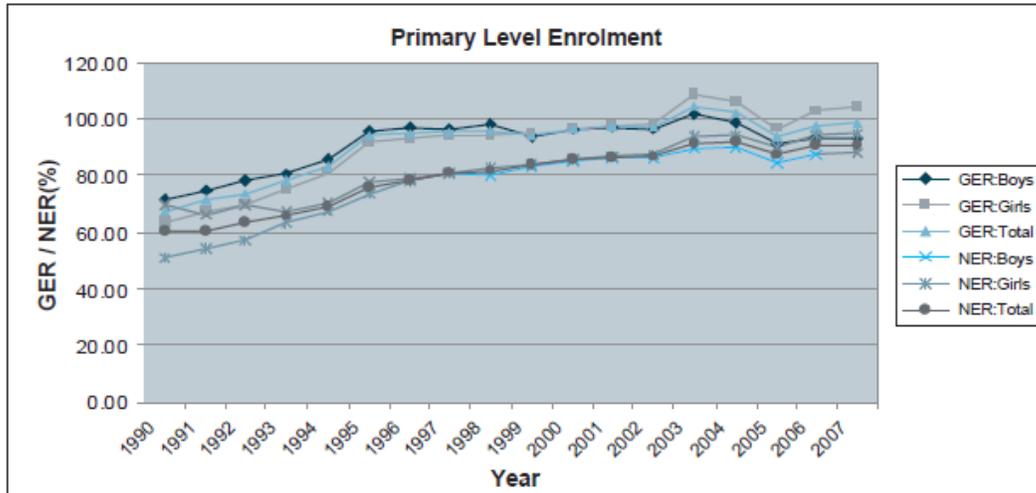
The entrance condition at the primary education level is generally evaluated by using two common indicators- one is Gross Enrolment Rate (GER) and another is Net Enrolment Rate (NER).

The GER computation considers all children or young people enrolled in a given education stage regardless of age, while the NER judges on the basis of only the primary school age group children (6-10 years).

The Net Enrolment Rate refers to the number of students in official age group in a cycle, grade or level of education in a given school year, expressed as a percentage of the corresponding population of appropriate official age group. Though the GER has wider coverage, NER gives a solid picture of the ratio of the specific age group children (e.g. 6-10 years old group) actually enrolled at the primary level.

**Figure 13**

**Primary school enrolment**



Source: DPE, 2008

**Present status and trend of NER-**

As per the School Survey Report 2008, the NER was 91.1% (with 94.7 percent for the girls) in 2007 while 60.48% in 1990. An important aspect of the progress in Net Enrollment Rate (NER) growth is quicker and relatively steady growth in girls' enrolment compared to that for boys. In 2006, the NER for boys and girls was estimated at 87.60% and 94.50% respectively, which was 69.43% for boys and 50.76% for girls in 1990. It is important to say here that the recent NER situation for boys and girls however showed the attainment of gender parity at the primary level. The rate of growth of NER for girls picked up in 1993 and resulted in a situation when the share of boys was overtaken by girls in 1997.

**Present status and trend of GER-**

As per the latest available database (Department of Primary Education, MIS 2008), the overall GER is computed to be 98.8% with 93.4% for boys and 104.6% for girls in 2007 while it was

only 63.26% in 1990. On the basis of these achievements helped Bangladesh keeping in well on track in fulfilling the 1<sup>st</sup> indicator of MDG2 (Figure-13).

**Indicator 2 (of MDG 2 Goal): Proportion of pupils starting grade 1 who reach grade 5**

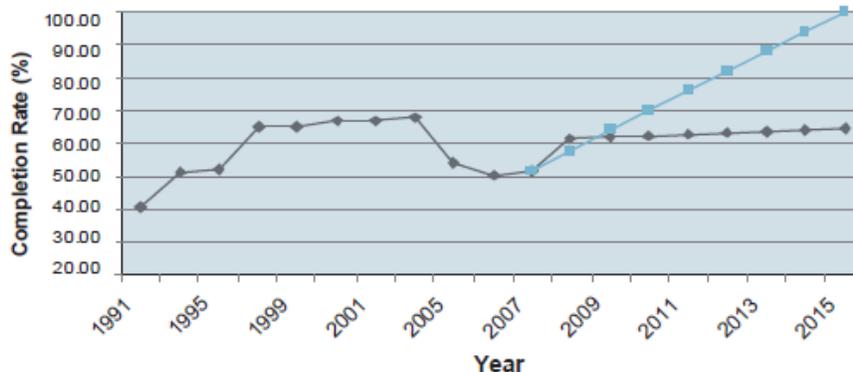
Primary school completion rate has set one of the three indicators for attaining the target fix for achieving universal primary education .i.e. MDG 2 Goal which is set for 100% achieving by the year 2015. Usually this is measured by as the number of pupils starting grade 1 and completing grade 5.

**Present trend and status of Indicator 2 of MDG 2 Goal**

In comparison with the progress of NER and GER, in the area of primary cycle completion is not quite satisfactory. In 1990, the primary cycle completion rate or survival rate was only 40%. According to the statistics, in 2005, the dropout rate and the survival rate was only 47.2% and 52.9% respectively. As per the last two school surveys (2006 and 2007) survival rate is shown to have fluctuated very few, i.e. 50.2% and 51.9% in 2006 and 2007 respectively. Survival rates of primary level students from grade 1 to grade 5 are very important for a sustainable level of education.

**Figure 14**

**Primary cycle completion rate**



Source: DPE

The current trend growth rate of primary school completion is estimated as 0.47%. If this growth trend is sustained till the end of the schedule time (2015), Bangladesh would be able to achieve only 65% completion rate that is very low the set target of 100% by the year 2015. It needs to perform the 11.6% yearly growth rate to attain the 100% primary school completion rate by 2015 which is very much challenging task for a country like Bangladesh.

**Indicator 3 (of MDG 2 Goal): Literacy rate of 15-24 years old**

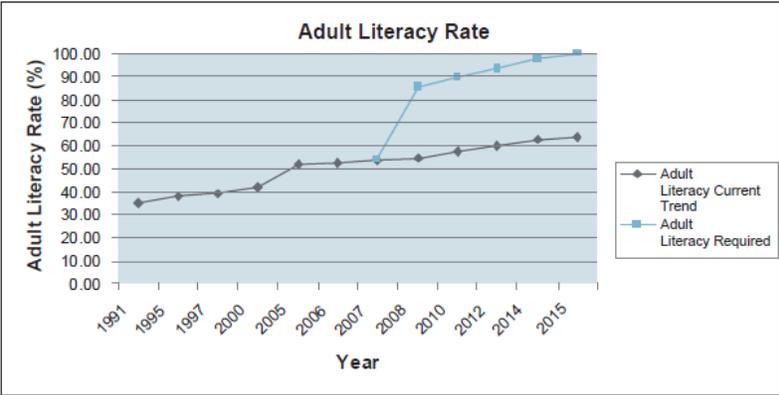
Adult literacy and non formal education programs provide not only persuade in writing, reading and calculation but also provide skills and information to assists ones to obtain employment, to improve productivity and to achieve a better quality of life. According to the data of UNESCO, in 2007, the adult literacy rate was 53.7% with 48% for female and 58.7% for male.

**Present trend and status of Indicator 3 of MDG 2 Goal**

There is about 1.3% of estimated trend of growth rate of adult literacy at present in Bangladesh. If this growth trend continues the adult literacy rate will be reached only to 63.8% which is a huge shortfall of 36.2% of reaching the MDG target of achieving 100% (Figure 14).

**Figure 15**

**Current trend and required growth in adult literacy rate**



The required average annual growth rate over the remaining years is estimated as 10.7% to achieve the MDG Target 100% by the year 2015 which is so challenging for Bangladesh.

Therefore, we can say that though Bangladesh achieved some of the MDG Goals under both health and education sector but in many cases it is still far behind the MDG set target by the year 2015.

## **5.2 Aid induced Structural Adjustment Policies (SAP) and its effect on Poverty:**

The effect of aid on poverty is not only a function of aggregate volume of aid and high growth but also is largely contingent on the types of aid, degree of productive utilization of aid, the nature of the aid delivery mechanism and the nature of the macroeconomic policy framework of the recipient state and finally depends on the level of the capacity and commitment of the state to implement pro-poor macro policies.

At present, there is far more significant evidence in favor of the argument that not only in the case of Bangladesh but also in many other cases foreign aid, specially that part of it which is mediated by WB and IMF, has induced a specific set of policies namely Structural Adjustment Policies (SAPs) has generally resulted in a poor economic and social outcomes with only a few exception. These policies have resulted in increased inequality, increased joblessness and no or little improvement in growth and poverty. At least, in some countries SAP created to violent social instability (Joseph E. Stiglitz, 2002). SAP was introduced in Bangladesh during the martial law regime in the FY 1984. Initially, the main focus of SAP was on more “Privatization”, more “Liberalization” as well as more “Austerity” in the public sector. The immediate effects of SAP were neither beneficial to growth nor helpful to reducing poverty.<sup>27</sup> In the 1990s SAP programs were taken particularly emphasizing on poverty reduction through human resource development

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<sup>27</sup> Sobhan, 1991

and various supplementary safety net programs to mitigate the short-run negative effects of SAP. By using these new opportunities it was hoped that the poor would be able to improve their human-capabilities. They would have raised access to education and health services which would consequently enable them to marketise their newly acquired incremental physical and mental capabilities and as a result increase their income and wealth. While microcredit turned out to be one of the tools in this new toolbox to combat poverty along with the old SAP measures, it should be kept in mind that it figured nowhere in the arsenal of SAP tools or even found a space in the financial sector reforms involved as part of the SAP.

The immediate impact of “Privatization” was transformation of assets from the public sector to the richer sections of the private sector. Unfortunately, most of the new owners proved incapable of increasing the performance of the privatized industries and eventually these industries were shut down contributing to the enhancement of unemployment (Sobhan et al. 1998).

Similarly, liberalization and devaluation also failed to improve industrial exports with the sole exception of the garments industry, which, in any case, had a limited effect on the national economy due to its incapacity to extend considerable backward linkages. Rather, devaluation had augmented the cost of imports generally, which affected the profit and the amount of reinvestible surplus accruing to all those import and export substituting industries, which had a high import content in their venture.

In contrast, SAP induced an indiscriminate and fast pace of tariff withdrawal which struck deathblow to many native import-substituting industries, many of which had to enjoy sudden and uneven competition with the foreign imports in the open market and failed to survive. According to a nation-wide survey held in Bangladesh from March to June, 2003 on the private sector enterprises reveal that within around six million small and medium enterprises, of which 0.6

million had been shut down during the last five years even as around two and a half million workers had to drop their jobs(MIDAS 2003).

In Bangladesh, the critiques of SAP also argue that the effect of the human development policies lately included within SAP is bound to be very restricted due to the uneven competition in the markets and unequal ownership and access to resources by the poor. It is also considerable in Bangladesh that SAP encouraged privatization programmes successfully dismantled the state-manufacturing sector which at last not ran efficiently, but privatization also did not result in a healthy rise of a rejuvenated private sector. As a result, the main outcome of this policy was the sudden increase of a vast crowd of jobless industrial workers who then had to defray their livings mostly from the low paying informal service sector. As soon as the initial capital that they had achieved at the time of their retirement from their formal jobs was eaten up, they were pauperized. As a result, during the late 1990s in Bangladesh there was actually not only a fall in the absolute level of employment in the manufacturing sector but also a general deceleration in the real wage workers. Therefore, the optimism expressed in a WB document in where mentioned that "... by expanding opportunities for formal employment, reforms would benefit the vast majority of the poor" has been proved to be wrong.<sup>28</sup>

When SAP was captivating its toll in the industrial sector, side-by-side a new group of donor-driven NGOs had grown up in Bangladesh which was slowly taking over at the grassroots level engaging in various service providing functions of the country. Though the NGOs had generally claimed to be more efficient than the state in the fields of microcredit, health and education, but among them there have already grown activities to grasp power and wealth in the hands of large corporate NGOs i.e. GRAMEEN BANK, BRAC, ASA, etc. A general question may be arisen

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<sup>28</sup> Bangladesh, Recent Economic Developments and Priority Reform Agenda for Rapid Growth, Report No. 13875-BD. 1995.

that who are the owners of these accumulated corporate assets of such type of big NGOs, especially about the accountability and transparency of their budgets which have recently become a controversial issue in the public domain. The reason of this as they accumulated actually a portion of their assets by using public money (i.e. that portion of aid which was channelized through some NGOs) and public savings (the savings activities of the millions of micro savers).<sup>29</sup>

In one scence the access to the social service by the poor has been increased in the 1990s but the quality of the services provided by them has considered really and discriminately low. According to a nation-wide survey namely “Education Watch 2000” by *Gono Shakhorota Abhijan* (a local NGO) on 186 primary schools (Government, Private and Informal) with 2509 students. That revealed that only 1 percent of government school students, 0.9 per cent of private and 0.6 percent of informal school students had been able to show the required level of competence/mastery in all the 27 tests and on average a student was able to answer correctly only 46.5 percent of the entire test questions asked in these 27 tests.<sup>30</sup> Such a huge rate of drop out and with a half-baked education, the poor really were not able to use the extensive but thin knowledge gain effectively for reducing the poverty.

More importantly, the 25 per cent poorest of the poor had always remained out of the reach of both state and NGOs. This has been forcefully brought forth in the latest report on the “Chronic Poverty in Bangladesh.” After an elaborate analysis, the author mentioned that “Chronic Poverty by its very nature cannot be eliminated with ad-hoc measures, such as ‘social safety nets’. One must look for long term economic measures for addressing the problems.<sup>31</sup> As a result, in Bangladesh even the supporters of the SAP have ultimately expressed doubts and also become

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<sup>29</sup> Credit and Development Forum Statistics, Vol. 10, June, 2000.

<sup>30</sup> Samir R. Nath and A. Mustaque R. Chowdhury (eds.), Vol. 2. 2001, p.117.

<sup>31</sup> Sen and Hulme 2004,p. 188.

skeptical about SAP. As for example, some of the critiques with in the country made complain that the three continuing major policy thrusts of SAP, namely, “Privatization, Liberalization and Tight Government Expenditure Policy” were followed in Bangladesh at such a pace and sequence that they were creating more problems than solutions. <sup>ii</sup>

Perhaps, one of the most informative ways to judge the overall effect of SAP on poverty is to compare the trends of poverty in the pre-SAP period with that of the post-SAP period. This type of before-after comparison models is always filled with the problem of keeping other relevant parameters constant. There may be another extra problem of getting comparable estimates of poverty to estimate the trend of poverty for some relevant periods. Naturally, we could not do a lot with respect to the first problem but can just say that in the pre-SAP period Bangladesh began with a more weak payments condition, a very high prevalence of poverty, much higher reliance on aid, a large public sector and an inward looking policy dynamics. But experiences tell that from FY 1984 onwards the SAP policies were exactly directed towards dismantling the public sector and opening up the economy at a quick pace. That twin policy was to emphasize on exports whilst dropping all kinds of tariffs and subsidies were also an important part of the policy package. Therefore, during the post-SAP period our economy turned out to be far less vulnerable quite rapidly with respect to Balance of Payment situation, more and more outward-looking, far less dependent on aid and also ended up with significantly condensed public sector. But the question is what happened to poverty? Poverty had, of course, turned down in the post-SAP period, but too had been the case during the pre-SAP period too. Therefore, to answer this question, we will have to compare specifically the trend rates of decline in poverty of the two relevant periods. In Bangladesh, SAP actually passed through three stages. The 1<sup>st</sup> phase started in 1982 when Bangladesh was opened to policy base lending from WB which had continued up to 1987. The 2<sup>nd</sup> phase (1987-1991) started with the initiation of the three year long Structural

Adjustment Facility (SAF) by the IMF and, the 3<sup>rd</sup> phase was began from 1992 preceded by the IMF sponsored ESAF. At present it is true that the SAP has been continued within the purview of the so-called PRSP.<sup>32</sup> To keep this old agenda intact within the PRSP, World Bank has taken a new strategy, especially since 1995 to emphasize on the second generation reforms including governance reforms, reduction of poverty, safety net programs, human resource development, etc.

Fortunately, we had with us consistent and comparable poverty estimates in both rural and urban sectors for at least two definite periods. The first period happened for seven years i.e. from FY 1974 to FY 1982. Actually this period coincided with the “Pre-SAP” period. The second period also occurred for a period of seven years i.e. from FY 1984 to FY 1996. This period can be considered as the “Post-SAP” period. The comparison of poverty trends between FY 1974-FY1982 and FY1984-FY 1996 are given in Table-15.

**Table-15**

**Comparison of poverty trends between FY1974-FY1982 and FY 1984-FY 1996**

Sector	Change of Percentage Point in Per Year	
	FY 1974-FY1982	FY1984-FY1996
Urban	2.97	2.93
Rural	1.10	0.40
National	1.29	0.92

**Source:** BIDS (2000)

Table-8 shows that in the pre-SAP period generally the pace of reduction of rural, urban and national poverty was higher than those in the post-SAP period.

It is the fact that the main limitations of SAP in Bangladesh associated with its inability to address the basic issue of redistribution of land, capital, assets and political power in favor of the

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<sup>32</sup> Poverty Reduction Strategic Paper is a World Bank new so-called prescription for poverty alleviation policy in developing countries especially in third world.

poor.<sup>33</sup> It is difficult for external donors to control this type of distributional constraints, where they depend mainly on the domestic balance of political power. What do donors can do at best is not to support an anti poor or a non-democratic regime with increased aid flows. But in case of Bangladesh, the donor-driven SAP strategy generally has not only failed to appreciate the pre-existing distributional constraint of unequal market power and unequal asset base but also provided lavish aid to the non-democratic regime of General Ershad<sup>34</sup> till his last days where it financed upto 112 percent of the national development budget. Donor's aid had also failed to address the difficulties of the extreme poor who remained unreachable to education or health services or microcredit because they remained preoccupied with the problem of subsistence and minimum security of life. Traditional safety net programmes have not been designed to reach these groups.

### **5.3 Findings of an international study on SAP regarding poverty:**

World Bank had launched the so-called “Structural Adjustment Loans (SAL)” to initiate a neo-liberal strategy of development on many aid recipient countries including Bangladesh since mid-1980s. But it was clear in 1990 that SAL has not succeeded to improve economic growth and investment in most of the aid recipient countries. Internationally famous scholars such as Paul Mosly, John Toye and John Harrigan had accomplished an assessment of the consequences of SAL in 1991 by using the three different tactics e.g. simple tabular comparison of SAL and non-SAL countries, Regression based results to separate the SAL effects and Model Based simulation exercises of different SAL policies on particular countries. The following common conclusions were drawn from all those three methods of analysis:

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<sup>33</sup> BIDS Journal-2005.p-21

<sup>34</sup> An autocratic President who ruled the country from 1981 to 1990.

- The influence of structural adjustment program on aggregate investment is almost everywhere negative.
- The influence of structural adjustment program on national income and on financial flows from overseas is on balance neutral.
- The implementation of structural adjustment program under bank guidance almost everywhere had a favorable impact on the growth of export (Mosley *et al.* 1991).

At that time, the study had also suggested that to going slow with the SAL in a more practical style which was not heeded by the World Bank. Some of their recommendations are also got true even today for Bangladesh:

- Particularly in poorer countries the Structural Adjustment Policies (SAP), 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.
- The policy changes on which program finance is contingent should be introduced where possible, on an experimental basis.
- The models which the Bank uses for forecasting of the macroeconomic impact of its recommended policy changes should be lodged with the recipient in the form of a micro-computer disc in order that the recipient can stimulate the effect of his own preferred policies (Mosley *et al.* 1991, p.305).

Despite of the late efforts by the IMF and WB to give a human face to their original package of “SAP”, no less than the ex-chief economist of the World Bank had offered the following sharp 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 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 inflows and 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 pc to 80 pc!! The third step is market based pricing and with this slogan actually prices of food; water and cooking gas are increased. This leads to the “IMF RIOT”. In Indonesia 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 4 is PRSP that means Free Trade. Actually like the Opium war in the 19<sup>th</sup> 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 has become private exclusive property and useless you pay millions of dollars you cannot reproduce or use them.”<sup>35</sup> [The Daily Star (Bangladesh), 23/12/2001, reprinted from Observer, London, 10/10/2001]

The above mentioned criticism from an ex-high official of World Bank is not without relevance to Bangladesh. More specifically, it is true for Bangladesh also.

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<sup>35</sup> The Daily Star (Bangladesh), 23/12/2001, reprinted from The Observer, London, 10/10/2001.

## CHAPTER 6

### 6 CONCLUSIONS AND RECOMMENDATIONS

In our previous discussions, it is tried to give a brief explanation about, 1) the dependency of food aid; commodity aid; and project aid. 2) Trends of aid flow in Bangladesh and the changing pattern of aid disbursement. 3) Analysis of the correlation between aid-growth-poverty-equity-Human Development. Had Bangladesh really benefitted by the foreign aid to alleviate the poverty?

The findings revealed that foreign aid to Bangladesh was much higher in the history of the nation during the period 1972 to 1990. The country received huge sum of resources during that period from outside. As Bangladesh got independence in 1971 from Pakistan by a long war so naturally foreign aid was badly needed to build up the dilapidated and war ravaged country. The then governments tried maximum efforts to raise foreign aid. Different countries including donor agencies showed their strong interest to pump their aid in that period in the form of food aid, commodity aid and project aid. But after the end of nineties both food and commodity aid have fallen sharply and the project aid secured is more than 90 percent of total aid.

However, the economy had been remained sluggish throughout the whole period up to 1990s. It was also observed that the basic economic indicators like GNP, GDP Growth, national savings, foreign remittance, trade balance and others observed to be worst up to 1990s. As a result, the huge amount of foreign aid in that period (from 1972 to early 1990s) did not able to make any significant change on the reduction of poverty as well as the economy.

But the question is why foreign aid has failed Bangladesh like many other poor countries of the world? There is no single and foremost certain reasons could not be ascertained to answer this question. With so many factors we can consider the following common reasons-‘corruption is

one of the main reasons. Government procurement is not free and transparent which may create main corruption in donor funded projects. Usually there is a huge involvement of money in those projects.<sup>36</sup> Another reason is the lack of harmonization of policies set by the different donors which hampered to set up the priority of development activities. Another reason is “A major beneficiary of the aid regime in the 1980s was the class of aid intermediaries who indented the procurement of equipment and inputs financed by aid. This was a powerful lobby in the 1980s which was in conflict with the growth of a domestic manufacturing sector and any agenda for greater self-reliance. This class remains alive and well even today.”<sup>37</sup>

On the other hand, from early 1990s and onward the inflow and disbursement of foreign aid was gradually declined .But the foreign remittance, earned by the Non Resident Bangladeshis (NRBs) who worked abroad, was increased gradually in 1990s and onward. Despite, the low level of foreign aid after 1990s, the growth rate and the economy of Bangladesh recorded significant change. The basic economic indicators as well as the rate of poverty reduction showed impressive improvement when there is a low level of foreign aid during 1990s and onward.

It revealed that HDI had also consistently moved upward in spite of the decreasing trend of net aid flow. It also revealed that HDI improved comparatively faster rate, especially in the second half of the 1990s and onward when the annual net aid flow was reducing at faster rate.

Although Bangladesh has achieved a considerable health gains in infant mortality and life expectancy but challenges still remain to decline the maternal mortality, low birth weight with half of all babies born to be of low birth weight and also ranks fairly high in consideration with malnutrition among women and children in the world. In terms of health outcomes, there are

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<sup>36</sup> ‘Does Bangladesh use foreign aid wisely? By-Jane Melik and Duncan Bartett, BBC World Service.

<sup>37</sup> ‘The Political Economy of Aid’-By Rehman Sobhan

sharp inequalities between men and women, between the rich and the poor and between rural and urban areas.

While admission has improved, low quality as well as efficiency of education remains an alarming challenge faced by Bangladesh including low female literacy and adult literacy (i.e. 49% and 55% respectively) with high cycle dropout rates. These indicate low level of quality and high wastage of education delivery as DPs' combined performance did not work well in terms of institutional capacity, improving the quality of education and to some extent equity in access.

Structural Adjustment Policies (SAPs) mediated by WB and IMF had failed to address the difficulties of the extreme poor who remained unreachable to education or health services or microcredit because they remained preoccupied with the problem of subsistence and minimum security of life.

From data and discussions it is revealed that the indicators of development e.g. inequality, growth, poverty, and human development were showing improved development achievements in spite of the decline in foreign aid. It also showed that the pace of economic growth, improvement in HDI and reduction of poverty were all taking place at a faster rate when the absolute aid inflow had come down significantly.

My final conclusion is that though foreign aid has its own impact but in case of Bangladesh we could not give more weight for poverty alleviation. There are so many internal factors and causal which helped Bangladesh to improve the HDI in alleviation of poverty.

Bangladesh did not have a home-grown, holistic, dynamic, strategic framework to combat poverty. Rather, the agenda for poverty alleviation had remained largely donor-driven and thus potentially sustainable. What has served as a strategy for poverty

alleviation in Bangladesh has been like more of a large number of donor funded micro-projects supplemented by discrete domestically financed projects. Therefore, all donor commitments and programs for poverty alleviation are now needed including policy reforms, action programs, institutions building, domestic capacity building and good governance which will address jointly to alleviate the poverty. Furthermore, donors need to re-orient their aid programs in response to the changes effected by the government of Bangladesh. Attention should shift from the dominant focus on projects and particular operations to broader macroeconomic considerations which today remain neglected.

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<sup>i</sup> The Millennium Development Goals (MDGs) are eight goals to be achieved by 2015 that respond to the world's main development challenges. The MDGs are drawn from the actions and targets contained in the Millennium Declaration that was adopted by 189 nations-and signed by 147 heads of state and governments during the UN Millennium Summit September 2000. The eight MDGs goal are:

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empowerment of women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a Global Partnership for Development

<sup>ii</sup> The long time Finance Minister of Bangladesh Mr. M. Saifur Rahman, who was a staunch supporters of SAP, had lamented the bitter comments about the donors, “ I would like to conclude by saying that in formulating adjustment policies, the country’s specific situation and condition has 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.”

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