

Chapter 7

CAPITAL BUDGET OF THE GOB AND DEPENDENCY ON FOREIGN ECONOMIC ASSISTANCE

1. Introduction

Like many other developing countries of the world, as noted in Chapter 4, the GOB formulates two types of budget namely, revenue budget and capital budget. These two budgets are commonly known as non-development and development budget respectively. In the preceding two chapters we have explained the receipts and expenditure sides of the revenue budget of the GOB respectively. The present chapter is an attempt to explain briefly the receipts and expenditure sides of the development budget of the GOB during the period under study. Finally, an attempt is also made to show the dependency of the Bangladesh Budget (especially development budget) on foreign aid for the said period.

According to the budget document¹, capital receipts are divided into two parts, namely :

- i) Internal Capital Receipts, and
- ii) External Capital Receipts.

Internal Capital Receipts include :

- a) Loans and Advances (net),
- b) Public Accounts :
 - i) Unfunded Debt (net), and
 - ii) Other deposits and Advances (net)
- c) Permanent Debt (net domestic); and
- d) Floating Debt (net) i.e., Promisory Notes and Treasury Bills².

External capital receipts, on the other hand, include foreign loans and grants in the form of³ :

- a) Project Aid;
- b) Non-Project Aid (counterpart fund from commodity aid; and
- c) Food Aid (counterpart fund from food transactions).

According to the budget document, capital expenditure of the GOB comprises sector-wise development expenditure under Annual Development Programme (ADP), non-development expenditure within the capital budget, expenditure on food budget and non-ADP projects. However, we are mainly interested with the analysis of sector-wise development expenditure under ADP which constitutes more than 80% of the total capital expenditure of the GOB⁴.

Accordingly, this chapter is organised in the following way. Section 2 deals with the growth and composition of the total capital receipts of the GOB during the period between 1972-73 and 1984-85. Note that the analysis of the composition of external capital receipts of the GOB is not included in this section. This is included in Section 4 where an attempt is made to show the dependency of the Bangladesh Budget on foreign aid. Section 3 deals with the sector-wise development expenditure of the GOB over the years.

2. Growth and Composition of Capital Receipts of the GOB

The total capital receipts of the GOB, as shown in Table 1, have increased from Tk. 4621 million in 1972-73 to Tk. 35518 million in 1984-85. In other words, the total capital receipts of the GOB have increased at a compound rate of 18.5% per annum over the years. The year to year trend of growth of the total capital receipts was, however, fluctuating in nature with a high of 126.1% in 1975-76 and

a low of 14.5% in 1972-73.

The total internal capital receipts of the GOB, as shown in Table 1, have increased from Tk. 933 million in 1972-73 to Tk. 2448 million in 1984-85. The compound rate of growth of internal capital receipts was 8.4% per annum over the years. The year to year growth rates of internal capital receipts were, however, not steady but fluctuating in nature with a high of 290.4% in 1975-76 and a low of 119.3% in 1974-75.

The total external capital receipts of the GOB, as shown in Table 1, have increased from Tk. 3688 million in 1972-73 to Tk. 33070 million in 1984-85. In other words, the total external capital receipts have increased at a compound rate of 20.0% per annum over the years. The year to year growth trend was, however, not steady but oscillating in nature with a high of 123.1% in 1974-75 and a low of 36.9% in 1973-74.

Despite the varying nature of the growth rates of both internal and external capital receipts over the years, their relative shares to the total capital receipts remained almost invariable throughout the whole period under study. Table 1 shows that the external capital receipts constituted on an average more than 90% of the total capital receipts for the whole period under study and about less than 10% of the total capital receipts were shared by the internal capital receipts. Thus the dependency of the capital budget of the GOB on foreign assistance for the whole period under study is easily understood.

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Table 1
Growth of Internal, External and Total Capital Receipts of the GOB (1972-85)

(Tk. in million)

Year	Total Capital Receipts	Growth Rates	Internal Capital Receipts	Growth Rates	External Capital Receipts	Growth Rates	4 as % of 2	6 as % of 2
1	2	3	4	5	6	7	8	9
1972-73	4621	--	933	--	3688	--	20.2	79.8
1973-74	3951	-14.5	1625	74.2	2326	-36.9	41.1	58.9
1974-75	5550	40.5	360	-77.8	5190	123.1	6.5	93.5
1975-76	11021	98.6	598	290.4	10423	100.8	5.4	94.6
1976-77	8734	-20.7	530	-11.4	8204	-21.3	6.1	93.9
1977-78	11760	34.6	493	-7.0	11267	37.3	4.2	95.8
1978-79	13538	15.1	563	14.2	12975	15.1	4.2	95.8
1979-80	19379	43.1	644	14.4	18735	44.4	3.3	96.7
1980-81	19194	-0.9	1037	37.9	18157	-3.1	5.4	94.6
1981-82	23166	20.7	1306	25.9	21860	20.4	5.6	94.4
1982-83	30179	30.3	1259	-3.6	28920	32.3	4.2	95.8
1983-84	38731	28.3	3897	209.5	34834	20.4	10.1	89.9
1984-85	35518	-8.3	2448	-37.2	33070	-5.1	6.9	93.1

Source: Col. 2, 4 and 6 from The Budget in Brief (1989-90), Statistical Appendix, Table IV and V, Ministry of Finance, GOB.

Internal capital receipts, as noted earlier, comprise loans and advances, public account (unfunded debt, and other deposits and advances), permanent debt and floating debt. Table 2 shows that except for the first two years after liberation, the public account constituted the highest percentage share to the total internal capital receipts of the GOB over the years. On an average, this head constituted about 50% of the total internal capital receipts during the period under study. Table 2 also shows that the two components of public account i.e., unfunded debt and other deposits and advances contributed on an average almost equal share (about 25%) to the total internal capital receipts over the years.

During the early seventies though permanent debt constituted the highest percentage share, from 1975-76 as shown in Table 2, its share declined gradually and on an average constituted 23.0% of the total internal capital receipts. Similarly, a considerable percentage of internal capital receipts was shared by floating debt for the first two years. But after 1974-75, the share of floating debt declined and on an average this head contributed 9.9% of the total capital receipts over the years. The share of loans and advances was very low during the early seventies but increased considerably during the eighties and on an average this head contributed 17.8% of the total internal capital receipts over the years.

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Now taking the different plan periods into consideration Table 3 shows that the rate of growth of the total capital receipts of the GOB though increased from 20.5% during the FFYP to 28.4%

Table 2

Composition of Internal Capital Receipts of the GOB from 1972-73 to 1984-85
and Their Relative Shares to the Total Internal Capital Receipts

Head	72-73	73-74	74-75	75-76	76-77	77-78	78-79
1. Loans and Advances	-61.0 (-6.5)	20.7 (1.3)	87.5 (24.2)	244.0 (40.8)	57.2 (10.8)	--	--
2. Public Account	107.0 (11.4)	105.1 (6.5)	163.7 (45.5)	328.9 (55.0)	455.2 (85.8)	282.5 (57.2)	420.9 (74.8)
(a) Unfunded Debt	67.3 (7.3)	35.7 (2.2)	84.0 (23.3)	141.6 (23.7)	221.5 (41.7)	162.5 (32.9)	245.0 (43.5)
(b) Other Deposits and Advances	39.7 (4.1)	69.4 (4.3)	79.7 (22.2)	187.3 (31.3)	233.7 (44.1)	120.0 (24.3)	175.9 (31.3)
3. Permanent Debt (Domestic)	637.4 (68.3)	819.3 (50.4)	155.0 (43.1)	-7.4 (-1.1)	--	99.2 (20.2)	56.6 (10.1)
4. Floating Debt	250.0 (26.8)	680.0 (41.8)	-45.7 (-12.8)	32.1 (5.3)	18.1 (3.4)	111.2 (22.6)	85.6 (15.1)
Total	933.4 (100)	1625.1 (100)	360.5 (100)	597.6 (100)	530.5 (100)	492.9 (100)	563.1 (100)

Note : Figures in parenthesis indicate percentages; slight discrepancies are due to rounding

Source: The Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, Table IV, p. 46.

Table 2 (Contd..)

Head	79-80	80-81	81-82	82-83	83-84	84-85
1. Loans and Advances	-- --	413.1 (39.8)	458.0 (35.1)	327.9 (26.1)	322.4 (8.3)	830.6 (33.9)
2. Public Account	465.9 (72.4)	571.7 (55.1)	829.7 (63.5)	790.0 (62.7)	1670.0 (42.9)	1480.0 (60.4)
(a) Unfunded Debt	265.0 (41.2)	300.0 (28.9)	355.0 (27.2)	340.0 (27.0)	595.0 (15.3)	700.0 (28.6)
(b) Other Deposits and Advances	200.9 (4.1)	271.7 (4.3)	474.7 (22.2)	450.0 (31.3)	1075.0 (44.1)	780.0 (24.3)
3. Permanent Debt (Domestic)	126.2 (19.7)	-- --	-60.0 (-4.6)	19.9 (1.6)	1814.5 (46.5)	37.3 (1.6)
4. Floating Debt	51.5 (7.9)	52.0 (5.1)	78.5 (6.0)	121.1 (9.6)	90.3 (3.3)	99.7 (4.1)
Total	643.6 (100)	1037.0 (100)	1306.2 (100)	1258.9 (100)	3897.2 (100)	2447.6 (100)

Table 3

Growth and Composition of Capital Receipts of the
GOB during Different Plan Periods

(In percent)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Total Capital Receipts	20.5	28.4	12.9
2. Internal Capital Receipts	-12.0	14.3	30.6
3. External Capital Receipts	25.0	28.9	12.1
4. (2) as % of (1)	12.7	3.8	6.4
5. (3) as % of 1	87.3	96.2	93.6

Source : Calculated on the basis of Table 1.

during the TYP, decreased upto 12.9% during the SFYP. The growth rate of internal capital receipts increased from the negative -12.0% . During the FFYP to the positive 14.3% and 30.6% during TYP and the SFYP respectively. External capital receipts, on the other hand, though increased at a compound rate of 25.0% and 28.9% during the FFYP and the TYP respectively, its growth rate declined to 12.1% during the SFYP.

On the basis of yearly averages, as shown in Table 3, internal capital receipts constituted 12.7% of the total capital receipts during the FFYP and 3.8% and 6.4% during the TYP and the SFYP respectively. External capital receipts on the other hand, constituted 87.3% of the total capital receipts during the FFYP and 96.2% and 93.6% during the TYP and the SFYP respectively reflecting the

fact that the capital budgets of the GOB were almost entirely dominated by foreign economic assistance, of which more later.

3. Capital Expenditure of the GOB

Capital or development expenditure generally denotes physical investment under different sectors of the economy within the framework of Annual Development Programme (ADP). Table 4 shows that the total development expenditure of Bangladesh has increased steadily over the years. In 1972-73, total development expenditure

Table 4

Trend of Growth of Total Development Expenditure
(ADP) of the GOB (1972-85)

Year	Total Development Expenditure (ADP)	Growth Rates (%)	GDP (at current factor cost)	2 as % of 4
1	2	3	4	5
1972-73	2139.5	...	42837	5.0
1973-74	4648.2	116.9	68977	6.7
1974-75	5250.0	13.2	123949	4.2
1975-76	9650.0	83.8	103198	9.3
1976-77	10037.1	4.2	99874	10.0
1977-78	12026.4	19.6	139204	8.6
1978-79	16028.3	33.2	163909	9.8
1979-80	22597.6	45.3	197633	11.4
1980-81	23689.9	1.2	219799	10.8
1981-82	27152.5	14.6	251320	10.8
1982-83	29760.2	9.6	272953	10.9
1983-84	34326.8	15.3	331068	6.4
1984-85	35084.2	2.2	395168	8.9
FFYP (1973-78)		41.2		7.6
TYP (1978-80)		37.1		10.6
SFYP (1980-85)		9.2		10.4

Source: Col. (2) from The Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, pp. 42-45. Col (4) from various issues of the Bangladesh Bureau of Statistics, GOB.

of the GOB was Tk. 2139.5 million while in 1984-85, it amounted to Tk. 35084.2 million. In other words, total development expenditure increased at a compound rate of 26.2% per annum over the years. The year to year trend of growth rates, however, showed see-saw fluctuations varying between a low of 1.2% in 1981-82 and a high of 116.9% in 1973-74.

Taking different plan periods into consideration, Table 4 shows that during the FFYP (1973-78) total development expenditure increased at a compound rate of 41.3% per annum. During the TYP (1978-80) and the SFYP (1980-85) the rate of growth declined marginally to 37.1% per annum and sharply to 9.20% per annum respectively.

On the basis of yearly averages, during the FFYP, total development expenditure constituted 7.6% of the GDP. During the TYP and the SFYP, total development expenditure constituted 10.6% and 10.4% of the GDP respectively. Table 4 shows that the share of development expenditure to the GDP fluctuates considerably during the initial years but stabilises later on. The periodic averages for the late seventies (1978-80) and for the early to the mid-eighties (1980-85) show that the share of development expenditure to the GDP stabilises around 10% reflecting rather a little change in the structure of development expenditure of Bangladesh for the said period.

We know that the level of government expenditure is usually taken as a measure of government involvement in economic activity of a country. But development expenditure of the GOB amounting to only 10% of the GDP, no doubt, reflects a poor involvement in the

development activities of the country. A U.N. report noted that the involvement of the GOB in its economic activities was very low compared to that of other developing countries of the region surrounding Bangladesh. In fact, amongst 17 developing countries, Bangladesh was at the bottom of the list.⁵

Calculations based on constant 1972-73 prices (wholesale price deflator) as shown in Table 5, may provide us with a better idea about the development expenditure of the GOB over the plan periods. At 1972-73 prices the size of the first ADP of 1973-74 was Tk. 3320 million, by the end of the FFYP it was Tk. 5280 million and rose to Tk. 8310 million in 1979-80 and declined to Tk. 7180 million in 1984-85. At constant (1972-73) prices the size of the ADP grew at a compound rate of 7.3% per annum. The rate of growth, however, varied significantly from plan to plan. During the FFYP, at constant prices, ADP grew at 12.3%, during the TYP it grew at the rate of 25.6% (constant prices) but in the terminal year of the SFYP it declined in real terms.

Table 5
Annual Development Programmes

(Tk. in million)

Year	ADP (at current Prices)	ADP (at 1972-73 prices)
1973-74 (Starting Year)	4640	3320
1977-78 (Terminal Year of the FFYP)	12030	5280
1979-80 (Terminal Year of the TYP)	23300	8310
1984-85 (Terminal Year of the SFYP)	34980	7180

Note : Deflator used is WPI (Wholesale Price Indices) with 1972-73 as base.

Source: The Third Five-Year Plan (1985-90), Planning Commission, GOB, Chapter 1, p. 3.

For better understanding, however, it is necessary to explain the growth and pattern of development expenditure under various (major) sectors of the economy. Such an attempt is made in Table 6 where for the sake of analytical simplicity, different sectors, as recorded in the budget documents, are rearranged. Heads which serve almost the same purpose and are related to each other are joined together. Again, we like to note that no attempt is made here to explain project-wise allocation of funds under different sectors but only a general discussion to show the trend and nature of development expenditure over the years is attempted.

Agriculture

Bangladesh is predominantly an agricultural country. This sector (comprising crop production, fishery, forestry and livestock) contributes about 55%⁶ to the GDP and about 85%⁷ of the total population are directly and indirectly related to this sector for employment. During the pre-literation period, agriculture in Bangladesh was almost primitive in nature and output per acre was one of the lowest in the world. So, from the very beginning, the GOB has been giving all-out effort to improve this sector especially to attain the objective of self-sufficiency in the production of food-grains by ensuring the supply of agricultural inputs and other services to the door-step of the farmers at subsidised rates.

Table 6 shows that development expenditure under this head has increased steadily from Tk. 3401 million in 1972-73 to Tk. 3141.2 million in 1984-85. In other words, development expenditure under this head grew at a compound rate of 20.3% per annum over the years. Table 6 also shows that on an average about 14% of the total

Table 6

Growth of Development Expenditure under Different (Major) Sectors and Their Percentage Shares to the Total Development Expenditure of the GOB (1972-85)

(Tk. in million)

Sector	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-89
1. Agriculture	340.1 (15.9)	575.8 (12.4)	638.8 (12.2)	1301.8 (13.5)	1529.0 (15.2)	1541.4 (12.8)	2345.1 (14.6)
2. Flood Control and Water Resources	270.0 (12.6)	696.6 (15.0)	860.0 (16.3)	1340.7 (13.9)	1199.1 (12.0)	1427.4 (11.9)	1725.3 (10.8)
3. Industries	16.9 (.8)	525.1 (11.3)	650.0 (12.4)	1166.2 (12.1)	1436.2 (14.2)	1901.2 (15.8)	3040.2 (19.0)
4. Power and Natural Resources	126.8 (5.9)	496.7 (10.7)	780.8 (14.9)	1370.0 (14.2)	1271.4 (12.7)	1628.1 (13.5)	2316.4 (14.4)
5. Transport and Communication	256.4 (12.0)	1096.7 (23.6)	998.3 (19.0)	1796.3 (18.6)	2270.1 (22.6)	2264.6 (18.8)	2565.4 (16.0)
6. Rural Development	262.7 (12.3)	286.3 (6.1)	273.0 (5.2)	659.6 (6.8)	540.0 (5.4)	755.9 (6.3)	1089.1 (6.8)
7. Education, Health and Family Planning	161.8 (7.6)	464.0 (10.0)	582.8 (11.1)	1125.9 (11.7)	989.3 (9.8)	1320.1 (11.0)	1625.6 (10.1)
8. Physical Planning and Housing	102.9 (4.8)	233.5 (5.0)	340.0 (6.5)	690.0 (7.1)	630.2 (6.3)	808.9 (6.7)	966.0 (16.0)
9. Others	601.9 (28.1)	273.5 (5.8)	126.3 (2.4)	199.5 (2.1)	177.8 (1.8)	377.8 (3.1)	355.2 (2.2)
Total	2139.5	4648.2	5250.0	9650.0	10037.1	12026.4	16028.3

Table 6 (Contd..)

Sector	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	Yearly Averages
1. Agriculture	2938.2 (13.0)	3227.5 (13.6)	3698.4 (13.6)	4721.2 (15.9)	4757.7 (13.9)	3141.2 (8.9)	(13.5)
2. Flood Control and Water Resources	2971.6 (13.2)	3571.8 (15.1)	3991.7 (14.7)	3684.1 (12.3)	4695.8 (13.7)	5146.5 (14.7)	(13.7)
3. Industries	5627.2 (15.1)	3367.0 (14.2)	3676.9 (13.5)	3145.1 (10.6)	3325.5 (9.7)	2397.9 (6.8)	(12.0)
4. Power and Natural Resources	3728.9 (16.5)	3530.3 (14.9)	4085.5 (15.1)	5970.8 (20.1)	7939.5 (23.1)	8392.3 (23.9)	(15.4)
5. Transport and Communication	4120.3 (18.2)	4463.5 (16.8)	4405.8 (16.2)	5653.0 (19.0)	3406.5 (9.9)	2876.7 (8.2)	(17.1)
6. Rural Development	1043.3 (4.6)	1033.8 (4.4)	1126.8 (4.2)	1159.6 (3.9)	1057.3 (3.1)	1102.1 (3.1)	(5.9)
7. Education, Health and Family Planning	2005.6 (8.9)	2324.5 (9.8)	2675.8 (9.8)	2750.9 (9.2)	3205.6 (9.3)	3390.4 (9.7)	(9.9)
8. Physical Planning and Housing	1448.2 (6.4)	1467.4 (6.2)	1774.4 (6.5)	1496.0 (5.0)	1471.6 (4.3)	1081.7 (3.1)	(5.7)
9. Others	694.3 (3.1)	704.1 (3.0)	1714.2 (6.3)	1179.5 (4.0)	4470.0 (13.0)	7555.4 (21.5)	(6.7)
Total	22597.6	23689.9	27152.5	29760.2	34326.8	35084.2	(100)

Note: Figures in parenthesis indicate percentages to the total; slight discrepancies are due to rounding.

Source : Calculated on the basis of statistics from the Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, pp. 42-45.

development expenditure was shared by this sector over the years. The fact that the share of agriculture to the total development expenditure declined sharply in 1984-85 was primarily the result of the reduction and/or withdrawal of subsidies from the agricultural inputs following the World Bank's prescription⁸.

Flood Control and Water Resources:

Flood control and water resources development is an essential pre-requisite for the overall economic development of Bangladesh. Specially, the development of agriculture is largely dependent on the optimum utilisation of the available water resources, both surface and ground, and on the protection from flood that occurs in Bangladesh almost in each and every year causing serious damage to crops and properties. Expenditures under this head are mainly made for providing irrigation, flood prevention, construction of dams, canals, etc.

Table 6 shows that development expenditure of the GOB under this head has increased steadily from Tk. 270.0 million in 1972-73 to Tk. 5146.5 million in 1984-85 or it grew at a compound rate of 27.8% per annum over the years. And on an average 14% of the total development expenditure was shared by this sector during the said period.

Industries:

Bangladesh does not possess a sound industrial base. The pre-liberation union with Pakistan was, as noted earlier, a period of deprivation, especially in the field of industrial development. Thus in 1972-73 (just after liberation) the share of industries constituted only 7.3% of the GDP⁹. Moreover, this sector has

experienced severe damage during the war of liberation in 1971. A provisional estimate by the Planning Commission showed the replacement cost of damaged industrial assets and properties at Tk. 291.5 million of which 77% was in the public sector and the rest in the private sector¹⁰.

After liberation, on March 26, 1972, the GOB took over about 544 abandoned industrial enterprises of the Pakistanis and absentee owners and brought under public ownership about 250 industrial enterprises with 89% of industrial fixed assets. Public corporations were established in various industries like jute, textile, sugar, steel, etc., which were again reorganised and rationalised after the fall of the Muzib regime in 1975.

With a view to accelerating the industrial investment in the country, due importance has been given by the successive governments since liberation. Table 6 shows that development expenditure under this sector has increased from Tk. 15.9 million in 1972-73 to Tk. 2397.9 million in 1984-85. Over the years, this sector shared on an average 12% of the total development expenditure. The notable feature is that during the seventies, development expenditure under this head increased steadily but from the early eighties its share to the total development expenditure started declining. This was mainly due to the fact that the GOB started implementing the policy of denationalisation of losing industrial units especially from 1980-81¹¹. Another striking feature is that though the industrial sector contributed about 8% share in the GDP (yearly average of 1972 and 1985) it got almost equal share in development expenditure

particularly during the seventies with the agricultural sector having on an average 55% share in the GDP during the said period. This reflects the fact that more attention was paid to industries than to agriculture in the successive ADPs during the period under study.

Power and Natural Resources:

The development of industry and agriculture is largely dependent on the optimum utilisation of the available power and natural resources of the country. Regarding this twin basic infrastructure, Bangladesh is not, however, rich enough. So, from the very beginning, this sector, especially power, continued to receive higher attention in the development programmes in view of its crucial bearing on agriculture and industrial progress.

Table 6 shows that development expenditure under power and natural resources taken together has increased steadily from Tk. 126.8 million in 1972-73 to Tk. 8392.3 million in 1984-85 or at a compound rate of about 40% over the years. On an average power and natural resources shared about 16% of the total development expenditure over the years.

Transport and Communication:

After independence, Bangladesh inherited a completely shattered and disrupted transport and communication system. This sector continued to share a higher amount of development expenditure since liberation. Table 6 shows that development expenditure under transport and communication systems taken together has increased from Tk. 256.4 million in 1972-73 to Tk. 2876.7 million in 1984-85. In other words, allocations under this sector grew at a compound

rate of 22% per annum over the years. And on an average, this sector shared 17% of the total development expenditure of the GOB over the years.

Rural Development:

In connection with the agricultural development, the GOB after liberation launched a separate programme, namely, Rural Development Programme which comprises the Integrated Rural Development Programme (IRDP), Shawnirnor (Self-Reliant) Movement and Food for Works Programme¹². Table 6 shows that this head constituted on an average 6% of the total Development expenditure of the GOB over the years.

Education, Health and Family Planning:

Education is the backbone of a nation. It is a pre-requisite for the successful implementation of national development programmes. Unfortunately, in Bangladesh education could not as yet be spread to the masses. The percentage of literacy in pre-liberation Bangladesh was below the 20% level.

The health facilities in Bangladesh, as a basic infrastructure, were inadequate both in quality and quantity. The pre-liberation health care system was mostly urban-based and extremely limited in terms of medical and nursing personnel, hospital beds, medicine and equipments. The situation aggravated further due to the destruction of many of the hospital buildings and damage of properties relating to health during the war of liberation in 1971.

Above all, the population explosion in the country was a serious challenge to all development efforts of the GOB. Bangladesh is the eighth largest country of the world in respect of size of

population, but she possesses only an area of 55,598 square miles. In 1951 the total population of Bangladesh was 42.0 million, whilst in 1972-73 it increased upto 74.3 million - near about double within a period of 20 years only. Here again, little attention was paid to this serious problem in the pre-liberation days to keep the size of population at a reasonable level so that the basic needs of human life such as food, education, shelter, medical facilities and employment could be provided.

Naturally, more and more attention was expected to be paid by the government to ensure better education and health facilities to the masses and to arrest population growth in the country. But surprisingly enough, education, health and family planning taken together as shown in Table 6 constituted less than 10% of the total development expenditure over the years. In other words, over the years successive government of Bangladesh paid little attention to this vital aspect of development.

Physical Planning and Housing:

The physical planning and housing sector consists of sub-sectors like housing, government offices and institutional buildings, metropolitan development agencies, tourism, ware-houses and community services all of which were under severe damage during the liberation war. Basically, Bangladesh is a land of rivers and as noted earlier its population density is one of the highest (1900 per sq. mile) in the world. Along with these there exists an ever-increasing trend of migration of population from the rural to the urban areas causing serious congestion in the cities and towns. It is, therefore, evident that the programme for physical planning and housing deserved

a high priority in the national development programme and Table 6 shows that on an average this sector constituted about 6% of the total development expenditure over the years.

Others:

Other development expenditure comprising mainly the reconstruction/rehabilitation works (for the first two years after liberation), and development of Upazila infrastructure (from 1983-84) constituted on an average about 7% of the total development expenditure over the years. Note that in 1972-73, 1983-84 and 1984-85 other development expenditure recorded extremely higher percentage shares. This was due to the fact that just after liberation (1972-73) huge amounts were being allocated for the cause of rapid reconstruction and rehabilitation and were included in the development budget. Again from 1983-84, a considerable amount was allocated for the development of the infrastructure of the newly established Upazila Parishad (construction of office building and staff quarters mainly).

4. Dependency of the Bangladesh Budget on Foreign Economic Assistance (1972-85)

In a developing country like Bangladesh, economic growth is generally known to be heavily dependent on foreign aid. Since domestic savings are not sufficient for attaining the desired rate of growth and foreign exchange earnings are inadequate to meet the import requirements, as noted in Chapter 1, external

economic assistance played an essential role in the economy of Bangladesh by meeting both the savings gap and the trade gap.

In this connection it should be noted here that foreign aid in Bangladesh covers so wide areas of analysis and discussions that this topic itself deserves a separate study and a number of excellent studies¹³ are available in this field. However, we are mainly concerned here to measure the dependency of the Bangladesh Budget (especially capital budget) on foreign economic assistance during the period under study.

According to the budget documents, foreign assistance in Bangladesh comprises foreign loans and grants in the forms of food aid, non-project aid (commodity aid) and project aid. In the aid figures prepared by the External Resource Division (ERD) Ministry of Finance, food aid covers only foodgrains. The edible oils, usually programmed by the U.S.A. and Canada as part of food aid, is classified under non-project aid. Project aid relates to physically identifiable projects incorporated into the Annual Development Programme (ADP). The non-project aid, by definition, includes funds for all other items not covered by food and project aid¹⁴.

Let us first draw a picture of the volume of foreign aid inflow into Bangladesh during the period between 1972-73 and 1984-85. In 1971, the country was born as a debt-free nation. But soon the country incurred external debt when she agreed to accept the pre-liberation liabilities of US \$ 636 million in 1974 in the interest of maintaining harmonious relationship with the donors¹⁵.

Table 7 shows that in Bangladesh total commitment of foreign aid during the said period amounted to \$ 17119.8 million of which \$8816.6 million was project aid and \$ 4997.7 million and \$ 3305.5 million were non-project and food aid respectively. Of the total commitment of foreign aid of \$ 17119.8 million, \$ 7496.8 million and \$ 9623.1 million were in the shape of grants and loans respectively¹⁶. In other words, over the years, grants and loans constituted 43.8% and 56.2% of the total commitment of foreign aid respectively.

Of the total commitment of foreign aid of \$ 17119.8 million, total disbursement of foreign aid stood at \$ 12434.7 million which constituted 72.6% of the total commitment. Of the total disbursement of \$ 12434.7 million, \$ 4508.1 million was in the form of project aid, and \$ 4767.4 million and \$ 3161.2 million were in the form of non-project and food aid respectively. Of the total disbursement of foreign aid of \$ 12434.7 million, \$ 6384.0 million and \$ 6050.7 million were in the shape of grants and loans respectively¹⁷. In other words, over the years, grants and loans constituted 51.1% and 48.9% of the total disbursement of foreign aid respectively. Note that in the initial years, Bangladesh received foreign aid mostly in the form of grants and concessionary loans. But the situation underwent recognizable changes as years went by. And over the years, loans have assumed greater proportion in the total aid packet particularly in the late seventies and early eighties.

Table 7

**Category-Wise Commitment and Disbursement of Foreign Aid into Bangladesh
(1972-73 to 1984-85)**

(In US\$ million)

year	Commitment				Disbursement				8 as % of 4
	Project Aid	Non-Project Aid	Food Aid	Total	Project Aid	Non-Project Aid	Food Aid	Total	
	1	2	3	4	5	6	7	8	
1972-73	317.5	302.1	258.8	878.4	80.0	288.9	182.6	551.5	62.9
1973-74	223.9	176.0	155.1	555.1	124.4	108.1	228.7	461.2	83.1
1974-75	390.5	415.1	461.1	1266.7	143.0	375.7	382.3	901.0	71.1
1975-76	357.3	360.9	240.7	958.9	125.5	361.5	313.5	800.5	83.5
1976-77	279.7	304.1	1431.1	726.9	158.5	254.6	121.6	534.7	73.5
1977-78	582.9	426.1	138.8	1147.8	275.6	380.4	177.8	833.8	72.6
1978-79	855.1	604.4	300.7	1760.2	368.4	482.6	179.0	1030.0	58.5
1979-80	597.9	285.3	270.0	1153.2	469.9	378.5	374.4	1223.1	106.1
1980-81	1001.5	354.9	202.9	1559.3	559.9	392.5	194.1	1146.5	73.5
1981-82	1189.3	513.0	220.6	1922.9	589.3	419.8	230.5	1239.6	64.5
1982-83	799.8	474.4	248.3	1522.5	469.9	452.0	255.5	1177.4	77.3
1983-84	881.7	528.2	285.2	1695.1	552.8	439.2	276.4	1268.4	74.8
1984-85	1339.6	253.1	380.2	1972.9	590.9	431.6	244.5	1267.0	64.2
Grand Total	8816.6	4997.7	3305.5	17119.8	4508.1	4767.4	3161.2	12434.7	72.6

Note: Slight discrepancies are due to rounding

Source : Flow of External Resources into Bangladesh (As of June 30, 1987) External Resource Division,
Ministry of Finance, GOB.

Despite the fact that there were ups and downs in the year to year disbursement of foreign aid, the total volume of disbursed foreign aid in Bangladesh has increased to a great extent over the years. Table 7 shows that the total disbursed foreign aid has increased from \$ 551.5 million in 1972-73 to \$ 1267.0 million in 1984-85 or at a compound rate of about 8% per annum over the years. The notable feature is that the project aid alone increased a compound rate of about 19% per annum while the non-project and food aid increased at the compound rates of about 4% and 3% per annum respectively over the years.

It should, however, be noted here that in the budget documents of Bangladesh only the project aid is recorded in the Demand for Grants which is allocated to finance project expenditure mentioned in the ADP. Over time dependency of development budget on project aid was only increasing. For, in the early seventies, project aid financed only about 33% of the total development expenditure but in 1983-84, for example, this has risen to the level of 51.1%¹⁸. During the period between 1979-80 and 1982-83, the number of foreign-aided projects has been in the region of 27.5% / 36.6% of the total number of projects. On an average about 66% of the total allocation was for foreign-aided projects, and project aid constituted on an average about 35% of the total allocation¹⁹.

But one should note that the project aid forms only one of the components of the total aid. In addition to project aid, non-project and food aid, as noted earlier, are also being received by the GOB. The GOB generates counterpart funds by utilising non-

project and food aid within the economy. These funds are then channelised to finance the GOB-funded projects included in the ADP²⁰.

Therefore, only the ratio of project aid to total project expenditure as recorded in the budget documents does not fully reflect the dependency of development budget of Bangladesh on foreign aid. The extent of dependency of development budget on foreign aid must be understood from the total aid point of view. In other words, the volume of non-project aid and food aid that has actually entered into the GOB-funded projects of the development budget must be taken into consideration, despite the fact that the counterpart funds disbursed can not be differentiated easily.

According to a World Bank estimate, in 1983-84, for example, the share of total aid in the ADP was 92.6% whereas the share of project aid came to 44%. Therefore, the share of non-project and food aid through counterpart funds generated by sale of aided imports of commodities and the surplus from the food budget accounted for 48.6% of the ADP²¹. And over the years, as Table 8 shows, relative shares of non-project and food aid taken together even with the declining trend, in 1984-85 for example, constituted about 53% of the total aid flow into Bangladesh.

However, merely the total volume of foreign aid inflow is not sufficient to comment on the nature of aid dependency of an underdeveloped economy like Bangladesh. In Table 9 we have attempted to measure aid dependence in relation to a number of critical indices of the economy like GDP, investment, development expenditure,

Table 8

**Relative Shares of Project, Non-Project and
Food Aid in the Total Aid Volume of Bangladesh**

(In US \$ million)

Year	Total Aid Disbursed	Project Aid (%)	Non-Project Aid (%)	Food Aid (%)
1972-73	551.5	14.5	52.4	33.1
1973-74	461.2	27.0	23.4	49.6
1974-75	801.0	15.9	41.7	42.4
1975-76	800.5	15.5	45.7	38.8
1976-77	534.7	29.7	47.5	22.8
1977-78	833.8	33.4	45.2	21.4
1978-79	1030.0	35.8	46.8	17.4
1979-80	1223.1	38.4	30.9	30.7
1980-81	1146.5	48.8	34.3	16.9
1981-82	1239.6	47.3	34.1	18.6
1982-83	1177.4	47.4	33.6	19.0
1983-84	1268.4	48.7	33.8	17.5
1984-85	1267.0	46.6	34.1	19.3

Source : Our calculation is based on the statistics of Flow of External Resources into Bangladesh (As of June 30, 1987), ERD, Ministry of Finance, GOB.

etc. It is found that disbursed foreign aid was on an average about 90% of the development expenditure which constituted on an average more than 9% of the GDP over the years.

Out of 13 years from 1972-73 to 1984-85, the share of disbursed aid in 7 years exceeded the ADP and financed part of the revenue budget, and in other 6 years the share of disbursed

Table 9

Measure of Aid Dependence in Bangladesh : Some Indicators (1972-85)

(In US \$ million)

Year	Disbursed Aid	GDP (Current)	1 as % of 2	Development Budget	1 as % of 4	Aid as % of financing Dev. Budget	Aid as % of Investment
	1	2	3	4	5	6	7
1972-73	551.5	5717.2	9.6	593.0	93.0	N.A.	126.1
1973-74	461.2	8978.0	5.1	587.0	78.6	67.9	65.6
1974-75	901.0	13855.0	6.5	552.0	163.2	N.A.	78.5
1975-76	800.5	7162.0	11.0	566.0	141.4	81.4	107.5
1976-77	534.7	7177.0	7.5	653.0	881.9	62.6	77.7
1977-78	833.8	8803.0	9.4	799.0	104.3	65.4	75.8
1978-79	1030.0	10329.0	10.0	955.0	107.8	62.3	83.3
1979-80	1223.1	11754.0	10.4	1387.0	88.2	61.7	64.9
1980-81	1146.5	12836.0	8.9	1446.7	79.2	63.3	55.6
1981-82	1239.6	11870.0	10.6	1192.6	103.9	61.4	64.9
1982-83	1177.4	11274.0	10.4	1123.7	104.8	NA	NA
1983-84	1268.4	12557.0	10.2	1204.8	105.3	NA	NA
1984-85	1267.0	13469.0	10.0	1351.5	93.8	NA	NA

Source: Col. 1, 2 and 4 from The Flow of External Resources into Bangladesh, 1987, ERD, Ministry of Finance, GOB, Table 2.16 and 2.20.

Col. 6 and 7 from Bangladesh Recent Economic Development and Selected Economic Issues, World Bank, March, 1982.

aid had been in the region of 78/93%. A World Bank estimate also showed that out of 10 years from 1972-73 to 1981-82, the share of disbursed aid in 5 years of the first 6 years after liberation exceeded the ADP and financed part of the revenue budget, and in the last 4 years the share of aid had been in the region of 78/97% .²²

Also it is found in Table 9 that between the period from 1972-73 to 1981-82, aid as percent of total investment of the country had been in the region of 55/126%. And the share of foreign aid and loan financing development budget had been in the region of 61/81% for the said period.

In Table 10 dependency on external economic assistance is measured from a somewhat different angle. On the basis of yearly averages it is found that the net external economic assistance (EEA) in Bangladesh increased steadily over the three plan periods, EEA as a percent of total investment, however, declined from more than 80% during the FFYP (1973-78) to about 69% and 67% during the TYP (1978-80) and the first four years (1980-84) of the SFYP (1980-85) respectively. But this apparent decline of EEA as a percent of total investment does not mean the declining tendency of dependency on foreign aid over the years. For, the net factor service income from abroad as a percent of investment had been increasing from 4.5% during the FFYP plan period to 11.0% and 22.6% during the TYP (1978-80) and the first four years (1980-84) of the SFYP (1980-85) respectively. If this particular flow of external assistance was not available, Bangladesh would have been borrowing an additional amount of Tk. 10 billion²³ per year during

Table 10

Dependence on Aid : Some Indicators

Indicator	1972-73	1978-79	1980-81
	1977-78	1979-80	1983-84
1. Net External Economic Assistance (EEA) (billion taka)	7.74	16.48	25.49
2. EEA as a % of Total Investment	80.80	68.60	67.20
3. Net Factor Service Income as a % of Investment	4.50	11.00	22.60
4. Percentage of EEA Received as Grants	46.20	50.90	54.20

Source : Bangladesh : Economic Development and Social Development Prospects, Vol. IV, Statistical Appendix, Report No. 5409, World Bank, April 12, 1985.

the said period and then EEA as a percent of total investment would have increased rather than decreased.

From the very beginning, though a major part of financing public expenditure (guided by the principle of self reliant growth) was expected to be borne by revenue surplus from the revenue budget, available evidence points to the contrary. Table 11 shows that the revenue surplus, though increased over the three plan periods, constituted only 14% and 15.5% of the ADP and public investment respectively during the FFYP. During TYP, revenue surplus accounted for 21.9% and 31.2% of the ADP and public investment respectively. During the SFYP, revenue surplus constituted 22.7% and 34.4% of

Table 11

**Current Account Surplus or Deficit as Percent of ADP
and Public Investment and Financing of Overall Deficit
in Bangladesh during the Three Plan periods**

(Tk. in billion)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
	Average	Average	Average
1. a) Revenue Receipts	7.37	16.65	28.26
b) Revenue Expenditure	6.40	12.35	21.47
c) Surplus(+) /Deficit(-)	0.97	4.3	6.75
2. Annual Development Programme	6.92	19.67	29.39
3. Public Investment	6.40	13.80	19.11
4. 1(c) as % of 2	14.00	21.90	22.70
5. 1(c) as % of 3	15.5	31.20	34.40
6. Overall Deficit Financed by (%)			
a) Capital Receipts and Deficit Financing	12.90	0.70	5.60
b) Foreign Grants and Loans	79.10	75.80	92.90
c) Transfer from Food Budget	8.00	10.50	1.50
d) Others	Nil	13.00	Nil

Source : A. Rahman, "Domestic Resource Mobilization : A Macro Analysis", Bangladesh Development Dialogue, SID, 1985,
p. 28.

the ADP and public investment respectively. The net result was that the share of internal capital receipts and deficit financing in financing overall deficit constituted only 12.9% during the FFYP

and 0.7% and 5.6% during the TYP and the SFYP respectively. But foreign grants and loans, on the other hand, financed 79.1% of the overall deficit during the FFYP, 75.8% and 92.9% during the TYP and the SFYP respectively.

Table 11 also shows that the share of transfer from food budget constituted 8%, 10.5% and 1.5% in financing the overall deficit during the three plan periods respectively. But as we have noted, the transfer from food budget is nothing but the counterpart fund generated by the government by utilising food aid within the economy. Thus the share of foreign aid (adding transfer from food budget) stood at about 90% in financing overall deficit during the three plan periods. All these indicate how the development budget as well as investment activities of Bangladesh were foreign aid dependent.

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This was not all. The dependency of Bangladesh Budget becomes more obvious if we take into account the fact that even the revenue budgets of the GOB were heavily dependent on foreign aid for the whole period under study. In Chapter 5, we have observed that on an average more than 50%²⁴ of the total tax collections were contributed by import duty and sales tax on imports. We have also observed that foreign aided imports contributed about 45% of the total import duty and sales tax on import²⁵ during the period between 1972-73 and 1984-85. And with the fact that in all these years more than half of the annual import bills

of Bangladesh were paid for by foreign aid²⁶, it becomes more evident how far even the revenue budget, especially the internal resource mobilization efforts of the GOB were dependent on foreign aid.

Now if we take into account the fact that aid financed imports contribute to the manufacturing of domestic output of such items like cloths, petroleum, etc., and this output contributes to government revenues through excise duties and direct contributions to the government fund by the nationalised enterprises, the contribution of foreign aid flows would appear to be wider in the revenue budgets of the GOB than noted.

Under the above scenario, a fall in foreign aid, working through a fall in imports, would have a direct impact on internal revenue collections as well as development expenditure. For example, when aid disbursements fell much short of what had been programmed into the development budgets, revenue collections of the GOB came down. This together with the lack of adequate aid to finance the development expenditure compelled the GOB to cut down the size of the ADP by 14.4% in 1980-81 and to trim it again in 1981-82²⁷.

Thus over the years, not only the development budget but also the revenue budget of the GOB was guided by the availability of foreign aid. In other words, foreign aid, in the one hand, financed development expenditure, and on the other hand, contributed largely to the internal revenue collections of the GOB by footing the import bill which constituted a greater share to the tax revenue.

In this connection it may be mentioned here that contrary to the rise in foreign aid over the years, the level of domestic savings has not increased. In fact, saving/GDP ratio as noted in Chapter 1, has declined from 4.6% in the terminal year of the FFYP (1973-78) to 4.2% in the terminal year of the SFYP (1980-85). This reflects the fact that foreign aid financed development far from encouraging self-reliance, contributed to a concurrent decline in the capacity to mobilize domestic savings in Bangladesh²⁸. Under the above scenario, for self-reliant growth the essentiality of mobilizing an increased volume of domestic resources on the part of the GOB can hardly be over emphasised.

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Moreover, as a result of growing inflow of foreign aid, the burden of debt servicing had also been increasing which had shrunked revenue surplus in the revenue budget by increasing revenue expenditure over the years since debt service payments constitute a considerable amount of revenue expenditure of the GOB. Table 12 points out the fact that annual debt repayment of Bangladesh increased from \$ 17.5 million in 1973-74 to \$ 170 million in 1984-85. But nonetheless, the net disbursement (difference between the total disbursement and debt repayment) to Bangladesh was only increasing over the years. In 1973-74 net disbursement was \$ 225.2 million whilst in 1981-82 it was as high as \$ 494.3 million. Thus debt repayments were far behind the new injection of loan into the economy which may be contrasted to the World Bank's predicament

Table 12
Debt Service Liabilities of Bangladesh (1972-85)

(In US \$ million)

Year	Total Loan Disbursed	Debt Repayment ^a (Interest+Prin.)	Net Loan Disbursed	Total Outstanding Debt	GDP	4 as % of 5	Total Export Earnings ^b	Debt Service Ratio
	1	2	3 (1-2)	4	5	6	7	8
1972-73	65.0	--	--	--	--	--	--	--
1973-74	242.7	17.5	225.2	501.4	8978.0	5.6	373.0	4.7
1974-75	526.1	70.8	455.3	973.4	13855.0	7.0	355.0	20.0
1975-76	566.7	55.6	511.1	1575.3	7162.0	22.0	367.0	15.1
1976-77	279.2	50.0	229.2	1827.3	7177.0	25.5	406.0	12.3
1977-78	441.0	65.0	376.0	2284.0	8803.0	25.5	535.0	12.1
1978-79	528.1	89.0	439.1	2733.9	10329.0	26.5	598.0	14.9
1979-80	572.5	108.0	464.5	3361.4	11754.0	28.6	743.0	14.5
1980-81	552.8	85.1	467.7	4383.3	12836.0	34.1	741.0	11.5
1981-82	585.8	91.5	494.3	4959.4	11870.0	41.8	652.0	14.0
1982-83	589.9	136.1	453.8	5451.6	11274.0	48.3	719.0	18.9
1983-84	534.6	128.3	406.3	5940.5	12557.0	47.3	822.0	15.6
1984-85	566.2	170.0	396.2	6280.9	13469.0	46.5	971.0	17.5

Note: a) Includes payments in respect of medium and long-term loans only excluding transactions with IMF and other short-term borrowings.

b) Merchandise Export only.

Source: Flow of External Resources into Bangladesh, 1987, External Resource Division, Ministry of Finance, GOB, Table 2.4, 2.5 and 2.6 (Col. 1) and 2.16 (Col. 2, 4, 5 and 7).

that debt service payments of a number of developing countries on that period exceeded current flow of loans²⁹.

The net result was that the total outstanding foreign debt³⁰ of Bangladesh as shown in Table 12 was only increasing over time. In 1973-74 the total outstanding debt of Bangladesh amounted \$ 501.4 million which constituted 5.6% of the GDP. But in 1984-85 it stood at \$ 6280.9 million which constituted 46.5% of the GDP. This exerted a heavy pressure both on the present and the future generation of Bangladesh to come³¹. Table 12 also shows that the debt service ratio of Bangladesh, defined as the repayment of debt as a percentage of the total merchandise export earnings in a particular year, was 4.7% in 1973-74 and rose upto 17.5% in 1984-85. Thus about one dollar out of every five dollars earned through exports was to be paid as interest and repayment of principal indicating a potential constraint on the debt servicing capacity of the country. Note that Table 12 does not include any payments on account of I.M.F. and short-term borrowings for food and crude oil. If the debt servicing of I.M.F. and short-term borrowings are included, the country has already crossed the safe limit of borrowing³².

In this connection it may be mentioned here that the debt service ratio of Bangladesh projected by the World Bank, especially for the second half of the eighties and for the early nineties, ranges between 15% and 17%. This was about equal to the average for the low income economies (14.4%) and below the average for the middle income economies (18.1%)³³. Thus Bangladesh's debt service

ratio of 15% or 17% does not appear to be unusually onerous by the prevailing standards of the less developed countries.

But this does not mean that the debt service payments do not constitute any serious problem for Bangladesh. For a poor country like Bangladesh a burden of 15% or 17% is likely to be much more critical than for a better off economy. Note that over the years, Bangladesh was fortunate to obtain easy soft term loans, and as noted earlier, more than 50% of the total foreign aid inflow was disbursed in the shape of grants which create no debt liability per unit of aid inflow. But in future, with a sudden change in the climate of international relationship, soft loan windows of various lending agencies may be gradually closed. Furthermore, interest and amortisation are also likely to increase as more and more aid matures for payment. And with the possibility that more grant elements of aid may be substituted by more and more loan elements, the debt service payments of Bangladesh may move to a critical level, above the World Bank's³⁴ projected estimate of \$ 196 million in 2000-01.

In addition, external earnings of Bangladesh being relatively less diversified are likely to be accentuated to a lower rate than debt repayment thereby increasing the debt service ratio above the projected estimate of 15% to 17% in the coming years. Another notable feature is that Bangladesh is unfortunately facing chronic balance of payments difficulties since her independence in 1971. The nominal trade gap of US \$ 140 million in 1972-73 increased to US \$ 1,591 million³⁵ in 1982-83. The main reasons for this gap are:

(i) Exports are not expanding proportionately with import requirements and (ii) deterioration in terms of trade. Recession and protectionism to some extent prevented primary exportable commodities of Bangladesh from making significant improvement in her export earnings.

The above circumstances demand that external debt policy of Bangladesh should be intelligently shaped from now on. No doubt, in Bangladesh under its prevailing social structure, the need for increased quantum of foreign aid will remain for some years to come to sustain its development programmes and indeed to meet its needs for current consumption. Therefore, to prevent further deterioration of the debt service ratio, Bangladesh will require favourable terms and composition of aid. Simultaneously, the export expansion programme is to be pursued vigorously both for traditional exports and for diversifying exports into the non-traditional areas. The success, however, depends how far aid on soft terms is actually available and demand for Bangladesh's export items in external markets exists. But the past evidence points to the contrary. It is thus through improved domestic resource mobilization and an efficient management of the economy that Bangladesh may find the solution to this problem.

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28. A significant body of econometric studies is available on this issue. One group of studies suggests that foreign aid inflow has a positive correlation with domestic savings while another group suggests just the opposite. See among others, M. Alomgir, "Foreign Capital inflow, Savings and

Economic Growth : A Case Study of Bangladesh", The Bangladesh Economic Review, April, 1974; M.A. Rahaman and M.M. Rahaman, External Assistance, Saving and Resource Mobilization in Bangladesh, External Resource Division, Ministry of Finance, GOB, 1982; R. Sobhan and T. Islam, "Foreign Aid and Domestic Resource Mobilization in Bangladesh", The Bangladesh Development Studies, Vol. XVI, No. 2, BIDS, Dhaka, June, 1988; T. Weisskopft, "The Impact of Foreign Capital Inflow on Domestic Savings in Under-developed Countries", Journal of International Economics, Vol. 2, No. 1, February, 1982, etc.

29. World Development Report, World Bank, 1985, Table 15 and 16.
30. Loans disbursed and debt outstanding may not coincide. For, the differential is made up by the balance between the amount already repaid and the interest due on the received loans.
31. For details see R. Sobhan (1982), pp. 25-30.
32. In 1979-80 the GOB dictated that debt servicing liabilities on an average basis should not exceed 18% to 20% of annual export earnings. See Bangladesh Economic Survey, 1979-80, Ministry of Finance, GOB, p. 90.
33. World Development Report, World Bank, 1985, Table 16.
34. Bangladesh : Recent Economic Development and Selected Economic Issues, World Bank, March 3, 1982, p. 203.
35. Memorandum for the Bangladesh Aid Group (1984-85), ERD, Ministry of Finance, GOB, March 16, 1984.