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CRITICAL PERSPECTIVES ON AID IN BANGLADESH

K A.S. Murshid

ABSTRACT

There is renewed interest both amongst recipients and donors on the impact of foreign aid on development, especially in the context of a clearly less favourable aid climate today. Foreign aid can encourage countries to adopt positive political and economic policies if that is its principal objective. But it may, conversely, undermine development if it is given to countries that are unlikely or unwilling to make necessary political, economic and governance reforms. The literature on foreign aid falls broadly in two categories: A substantial empirical literature attempts to analyse the effects of foreign aid on economic growth using statistical models and aggregate data for large numbers of countries. A second body of literature attempts to understand the role of foreign aid in development in a more qualitative fashion, relying on in-depth research or case studies of particular foreign aid programs. The empirical literature thus far is inconclusive. The qualitative literature generally argues that foreign aid can help development if the policy environment is favourable to growth. This paper is an attempt to review the experience of Bangladesh—a major aid recipient—in terms of the effectiveness and efficiency with which aid has been used in the country's efforts to develop. The study provides a 'qualitative' analysis based on an array of evidence in the form of studies, reports, evaluations and documents based on information from the major aid agencies and research institutes in Bangladesh.

Introduction: Development and the Role of Foreign Aid

Successful long-term development is a complex process that depends on many factors. Two themes that seem particularly important are the quality of governance in a country and the adoption of economic policies that promote growth and contribute significantly to development. Compared with these two factors, foreign aid is much less important in determining whether a country will achieve long-term economic growth and development. However, foreign aid is likely to be the most helpful when it is given to countries that maintain stable, honest governments and have adopted market-oriented, outward-looking economic policies. Foreign aid can encourage countries to adopt positive political and economic policies if that is its principal objective. But it may, conversely, undermine development if it is given to countries that are unlikely or unwilling to make necessary political, economic and governance reforms.

Three characteristics seem key:

- Countries that have enjoyed a high measure of political stability and social order are more likely to use foreign assistance more efficiently compared to countries that have experienced instability and chaos.
- The less self-serving the officials of a developing-country government, the

more likely it is that that country will utilise foreign aid well in its quest for long-term development.

- Successful development (using domestic or foreign resources) usually depends on the existence of functioning governmental institutions that can support a growing economy.

The literature that has evaluated the role of foreign aid in development falls into two broad categories. A substantial empirical literature attempts to analyse the effects of foreign aid on economic growth using statistical models and aggregate data for large numbers of countries. A second body of literature attempts to understand the role of foreign aid in development in a more qualitative fashion, relying on in-depth research or case studies of particular foreign aid programs. The empirical literature thus far is inconclusive. The qualitative literature generally argues that foreign aid can help development if the policy environment is favourable to growth.

This paper is an attempt to review the experience of Bangladesh -- a major aid recipient -- in terms of the effectiveness and efficiency with which aid has been used in the country's efforts to develop. The study would fall in the category of a 'qualitative' analysis based on an array of evidence in the form of studies, reports, evaluations and documents based on information from the major aid agencies and research institutes in Bangladesh.

The rest of the paper is organised as follows: The next section provides a brief literature review followed by a discussion on the volume and pattern of development assistance to Bangladesh, a critical look at the efficiency and effectiveness of aid, and a brief note on civil society perceptions. The paper concludes with some comments and observations

Brief Literature Review

Evidence from Statistical Studies

Ever since the path breaking analysis by Hollis Chenery and Alan Strout, (1966) there has been considerable interest in what might be called the econometrics of foreign aid. The authors developed the "two-gap" model of development. According to that model, to achieve a given growth rate, a developing country must have adequate savings for investment and sufficient foreign exchange to buy the capital goods necessary for development from the international market. If a country is deficient in either area, foreign aid can fill the gap either by providing foreign savings to supplement inadequate domestic savings or by providing the necessary foreign exchange to buy the goods and services in the international market that the country cannot produce on its own. Thus, by specifying a particular growth rate and holding productivity constant, one can determine the amount of aid needed to achieve that growth by subtracting the domestic savings rate from the growth rate or subtracting export earnings from import requirements. The larger of the two gaps is the amount of foreign aid the country needs to achieve the given growth rate. Foreign aid will "fill two gaps at once" because foreign aid provided as foreign exchange can be used to buy imported capital goods and to supplement domestic saving directly.

Chenery and Strout (1966) analyzed data for 50 developing nations. For each country, they measured the growth rate of GNP, the rate of investment, the rate of domestic savings, and the propensity to export and import. Using those values, they identified countries that were likely to benefit from an infusion of external resources because their own savings were inadequate, as well as others for which greater aid might be of limited value. But Chenery and Strout assumed that foreign assistance would be productive if inadequate savings or foreign exchange was the constraint on growth.

A number of other economists have attempted to measure statistically the extent to which foreign aid encourages economic development. Two separate, though related, issues are of interest to analysts and

policymakers: Do the projects funded through foreign assistance programs yield a positive economic return, and do the projects achieve the objective set for them? To explore the first issue, the multilateral lending agencies, for example, regularly assess the returns on the projects funded by their loans and periodically compile them into an overall assessment of effectiveness. According to their analyses, foreign aid projects, as a whole, appear to yield favourable rates of return. A 1995 study by the World Bank found an average rate of return of 17 percent on projects completed between 1990 and 1994. Assessments by the Asian Development Bank and the Inter-American Development Bank have yielded similar results. To determine whether projects achieve their objectives--for example, the construction of a road or hospital--a team of researchers reviewed project evaluations from the early 1980s. They concluded that projects, on average, produce satisfactory results. As evidence, they cited the findings of eight major agencies that had evaluated a large number of their projects. Their evaluations indicated that two-thirds to three-quarters of the projects broadly achieved their objectives (Robert Cassen and others, 1986).

Not all analysts would accept project results as definitive proof of the effectiveness of aid. Project evaluations, though useful in judging the performance of lending institutions and their staff, do not capture the overall economic effects of aid, whether positive or negative. Proponents of aid might argue that the transfer of technology and knowledge that accompanies many major aid efforts could have important spillover benefits that the agencies' assessments do not capture. For instance, a major construction project may equip workers with skills that they will retain and continue to use after that particular project is completed. Conversely, the construction of a dam to generate hydroelectric power may succeed in the sense that electricity is produced, but it may have disastrous environmental consequences for the neighbouring villages, wildlife, and other natural resources.

Critics of foreign assistance argue, however, that the receipt of such aid discourages domestic savings. They believe that projects that represent good investment opportunities will be financed in any event using private foreign or domestic funding. The receipt of foreign assistance may simply divert those funds into consumption, for no net gain in total domestic investment activity.

For those reasons--and also because aggregate national data are more accessible to the academic scholar than are project data--most empirical studies of development have attempted to

determine whether receiving foreign assistance can be shown to be positively related to higher rates of national saving, capital formation, or economic growth. Early studies as well as more recent investigations confirm that foreign assistance contributed little, if any, impetus to saving and instead increased domestic consumption. One reason could be that for most countries, aid flows are simply too small to make a difference in overall national saving rates. Table 1 summarizes major studies since 1970.

Although the majority of studies have failed to find a link between aid and economic growth, some analysts have obtained more positive results. In particular, a positive correlation between aid, saving, and growth has been established for a group of developing countries in Asia. The overall negative findings can be attributed mainly to the failure of aid to countries in Africa, it is argued.

Gustav Papanek (1972) attributes the negative results of studies of foreign aid to statistical biases. In particular, the fact that aid is targeted towards the poorer nations might bias downward the measured correlation between saving or growth rates and the amount of aid received. Using more complex models, some analysts found a positive and significant relationship between capital formation and public and private investment flows. In a recent article, Gregory Mankiw (1995) suggested that the roughly 100 nations for which data on economic performance over recent decades are available offer too few observations to allow scholars to discriminate among the many factors said to contribute to growth, notably including foreign aid. According to Mankiw (1995), the empirical evidence from this body of research is simply too limited to enable analysts to reach strong conclusions.

Evidence from Qualitative Studies

The qualitative literature on foreign aid and development suggests that the usefulness of development assistance varies with the quality of a country's governance and the economic policies it pursues. In countries whose policy environment is highly unfavourable to growth, aid is less likely to be productive. According to one group of scholars, "in terms of growth prospects and performance, no amount of foreign assistance can substitute for a developing country's internal policies and incentives for increasing output and improving the efficiency of resource allocation"¹. Development assistance has enabled some countries whose policy environment was not quite as severe to

achieve temporarily higher rates of growth relative to not receiving aid at all. Although foreign aid may allow developing countries to postpone correcting their economic policies, it may also encourage them to adopt needed economic reforms. Finally, foreign assistance can help strengthen development in countries whose policies do not distort the allocation of resources in the economy.²

Bilateral Assistance

Individual countries give aid through their own bilateral aid programs. Multilateral donors are the international financial institutions, such as the World Bank Group or the regional multilateral development banks, that receive their money from individual countries and capital markets and then lend it to developing countries. Both types of assistance programs have advantages and disadvantages in providing aid to developing countries.

From a developmental perspective, the strengths of bilateral aid programs include an ability to render effective technical assistance, build institutions, and develop close relationships with recipients. Donor policies that may hinder the usefulness of aid include giving aid for political reasons, tying aid to the purchase of the donor's goods and services, and adopting other economic policies--such as import quotas--that undermine the objectives of an aid program. Those policies may have important objectives in their own right, but they may come at a cost to development.

Some nations tend to concentrate their aid on a few recipients. Consequently, bilateral donors may develop close, long-standing relationships with those recipients and thereby improve the effectiveness of aid. Cultural or linguistic similarities help create the skills needed for effective communication across national political boundaries. For example, the aid programs of France are directed toward many of its former colonies with whom it maintains a close relationship. Such relationships make it easier for the donor to render technical assistance and better understand what kind of aid programs might achieve the best results for the recipient (Cassen and others, 1986).

A donor may require a recipient to spend some or all of its foreign aid on goods and services produced in the donor's country, a practice known as tying aid. In a newer form of tied aid, the donor offers aid as subsidized credit for the purchase of its exports. Donor governments then justify aid budgets by arguing that they promote their commercial objectives and exports.

Table 1.
Selected Studies Examining the Correlation of Aid with National Saving, Capital Formation, and Economic Growth

Study	Conclusions
Griffin and Enos (1970) ^a	Aid receipts appear to reduce domestic saving; thus, they do not add to investment.
Weisskopf (1972) ^b	The inflow of foreign capital has a significantly negative impact on domestic saving.
Papanek (1972) ^c	Omitted factors that produce below-average saving rates will produce above-average foreign inflows. That biases the relationship between aid and saving.
Heller (1975) ^d	A positive and significant relationship exists between foreign aid and investment.
Mosley (1987) ^e	No significant correlation exists between aid and growth once other factors such as private capital flows and domestic saving are taken into account.
Boone (1996) ^f	No significant correlation exists between aid and growth. Virtually all aid goes to consumption.

SOURCE: Congressional Budget Office using sources listed below.

a. Keith L. Griffin and J.L. Enos (1970).

b. Thomas E. Weisskopf (1972).

c. Gustav F. Papanek (1972).

d. Peter S. Heller (1975).

e. Paul Mosley (1987).

f. Peter Boone (1996).

Thus, Spain tied nearly 86 percent of its official development assistance, compared with Norway at only 20 percent. The United States tied approximately 50 percent--nearly \$6 billion--of its official development assistance. In 1993, however, those figures fell to 33 percent for Spain, 29 percent for the United States, and 11 percent for Norway.

The tying of funds usually has hidden costs for the recipient. The *Development Cooperation 1994* report (OECD, 1994) put out by the OECD's Development Assistance Committee, cites the following:

- The aid may be given with the best interests of the donor in mind, not those of the recipient country.
- The subsidy involved in concessional aid may benefit the exporter rather than the recipient.

- Linkages between the development projects and the local economies are not formed. Thus, the local economy derives little long-term benefit from the projects.

OECD (1994) report argues, however, that the tying of aid matters less than the degree of competition in the procurement process for aid contracts. Competition in awarding aid contracts, even if they must be awarded to the companies of the donor country, may provide better value than untied aid contracts that are not subject to a bidding process.

Multilateral Donors

The aid from multilateral agencies (e.g. World Bank, ADB) tends to be less politically motivated; they tend to give aid to the poorest countries. Nor do multilateral donors tie their aid. As some analysts have put it, multilaterals "can establish systems of international competitive bidding to purchase goods and services at the lowest possible cost and maximise the real value of aid flows"

(Mellors and Masters, 1991) Another advantage is that they will not undermine the objective of an aid program through other economic policies such as import quotas. They also have been more successful in making longer-term and more stable commitments for aid geared to the resource needs of the recipient.

A major disadvantage of multilateral aid is that it has to be channelled through governments -- a practice that may tend to increase the relative power of government in the economy. Bilateral donors, on the other hand, are more adept at helping to build the civil societies--labour unions, citizens' groups, and watchdog organisations--in developing countries that serve as a check on the growth of government power and influence. Furthermore, the multilateral institutions may not have the expertise or experience in building institutions, such as an independent judiciary, that are so important in protecting property rights, enforcing contracts, and maintaining the rule of law.

Development assistance received from multiple sources may create problems of administration and coordination in a recipient country and thereby undermine the effectiveness of aid. When donors approach a government with a proposed development project, the recipient country may agree to the project without integrating it into a comprehensive development framework. The lowest-income countries may not even have such a framework or may be so desperate for foreign assistance that they seldom refuse aid or challenge a donor's approach. That makes it possible for different donors to start contradictory programs or for multiple donors to duplicate projects, reducing the overall effectiveness of the assistance.

At the very least, an uncoordinated investment program from many donors may strain the capacity of a recipient to implement, monitor, and maintain those projects. For example, in the early 1980s, Kenya had approximately 600 active projects financed by 60 donors. Other African countries had similar experiences (Krueger et al, 1989). In contrast, other evidence suggests that the more the government of a recipient country is involved in leading and coordinating aid programs, the more effective and integrated those programs will be in promoting long-term development (Van de Walle, 1996).

The problem of aid coordination has intensified with the proliferation of bilateral and, especially, multilateral donors. In 1960, seven different multilateral aid agencies gave assistance to developing countries; by 1975, there were 15.

Volume and Pattern of Development Assistance to Bangladesh

Bangladesh has continued to be a major recipient of development assistance since its birth in 1971, despite a significant drop in its level in more recent years. A variety of donors and agencies have been active in the country including bilateral and multilateral agencies and international NGOs. In general the contribution of the UN system has been small in comparison, and more strategic in its orientation.

Total aid flows to Bangladesh have declined in the 1990s not only in real dollar terms but also in nominal terms. This points to a number of emerging trends in the aid regime facing the country. Thus global flows have become much smaller as developed countries commit less and less resources for ODA. On average, commitments of all developed countries made in 1998 have amounted to less than a quarter of one percent of their combined GNP (World Bank 1999d).

Food Aid, Project Aid and Non-Project Aid

ODA flows to Bangladesh are usually viewed in terms of food, project and commodity aid or non-project aid. Food aid data exhibit considerable fluctuation over the last two decades but nevertheless, there has been a distinct decline in food aid availability in nominal (dollar) terms as well as in terms of volumes.

Non-project aid has also registered a secular decline over the years. This has important implications for the government in terms of its ability to utilise aid funds for balance of payments support given the flexibility of this type of aid. On the other hand project aid increased in the 1980s up to around 1990 and has since remained essentially static in nominal dollar terms. Given overall declining trends in aid it is not surprising that the debt service ratio has appreciably declined as well, helped also by rising export revenues.

Loans and Grants

The mix between loans and grants has also undergone a small shift. In the 1970s loans accounted for around 58 percent of aid. This has now come down to approximately 50 percent in the 1990s. A much larger shift has occurred in terms of the changing mix of aid by donor arrangements, i.e. multilateral vs. bilateral. Up to the mid 1980s, bilateral aid dominated the total aid package but this has moved significantly to a preference for multilateral arrangements (Table 2). This is a reflection of an increasing consensus amongst donor agencies in terms of objectives and goals, as

well as implementation mechanisms, with both positive and negative implications. While a widely shared consensus allows assistance to be much better focused and avoids duplication, it may, at the same time, reduce recipient country bargaining power

Aid Dependence

Aid flows to Bangladesh have been used to finance both revenue expenditures and development expenditures. For example, customs duties (which depend chiefly on aid imports) are an important source of revenue for the government, accounting for around 30 percent of government revenues in the 1980s (World Bank, 1993). More importantly however, development expenditures still rely critically on aid, especially project aid. In the 1970s and 1980s, aid dependence was close to 100 percent, declining in the mid-1980s as a result of increased efforts to mobilise domestic resources. Currently, aid still finances around just under half of total development expenditures. Seen in another way, total aid represented almost 10 percent of GDP in the 1970s to early 1980s but has come down substantially in more recent years, to under 4 percent - partly a result of the successful fiscal reforms of the government as well as decline in aid volume. Thus the abiding image of Bangladesh as a basket case needs to be revised and the role of aid re-assessed. It should no longer be seen as an instrument for disaster mitigation, crisis management or a system of bailing out an economy in dire distress but in terms of making a qualitative difference in terms of sustainable human development objectives

Efforts to improve domestic resource mobilisation coincide with the macroeconomic reforms pursued with some vigour from the late 1980s to early 1990s and a slightly better economic performance in terms of GDP growth subsequently. The introduction of revenue reforms, including the introduction of VAT, refixation of the structure of personal and corporate income taxes and reduction or removal of subsidies (e.g. on agricultural inputs) have also had a positive impact (see Choudhury, O.H. 1992)

Sources of Aid

The charts (at the end of this article) show the shares of the total aid package of the top twenty donors (who accounted for US \$31 billion out of \$33 billion of aid flows to Bangladesh between 1972-98). The bulk of food aid has come from the USA (30 percent). The UN comes in second at 20 percent (despite its small overall share of assistance). Other important food aid donors have been Canada, EC and Japan. The sources of aid

with respect to commodity and project aid are dominated by essentially four players - two bilateral and two multilateral - namely USA and Japan, and IDA and ADB. Japan has been the single largest source of commodity assistance (30 percent). Of the four major donors of commodity and project aid, the USA has the smallest share (6 percent) while Japan, IDA and ADB account for between 55-60 percent of these two types of aid.

Sectoral Distribution of Aid

The sectoral distribution of aid has also changed over time. During 1971-73, the biggest allocations went to infrastructure projects in the Transport sector and in the Water and Flood Control sectors. Subsequently, during the first plan period (1973-78) Industries received the largest allocation (22 percent), followed by Transport (18 percent) and Power (14 percent). A number of other sectors began to assume some prominence e.g. Health and Population Control, Water and Flood Control and Agriculture.

During the period of the Second Five Year Plan (1980-85) Power emerges as the single largest sector for foreign assistance (17.7 percent) with the share of agriculture rising sharply to around 12 percent. Other significant sectors include Water and Flood Control, Fuels and Natural Resources, Transport and Industries.

The period of the Third Five Year Plan (1985-90) saw a decline in the share of Agriculture that appears to have been offset by increased allocations to Rural Development and Institutions (together 11.7 percent). The share of Water and Flood Control and Power increased further, accounting for around 11 and 23 percent of project aid for this period. Industries also did well increasing its share to 14 percent (from 11) and the share of Education increased from a small base of 2 percent to over 5 percent.

During the 1990s (Fourth and Fifth Five Year Plan periods) there was a declining share of agriculture in project aid although associated sectors like Rural Development improved their positions, at least up to the mid 1990s. The Infrastructure Sector also seems to have been in favour with its share going up to 28 percent in 1997-98 from 15-16 percent in the late 1980s. Other sectors that received greater attention include Health and Family Welfare, and Education. Sectors that were rolled back were Power and Industries.

The major shift in ADP allocations occurred in the 1990s with a greater focus on the social sectors, viz. Education, Health and Family Planning and Social Welfare. The allocations to these sectors

Table 2: Total Development Assistance by Top 20 Donors,
1972-98 (US \$, m.)

	1972-98			
	Food	Commodity	Project	Total
IDA	0.0	2036.9	3910.6	5947.5
Japan	393.9	2797.4	1916.6	5107.9
ADB	0.0	637.2	3281.8	3919.0
USA	1694.1	588.6	912.7	3195.4
Canada	877.0	383.8	526.3	1787.2
UN	1102.1	158.0	414.0	1674.1
Germany	105.7	517.9	709.4	1342.9
UK	58.5	444.3	605.4	1108.2
EC	624.7	160.0	300.8	1085.4
Netherlands	14.8	456.8	478.0	949.6
S. Arabia	110.7	315.2	450.9	876.9
Sweden	31.2	196.5	366.4	594.1
Norway	10.5	186.9	343.7	541.0
France	61.8	34.2	438.9	534.9
Denmark	12.5	122.2	384.7	519.4
UNICEF	23.5	27.6	399.0	449.4
Russia	49.9	49.0	295.0	393.9
Australia	300.2	15.2	62.9	378.4
India	113.3	129.1	127.8	370.2
Islamic DB	0.0	165.0	115.2	280.2
Total	5584.4	9421.8	16040.1	31055.6

Source: External Relations Division, Bangladesh (1999)

were more than doubled over 1990-1999. This was brought about by a clear shift in donor policy favouring sectors more directly related to 'sustainable human development'

Looking back at the history of development assistance it is easy to identify some broad shifts that are underway. The early emphasis on hardware (infrastructure projects, buildings and equipment) and to sectors such as Power, irrigation and Flood Control slowly gave way to software that emphasised Operation and Maintenance, participatory planning and implementation, stakeholder involvement, moving on to a focus on targeted development, poverty alleviation and food security. For much of the 1990s, the explicit donor and GOB goal was poverty alleviation so that safety nets like Food for Work (FFW) and Vulnerable Group Development (VGD) became important components of the food security policy.

The focus on targeted development of foreign assistance can be organically related to a shift in development thinking, i.e. the 'Washington Consensus', that began with structural reforms in the late 1980s-early 1990s. The new paradigm essentially advocates an outward-oriented, export-led growth: "...our vision of Bangladesh's

development is based on a view that investment and exports must increase dramatically; and all of our policy advice to the Government aims at achieving those two goals. We feel that enhancing external competitiveness and improving economic efficiency are pre-requisites for the needed expansion in exports and investment. External competitiveness could be improved by an aggressive exchange rate policy, trade liberalization and labour market reforms".³ It was, however, accepted that even a rapid growth rate achieved as a result of policy reforms may not have a significant impact on the poorer sections of the community. Indeed rapid opening up of the economy will lead to pockets of de-industrialization and unemployment, as exports replace hitherto protected domestic markets. The concept of 'safety nets' therefore emerged as a logical solution to this problem.

Simultaneously, there has been growing awareness of a number of related issues as follows:

- Education, especially for girls - both formal and non-formal, including some innovative developments like the Food for Education program used to encourage enrolment.

- Health and Nutrition with new challenges in the form of arsenic contamination as well as older problems related to child malnutrition, infant mortality, morbidity and mortality.
- Environmental concerns including arsenic, salinity, urban pollution and congestion
- Governance and corruption issues along with institutional capacity building has also come to fore of policy dialogues between donors and the government, with the involvement of the civil society.
- Law and order which is of course a major problem of governance
- Urban poverty

Aided projects still remain diverse and varied although over time there has been a significant shift in focus with increased attention to new areas, e.g. institutional capacity building, under the Public Administration Reform Programme, Institutional Support to BOI, Strengthening the Election Commission and Local Government etc. There has been a renewed interest in issues of poverty alleviation combined with efforts to find ways and means for community empowerment and training and greater involvement of women.

External Debt

Bangladesh's debt obligation comprises mainly of public sector debt, which has increased from \$501.4m in 1973-74 to \$14033.4m in 1997-98. Though the external debt obligation in the total aid package of Bangladesh has increased over the years, it is still considered to be within 'manageable limits', e.g. compared to many other developing countries (World Bank, 1996). However, a combination of rising debt, expiry of grace periods on past loans and unfavourable exchange rate movements have resulted in an increasing debt service burden which rose from \$19m in 1973-74 to \$577.7m in 1997-98. The debt service burden (as a percentage of exports of goods and services) was around 10 percent in the late 1990s compared to under 5 percent in the early 1970s (although it had increased to as much as 30 percent in the mid-1980s).

Resource Management and Implementation Modalities

An examination of the rate of utilisation of aid resources provides an insight into the efficiency of implementation arrangements and absorptive capacity. Data available with the External Resources Division (ERD, 1999) indicate that the

ratio of disbursement of project aid to the size of the opening pipeline has generally hovered around the 20 percent mark for a very long time (frequently dipping well below this low level)⁴. Many factors have been blamed for this state of affairs, including poor planning, non-involvement of stakeholders in plan formulation, design and implementation, low management capability and poor motivation and so on.

Multilateral agencies are constrained to work with and through the government and it is, therefore, not surprising that their assistance is routed through the various responsible line ministries. While undoubtedly there are instances where such arrangements have worked well, other agencies have found the system slow, costly and inefficient. Some of the major problems related to implementation arrangements and difficulties appear to be as follows:⁵

- Weak institutional capacity - institutional strength depends largely on individual leadership
- Government institutions are spending more time on administration and financial management at the cost of assuming substantial responsibility for project outcomes
- Staffing shortage both in number and quality
- No system in place for performance evaluation

There is increasing pressure especially by the multilateral donors to improve efficiency and the quality of project implementation. It is felt that involvement of the private sector and the NGO sector are options with a lot of potential. A possible model might be to allow the government to retain an implementation role but leave execution to the private sector or NGOs. This is a view that seems to be gaining popularity amongst the UN agencies as well, and is clearly an area that holds some promise.

Efficiency and Effectiveness of Aid: A Critique

Questions of efficiency and effectiveness often arise in the context of discussions related to development assistance. The meanings of these words are not always clear and there is a tendency to use them inter-changeably. In this paper, the words have a clear meaning. Efficiency relates mainly to project or program costs incurred in the process of implementation and execution, in terms of money, time, quality of outputs produced, extent of leakages, etc. Effectiveness on the other hand

relates to impact in terms of program goals and objectives, and intended and unintended benefits (or their converse).

A detailed and disaggregated critique of development assistance (e.g. by sectors or agency) is constrained by the paucity of independent evaluations of different types of assistance. This section is based on readily available evaluation reports relating to a number of areas, and principally relating to the mid 1980s-1990s: food-assisted development programs (VGD, FFW), integrated rural development programs and area development programs, flood control and water management projects, and primary education projects (see e.g. Ninno 1998, Chowdhury and Ninno 1998, and Alam et al, 1999, for evaluations of food-assisted programs; FPCO, 1993, FPCO 1991 and Socioconsult, 1996 for evaluation of water sector projects; Murshid and Banu, 1996, Alam et al 1996 for primary education; Murshid and Banu, 1995, BGS, 1999 and Zohir and Bashar, 1999 for evaluations of area development projects). The lessons derived from these evaluations however, are likely to be valid for a wide spectrum of development assistance.

Efficiency

Aid has always been viewed as critical to Bangladesh, not merely to meet urgent needs but even to ensure its survival. This view was most graphically illustrated by the use of the phrase 'an international basket case' to describe Bangladesh's aid dependency. While this view has provided an abiding perception of Bangladesh amongst donors, it also became implicitly assumed even by the government and civil society - albeit in different degrees and differing intensities.

The dependence of development expenditures on aid has already been noted. We also noted that in recent years this dependency has declined significantly, and is set to decline further as economic reforms set in motion yield further results. In part, the dependency reduction was partly supply-driven as global resources declined and competition amongst recipients intensified.

A continuing concern has been with inefficiencies resulting in delays, cost over-runs, poor quality of implementation due to lack of qualified staff, lack of arrangements for supervision, monitoring and evaluation, lack of accountability, poor governance and corruption, compounded by absence of stakeholder participation in the design and implementation process. While this sums up the general perception about development assistance (and in particular about project aid) it is interesting

to note that there is considerable divergence of experience.

A dominant concern of the Bangladesh Government and the aid agencies relates to the efficiency of aid utilization. For example, a persistent concern has been with the utilisation of food aid, and in particular with the incidence of pilferage and leakage in food assisted development programmes (like FFW and VGD). A number of studies are now available that examine the efficiency of the food-distribution system to target intended beneficiaries, e.g. whether the poorest participate, whether they receive their due share of wheat quotas or wages, the quality of the physical structures created, the distribution of benefits from the project, etc. These issues continue to occupy the minds of many researchers even today (e.g. see Ninno 1998, Alam et al, 1999). However, the bulk of research to date suggests that despite problems of leakage and mismanagement in many cases, the distribution system works reasonably well. Indeed over time, programs have been fine-tuned and monitoring and supervision has undergone some improvement, although efficiency problems still remain significant. Thus, Alam et al., estimate the cost of transferring Tk 1 income benefit through alternative channels, as follows: Rural Rationing (now defunct) Tk. 6.55, Vulnerable Group Development (VGD) Tk. 1.68, Rural Maintenance Program (RMP) Tk. 1.32, FFW (Care) Tk. 2.81, FFW (World Food Programme) Tk. 2.06 and Food for Education, Tk. 1.12-1.5.

The ability of the government (i.e. certain ministries) to implement assistance programmes has improved in a number of areas, particularly in the reproductive health and family planning sectors, education and in food distribution. In part this has resulted from improved technical capacity within the relevant ministries (e.g. Education, Food, and Health), investments in institutional infrastructure and improved ownership of programmes by the government.

There is now an increasing awareness of the potential of NGOs to operate as implementation partners and a greater readiness on the part of the government to accommodate such arrangements. This is a positive sign and is likely to improve implementation efficiency significantly. The NGOs have a proven track record in implementing education projects. Partnerships with the Ministry of Education/UNICEF (or component agencies like the Directorate of Primary Education or Non-Formal Education) could be invaluable, e.g. in improving the quality of education in the primary education sector.⁶ Constraints identified include shortage of workforce, poor monitoring, inadequate training facilities and uncertain funding situation,

along with insufficient and low quality inputs, high turnover of key project staff and high drop out of teachers and learners (UNICEF 1998)

The work of some development agencies is often seen to be overlapping or even duplicated. This points to shortcomings in terms of inter-agency co-ordination as well as inadequate delineation of areas of work. For example, activities related to child labour, health and education fall within the mandate of a number of agencies (e.g. ILO, UNICEF, WHO). There have been instances where agencies have competed with each other for the same project.⁷

The pre-occupation with aid in the 1980s in Bangladesh was a mirror reflection of the broader worldwide debate on aid. A large body of empirical evidence was generated to suggest that aid and economic growth was either unrelated or even inversely related. Studies on Bangladesh also seemed to suggest similar conclusions (Rahman and Rahman, 1982). At another level, external aid was seen to substitute for domestic resources rather than complementing them and in addition leading to serious distortions to the economy and disruption of the structure of institutional incentives.

NGOs have become important agencies for routing of aid to Bangladesh. Over the period of the 1990s, the amount of aid provided to NGOs has more than doubled - from around \$100 m to over \$ 200 m. In general there is wide agreement that the better known NGOs have been able to create massive capacity for both social and financial intermediation. There is also wide consensus that aid channelled through NGOs has helped to create local institutions and enabled a variety of poverty alleviation programmes to be launched effectively.⁸ However, despite very significant contributions, NGOs appear to have had rather limited success in targeting the poorest of the poor, particularly in the case of micro-credit programs.⁹ The efficiency of aid through the NGOs depends on the approach and scale of operations. Smaller NGOs are generally better at operating well-conceived, specialised programmes (e.g. the garbage collection and conversion project of Waste Concern in Dhaka or the activities of Dipshikha amongst the Santals of the north-west) rather than more complex programmes consisting of multi-faceted poverty alleviation objectives (e.g. the Ukhia Integrated Development Project of Bangla-German Sampreeti).¹⁰ However, there are examples of complex programmes being efficiently run by NGOs that were appropriately equipped in terms of their project-level managerial and technical capabilities - a good example would be the educational programme of the now defunct GSS.¹¹ On the other hand, there are examples of failures as

well, e.g. the Landless-Owned Deep Tubewell project of Grameen Bank.¹²

By far the most popular NGO programme relates to micro-credit. Virtually every NGO engages in microcredit as a way of trying to become financially self-sufficient. However, most do not consider microcredit in itself enough to make a difference to the poor and therefore combines skill-development and training. The microcredit model used is very similar to that developed by Grameen although in the process of dissemination of this approach, many have tended to modify or dilute the original approach - sometimes with grave consequences. Thus the microcredit programme of BGS has fared badly due to inadequate group formation, development and training. The big NGOs like ASA or Proshika along with BRAC and Grameen continue to run their microcredit operations efficiently using peer groups and close supervision.

Apart from microcredit, education programmes have done well, especially those run by BRAC, GSS and Ahsania Mission. Even small NGOs like BGS have done well on this front although their work with microcredit is a disaster. Models used have varied but these essentially consist of hiring a teacher locally for primary school-age children, providing some basic facilities and encouraging community participation through the formation of a school committee.

It has also been observed that the larger NGOs stay away from the poorest areas and tend to concentrate in already well-established areas for their development work (Netherlands Ministry of Foreign Affairs, 1998). Such a bias (often noted in seminars and conferences)¹³ clearly leads to overlapping of project sites and duplication of effort.

It is nevertheless correct to say that the NGOs in Bangladesh (who now number in excess of ten thousand) represent a sizeable and influential force in civil society and are engaged in a host of development and advocacy interventions and programmes that have permanently changed the social map of Bangladesh. Clearly these developments are directly attributable to the aid regime faced and must be treated as a very positive development. Thus one report states "Five years ago, almost no IDA-assisted projects in Bangladesh relied on substantial NGO involvement. Today almost all do. Government programs that collaborate with NGOs are often more successful than those that do not" (World Bank, 1998, p.19). The distinct trend amongst some NGOs and development agencies (e.g. BRAC, Grameen Bank and Proshika) to branch out into areas that are normally the preserve of the private sector seems

less defensible (e.g. in Information Systems, retail trade, tele-communications). Forays into areas like higher education and training can probably be better justified - on the ground of the "public goods" nature of the services envisaged - although beneficiaries do not receive any subsidies even though investment funds used are cheaper than that available to private borrowers

Effectiveness

Bangladesh has made significant progress over the last two decades. Substantial gains have been made in crop production, irrigation and flood control. Food security has been vastly improved as a result of higher rice yields and more effective distribution strategies, including well-targeted distribution, works programmes and vastly expanded micro-credit networks (Government of Bangladesh, 1995; World Bank, 1996; ADB, 1998). At another level, there has been rapid expansion in rural infrastructure, e.g. roads and bridges, as well as spread of rural electrification (ADB, 1998; World Bank, 1996b). Major achievements have also been made in the fields of population planning, health and disease prevention (through immunisation programmes, ORS therapy, etc.) as well as in education and especially female education as a result of increased attention to the social sectors (World Bank 1999). There is little doubt that to a large extent these developments have been made possible by foreign development assistance. However, despite very substantial progress, much still remains to be done.

The major criticisms levelled against aid may then be put forward as follows:¹⁴

- Aid dependence is high but this is in part due to the inclusion of many superfluous projects that should not have been there in the first place (but present because of availability or vested interest pressure) – see Sobhan, 1990

This view has been with us from the very beginning and is probably valid even today, although categorically articulated and written down in black and white only in the late 1980s, principally by Rehman Sobhan (Sobhan and Islam, 1987).

- While the benefits of aid are likely to have been widely shared, the bulk of it has undoubtedly been very unequally distributed, helping to create a very rich class of perhaps 100 families, comprised principally of bank defaulters. Thus, Rehman and Hashemi (1990) point out: "Foreign aid benefits do filter through to a larger segment of the society. It would be

difficult to isolate entire sections of the society who do not at least indirectly benefit from aid. The magnitude of benefits to the overwhelming majority of the people are however low and probably in most cases do not even provide basic consumption needs."

- Tying of aid has entailed costs to the economy that may have been considerable. This would be true for both commodity and project aid and would arise out of discriminatory pricing policies and collusion amongst suppliers, in addition to procurement related incompetence. Costs could escalate by 16-20 percent because of such tying (Sobhan and Islam, T 1990)
- Projects are frequently over-designed (unnecessary or superfluous components incorporated) leading to high costs that are difficult to justify (e.g. FPCO 1993). Thus Rehman and Islam (1987, p.39) argue: "Beyond the drainage for consultancy services come other identifiable superfluities with low priority in the way of cars, and equipment associated with project administration and personal comfort"
- Poor transparency, lack of accountability and top down approaches to project planning and implementation has resulted in high costs and poor project performance (Socioconsult, 1996)
- Funds for operation and maintenance are scarce, resulting in reduced life of projects
- Poor quality of feasibility studies¹⁵

From the above it can be concluded that physical infrastructure projects (e.g. irrigation, rural roads, flood control structures) can at best be considered to have benefited intended groups at less than design level. Technical assistance projects generally appear to have had a weak impact on technology transfer and capacity building of institutions and counterparts. In part, poor morale and a weak incentive structure within public sector bodies are to be blamed.¹⁶ Exceptions to this are noteworthy: Thus the Local Government Engineering Department has evolved into an effective implementation agency for infrastructure projects (although the Water Board has lagged behind).¹⁷ The Bangladesh Rural Development Board has also acquired considerable competence in their areas of work (micro credit, rural institutions). However, the institutional success stories are few and far between.

In another context, assistance to the financial sector has been ill-managed, leading to a huge build up of

had loans that now threaten to destabilise the economy. Efforts to improve the situation through financial sector reforms have had little impact. Policy assistance in implementing structural adjustment reforms has yielded better results by promoting macroeconomic stability and higher growth, e.g. in agriculture and exports. Thus, trade liberalization policies began in the 1990s are credited with the better performance of the export sector (World Bank 1999a). Agricultural input imports (mainly irrigation pumps) were also liberalised during this period leading to a dramatic, even if short-lived, spurt in agricultural growth (e.g., see Hossain and Shahabuddin, 1997). Thus, while there remain considerable problems with regard to aid utilisation, efficiency and effectiveness, overall impact has been mildly positive.

A question that is often asked relates to government policy towards the donors. It is difficult to categorically answer this question in the absence of suitable studies. This author at best can provide his own perception, as a senior observer of the development process of Bangladesh. The impression that one gets is that there is no coherent, well-conceived policy as such. What seems to have been the case historically was that different governments in power competed with each other in terms of the amount of foreign assistance that they could mobilize (an indication of their acceptability to foreign donors!). Thus what developed was a bureaucracy that became very good at getting aid and asking very few awkward questions.

Civil Society Perspective

It would be futile to expect civil society anywhere to speak with one voice. In the case of Bangladesh where agreement on any subject is difficult to achieve, such an expectation would be even more inappropriate. This sub-section is based on interviews with prominent members of civil society who were approached to give their views on development assistance.¹⁸ Two broad questions were posed in this context - the role of development assistance since 1971 and what would happen if the country were to suddenly find that foreign aid was completely stopped. Prominent civil society spokespersons were interviewed including top NGO chiefs, leading economists and political and social activists. Their views are summarised below. As to be expected, these fall broadly into two categories: those who argue that it has served a positive role and those whose position is much more critical, even if not totally negative.

Not surprisingly, the views expressed by NGO chiefs generally tended to be positive. Thus, a

leading NGO boss opined that development assistance has played an important role in Bangladesh; that substantial progress has been made in a number of fields - in food production, life expectancy, fertility reduction and poverty alleviation. Donor countries and agencies have not only provided financial support to improve physical and social infrastructure, and to build social capital but also played an important role through active participation in development discourse, thereby helping to direct attention to crucial sectors like human development and reproductive rights. In 1972 the average fertility rate per woman was above 6, which has now come down to around 3. It is doubtful if Bangladesh would have been able to cut its fertility rate by half without foreign assistance. Development assistance can also be credited with the emergence of a vibrant NGO sector in Bangladesh. The country achieved quite dramatic successes in diverse fields including child immunisation, school enrolment rates for both boys and girls and food production. For example, it was UNICEF and some NGOs who worked together with the government to popularise Oral Rehydration Therapy and immunisation coverage to reduce child mortality rates.

The impact on women has been dramatic and must be attributed to the donor-NGO partnership over the years. More than seven million women have received micro-credit and are engaged in income-generating activities. Women's participation in the labour force has increased tremendously and they are coming out in large numbers.

Another key NGO personality reported, "Our role at ... is to organise and mobilise the rural poor to make them aware of their rights and to improve their access to resources. We are funded by foreign NGOs who channel some of their funds through us for our development work". NGOs began to work in Bangladesh soon after Liberation in 1971 initially in the sphere of relief and rehabilitation.

The 1970s were an important period when there were quite sharp views held by many in the country on the role of aid. It was questioned whether development assistance was actually beneficial or not, who did it benefit and whether the poor really had a share of the pie. It became increasingly fashionable to channel aid through NGOs as it was felt that they were closer to the poor and they would be more efficient at least in comparison to what many considered to be a highly corrupt and ineffective government.

Over the years there has been a dramatic shift in the sectoral composition of aid. Directed anti-poverty programs, community participation in development, and social sector investments have

become priority areas. The main criticism that has been raised against this reorientation of priorities is who sets the paradigm for assistance? More often than not this has depended on donors rather than on the recipient. Thus the focus on population control in the past was donor-driven. It was emphasised that THIS was our main problem. The methods advocated and used for birth control were also donor-driven. However, the program was criticised for being sexist and discriminatory against rural women in particular. Sexist because women were seen as the main 'problem' and discriminatory because only rural women were lectured on how many children they should have!

Aid is basically dependent on lobbies and vested interest groups. What needs to be done is to forge a genuine partnership where assistance can be openly discussed and priorities set on the basis of mutual self-respect. Basically, it is felt that developing countries like Bangladesh need to have greater control over the process and to achieve this end it is important to strengthen civil society.

Voices from academia generally tended to take the middle position. Thus, it was pointed out that in an extreme situation you could probably do without development assistance since only 3 percent of the total GDP come from foreign aid. This would entail a heavy sacrifice, however, involving strenuous attempts to mobilise domestic resources and reduce current consumption levels—often of those who are politically powerful.

A reduction in aid would probably be beneficial in terms of improvement of the quality of government and policy-making. Instead of a complete aid cut-off, reduction is the answer since this would force us to do things that we are not doing today - things that we should be doing. A complete aid cut-off will have serious consequences, e.g. for the entire Vulnerable Group Development Program (VGD). In terms of infrastructure development, donors are not giving aid any longer for this sector but have left this to be filled by foreign investors. The advice here is that aid will be reduced and countries should now try to seek foreign investment for the purpose. We should concentrate on what we have. You do not need assistance to build more schools or hospitals. Instead we should concentrate on improving quality in existing schools -- the real problem often is not lack of resources but inefficient use of resources leading to low rates of return.

In the real world a sudden and complete cessation of foreign aid does not happen. A more realistic possibility is a gradual phasing out of assistance - in which case there is no reason why we would not be able to adjust, given the desire and the will to do

so. In fact, the economy has been able to adjust to a much lower level of aid availability without any adverse impact on the overall economic growth performance. Amidst our many economic failures this is undoubtedly an encouraging development. Our accumulated outstanding foreign debt and annual debt servicing obligations are substantial. However, we are not classified as one of the many heavily indebted poor countries. Ironically, this excludes Bangladesh from benefiting from some of the on-going IMF relief measures.

In striving for sustainable development, dependence on foreign aid can at best be deemed a partial solution and at worst akin to drug addiction. Aid availability may in fact delay undertaking difficult economic reforms, substituting rather than adding to domestic resources. Foreign aid is not the problem; it is the syndrome of 'donor dependence mentality' that has been the bane of development planning efforts. This donor dependence is reflected in the absence of sustainable institutional capacities and in the rise and fall of development institutions with donor-funded project cycles. We have readily accepted whatever aid is on offer irrespective of whether we have the capacity to utilise it properly. A large part of the technical assistance received has been irrelevant to our needs. Too often the approval and execution of aid-financed projects have been driven by the lure of perks enjoyed by the officials and by the interests of domestic and international suppliers' lobbies.

Development assistance, nevertheless, has had many success stories in Bangladesh - such as in infrastructure development, population control, child immunisation and so on. To make development assistance meaningful, we must have an independent development strategy and design a portfolio of projects that fits into our strategy. It is for the donors then to ascertain where within that strategy they would like to buy in and what projects they would like to fund. We must have our own development vision - we cannot depend on the donors for that. We must find means of ensuring democratic accountability and ownership of our development agenda.

Policy makers tend to see aid as part of external resources flowing into the economy. The cost of borrowing the same amount on the market would be much higher. Aid recognises the limited capacity of the economy to borrow and service debt commercially. It also provides low cost funds for meeting the gap between domestic savings and investment as well as the gap between imports and exports. Investment is about 20 percent of GDP while gross domestic savings has ranged between 13-15 percent in recent years. Foreign savings account for 5-7 percent of investment. The

government uses most of these resources - thus aid supplements government revenues for financing public expenditures. The current account deficit of the balance of payments (1-4 percent of GDP) is also met by aid.

Significant shifts in donor policies are taking place. Increasingly aid is being linked to good economic and social policies. The mode of delivery of aid is also changing in favour of assistance for programmes, sector-wide investment, budget support, etc rather than discrete projects. This will require much greater skill of the government at strategic policy formulation, fiscal management and aid coordination.

A country's access to aid will be linked with quality of policy and efficient use of resources including aid. The donors insist on improvement in those areas which reduce dependence on aid: good policies, better revenue mobilisation, fiscal and monetary restraint, efficient use of resources and export growth. One can hardly quarrel with that, at least at the general prescriptive level. At the level of policy detail, differences in opinion with regard to sequencing and speed of implementation will be there though.

Some Observations

Bangladesh still remains a heavily aid dependent country despite significant reduction in aid flows in real terms. Development assistance plays an especially important role in poverty alleviation programmes, in education and in health. Attention to infrastructure development has declined but there has been a resurgence of interest in the power and telecommunications sector, and more generally, an attempt to synchronise aid policy to economic reforms and globalisation policy.

Issues of aid effectiveness, efficiency and aid conditionality are much more controversial. However, the country has travelled a long way from the 1970s and 1980s when much of the debate centred on leakages, inappropriate use, poorly designed projects and equity concerns to the present, when the overall absorptive capacity and utilisation rates have marked a distinct improvement. While the traditional criticism against superfluous projects undertaken at the behest of vested commercial interests, severe conditionality and inappropriate technical assistance continues to be levelled, there is now much greater objectivity and understanding within civil society regarding the role of development assistance and its impact. Perhaps the most fundamental weakness of the aid regime relates to the inability of the government to sit on the driving seat and to play a pro-active role in managing and

directing assistance on the basis of a coherent and well-argued strategy. There is increasing discomfort today stemming from the perception that policy makers are not in control, and at best, respond passively to donor prescriptions. This then is the fundamental challenge that faces the country in the context of aid and development.

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Endnotes

¹ See Krueger, Michalopolous and Ruttan (1989).

² As above

³ Address by Dr. Ghanem, World Bank economist in the seminar on External Competitiveness and Economic Efficiency, BIDS-World Bank, 1992.

⁴ See ERD (1999 p. xxi) It is only in recent years that the 20 percent mark has been exceeded (e.g. 23 percent in 1997-98).

⁵ UNDP (2000).

⁶ A number of studies show that while primary school enrolment levels, particularly of female children have increased markedly, learning skills competencies have lagged far behind (Murshid and Banu, 1996; Alam 1996).

⁷ Mentioned in a non-attributable interview with a senior official of a UN agency while discussing a program undertaken for education of child labour in the garments sector.

⁸ See BIDS-IFAD (1999).

⁹ BIDS-World Bank (1998).

¹⁰ See BGS (1999).

¹¹ Discussion with Md. Sakhawat, Monitoring and Evaluation Specialist, Gono Sahajya Sangstha (GSS).

¹² Unpublished evaluation report conducted by this author and a co-researcher.

¹³ See Proceedings of the BIDS-IFAD Conference on Poverty Alleviation, 1999).

¹⁴ These apply particularly to large physical infrastructure projects - e.g. see FPCO (1993), FPCO (1991), Netherlands Foreign Office (1998), Socioconsult (1996).

¹⁵ One study found that the EIRR (Economic Internal rate of Return) was invariably inflated at the feasibility stage of projects with post evaluations consistently yielding a much smaller EIRR (FPCO 1991).

¹⁶ Non-attributable interviews with ERD and agency officials.

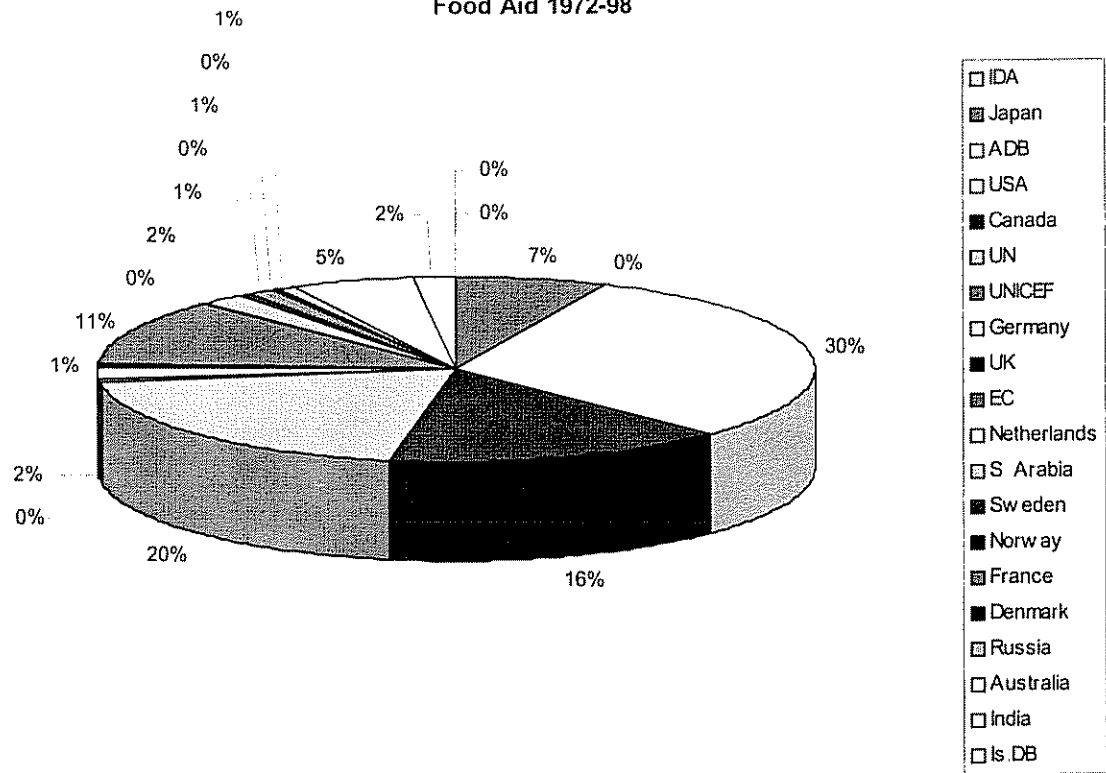
¹⁷ The Chief Engineer of LGED, Mr. Siddique has been feted many times for his feat in Turing LGED (a Government department) into an efficient organisation. His success has prompted the Government to depute him to the Power Development Board, arguably one of the worst public sector agencies in the country.

¹⁸ Some of this material has been used for a feature article in the Daily Star by Navine Murshid. In addition, Huq and Abrar (1999) has also been consulted, especially chapter 3, on aid conditionalities.

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Appendix

Food Aid 1972-98



Commodity Aid 1972-98

