

## The Political Economy of Development Assistance: Lessons from Bangladesh

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**Abstract:** The role of development assistance in economic development of the developing countries is a much-talked and much-debated issue. There is a significant literature to show that such assistance could cover the investment gap of the developing countries and lead to economic growth. The opposite arguments also hold that development assistance has no role in the development process. Bangladesh has a long tradition of injecting foreign aid/foreign development assistance in its development finance. This study attempts to inquire the necessity of taking development assistance for Bangladesh and the its effectiveness in the development process of the country by analyzing aid flow and trend, terms of repayment, ways of uses and beneficiaries as well. A regression model is developed assuming GDP Growth as the function of Aid Inflows-and the result is incorporated in the policy debate.

**Key words:** Political economy, Development assistance, Bangladesh

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### Introduction

Development Assistance (herein after called Foreign Aid) has been considered the principal source of development finance for the majority of developing countries over the past few decades. Yet, after decades of capital transfers to these countries, and numerous studies of the empirical relationship between aid and growth, the effectiveness of development assistance in achieving these objectives remains questionable.

Many empirical studies have used to test the aid-growth relationship at the macro level, complemented by case studies at the project level. While micro-based evaluations have found that in most cases "aid works" (e.g. Cassen *et al.*, 1986), those at the macro level have yielded more ambiguous results often failing to find significant growth effects. This conflict is what Mosley, 1987 refers to as the "micro-macro paradox".

In the growth process of the less developed countries (LDCs), the traditional role of foreign aid inflow is generally regarded as additive to domestic savings thus making possible an increase in domestic investment over domestic saving by its full amount. This additive view or assumption was latter challenged by (Haavelmo, 1965; Rahman 1965; Griffin, 1970 and Hazari, 1970 ) who on the basis of theoretical arguments established the negative effect of foreign aid on domestic savings. Their argument revolved around the "psychological hypothesis"-that an increase in foreign capital inflow would cause a relaxation of the government savings efforts which in turn would reduce the average saving rate.

Kennedy and Thirlwal (1971) Stewort (1971), Eshag (1971) and Papanek (1972) bitterly criticized psychological hypothesis and argued that foreign capital inflow would augment investment opportunities and domestic savings. They felt that an increase in investment due to foreign capital inflow would lead to an increase in income and hence an increase in domestic savings. Dowling and Heemenz (1983) tested the aid-growth relationship for the Asian region on 13 countries using pooled data and found a positive and significant impact of aid on growth. Sing (1985) obtained similar results for a wider sample of 73 countries during 1960-70 and 1970-80 (particularly in the latter period). Levy (1988), for Sub-Saharan Africa, reports a significant positive relationship in a regression model including aid (as a ratio of GDP) and income per capita, for 1968-82. More recently, Hadjimichael, *et al.*, (1995) found positive evidence for the period 1986 to 1992 using a sample of 41 countries. Burnside and Dollar (1997), using a model including a variety of policy variables, found that though the ratio of aid to GDP often did not significantly affect growth in LDCs, aid "interacted with policy variables" did. Voivodas (1973), on the other hand, obtained a negative impact of aid on growth (although not significant) for a sample of 22 LDCs for the period 1956-1968. Boone (1996) also cast doubt on the growth effects of aid, arguing that, for a sample of LDCs, aid had no impact on either investment or income growth.

This study attempts to inquire the necessity of taking foreign aid for Bangladesh and examine the effectiveness of aid in the development potentials of the country by analysing aid flows, trends, the structural patterns, terms of repayment and uses and beneficiaries as well. Data sources include various national and international institutions like Ministry of Finance, Government of Bangladesh; World Bank; ADB etc. Regression models of GDP Growth as the function of Foreign Aid have been estimated for the period 1972,73-2002,2003 and 1990/91-2002/2003 to look into the Aid-Growth relationship of Bangladesh-which enriches our present study in a logical fashion.

**Bangladesh With Aid:** Bangladesh started its journey with foreign aid immediately after its independence. The

economy was devastated by the war of liberation in 1971 and experienced a sharp fall in the overall level of domestic production of goods and services in general and that of food grains in particular. The 1974 flood further aggravated food grain production shortfall. The little foreign exchange reserve and food stock the country had was completely exhausted. Food prices soared and food assistance dropped drastically. The country thus neither had enough foodgrains stock nor the requisite foreign exchange reserve to import food commercially (Table – 1). Table –1 indicates that foodgrains import constituted more than 40 % of total imports during early seventies. It also reveals that country's foreign exchange earnings could not meet even the required food grains (1974-75) for the survival of the population of the country. Thus we needed foreign assistance to import food grains for mere survival during the initial years.

Table 1: Food grains Import.(%)

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Food grain imports							
Food grain import as a share of total foreign exchange earnings	96.2	103.5	54.8	15.9	36.7	23	50.9
Share of Food grains in imports	43.8	41.5	26.6	9.6	21.5	13.5	25.6

Source: Bangladesh Bureau of Statistics

Food situation remained vulnerable during the seventies. Paying for food grains, however, exhausted more than half of our total foreign exchange earnings even in 1979-80.

But by the early nineties the situation in the food sector seemed to have changed dramatically. There was no commercial government import although small quantities of aided import had to be done during 1991-92 to 1993-94. Thus, though Bangladesh was a food deficit country a relatively simple and operationally meaningful self sufficiency was accomplished in the years 1991-92 to 1993-94 (Abdullah *et al.*, 1995). Food situation, however, deteriorated thereafter and improved latter. After four successive bumper harvests Bangladesh for the first time has achieved surplus in total food grain production in 2000.

**The Macroeconomic Performance:** Bangladesh economy has grown by around 4-5 % per year in the last two decades. Almost 5 crore of its 13 crore people live in below poverty level and 3 crore if its population are unemployed. To reduce poverty by 50 % from the present level by the year 2015, the World Bank suggest to attain GDP growth rate of 7% annually for which 25% of GDP is required to be invested. It is dismay that the country's growth rate and saving investment scenario are far from its targeted goal.

Table 2: Saving-Investment Scenario: (% of GDP)

Items	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
Investment	17.3	17.9	18.4	19.1	20.0	20.7	22.2	23.0	23.1	23.1	23.2
Private	10.3	11.5	11.8	12.4	13.6	13.7	15.5	5.6	15.8	16.8	16.5
Public	7.0	6.5	6.6	6.7	6.4	7.0	6.7	7.4	7.2	6.4	6.7
Gross domestic savings	13.9	12.3	13.1	13.1	14.7	15.9	17.7	17.9	18.0	18.2	18.2
Gross national savings	19.3	18.0	18.8	19.1	20.0	20.7	22.3	23.1	22.4	23.2	23.7
GDP growth-rate	4.2	4.6	4.1	4.9	4.6	5.4	4.9	5.9	5.3	4.4	5.3

Source: Bangladesh Economic Survey 2003.

Moreover the two major sectors of the economy, the agriculture and industry don't show any consistent behavior in achieving the growth targets. Agriculture, which attains the growth rates of 6.92 in the year 1999-2000, 5.57 in the year 1996-97 and 5.53 in 2000-01, faces a huge downturn of -0.65 in 1993-94, -1.93 in 1994-95 and -0.62 in 2001-02. Industrial growth rate is of its peak in 1994-95 of 10.48 - followed by a series of poor growth rates like 6.41 in 1995-96, 5.05 in 1996-97, 3.19 in 1998-99, 4.76 in 1999-2000, 6.68 in 2000-01, 5.48 in 2001-02 and 6.62 in 2002-03.

Table 2 shows that country's gross domestic savings increased from 13.9 % of GDP in 1991/92 to 18.2 % in 2002-03. During the same period gross national savings increased from 19.3 % to 23.7 % of GDP. The investment-GDP ratio, on the other hand increased from 17.3 % in 1991-92 to 23.2 % in 2002/03. Gross investment, in general, has been higher than gross domestic savings by 4-5 % of GDP. Foreign savings bridged this investment gap. An important macroeconomic concern in sustaining higher growth is that, there exist wide fluctuation in changes and growth of

investment and GDP, and often difficult to reconcile them. GDP growth rate declined in the years 1993-94, 1995/96, 1997/98, 1998/99, 2000/01, 2001/02- although in these years investment showed increasing trend.

**Trends in external sector:** Liberalization of trade significantly affected the external sector in the 1990s. The share of foreign trade in GDP increased from 17 % in 1990-91 to 30 % in 2001-02. The merchandise export increased from mere 5.5 %

Table 3: Trends in Exte (% of GDP)

Sectoral share	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Marchendize import	11.3	11.3	12.7	12.4	15.4	16.9	16.9	17.1	17.5	17.8	19.9	18.0	17.4
Marchendize export	5.5	6.3	7.4	7.5	9.1	9.5	10.4	11.7	11.6	12.2	13.7	12.6	11.8
Trade balance (-)	5.8	4.9	5.3	4.9	6.2	7.3	6.5	5.4	5.9	5.6	6.1	5.4	5.6
Current Account	3.1	0.4	0.8	0.3	1.8	2.3	1.3	0.6	0.9	0	2.2	0.5	0.4

Source: Bangladesh Economic Survey 2003

of GDP in 1990-91 to 11.8 % in 2002-03. Over the same period of time merchandise imports raised to 17.4 from 11.3 % leaving a trade deficit of around 6 %. The current account deficit has been lower: almost 1-2 % in most years and 0.4 in the year 2002-03. The economy is now more integrated with the global economy and the trend is likely to continue. It can be noticed that the long run trends do not appear to be a cause of concern but it is the short run fluctuations and slow growth of external sector that are concerns for macroeconomic management in the country.

**Role of the Government:** Aid is generally disbursed through the public sector. Thus its effectiveness can be judged by an examination of the public sector performance. Table 4 shows that all through the nineties Bangladesh Government had to finance almost 5 % of its GDP through foreign aid to meet its expenditure. While the exchequer borrowed 6.4 % of GDP in 1991/92 it sharply declined to 4.2 % in 2002/03. Foreign borrowing declined from 4.5 % of GDP in 1991/92 to 2.3 % of GDP in 2002/03, while domestic borrowing showed up a steady rate of less than 2 % of GDP in the nineties although it reached 2.8 % of GDP in 1999/2000 and 2000/01.

Table4: Financing Through Borrowing (in billion taka)

Borrowings	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Domestic borrowing	22.5	14.6	24.1	10.6	29.5	26.8	31.8	42.6	67.5	71.1	71.5	55.5
(% of GDP)	1.9	1.2	1.8	0.7	1.8	1.5	1.6	1.9	2.8	2.8	2.6	1.8
Foreign borrowing	53.5	56.1	51.7	57.3	46.0	49.7	45.9	54.5	59.3	51.5	58.1	69.9
(% of GDP)	4.5	4.5	3.8	3.8	2.8	2.8	2.3	2.5	2.5	2.0	2.1	2.3
Total borrowing	76.0	70.7	75.8	67.9	75.5	76.5	77.7	97.10	126.8	122.6	129.6	125.4
(% of GDP)	6.4	5.6	5.6	4.4	4.5	4.2	3.9	4.4	5.3	4.8	4.7	4.2

Source: Bangladesh Economic Review 2003

Soon after it reached to 1.8 % of GDP in 2002/03 again. In absolute term domestic borrowing was 55.5 billion taka in 2002/03 while it was 22.5 billion taka in 1991/92 and reached the peak in 2001-02 of 71.5 billion taka. Foreign borrowing was 53.5 billion in 1991/92 and 69.9 billion taka 2002/03 with its peak.

In terms of %age share of total public expenditure Table 5 shows that financing through borrowing was 42.42 % in 1992/93 which declined successively in the latter years up to 1997/98 and then began to rise further. In 1999/2000 total financing through borrowing rose to 35.96 % of public expenditure. Thus, almost one third of the public expenditure was meet by borrowing. One interesting thing is that where the foreign borrowing share to public expenditure declined from 33.66 % in 1992/93 to 16.82 % of public expenditure in 1999/2000, total domestic borrowing increased from 8.77 % to 19.14 % of public expenditure during the same period. It can be remembered that any form of borrowing can benefit an individual or a country if it finances additional productive investment with a rate of return greater than borrowing costs. However, in case of foreign borrowing it must be ensured that the extra output does generate additional foreign exchange earnings to be able to meet the repayment obligations in foreign currencies. In this context information of interest payment on borrowing can provide some important lesson.

Table 6 shows that interest payment increased from 1107 crore taka in 1991/92 to 4614 crore taka in 2002/03. Domestic interest payment increased from 634 crore taka to 3589 crore taka and foreign interest from 473 crore taka to 1025 crore taka during this period. There is an ever increasing trend in the interest payment. This rising claim on the budget for debt servicing is not likely to decline in the near future since such a debt burden becomes cumulative as more and more borrowing is needed to meet the past debt repayment obligation.

The tax effort of the government (Tax/GDP ratio) is very low compared even with other poor developing countries of the world. It has rounded almost 7-8 % of GDP in the nineties (Table 7). However, we have seen that the budget proposals have sometimes been very optimistic without making any realistic assessment of projected tax yield. The gap between expectation and realization of tax yield may have serious repercussions on macroeconomic performance of the country. A large shortfall in revenue yield can create serious problem and distort the pattern of the government expenditure.

Table 5: Financing Public Expenditure (% of public expenditure)

Year	Net domestic borrowing from system	Net domestic Non-Bank Borrowing	Total domestic borrowing	Net foreign financing	Total financing through borrowing
1992-93	1.77	6.99	8.77	33.66	42.42
1993-94	4.08	8.87	12.95	27.82	40.77
1994-95	-0.30	5.00	4.77	25.69	30.42
1995-96	7.17	5.49	12.79	20.16	32.95
1996-97	6.99	3.98	10.97	21.02	31.99
1997-98	4.70	7.21	11.91	17.22	29.13
1998-99	6.51	7.52	14.03	17.93	31.96
1999-00	9.99	9.15	19.14	16.82	35.96

Source: Ministry of Finance and World Bank.

Table 6: Share in Revenue Expenditure (crore taka)

Purpose	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Public Service	2810.0	3339.0	3598.0	38958.0	4207.0	4391.0	4645.0	5100.0	5715.0	5949.0	6801.0	7319.0
Interest payment	1107.0	1025.0	1067.0	1206.0	1739.0	1755.0	2319.0	2946.0	3554.0	4126.0	4520.0	4614.0
Domestic	634.0	550.0	519.0	606.0	1039.0	1080.0	1594.0	2221.0	2769.0	3306.0	3585.0	3589.0
Foreign	473.0	475.0	548.0	600.0	700.0	675.0	725.0	725.0	785.0	820.0	935.0	1025.0
Subsidy	2248.0	2231.0	2331.0	2727.0	3177.0	3480.0	3829.0	4850.0	4846.0	5578.0	5915.0	6573.0
Non-Distributed	23.0	22.0	45.0	18.0	37.0	27.0	779.0	643.0	914.0	1238.0	1231.0	1439.0

Source: Bangladesh Economic Review 2003

Table 7: Revenue Effort (% of GDP)

Items	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Total Revenue	7.4	8.3	9.1	9.2	9.8	9.2	9.6	9.5	9.0	8.5	9.6	10.2	10.3
Tax	6.1	6.5	7.3	7.1	7.9	7.3	7.9	7.7	7.4	6.8	7.8	7.8	8.3
Non-Tax	1.3	1.7	1.9	2.1	1.9	1.9	1.7	1.8	1.6	1.7	1.8	2.4	2.0

Source: Bangladesh Economic Review 2003

Performance of state owned enterprises are not satisfactory to produce a sound structure in the public economy. Table 8 shows that gross profit from government industry even reaches zero in the 1994/95, 1997/98, 2001/02.

The poor performance also comes from public agriculture and fisheries. Trading, although, renders 402 crore taka as gross profit in 1993/94, it downturned thereafter- yielding 101 crore taka in 1994/95, 0.5 crore in 1997/98, 80 crore taka in 1998/99 and further declines even to zero subsequently. This poor performance of public enterprises clearly reveals the miserable state of our public economy. Table 9 depicts the cumulative outstanding and default loan up to February 2003 by the state-owned enterprises. It shows up that total outstanding debt of state-owned enterprise was 6708.47 crore taka up to February 2003. While default loan by this period was 1335.65 crore taka.

The industrial sector come up with poor figures of gross profit (Table 8), lead to huge outstanding (3604.85 crore taka) and default (1016.33 crore) loan of state-owned enterprises (Table 9). The same is true for trading with 2823.69 crore taka outstanding and 95.31 core taka default. The agriculture and fisheries come next with 115.26 and 112.01 crore taka as outstanding and default respectively. The huge amount of default and outstanding loan by the state-owned enterprises clearly indicate the inefficiency in running their activities. Such state is not in any way a good sign for

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Table 8: Profits rendering of state-owned enterprises (crore taka)

Sectors	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Industry	10.00	0.00	0.37	1.50	0.00	1.65	2.50	3.00	0.00	5.00
Utility	30.00	60.70	70.68	100.95	100.30	150.46	116.45	106.31	140.38	153.45
Transport and Communication	12.50	28.00	28.50	28.50	46.00	55.00	0.13	5.50	4.00	54.00
Trade	402.0	101.00	67.00	60.75	0.50	80.00	...	1.00	3.00	0.00
Agriculture	0.00	0.00	0.00	0.50	0.10	0.95	0.00	0.00	0.00	0.00
Construction	1.28	1.28	0.33	1.11	0.93	11.61	1.45	1.00	1.00	4.15
Services	1.63	3.50	1.65	4.65	7.18		13.70	16.00	21.70	23.50
Total	457.41	194.48	168.53	197.96	155.01	299.67	134.23	132.81	170.08	240.10

Source : Bangladesh Economic Review 2003

Table 9: Outstanding and Default Loans of the State-owned Enterprises, up to February 2003 (crore taka)

Enterprises	Outstanding	Default
Industry	3604.85	1016.33
Utility	15.56	0.66
Transport	74.23	42.20
Trade	2823.69	95.31
Agriculture	115.26	112.01
Service	74.88	69.14
Total	6708.47	1335.65

Source : Bangladesh Economic Review 2003

Table 10: Flow of foreign aid (Million US \$)

Period	Commitment		Actual		Grants : loan
	Grants	Loan	Grants	Loan	
1971-74 to 1974-75	1,448	1,862	1,324	860	61:39
(Average)	362	465.5	331		215
1975-76 to 1981-82	3,989	5,236	3,282	3,527	48:52
(Average)	570	748	469		504
1982-83 to 1990-91	7,251	8,157	6,323	7,142	47:53
(Average)	806	905	702		793
1991-92 to 1995-96	4,063	4,428	3,912	4,115	49:51
(Average)	812	885	782		823
1996-97 to 2000-01	3,846	5,783	3,132	4,087	43:53
(Average)	769	1157	627		817
2002-03	402	477	479		963 33:67
Total	20,999	25,943	18,458	20,694	47:53
(Average)	677	837	595		667 47:53

Source: Calculated from the Flow of External Resources, Economic Relations Division, GOB, 2003.

Table 11: Dependency on Foreign Aid

Aid	1989-90	1991-92	1993-94	1995-96	1997-98	1999-2000	2002-03
Per Capita US \$	16.5	14.5	13.5	11.8	9.9	12.0	11.1
Aid as % of GDP	8.8	6.8	6.1	4.5	3.7	4.1	3.9

Calculated From the Flow of External Resources, Economic Relations Division, GOB- 2003.

Table 12: Composition of Foreign Aid by Purpose. (%)

Aid	1971/72	1975/76	1980/81	85/86	1990/91	1995/96	1999/2000
Food Aid	43.3	26.4	19.7	14.4	10.6	8.8	7.2
Commodity Aid	42.1	42.6	35.0	28.8	23.6	16.1	14.2
Project Aid	14.7	30.5	45.3	56.8	65.8	75.1	78.6

Source: Calculated From the Flow of External Resources, Economic Relations Division, GOB 2003.

Table 14: Foreign debt repayment. (million US dollar)

Period	Total debt repayment			Total export	Total forex receipt earnings	Debt payment as % of export	Debt payment as % of forex	Outstanding foreign debt at the end
	Interest	Capital	Total					
1973/74-74-75	22	67	89	761	909	11.69%	9.79%	974
(Average)	(11)	(33.5)	(44.5)	(385)	(454)			
75-76 to 81-82	248	297	545	3973	6501	13.71	8.38	4959
(Average)	35	42	78	568	929			
82-83 to 90/91	809	1244	2053	10090	18950	20.35	10.83	12714
(Average)	90	138	228	1121	2106			
91/92 to 95/96	707	1342	2049	15266	23041	13.42	8.89	15166
(Average)	141	268	410	3053	4612			
96/97 –00/01	781	1881	2662	27161	39556	9.80	6.73	15074
(Average)	156	376	532	5432	7911			
2002-03	151	435	586	5986	9295	9.79	6.30	16553

Source: Calculated from Economic Relations Division, Ministry of Finance GOB. 2003.

Table 15: Beneficiaries of foreign aid (1971-72 to 1998-99)

Beneficiaries	Creore taka	%age share
Overseas machinery supplier	23400	13
Overseas consultant	21600	12
Commission Agent (domestic)	10800	6
Bureucrat-Politician	12600	7
Consultant (domestic)	7200	4
Contractors	23400	13
Urban-Rural elites	36000	20
Labour-farmer	45000	25
Total	180000	100

Source: Calculated from the flow of external resources, Finance Division, GoB.

sound economic management of a country. This kind of inefficiency very often lead to subsidize the production of state-owned enterprises and distorts market mechanism creating discriminatory competitions with the private producers.

**Foreign Aid Inflow in Bangladesh:** Bangladesh received a total amount of US \$ 39152 million of foreign aid since independence up to 2002-2003 fiscal year. Table 10 shows that annual average Foreign aid flows to Bangladesh have increased from US \$ 546 million initially in the beginning of the seventies (71/72 to 74/75) to US \$ 1605 million in the early nineties (1991-96) and then declined again to US \$ 1444 million in the late nineties (1996-2001). In 2002-03 aid flow was 1442 million US dollar. It also reveals that the country's share of grants in total foreign debt is declining while the share of loan is increasing. The proportion of grant to loan is on an average through 1971-2003 is 47:53. The share of grant in foreign aid declined from 61 % for the period 1971/72-74/75 to 48 % in the period 1975/76-1981/82; 47 % in the period 1982/83-1990/91; to 49 % in 1991/92-1995-96, a drastic fall to 43 % in 1996/97-2000/01 and a further fall to 33 % in 2002-03. Table 10 also shows that there is a significant shortfall between the commitment and actual receipt.

Although foreign aid inflows increased almost all the periods stated above yet both in per capita terms and as a share of GDP disbursement of aid in general declined in the nineties as can be seen in Table 11. Per capita foreign aid in 1989-90 was 16.5 which declined to 9.9 in 1997-98 and rose to 11.1 in 2002-03. While in terms of GDP share foreign aid declined from 8.8 % in 1989-90 to 3.7 in 1997 and rose again to 3.9 in 2002-03.

The composition of foreign aid by use has undergone a dramatic change from early seventies to the late nineties as indicated in Table 12. Following the better performance of the domestic food production, the share of foreign assistance for food has gone down continuously from a high of around 43 % in early seventies (1971/72-1974/75) to less than 10 % by the late nineties-. 7.2 % in 2002/03. During the same period project aid-typically tied aid- grew from 14.7 % to 78.6 % and the commodity aid fell from a high of 42 % to mere 14 %.

**The Vicious Circle of Foreign Debt:** Bangladesh is now going through the vicious circle of foreign debt. The chains that has been developed in past thirty years of her indebtedness is clear in Table 14. The last column of the Table

shows the extent of the growth of her outstanding foreign debt in the past years. It increased in a cumulative manner from a mere US \$ 974 million in 1973/74-1974/75 to US \$ 16.553 million in 2002/03. Table 14 depicts that foreign debt repayment increased tremendously from a mere 44.5 million US dollar in the early seventies (1973/74 to 74/75) to US \$ 586 million with an ever-increasing rate. Both the interest repayment as well as capital payment increased with time. Most interesting is that if we consider the year to year debt repayment against the year's aid inflow- a thrilling, terrific and dangerous picture emerges. Table 14 shows that annual average debt repayments (interest plus capital) for the period 1991/92-1995/96 was US \$ 410 million while annual average loan receipts for that period was US \$ 823 million (Table 10 column 5). It follows therefore that almost 50 % of the loan inflow goes back during the same year as repayment. Ten years later-during the fiscal 2002-03 debt repayment was US \$ 586 million (Table 14) while loan receipt is US \$ 963 million (Table 10)- almost 61 % thus going back as repayment ! This high rate of repayment has been causing high pressure on our limited foreign exchange reserve. And along with this increasing volume of foreign aid the country has to repay more cumulatively as Grant's share is declining (Table 10) and become more indebted further. A vicious circle of foreign debt thus nets the country in the long run. One happy thing is that in terms of export and total forex receipt debt repayment has begun to reduce in the nineties compared to the increasing trend in the seventies and eighties (Table 14). But the concern is that export earnings has gained a tremendous boost with the improvement of garments sector export in the nineties. Further development of the sectors remains uncertain in the wake of the MFA phase out in 2005. This is also true in case of remittances of manpower export received by the country. The world economy is currently growing with a slower pace and the country is far from harvesting the benefit from the so-called "war against terrorism" in different form of reconstruction and peace-making activities in different regions worldwide.

**Aid, Growth and Development:** There is no dearth of literature to argue that that foreign aid raises GDP growth and which by 'trickle-down' process raises the level of income of the poor. But statistically it is found that (see regression results in the appendices) the correlation between GDP growth and foreign aid inflow is negative for the period 1972-73 to 2000-2003, the correlation coefficient being (-) 0.56 which worked out as (-) 0.456 in the nineties. So a positive relationship between aid and growth falls flat on the basis of empirical test in Bangladesh. The development scenario will also bear out the importance of aid in the this respect. In Bangladesh almost 6 crore people of its 13 crore live below poverty level, 7 crore deprived from primary health care, 8 crore people lack sanitation, 4 crore adult illiterate, 2 crore children deprived from education, 1 crore children suffer from malnutrition, 30 lakh children born without health care, 20 lakh newborn babies are under -weighted, 2 lakh children died before reaching age 5, 2.5 crore people are unemployed or underemployed, 650 children died daily from malnutrition-diseases and so on ( UNDP). Structural backwardness of the country lend itself to aid dependency for consumption purpose. Bangladesh could not store even 1,00,000 ton food grain in any bumper harvest. As a result, keeping consumer price stable and to avoid famine we have to beg food aid in a regularly fashion. We can't restructure our textile and jute industries but can lay off them and beg for consultancy aid. Growing inequality in income distribution results in consumption related import bias. BIDS (1997) found that almost 40 % of current consumption of the urban elite directly depends upon foreign aid. This kind of import bias for consumption is revealed in their clothing, housing, consumer durable, travel etc. It can be regarded that directing foreign aid for the purpose of meeting this import-biased consumption gives rise to misuse of resources.

In a recent work Khan (2001) has shown for the period 1980-1999 that in the presence of Japanese aid, approximately 25-31 % of this aid goes to development expenditure on the margin if the policy maker is "non-developmental". If the policymaker is "developmental" it performs slightly better with about 51-64 % of aid going for development purpose. In the case of aid other than Japanese the performances are worse further. The picture is quite revealing as we see the beneficiaries of foreign aid in Bangladesh in the past thirty years. Table 15 depicts such a picture. The Table shows that in the past thirty years foreign machinery suppliers and consultants got back 25 % of total aid (45000 crore taka), bureaucrat-politicians, commission agents, domestic consultants, contractors received 30 % (54000 crore taka), urban and rural elites received 20 % (36000 crore taka) and only 25 % went to those poor people for whom aid was meant for ! If we consider the fact that in terms of consultancy and machinery supply foreigners receive 25 % of the total aid –and we have to pay back 61 % more as debt repayment (Table 14 and 10) we see what portion of aid is actually being used for the people of the country !!

## **Conclusion**

This study attempts to appreciate the significance of foreign aid in the development process of Bangladesh. Bangladesh in the initial years needed foreign assistance even to fulfill its food requirement. But the situation changed later and now a day only 10 % of total aid comes in the form of food aid. But the of improvement in food production has not ensured food security as indicated by the extent of poverty. The problem of poverty is essentially a problem of

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market failure. Hence the government will have to play a pro-active role in the economic development to alleviate poverty. Government sectors performances have been poor and so is the revenue effort. This has prolonged aid dependency trap for the government. Foreign assistance, both in terms of per capita and as a share of GDP have been declining. But it appears that decreasing foreign aid dependence is happening by default and not by desire-since recent development suggest that government and some of its agencies are trying to contract foreign assistance at relatively unfavorable terms compared to those we have been receiving so far. This is apparent when we look at the recent development in the total outstanding debt. The government of Bangladesh has recently been borrowing heavily from the domestic source. Financing in a self-reliant manner and efficient use of government expenditure thus should be ensured. Our regression results show that a large part of the development assistance in the past contributed neither to economic growth nor to reducing poverty in Bangladesh. Effective utilization of aid and resources in general need to be ensured to get benefit out of such resources.

Appendix: Regression of GDP Growth as a function of Foreign Aid Inflow.

Appendix 1.1: GDP Growth (in %age) and Foreign Aid Inflow- (in million US \$).

Year	GDP growth	Aid flow	Year	GDP growth	Aid flow
1972-73	3.30	551.00	1988-89	2.52	1668.00
1973-74	8.30	461.00	1989-90	6.63	1810.00
1974-75	3.10	901.00	1990-91	3.40	1732.00
1975-76	9.40	801.00	1991-92	4.20	1611.00
1976-77	1.30	535.00	1992-93	4.57	1675.00
1977-78	7.60	834.00	1993-94	4.08	1559.00
1978-79	4.40	1030.00	1994-95	4.93	1739.00
1979-80	3.70	1223.00	1995-96	4.62	1443.00
1980-81	5.90	1146.00	1996-97	5.39	1481.00
1981-82	0.81	1240.00	1997-98	5.23	1251.00
1982-83	3.61	1177.00	1998-99	4.87	1536.00
1983-84	4.23	1268.00	1999-2000	5.94	1588.00
1984-85	4.12	1269.00	2000-01	5.27	1369.00
1985-86	4.34	1306.00	2001-02	4.42	1465.00
1986-87	4.18	1595.00	2002-03	5.33	1442.00
1987-88	2.89	1640.00			

Source: Bangladesh Economic Review.

Appendix 1.2: Regression Results for the period 1972/73-2002/03. Descriptive Statistics

Mean	Std.	Deviation	N
GDP	4.5994	1.7918	31
AID	1301.4839	370.9022	31

Correlation coefficient between GDP and Aid = -.145

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.145	.021	-.013	1.8030	2.995

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.035	1	2.035	.626	.435
Residual	94.276	29	3.251		
Total	96.311	30			

Coefficients

	Unstandardized Coefficients B	Standardized Coefficients	t	Sig.	Collinearity Statistics Tolerance	VIF
		Std. Error	Beta			
(Constant)	5.513	1.200		4.596	.000	
AID	-7.022E-04	.001	-.145	-.791	.435	1.000



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Appendix 1.3: Regression Results for the period 1990/91-2002/03. Descriptive Statistics

	Mean	Std. Deviation	N
GDP	4.7885	.6722	13
AID	1530.0769	142.0132	13

Correlation coefficient between GDP and Aid = -0.456

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.456	.208	.136	.6248	2.006

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.129	1	1.129	2.893	.117
Residual	4.293	11	.390		
Total	5.423	12			

Coefficients

	Unstandardized Coefficients B	Standardized Coefficients		t	Sig. Statistics	Collinearity Tolerance	VIF
		Std. Error	Beta				
(Constant)	8.093	1.951		4.149	.002		
AID	-2.160E-03	.001	-.456	-1.701	.117	1.000	1.000

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