

**FOREIGN AID EFFECTIVENESS IN KOREA: BANGLADESH COULD LEARN
ABOUT ECONOMIC GROWTH AND DEVELOPMENT**

By

Doyananda Debnath

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

2012

**FOREIGN AID EFFECTIVENESS IN KOREA: BANGLADESH COULD LEARN
ABOUT ECONOMIC GROWTH AND DEVELOPMENT**

By

Doyananda Debnath

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

2012

Professor Joon-Kyung Kim

**FOREIGN AID EFFECTIVENESS IN KOREA: BANGLADESH COULD LEARN
ABOUT ECONOMIC GROWTH AND DEVELOPMENT**

By

Doyananda Debnath

THESIS

Submitted to

KDI School of Public Policy and Management

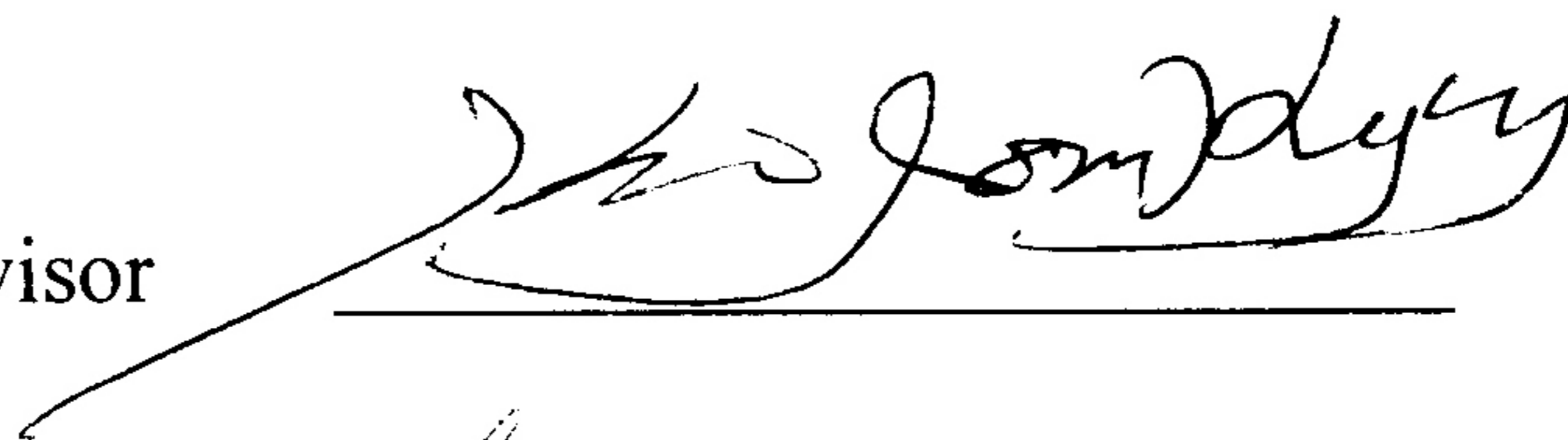
in partial fulfillment of the requirements

for the degree of

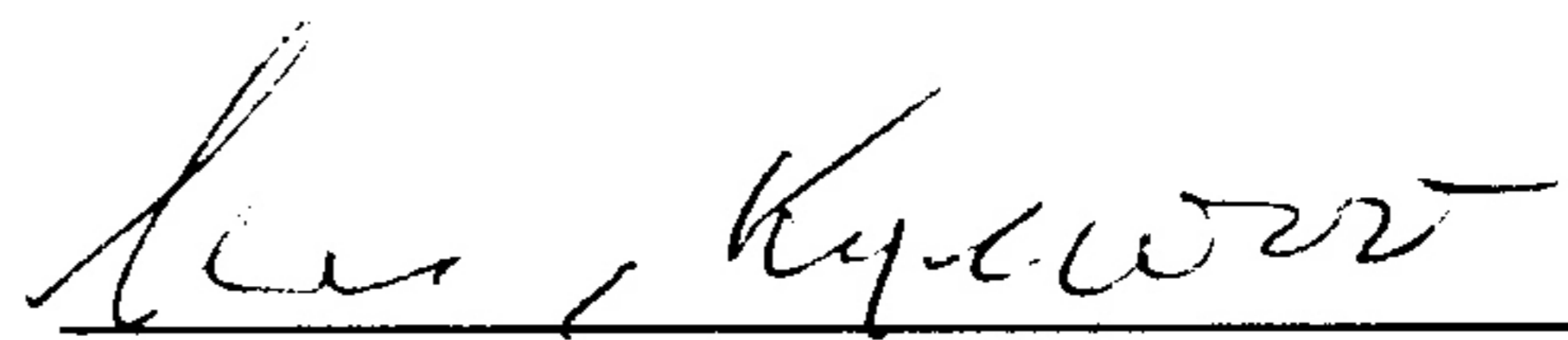
MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

Committee in charge:

Professor Kim, Joon-Kyung, Supervisor



Professor Lee, Kye-Woo



Professor Victor Hsu.



Approval as of May, 2012

ABSTRACT

FOREIGN AID EFFECTIVENESS IN KOREA: BANGLADESH COULD LEARN ABOUT ECONOMIC GROWTH AND DEVELOPMENT

By

Doyananda Debnath

Korea has come a long way from the conditions it faced few decades ago as one of the poorest and an agrarian countries in the world to become rich and one of the world's leading industrialized countries. In the early 1960s, Korea's per capita income was just more than \$100, lower than many countries in Africa. But within half a century, Korea transformed itself into an industrialized economy and became the 15th world's largest economy in the world. Since 2000, Korea has joined the donor club OECD and last year (2010) became the second Asian member of the 24-member of OECD-DAC official. It, therefore, represents a success story of once a major recipient of international economic aid to an aid giver. Giving its background as a former aid recipient and its present position of extending valuable support to other developing countries including sharing of his knowledge and lessons of its successful development, Korea, therefore, has become a beacon for countries around the world. Korea's remarkable progress gives hope to other developing countries that their situations can be changed to achieve the same status.

Lessons from Korea's miracle, such as its motivated work force, development strategy and aid utilization, aid allocation and performing, strong and closer bilateral relations, and cooperation and collaboration in diverse areas of interest could be the vital for economic development of Bangladesh.

**Copyright by
Doyananda Debnath
2012**

*Dedicated to
My Beloved Sons*

ACKNOWLEDGEMENTS

All praise is to God who gave me capacity to write this thesis. I have come to rely on a number of remarkable people to deepen my understanding on the topic. Their thoughtful advice, constructive critiques and cheerful patience improved work of this thesis. I truly appreciate and wish to thank my supervisor, Professor Kim, Joon-Kyung, for his professional guidance and support throughout my MPP/ED program. I also appreciate to POS member, Professor Lee, Kye-Woo and ARS instructor, Professor Jin, Park for helping me providing valuable advices. I am thankful to Mr. Anwar Uddin, Senior Assistant Chief, Ministry of Planning, Bangladesh, for helping me in collection of data.

I would like to express special thanks to Mr. Rabindranath Barman, Ministry of Planning, Bangladesh, for his helpful comments and suggestions. I also wish to thank my fellow MPP/ED students and staffs of KDI School of Public Policy and Management for their support and companionship.

Most of all, I have to express my deepest appreciation to my wife for her unshakable support and encouragement to me to carry out this MPP/ED program in KDI School. Moreover, I would like to express my heartiest love to my beloved two young sons for their sacrifices to stay in Korea for one year that could help me to participate in this program.

Finally, I would like to express my special thanks to the Government of the Republic of Korea (ROK) for his financial support to carry out this program that made the possibility to achieve this goal.

TABLE OF CONTENTS

| | |
|---|------|
| ABBREVIATIONS | vii |
| LIST OF TABLES | viii |
| LIST OF FIGURES | viii |
| LIST OF APPENDICES | ix |
| Chapter I <u>Introduction</u> | 1 |
| 1.1. Background of the Study | 1 |
| 1.2. Purpose of the Study | 2 |
| 1.3. Rationale and Scope of the Research | 3 |
| 1.4. Research Questions | 4 |
| 1.5. Research Claim | 5 |
| 1.6. Research Methodology | 5 |
| 1.7. Limitations of the Study | 6 |
| 1.8. Outline of the Dissertation | 6 |
| Chapter II <u>Aid and Development</u> | 8 |
| 2.1 The Aid Revival: From Foreign Aid to Development Aid | 8 |
| 2.2 Historical Legacies of Aid | 9 |
| 2.3 The Impact of Aid | 10 |
| 2.4 Aid and Development Theory | 11 |
| 2.5 Aid Effectiveness and Development Effectiveness | 13 |
| Chapter III <u>Foreign Aid in Korea</u> | 14 |
| 3.1 Aid and Korean Development | 14 |
| 3.2 Aid History in Korea | 15 |
| 3.3. Aid Recipient to Donor | 17 |

| | | |
|--------------------|---|----|
| Chapter IV | Aid and Korea’s Economic Development | 20 |
| 4.1 | Overview of Korea’s Development | 20 |
| 4.2 | Sectoral Distribution of Aid: Korea 1945-1975 | 21 |
| 4.3 | Strategic Focus on Aid Allocation | 24 |
| Chapter V | Aid Effectiveness in Bangladesh | 26 |
| 5.1 | Foreign Aid Regime in Bangladesh | 26 |
| 5.2 | Patterns of Development Aid Uses: Bangladesh 1972-2009 | 27 |
| 5.3 | Development Strategy or Aid Policy | 28 |
| 5.4 | Other Issues of Aid Effectiveness | 30 |
| Chapter VI | Policy Implications: Bangladesh | 34 |
| 6.1 | The “Two” Big Issues on Aid | 34 |
| 6.2 | Effective Utilization: Aid Used with Planned Approach | 36 |
| 6.3 | Lesson Learned from Korea | 38 |
| Chapter VII | Conclusion and Recommendations | 39 |
| 7.1 | Conclusion | 39 |
| 7.2 | Recommendations | 39 |
| APPENDICES | | 41 |
| GLOSSARY | | 51 |
| ENDNOTES | | 54 |
| REFERENCES | | 55 |

ABBREVIATIONS

| | |
|---------------|---|
| AAA | Accra Agenda for Action |
| ADP | Annual Development Program |
| CRIK | Civil Relief in Korea |
| CSO | Civil Society Organization |
| DAC | Development Assistance Committee |
| DLF | Development Loan Fund |
| ECA | Economic Cooperation Administration |
| EDCF | Economic Development Cooperation Fund |
| FOA | Foreign Operation Administration |
| GARIOA | Government Appropriations for Relief in Occupied Areas |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| HCI | Heavy and Chemical Industry |
| HDI | Human Development Index |
| HLF | High Level Forum |
| ICA | International Cooperation Administration |
| IDEP | International Development Exchange Program |
| KDI | Korean Development Institute |
| KOICA | Korea International Cooperation Agency |
| LDC | Least Developed Country |
| LIC | Low-Income Country |
| MDG | Millennium Development Goal |
| MOFAT | Ministry of Foreign Affairs and Trade |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Co-operation Development |
| PD | Paris Declaration |
| PL | Public Law |
| PRSP | Poverty Reduction Strategy Paper |
| ROK | Republic of Korea |
| UN | United Nations |
| UNKRA | United Nations Korea Reconstruction Agency |
| US | United States |
| WB | World Bank |

LIST OF TABLES

| | | |
|------------------|---|-----------|
| Table 3.1 | Total Aid Received in Korea, by Source, 1945-1975 (\$ millions) | 16 |
| Table 4.1 | The Overview of Broad based Development in Korea (1962-2010) | 21 |
| Table 5.1 | The Social Changes and Economic Development in Bangladesh (1972-2010) | 26 |
| Table A.1 | Total Aid Received and Allocation (Korea: 1945-1975) | 45 |
| Table A.2 | Total Aid Received and Distribution: Bangladesh 1972-2009. | 47 |
| Table A.3 | The Aid Assistance and GDP in Korea (ROK) and Bangladesh (BD) for 30 Years Period. | 49 |

LIST OF FIGURES

| | | |
|-------------------|--|-----------|
| Figure 4.1 | Sectoral Distribution of Foreign Assistance: Korea 1945-1975 | 23 |
| Figure 4.2 | The Foreign Assistance in Main Sectors: Korea 1945-1975 | 25 |
| Figure 5.1 | Foreign Assistance Utilization in Bangladesh (1972-2009) | 28 |
| Figure 5.2 | Sector Wise (Main) Allocation of Foreign Aid in Bangladesh (1972- 2009) | 29 |
| Figure 6.1 | Aid Assistance as percentage of GDP in Korea and Bangladesh | 35 |
| Figure 6.2 | Aid Assistance in Korea and Bangladesh by Type | 36 |
| Figure 6.3 | Aid Assistance in Korea and Bangladesh by Sector. | 37 |

LIST OF APPENDICES

| | | |
|-------------------|--|-----------|
| Appendix 1 | The Chronicle of Development Assistance to Korea | 41 |
| Appendix 2 | The ‘step by step’ Progress on Korea’s Development Co-operation.. | 42 |
| Appendix 3 | The use of Japanese Reparation Fund | 44 |
| Appendix 4 | Total Aid Received and Allocation (Korea: 1945-1975) | 45 |
| Appendix 5 | Total Aid Received and Distribution: Bangladesh 1972-2009. | 47 |
| Appendix 6 | The Aid Assistance and GDP in Korea (ROK) and Bangladesh (BD) for 30 Years Period. | 49 |

Chapter I

Introduction

1.1. Background of the Study

During the last decade, international policy debates on aid have focused on aid effectiveness. Developed and developing countries' governments have committed to improve the effectiveness of aid through the 2005 Paris Declaration (PD) [a] and the 2008 Accra Agenda for Action (AAA) [b]. In 2011, they met again at the 4th High Level Forum on Aid Effectiveness (HLF-4) [c] in Busan, South Korea. In this meeting, the policymakers reviewed and assessed whether targets set in these agreements have been met or not. Moreover, they took decision on the framework to underpin future development assistance efforts as the 2015 deadline for the Millennium Development Goals (MDGs) [d] nears regarding aid effectiveness agenda. In the recent, the Civil Society Organizations (CSOs) and other development actors believe that it is time to re-think the aid effectiveness. But, it is noted that Korea who has a unique history of transforming from a recipient to a donor country in 40 years has a prime development history on aid effectiveness. In the journey of its historical economic development since 1945, Korea has successfully switched from a poor and aid-recipient to a rich and aid-donor country. In this continuation, it engaged himself as a member of the Organization for Economic Co-operation Development (OECD) in 1996, a group of 34 advanced countries and later on, in 2010, is listed in OECD's Development Assistance Committee (OECD-DAC) member countries. Now, Korea is also trying to make a greater contribution for poverty reduction in the global community.

But if we look at the development phenomena in the developing countries of the world, it could be drawn that the countries could not achieve desired development like Korea. But they

have a long history as an aid recipient in their development path (Quibria and Murshid, 2007).

It is noted that there are 48 countries in the world, which are receiving continuous support from donor countries are still listed as Least Developed Countries (LDCs) and are working for their economic development.

Notably, Bangladesh is one of LDCs listed countries, which has long history as an aid recipient since its independence in 1971 but the development is not remarkable and thus the question of aid effectiveness to ensure the economic development always come around (Quibria and Shafi, 2007). In the World Bank's (WB) classification system, Bangladesh is classified as Low-Income Countries (LICs) with US\$ 520.00 gross national income (GNI) per capita and ranked for 147 under the United Nations Human Development Index (HDI) out of 210 economics over the world (2009)¹. Thus, this paper is an attempt to build a consensus from the learning of Korea regarding effective utilization of aid and will assesses the potential implications from this notion for aid effectiveness and economic development in Bangladesh. To analyze this issue, a comparison study between Korea that has a successful history as an aid recipient and Bangladesh that has a long history as aid recipient over the last several decades but not succeeded has been done.

The purpose of the study, rationale and scope, research questions, research claim, methodology of the study, limitations, and the structure of the dissertation would be described in this chapter.

1.2. Purpose of the Study

The study has the following basic objectives:

- (a) To analyze the aid effectiveness in Bangladesh being an aid recipient and compare it with Korea's experience as an aid recipient during its developing stage;

(b) To identify the success modality of Korea's effective utilization of aid that accelerated the economic growth and development and summarizing the lesson learned from Korea.

(c) To make a policy recommendation for Bangladesh to ensure the effective utilization of aid from the lesson learned of Korea regarding effective use of aid in development.

1.3. Rationale and Scope of the Research

Over the last decade, official aid policy has made a debate and increasingly centered on improving aid effectiveness. The origins for this focus can be traced to the 1995 OECD-DAC statement, "Shaping the 21st Century", and later on it represents the key international frameworks for donor and developing country efforts on aid effectiveness. Bangladesh, being an aid-recipient and as a developing nation, has passed a long path in its journey of economic development and has created a hope for development from the last few decades. In 1971, following a bloody war, when it became independent, many individuals of the world were doubtful about the sustainability of the country's long-term economic viability. Some observers predicted a state of perennial aid dependence while others referred to it as a 'test case of development' (Quibria, 2007), implying that if a country with the numerous problems and challenges of the magnitudes that Bangladesh was facing could make development happen, then any country could². Despite the pessimistic predictions of gloomy and the widely shared negative outlook, Bangladesh has made significant economic development and social stride in the last three decades. However there is a good hope in Bangladesh, the development progress is very slow and still the country is underdeveloped (Shafi, 2007). It is facing international criticism for its poor development progress especially the effective utilization of aid while the neighboring countries like India, China, Sri Lanka, Malaysia and other Asian developing countries are achieving rapid development progress.

Nevertheless, despite the considerable success over the years, Bangladesh is still at an elementary stage of economic and social development. As Sachs (2005, p 14) notes, it has merely managed “to place its foot on the rung of the ladder of development.” As Bangladesh economy is still heavily dependent on the foreign aid, the country already passed around 40 years development path but the per capita income still exists very lower level and more than 40% people live under poverty level; whereas Korea achieved rapid economic growth and development from aid, and enjoyed very higher level per capita income within 40 years from their beginning of development and entered developed country status by turning himself from aid recipient to aid donor, this study will bear a good implication and lesson learning for Bangladesh to maximize the output that is economic growth from aid. Therefore, this paper aims at finding the constraints of aid effectiveness in Bangladesh compare with a unique successful model for effective use of aid in the world in making relevant suggestions in order to pave ways to ensure effective use of aid for development.

1.4. Research Questions

The aim of this research is to examine some important aspects of obstacles to achieve the optimal output from aid utilization and overall aid effectiveness of Bangladesh to attain MDGs as targeted by UN followed by the Paris Declaration and Accra Conference. The research will spotlight on the sectoral aid allocation and development policy of Bangladesh government which will provide widespread picture of aid utilization in Bangladesh. The findings will compare with Korea’s development history and the drawbacks will be examined with consideration to the flow of aid amount, aid allocation and utilization as well as policy tools of development to draw a concrete conclusion for Bangladesh regarding effective use of aid, which will carry a significant role towards sustainable development and

rapid growth of Bangladesh. The following three questions are designed to evaluate and find way out of foreign aid effectiveness in Bangladesh:

(a) How did Korea use aid effectively? What were the system tools of Korea's aid effectiveness?

(b) Why did Bangladesh not get such achievement in economic development like Korea regarding aid uses? What were the limitations regarding aid effectiveness in Bangladesh?

(c) What could learn Bangladesh from Korea to ensure the effective utilization of aid for his economic development?

1.5. Research Claim

Within four decades, from 1950s to 1980s, Korea, in his development stage, used the aid with a specific mission by focusing more industrialization that placed the country from poor subsistence agrarian economy to one of the top most industrialized economy in the world and accelerated the per capita income from US\$ 65.00 to more than US\$ 1000.00, which is now estimated to around US\$ 21,695.00 (2010)³. By effective utilization of aid especially allocating more aid in industrial sector and linking the performance with good policies, Korea proved that aid can work if it can be allocated effectively with specific focus and with appropriate policy tools. Therefore, Bangladesh could learn from Korea and should allocate its aid to focusing sector and should implement appropriate policy measures for effective utilization of aid that could achieve accelerated economic growth and development like Korea.

1.6. Research Methodology

The research is based on review and examination of various books, references, journals, reports, publications, internet and documents. At the beginning, reviewing literature on aid effectiveness,

Korean economic development, and previous records of aid utilization in Bangladesh are undertaken. Bangladesh government's and donor agencies' (OECD, WB, IMF, UNDP, ADB etc.) previous reports on aid allocation and utilization in Bangladesh are undertaken. Related documents and reports of government offices like Ministry of Planning (Bangladesh), Economic Relation Division (Bangladesh), Ministry of Strategy and Finance (Korea), Ministry of Foreign Affairs and Trade (Korea), Korean Development Institute (KDI), and other concerned government publications were also reviewed and analyzed. Secondary data were collected from relevant books, journals, research papers, news papers, e-journals, websites, and lecture notes. The time series data for Korean and Bangladesh part is mainly collected from Prof. Kim's lecture notes and Economic Relation Division respectively. Related theories and concepts have been studied following different books and journals.

1.7. Limitations of the Study

Due to unavailability of data, some data which are used not so recently updated. On the other hand, lack of data outlets compelled to use different sources as well as little bit backdated. Time constraint, heavy course work load in school, and heavy workload in the office have created some obstacle in doing the thesis with ease and convenience.

1.8. Outline of the Dissertation

The study has been scripted in several chapters. Chapter I describes the background, objectives, scope, and methodology of the study. The chapter II presents the literature review on aid and development following the various aspects such as aid revival, historical legacy, aid effectiveness and development effectiveness. Chapter III-VI, containing time series data analysis of aid utilization in Korea and Bangladesh, shows analytical explanation of aid uses and its impacts on development by picturing the success story of Korea and drawing a lesson

learned for Bangladesh. And lastly, in chapter VII is included with general recommendation with concluding remark.

Chapter II

Aid and Development

2.1 The Aid Revival: From Foreign Aid to Development Aid

The simpler form to help the extreme need is foreign aid. In this circumstance, some countries are aid-donor or some countries are aid-recipient; and a still small though growing number both give and receive aid. The recent revival of aid has been accompanied by an increased interest among both donors and recipients in the impact of aid. It is noted that the foreign aid flows from rich countries to poor countries, and to poor people. It is more concerned with world poverty. That is why, it could be accomplished that the foreign aid helps to address human welfare, poverty reduction and development. These narrower types of foreign aid are often termed development aid or development assistance⁴. For instance, the development aid could be defined as a part of foreign aid whose purpose is to contribute to human welfare, poverty reduction and development in poor countries or poor communities. Regarding to the intellectual front, the role of aid for development was refined and deepened. The period is particularly remembered for the seminal contributions of Hollis Chenery and Alan Strout (1966), building on earlier work by Paul Rosenstein-Rodan (1943). Rosenstein-Rodan has long been credited with creating and promoting the idea of the ‘big push’: providing massive amounts of aid to address different constraints which limit the ability of economies to raise investment levels. Chenery and Strout have been both acclaimed and criticized as providing the first rigorous presentation of what became known as the ‘two-gap model’: aid was needed to fill both a savings gap and a foreign exchange gap in poor countries, which would result in increased levels of investment and higher aggregate growth. However, likewise for Rosenstein-Rodan, perhaps the most critical factor is the effective use of aid that leads development and growth and thus the new generation of aid

officials in donor agencies started to emphasize on aid effectiveness in recipient countries towards economic growth and development.

2.2 Historical Legacies of Aid

Over the past sixty years, support for aid has waxed and waned. But what has particularly characterized the post-war foreign aid enterprise has been its durability: aid has managed, repeatedly, to reinvent and renew itself after repeated bouts of uncertainty, doubt and pessimism. Some twenty-five years ago, as the Cold War drew to an end, aid levels experienced their sharpest and most prolonged period of contraction in four decades. This led some to question whether foreign aid would survive in our new, emerging and globalizing world. Some thought it would wither, and eventually disappear, as another relic of the Cold War. However, towards the end of the 1990s, aid levels bottomed out and then slowly began to rise again. Today, foreign aid is in the midst of another phase of revival. The first years of our new century have witnessed a steady expansion of aid and growing attention of political leaders to the problems of global poverty. This has resulted in aid being given a new prominence, with repeated pledges being made at successive world summits to provide more aid. As a result, in the year 2005, the total quantity of aid provided by the rich countries of the world topped the 100 billion USD, the mark of the first time ever, nearly doubling the amount of official aid given in the year 2001. Though the aid level is expanded than previous, still the debate is going on the potentially of aid, and attention has increasingly been drawn on the achievement of aid in practice. Today, examining the results of aid, the performance of aid-provider and aid-recipient is analyzed with respect to the recipients' economies, and seen as fundamentally in deciding: whether – as its supporters argue- aid really work, or whether- as its detractors contend- it really doesn't. Today, in contrast, whatever arguing by someone, the effectiveness of aid, that is development, poverty, and aid issues, has focused an attention

before the world leaders- not only for extreme poverty, human suffering and underdevelopment but also seen as significant contributing to terrorism, conflict and global instability. Against this new backdrop, it will not be so easy to reduce aid levels significantly, unless the actual and potential effectiveness of aid are substantially called into question.

2.3 The Impact of Aid

Foreign aid in different times and different places has been highly effective, totally in effective, and everything in between. The different scholars like Cassen et al. (1994), Cox et al. (1997), Lipton and Toye (1991), van de Waal and Johnston (1996), Lancaster (1999) etc. and World Bank⁵ as well revealed different views regarding aid's impact and effectiveness- aid has achieved much, especially with regard to improving the living conditions in many recipients (e.g. Asia); aid is failure because extreme human suffering continues (e.g. Sub-Saharan Africa, Africa and South Asia); aid works effectively in some sectors, countries and contexts, just as ineffective in other contexts, and neutrally in still other contexts; and aid is limited significance for both success and failure in development work. Cassen's authoritative study of the effects of aid concluded that aid has contributed positively to a long series of results and processes: raising food production in South Asia; experimental rural education programs in Africa, infrastructure investment; rural development self-help schemes; strengthening developing country institutions; family planning, and so forth. On the other hand, research found that aid's impact on economic growth and investment increased during the period when aid moved up to the macro level with the help of policy dialogue and structural adjustment programs (Hansen and Tarp, 2000). Mosley and Hudson (1997) conclude that aid's effectiveness in promoting growth and investments in developing countries improved from the period 1974-83 to the period 1984-92. They studied aid's effect on savings, investments, human capital and economic policy in developing countries, and

through this, developing countries' economic growth rate. Moreover, Lele and Nabi (1991) concluded that aid's consumption-increasing effects must also be judged to be positive: aid helped several Asian countries to maintain poor people's consumption possibilities and limit inflation and pressure on wages, and thereby gave governments in developing countries breathing space to tackle crises.

2.4 Aid and Development Theory

Does aid have a positive effect on development? If we look at Korea's development history, the empirical and historical evidence suggest that foreign aid played a central role in putting Korea on a path to sustainable growth (Mason, 1980; Krueger, 1982). Beyond a big push type of investment (Rosentein-Rodan's idea of "big push") understanding the importance of externalities helps to draw a richer picture of development and the impact of aid (Murphy, 1989; Rodrick, 1995; Adsera, 1998; Hoff, 2000). The massive investments financed by aid raised the level of Korea's capital stock laid the basic foundations for economic growth. Beside this government played the role of mediating efficient outcomes by undertaking deep and wide complementary interventions and reforms that coordinated equilibriums as K Murphy, A Shleifer, and R Vishnay (1989) and Dani Rodrick (1995) focus on a variety of spillover effects across multiple variables in the economy (aggregate demand, industrial demand for inputs etc.), and later on A Adsera, and Debraj R (1998) and Hoff (2000) mentions that coordination failure is a matter of underdevelopment trap. In briefly reviewing the empirical work on growth, the paper focuses on the impact of aid on economic development and growth. It is stylized fact that income growth is diverging "big time" between rich and poor countries in the long run (Pritchett 1997) and subsequent cross-country empirical studies shows that growth has been quite uneven, characterized by fluctuations and no growth over a long period (Easterly, 2000; Hausmann, 2005). In trying to reconcile the

very different growth patterns across countries, Easterly and Levine (2000) concluded that “something else” must be happening here besides capital accumulation in explaining differences in economic performances. The empirical evidence on aid effectiveness on economic development and growth is even less conclusive, showing indiscernible results at best⁶.

However, development aid is given on the assumptions that it provides additional resources to recipient countries. Although aid has led or contributed to sustained growth and poverty reduction in some countries, the country-level impact has often been disappointing, sometimes because of the failures of aid, but more economically- the influence of other factors. Because from the past last fifty-year, it has been understood that development is possible, but not inevitable. Economic theory has evolved to account for the success and failure of development, not for aid failure. However, if the question is raised that does aid work? The honest answer should be that we still do not know- not for lack of trying, but due to the inherent difficulties of tracing its contributions. However, one way in which necessity of aid has been understood is that ‘aid is necessary for development’- especially for very poor countries with large numbers of poor people, insufficient resources to provide for core services, high levels of debt, ineffective institutions and little prospects of being able to achieve substantive structural changes in the short term, aid would appear to have an important gap-filling role to help meet the immediate basic needs of the poor people. In that sense, we could conclude that aid has great effectiveness and the justification for providing development aid will be considerably enhanced if it is used as effectively as possible (as example South Korea). The more effectively aid is utilized, the more quickly it can contribute to long-term development outcomes.

2.5 Aid Effectiveness and Development Effectiveness

Over the last decade, official aid policy debates have increasingly centered on improving aid effectiveness. The origins for this focus can be traced to the 1995 OECD-DAC statement, “Shaping the 21st Century”, and later on it represents the key international frameworks for donor and developing country efforts on aid effectiveness. Aid actors have also been interested in development effectiveness for many years, but the concept has only recently gained momentum on the international policy agenda. A number of multilateral and bilateral development agencies have engaged with the concept, and this is articulated in various levels of elaboration across their policies and programs, and in different understandings of what is meant by development effectiveness. CSOs have shown particular interest, and are developing a common policy platform on the issue, as well as analyzing their own development effectiveness. While there is considerable consensus on the meaning of aid effectiveness, a common understanding of development effectiveness - and its implications for development policy - considered as: 1) organizational effectiveness; 2) coherence or coordination; 3) development outcomes from aid; and 4) overall development outcomes. Aid effectiveness generally refers to how effective aid is in achieving expected outputs and stated objectives of aid interventions. The Paris Declaration serves as a technical representation of this understanding, but does not define aid effectiveness. A 2008 independent evaluation of the Paris Declaration, however, suggests that an understanding of aid effectiveness can be extracted from the Declaration. According to Stern et al (2008), aid effectiveness can thus be defined as the “arrangement for the planning, management and deployment of aid that is efficient, reduces transaction costs and is targeted towards development outcomes including poverty reduction.” Under this definition, it is assumed that aid has a development-oriented intent and aid effectiveness focuses on how aid is used.

Chapter III

Foreign Aid in Korea

3.1 Aid and Korean Development

South Korea, officially the Republic of Korea, is a country in East Asia and located on the southern portion of the Korean Peninsula which is founded by forces from the North on 25 June 1950, exhibited significant economic growth just after his birth and the country was eventually transformed into its present-day status as a major economy and as a developed country. If we look at the economy transformation in different countries that have accompanied Korea's development, perhaps no country has more surprising transformation than South Korea regarding the role of aid uses. As late as the end of the 1950s, Korea was a developing country with many of the "typical" problems. But the development effort was geared at the role of aid which was transformed into the "engines of growth" of the Korea's economy. After the massive catastrophes of Korean War, during the period 1953 to the early 1960s, the economy of South Korea was alive mainly by the United States through large assistance in the form of economic and military both. The growth of national income was, however, slow, Korea's economic prospects began to improve rapidly in the early 1960s due to effective utilization of aid. From 1963 to 1976, Koran GNP increased at a rate of about 10 percent per year, on e of the most rapid growth rates experienced anywhere in the world (Mason et al, 1989).

Understanding the role of aid is crucial for interpreting Korea's economic history. It is, nonetheless, the purpose of the study to provide the evidence available on the role of aid in Korea's development, and to analyze, to the extent techniques of economic analysis permits, the contribution of aid to Korea's modernization that could be the learning for other developing countries like Bangladesh.

3.2 Aid History in Korea

The period from 1945 to 1953, beginning with the departure of the Japanese and lasting until the end of the Korean War, American military occupation started in 1945 and continued through 1948. The disruption of economic activity that accompanied the shift from Japanese rule to US Military Government resulted in pressing needs for relief supplies through Government Appropriations for Relief in Occupied Areas (GARIOA) over the period from 1945 to 1949. During the years of military government, aid was devoted to “relief”, or maintenance objectiveness. Despite the short-term nature of the objectives during most of the period of military government, certain reforms were accomplished that were important in laying the foundation for future development. These included land redistribution, the disposition of Japanese properties, and the start of Korean school system to replace the prior Japanese one. With the end of the military government in 1948, military relief was replaced by aid administered by the Economic Cooperation Administration (ECA) in 1949, which continued many of the programs started earlier. The United States transferred its supporting assistance, both economic and military, to the ECA at that time, and aid to Korea lasted until 1951. Then, the ECA mission was closed down due to the war, and its functions were transferred to the United Nations Korea Reconstruction Agency (UNKRA) and operated in 1950-1960. On the other hand, at the same time, the army operated its own relief program until 1956 through the United Nations’ (UN) Civil Relief in Korea (CRIK), designed to prevent “starvation, disease and unrest” in Korea (Lyons, 1961). Moreover, the United States (US) Agency for International Development which was turned from International Cooperation Administration (ICA), started assistance in 1953, also provided aid Korea only for 1953. Regardless of the necessary, it is apparent that aid financed was vast in Korea. The macroeconomic implications of this aid flow are profound: an important surplus of the size financed by aid was strongly deflationary and permitted budget deficits with much less

inflationary pressure than would otherwise have resulted. Simultaneously, the additional flow constituted the economy's entire source of capital formation through general program support through US bilateral aid that is FOA- a successor to ECA since 1953 and PL 480 since 1956.

During 1960 to 1965, the period that constitutes a time of transition is a particular interest both in context of exponentially rapid growth and exponentially sharp and successful changes in policies in Korea, and started diminution of both the absolute and the relative importance of aid. The aid in Korea had begun to diminish in the early 1960s; however, Korea continued to be virtually unique among the developing countries in that the preponderance of aid was received in the form of grants rather than loans. There had been no loans received prior to 1959. Thereafter, some aid was channeled through the Development Loan Fund (DLF) since 1960 and continued. Table 3.1 summarizes aid received by Korean Government from the major donors over the 1945-1965 periods (Krueger, 1982). During 1945 to 1965, Korea received nearly US \$13 billion of economic and military assistance, nearly all of it in grants, allocated under the willful of the US. Korea also benefited from Japanese assistance in more ways than one since relations were normalized in 1965.

Table 3.1: Total Aid Received in Korea, by Source, 1945-1965 (\$ millions).

| Agency/Source | Period | Total Amount (\$ millions) |
|--|---------------|-----------------------------------|
| United States Military Government (GARIOA) | 1945-1949 | 502.10 |
| Economic Cooperation Administration (ECA) | 1949-1951 | 110.90 |
| United Nations Korea Reconstruction Agency (UNKRA) | 1950-1960 | 158.50 |

| | | |
|---|-----------|---------|
| United Nations Civil Relief in Korea (CRIK) | 1950-1956 | 457.20 |
| International Cooperation Administration (ICA) | 1953 | 5.50 |
| Foreign Operations Administration (FOA: a successor of ECA) | 1953-1965 | 2533.80 |
| PL 480 | 1956-1961 | 203.00 |
| Development Loan Fund (DLF) | 1960-1965 | 42.10 |

Sources: Krueger, Anne O. (1982). The Development Role of the Foreign Sector and Aid; Economics Statistics Yearbook, Bank of Korea; International Financial Statistics, IMF.

3.3. Aid Recipient to Donor

Looking the Korean development history, we can claim that it originates in 1945. It also is noted that between 1945 and the early 1990s, Korea received a total assistance of 12.69 billion USD from the international community. If we study the Korean development and aid uses, it could be opined that the enormous amount of foreign aid and its effective uses were the crucial one to Korea's sustained economic growth what was not seen before yet. Due to the geopolitical context of the Cold War after the end of the Second World War, the United States was the core contributor to Korea and in the 1950s; South Korea received emergency relief as well as reconstruction funds from the international community. Korea showed an average annual growth rate 4.9% between 1954 and 1960 by using foreign aid, mostly in the form of grants that made up most of the country's capital, which contributed to the rapid economic growth of the country. Within four decades, Korea achieved a stable development position and strong economic growth by proper utilizing of aid (Appendix 1)

and Korea's graduation from the World Bank lending list in 1995 marked the de facto end of Korea's history as a recipient country¹.

In response to the international community's attention to Korea's successful economic development, Korea started a training program under the sponsorship of the USAID in 1963, began funding the training program on its own in 1965, and started to dispatch experts to developing countries in 1967. Until the mid 1970s, Korea implemented development assistance mainly funded by the UN. However, the Korean government gradually expanded assistance with its own fund as there was an increasing demand from developing countries pursuing Korea's economic developing path. The Ministry of Foreign Affairs and Trade (MOFAT), for the first time, provided assistance in developing countries in 1977. In the same year, the Korean Development Institute (KDI) started the International Development Exchange Program (IDEP) in developing countries to deliver education programs on Korea's development experience, and following this trend, in 1987, the Economic Development Cooperation Fund (EDCF) and in 1991, the Korea International Cooperation Agency (KOICA) were established for providing full-scale assistance for developing countries². And

¹ In 1955 Korea's per capita income was 65 USD, and around 1970s the economy is triggered dramatically by achieving 1,000 USD per capita income, from which the economy increased gradually and achieved per capita income 12,197 USD by 1996. Currently it reached around 21,695 USD which turned the country as a Donor country in the world. Notably, 1995 Korea is eliminated from the list of recipient countries, following the redeeming of the development loan from the World Bank. However, cooperation funds provided by the IMF, World Bank and the ADB helped Korea overcome the Asian financial crisis in 1997 and Korea's reception of official assistance ended in 1999.

² In 1977, the Korean Development Institute started the International Development Exchange Program (IDEP) which invited leading figures from developing countries deliver education programs on Korea's development experience. In 1984, the Ministry of Construction and Transportation (MOCT) and the Ministry of Labor (MOL) launched a project for providing technical assistance in construction and a project for the establishment of a training center, respectively. By the time when the Asian Games opened in 1986 and the Seoul Olympics in 1988, Korea accelerated its development assistance as it recorded surplus in the balance of international payments. Korea was also asked to meet responsibility corresponding to its expanded economic capacity and higher status in the international community. With the foundation of the Economic Development Cooperation Fund

after this, Korea continues to make efforts to expand its contribution to the international community (Appendix 2). By achieving continuous development progress and enhancing contribution of its efforts, South Korea made its way out of the OECD-DAC list of aid recipients and finally able to make a transition from an aid-receiving country to an emerging aid-donor country in 2000.

(EDCF) and the Korea International Cooperation Agency (KOICA), the Korean government established a regular assistance system for a more efficient and effective operation of its ODA. In 1987, the EDCF was established at the Export-Import Bank of Korea to provide developing countries with concessional loans amounting to 30 billion won. Through this fund for loan-type aid Korea set up a base to assist developing countries' industrial and economic development. In 1991, KOICA was founded as an agency responsible exclusively for grant aid under the Ministry of Foreign Affairs and Trade and started providing full-scale assistance for developing countries. The volume of Korea's ODA has steadily grown since 1987. In 2005, the total amount of Korea's ODA reached 752 million USD or 0.1% of the nation's GNI, recording the largest amount ever.

Chapter IV

Aid and Korea's Economic Development

4.1 Overview of Korea's Development

Korea that is one of the very few countries was once a recipient of massive foreign aid, achieves takeoff, and has been experiencing sustainable growth. There can be little doubt that foreign assistance had a huge impact on Korea's development prospects; it averted a humanitarian catastrophe of a civil war; it raised to a large extent Korea's capital stock primarily in human capital (education and health) and basic physical infrastructure (roads, railways, power, water, and sanitation etc.); and it provided critical foreign savings to finance industrialization. In the 18 years after its liberation in 1945, following World War II, Korea suffered depression, hyperinflation, and civil war, any one of which could make a country poor. Aid was critical in averting a humanitarian crisis in the wake of World War II and the Korean War in a country that was already suffering low standards of living. The geopolitical uncertainty surrounding the Korean Peninsula, its eventual physical partition, which culminated with a civil war, never allowed development to get traction. As the 1960's began, it was becoming apparent that Korea was increasingly becoming dependent on aid while the failures of the Korean government gave merit to the label of a "basket case" [e]. Despite this, there were some real and meaningful accomplishments on the policy front that would serve the Korean economy later, such as achieving some degree of macroeconomic stability, redistribution of wealth via land reform and privatization of vested properties formerly owned by the Japanese. The broad based macroeconomic data in *Table 4.1* shows that how Korea achieved progress and modeled a 'unique experience' in development for the rest of the world.

Table 4.1: The Overview of Broad based Development in Korea (1962-2010).

| | 1962 | 1992 | 1997 | 2007 | 2010 |
|---|-------------|-------------|-------------|-------------|-------------|
| Economic Development | | | | | |
| <i>Per Capita Income (in US\$)</i> | 79.00 | 8,000 | 12,000 | 21,500 | 18,500 |
| <i>Per Capita GDP(in US\$)</i> | 87.00 | 7,527 | 11,176 | 20,014 | 20,500 |
| <i>Investment (% of GDP)</i> | 13.80 | 37.30 | 36.00 | 29.00 | 29.30 |
| <i>Exports (% of GDP)</i> | 5.10 | 26.60 | 32.40 | 45.60 | 51.50 |
| <i>Imports (% of GDP)</i> | 16.80 | 27.70 | 33.00 | 44.80 | 47.10 |
| <i>Trade (% of GDP)</i> | 21.90 | 54.30 | 65.40 | 90.40 | 98.60 |
| Social Development | | | | | |
| <i>Life Expectancy at Birth</i> | 55.00 | 72.00 | 74.00 | 79.00 | 80.50 |
| <i>Infant (less than 5 years old) Mortality Rate (per 1000 birth)</i> | 138.00 | 8.50 | 7.20 | 5.20 | 4.90 |

Source: Joon-Kyung Kim and Kwang Sung Kim (2011), *From Aid to Development: The Korean Experience*, OECD mimeo.

Yet, less is known about the exact nature of the lasting effects of foreign aid, or of the early government policies, on Korea's economic development, though this paper, interpreting Korea's development experience, presents that strategic focus oriented aid allocation policy enabled Korea's rapid development with the help of policy interventions. Lastly the paper explores the policy implications of effective aid allocation from the perspective of Korea's development experience that how it could be addressed for economic development of Bangladesh concerned aid allocation and its utilization.

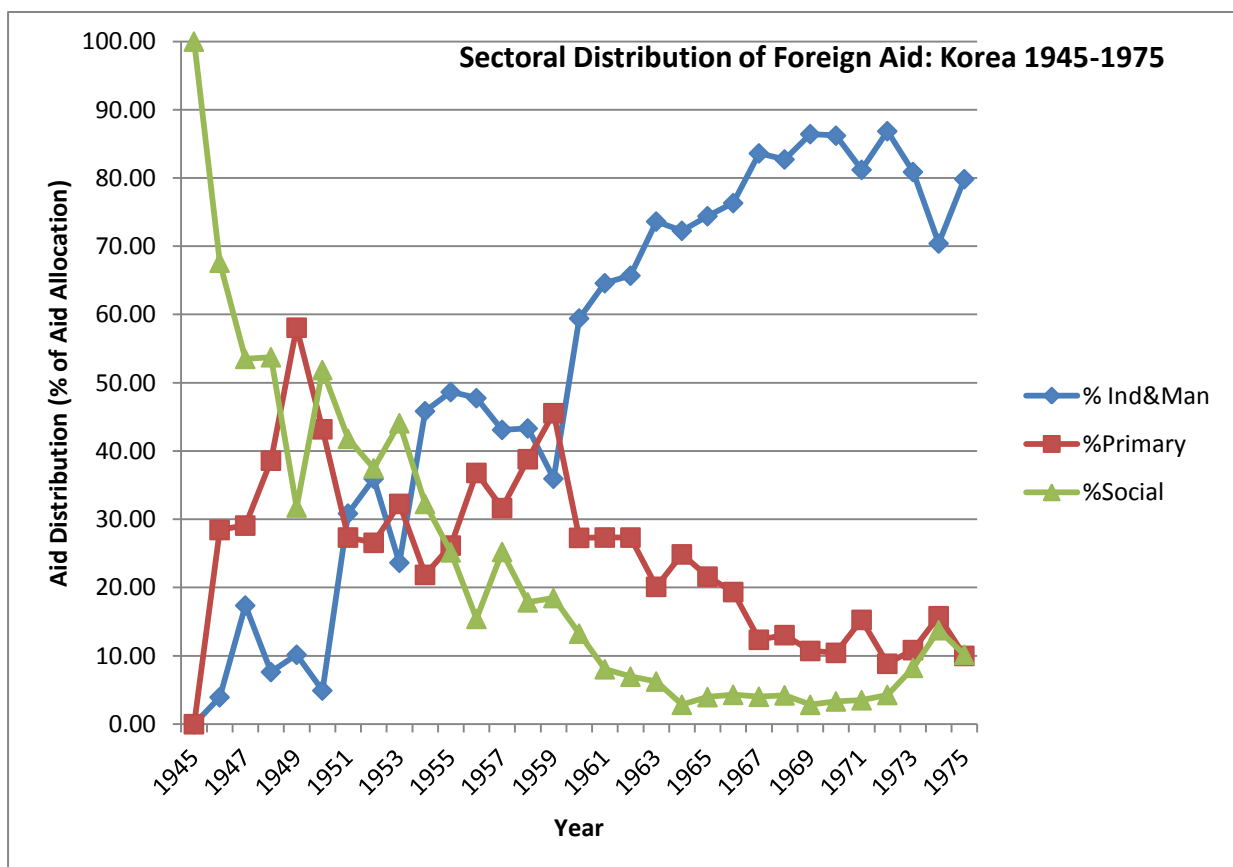
4.2 Sectoral Distribution of Aid: Korea 1945-1975

US assistance during 1945 to 1951 in Korea focused on short-term assistance to address immediate humanitarian relief by supplying basic commodities and supplies while only a small amount was used for reconstruction efforts. Just after liberation from Japan in 1945,

Korea suffered depression, hyperinflation, and the Korean War (1950-1953) and the willful hand of US played an invaluable role in Korea's development. While the emergency assistance from US provided much needed humanitarian relief, staving off widespread starving, disease, and social unrest through the provision of basic necessities including food stuffs and agricultural supplies, which accounted for 35% and 24% of a total assistance, respectively (Kim, 2011). In 1948, the policy objectives of the US aid program were formalized under the ROK-US agreement on aid [f] while US focused on 'stabilization first and the development later', however, the agreement was judged to be unfavorable and intrusive by the government of the Republic of Korea (ROK). The Korean government viewed for development as well, and thus by mid 1949, the Korean and US governments began preparations on economic reconstruction, and the Korean government took the initiative by devising a five year reconstruction plan [g], centered on industrial development to promote the manufacturing sector. To make Korea a viable and self-sustainable country, the proposed plan as described by Mason et al. (1980) focused on three basic areas of capital investment: development of coal, expansion of thermal power generating facilities, and construction of fertilizer plants, in the priority order. Moreover, under the UN flag, the huge amount of multilateral assistance helped Korea for quick recover and supported to implement the reconstruction plan providing rehabilitation supplies, transport, and services for Korean industry. Though Korea and US were in constant conflict on Korea's development strategy, the Korean government was intent on pursuing a development strategy oriented on capital investment to increase production, thus, proposing to allocate 70% of total aid to repair damaged industrial plants, leaving the rest to be used for consumer goods (Lee, 2002). On the other hand, after the normalizations of relations with Japan in 1965 [h], Korea received huge amount of foreign assistance (US\$ 800 million) and most of which was used to finance Korea's industrialization⁷. *As example-* a part of the Japanese official development assistance

(ODA) which was earmarked for the agricultural sector (US\$ 500 million) was used mostly in industrial sector (*Appendix 3*). Moreover, wanting to pursue industrialization, the special initiatives were taken under the government’s legislation of the Foreign Loan Repayment Guarantee Act in 1962 to attract foreign borrowers for securing foreign loans to finance capital investments. From the second half of 1940s to first half of 1970s, the foreign aid assistance was gradually extended to industrialization by allocating more resources to manufacturing and industry rather than other sectors of the economy (*Appendix 4*). It implies that more than 60% aid resources were allocated to the manufacturing and industry sector in 1960s and extended gradually (*Figure 4.1*) which was the most significant of Korea’s economic development and catching up developed countries being an industrialization economy in the world.

Figure 4.1: Sectoral Distribution of Foreign Assistance: Korea 1945-1975.

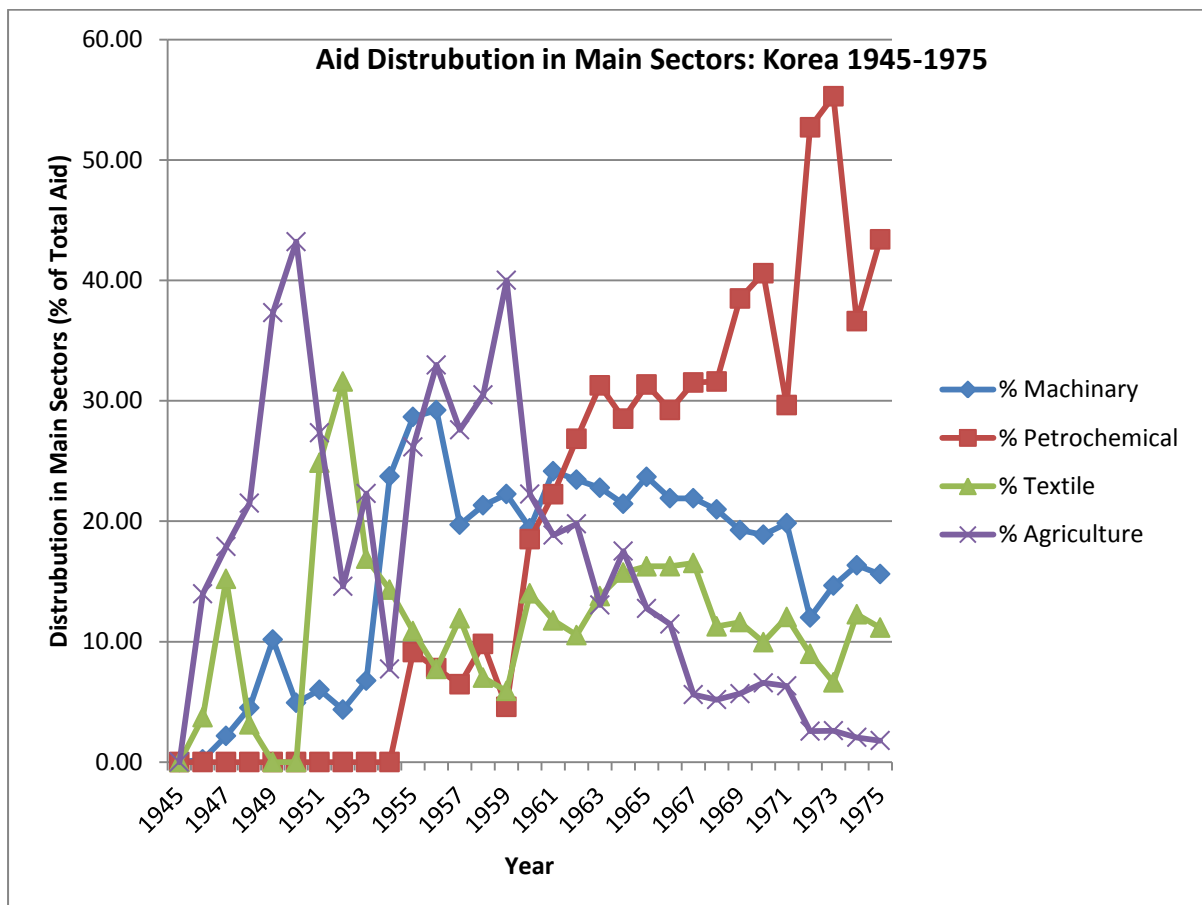


4.3 Strategic Focus on Aid Allocation

After the Japanese departed, Korea's economy was left a shell of its former colonial self. Because, in the colonial period, Korea's industrial base was dominated by the Japanese, which supplied the capital, technology and managerial know-how while Korea supplied the labor. The previous economy set up to serve its imperial ruler was no longer viable. With a political and economic vacuum left in its wake, the newly liberated Korea soon descended into utter social chaos that soon precipitated a humanitarian crisis. Such was the context in which foreign aid first arrived in Korea. By meeting up of basic necessities (initially, about 70% aid allocation was used for food stuffs and other necessities), almost around 24% of total aid was used for agricultural supplies in 1940s and 1950s to enhance the agricultural production. On the other hand, recognizing the poor future of textile industries, Korea shifted its focus from textile to heavy and chemical industry (HCI) that is strategic export industries and focused on the five key strategic sectors like shipbuilding, machinery, petrochemicals, electronics, and marine. By focusing the strategic sectors, Korea had implemented several Five-Year Economic Development Plans from 1962, and plans were drawn up to construct the first integrated steel mill *POSCO*, the centerpiece of Korea's heavy and chemical industrialization strategy. However, in this time, many developing countries had failed to construct a viable steel industry due to lack of economies of scale, poor technologies, and insufficient demand of scale; Korea did it successfully by using foreign assistance especially Japanese reparation fund (*see in Appendix 3*) and other foreign loan. *Figure 4.2* below shows how Korea given strategic focuses and allocated its aid in different sector by balancing agricultural development and industrial development. At the beginning, Korea encouraged in agriculture and textile and most aid allocation was made in that sectors. But in 1960s, Korea focused on targeting industry that drive HCI in 1970s by allocating his more resources in machinery, equipment, and petrochemical as well. And as Korea's rapid industrialization

focused on export growth and the HCI enlarged the income gap between rural and urban households- it ensured the merit based approach of rewarding performance that ensured effective utilization of aid by linking the performance with policy and minimized the gap of Korea's broad based social and economic transformation got stabilization through government's continued policy. However, Korea's development, industrialization, rural development, government policy and after all aid utilization for this purpose is very complex and country-specific phenomena, the effectiveness of aid on its economic growth explains that the strategic focus on aid allocation and the national development strategy takeoffs Korea in development process exhibited a sustained pattern of rapid economic growth.

Figure 4.2: The Foreign Assistance in Main Sectors: Korea 1945-1975.



Chapter V

Aid Effectiveness in Bangladesh

5.1 Foreign Aid Regime in Bangladesh

Bangladesh which has run a long distance in its journey of economic development since independence in 1971 following a bloody war, foreign aid has played an important role in the country's economic development and still continuing. However, the effectiveness of foreign assistance as a means to contribution to sustainable development in the country has, at times, been subject of debate. Over the past decade, although Bangladesh received, on average, US\$ 1558.34 million per year in foreign assistance (*Appendix 5*) which constitutes almost 50 percent of the country's annual development program (ADP), focused on poverty reduction that is the prime objective of the government. It is noted, beginning with mostly grants in the form of food and commodity aid, accounting about 74 percent of total aid in the decade following independence, it has now shifted to project aid, accounting about 97 percent at present and predominantly in the form of loan. Although the country has made a significant economic development during the last three decades with an average 6 percent gross domestic product (GDP) growth per year for the past few years and achieved considerable social improvements with respect to many MDG indicators [i], the country faces of low per capita incomes that is estimated around US\$ 640 in 2010 listed in LICs in the world (*Table 5.1*).

Table 5.1: The Social Changes and Economic Development in Bangladesh (1972-2010).

| | 1972 | 1980 | 1990 | 2000 | 2010 |
|---|--------|--------|--------|--------|--------|
| Economic Development | | | | | |
| <i>Per Capita GDP(in US\$)</i> | 125.00 | 216.00 | 280.00 | 358.00 | 640.00 |
| <i>GDP Growth Rate (percent per year)</i> | 2.10 | 3.39 | 3.40 | 5.90 | 5.85 |

| Social Development | | | | | |
|---|--------|-------|-------|-------|-------|
| <i>Life Expectancy at Birth</i> | 45.00 | 58.00 | 60.00 | 61.50 | 63.90 |
| <i>Infant (less than 5 years old) Mortality Rate (per 1000 birth)</i> | 145.00 | 90.00 | 76.00 | 64.00 | 49.00 |
| <i>Population Growth Rate (in percentage)</i> | 4.50 | 2.50 | 2.00 | 1.50 | 1.36 |
| <i>Literacy Rate (in percentage)</i> | 25.00 | 28.00 | 32.00 | 40.00 | 60.00 |
| <i>Poverty Declined (in percentage)</i> | 55.00 | 50.00 | 57.00 | 49.00 | 36.00 |

Source: World bank. International Monetary Fund, OECD, and http://www.nationmaster.com/graph/eco_gdp-economy-gdp&data.

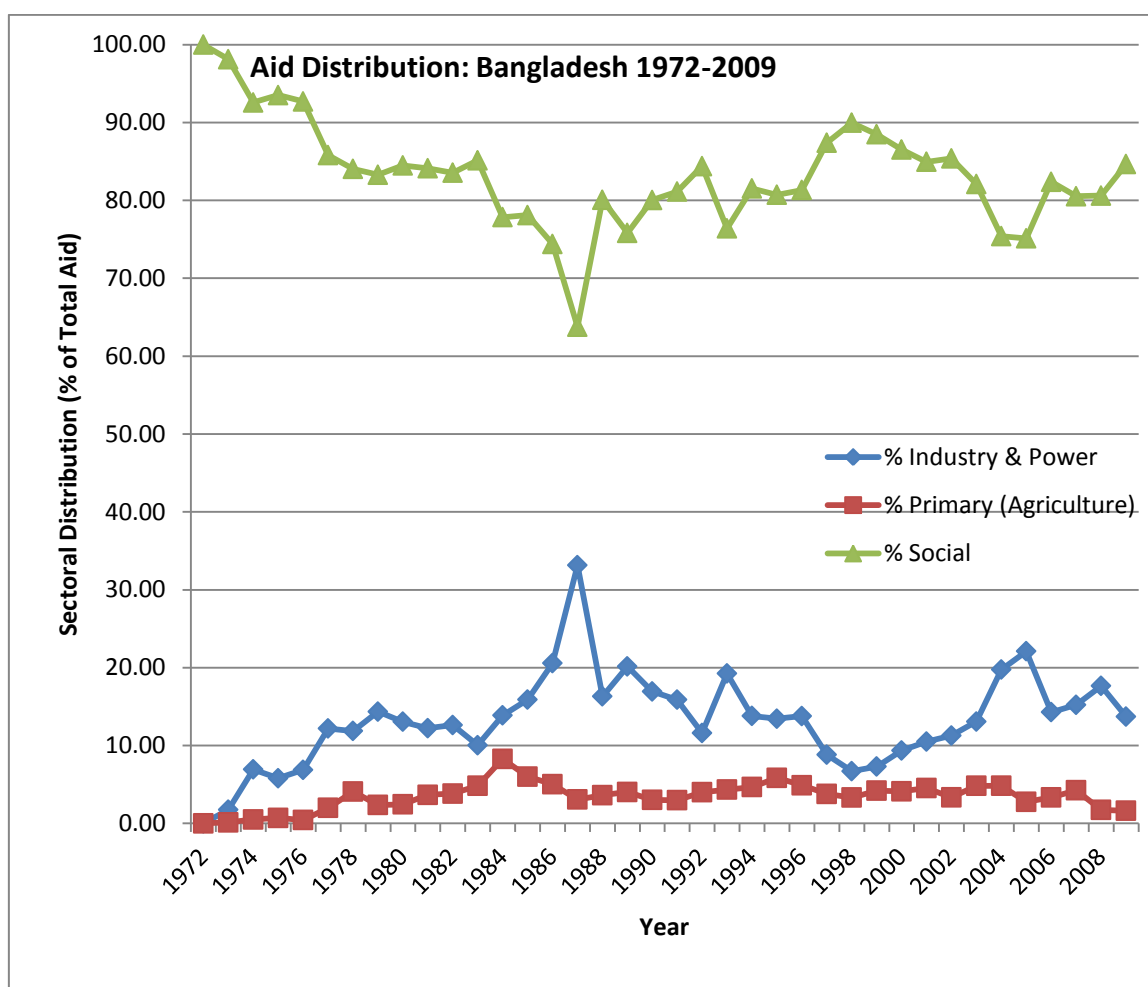
Despite the success in social achievements, the countries are still at a rudimentary stage of economic and social transformation that shows that economic development still is quite insignificant and aid effectiveness on economic development is in questionable. If we look at the cross-country success on aid effectiveness, compared to Korea, the issue of aid effectiveness in Bangladesh is an ineffective and poor performance. As the country is still in relatively low income per capita, aid effectiveness has been mixed and challenging. The country is failed to attribute the aid affectivity what showed by Korea that aid really works. But the country has always been a major recipient of ODA and effectiveness of aid, for that matter, is one of the main concerns for the government.

5.2 Patterns of Development Aid Uses: Bangladesh 1972-2009

Aid and development effectiveness in Bangladesh is less than it could be due to number of interlinked and interdependent structural, procedural and capacity problems. As Sachs (2005, p. 14) notes, it has merely managed “to place its foot on the first rung of the ladder of development.” As development theory and empirical experience from other countries, like Korea, suggest, external assistance can fill in for lacking resources by (a) augmenting limited domestic savings, (b) providing the additional foreign exchange required to finance critical capital requirements and imports of raw materials, and (c) assisting with the development of

human capital and the promotion of domestic capacity. However, as the distribution of aid in different sectors indicates, frequently these potential benefits of external assistance have not been realized, and most of aid is used on social sector support that is somehow accounted for more than 80% (*Appendix 5*). It, unlike Korea, did not focus much on capital accumulation on critical sectors like industry, power, and human capital development as well to promote the domestic capacity and industrialization (*Figure 5.1*).

Figure 5.1: Foreign Assistance Utilization in Bangladesh (1972-2009).

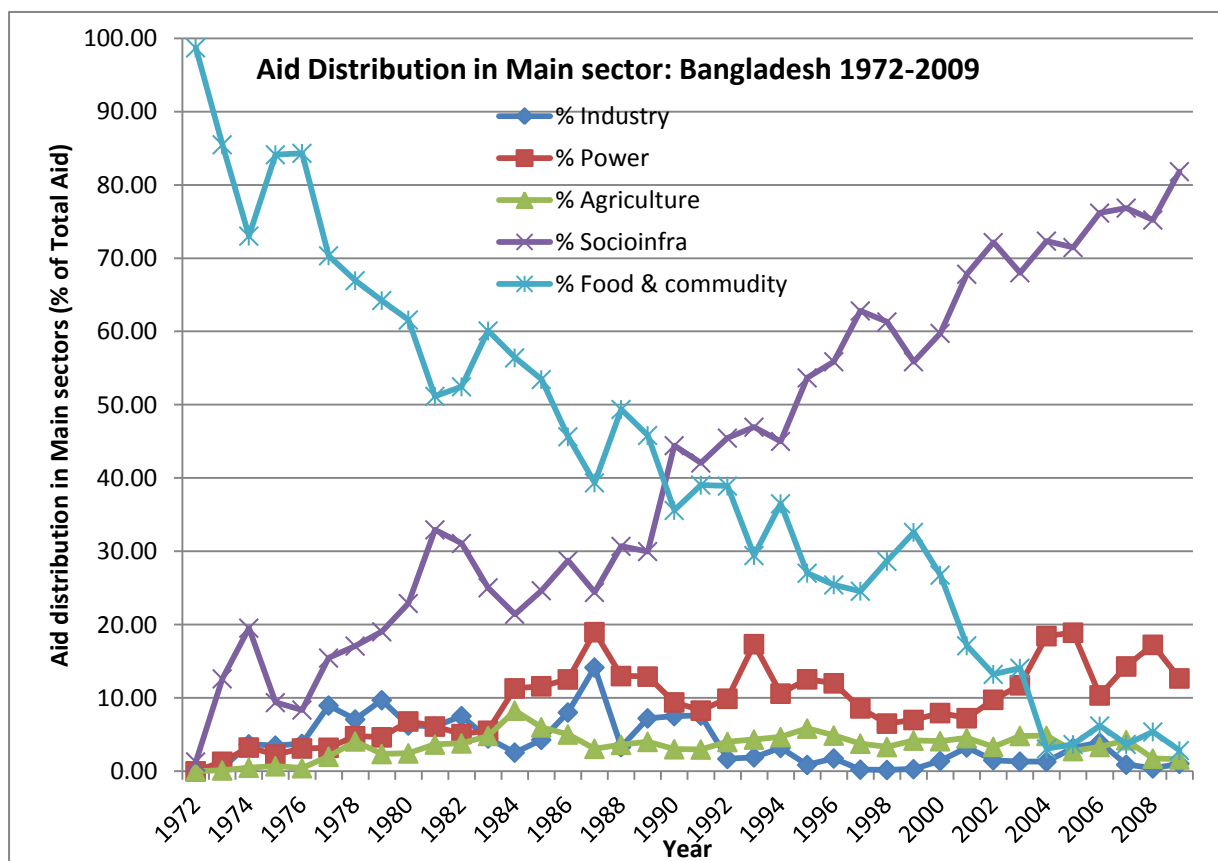


5.3 Development Strategy or Aid Policy

An important pre-requisite of aid effectiveness is the existence of adequate policies and strategies of aid management in recipient countries. The country policy should be focused on

specific target oriented to ensure the best use and best outcome from aid uses what Korea did by focusing on specific targeted industrialization and made a success story. But Bangladesh, though unexpected, has no any such policy. However, the country has a long history as an aid recipient since 1971 and using the aid without any strategic focus. If we analyze aid utilization more specifically, we could sum up that the country used the aid just as food and commodity consumption at the beginning, and later on socio-infrastructure development (Figure 5.2). But the country never focuses on industrialization or critical sector development in capital accumulation. As the country exists in poor human capital and poor physical capital, the country will not be capable enough to get more output and the industrialization will not expand any more. But without expanding industrialization, higher rate of economic growth will not be possible and the country always seems to be in underdevelopment trap that ultimately reflects the inefficient in productive utilization of aid.

Figure 5.2: Sector Wise (Main) Allocation of Foreign Aid in Bangladesh (1972-2009).



However, as of 2000, to receive development assistance, Bangladesh is practicing poverty reduction strategy under the initiatives of WB's Poverty Reduction Strategy Papers (PRSP) [j], and the country's, facing low levels of human capital and physical capital, initiative had little impact on economic development and poverty due to poor industrialization and capital accumulation. Bangladesh, time to time, that followed different strategies or development frameworks including PRSP to manage aid, are lacked from broad based outcome, however, it focused more on poverty elevation rather than industrial development with strategic focus.

5.4 Other Issues of Aid Effectiveness

The foregoing discussion highlights a number of other issues that seem to have constrained the effectiveness of foreign assistance in Bangladesh. However, these issues are not in any sense unique to Bangladesh, but have a wider relevance. In light of the generic nature of these issues, the following posits the discussion within a general framework that can draw on, and be informed by, broader international experience.

(i) Inappropriate Policy: The country has no good instruments regarding prioritized, aid mobilization, mobilizing domestic resources, private sector development, and promoting export policy as well. Government, both at local and national levels, has not yet defined a proper enabling environment that can reduce transition costs and allowing entrepreneurships. The country is also required to enhance its project implementation capacity, because the performance of projects implementation is poor due to country's capacity constraints.

(ii) Failure to link the Government Support with Performance: The government of Bangladesh had received food aid like Korea, but they could not utilize it like Korea. Korea utilized the food aid in a very dynamic way and distributed this food aid among the poor people based on daily work performance linking with different government projects like erosion control projects, irrigation projects, forestation projects etc. Those activities were

taken broadly based on *Saemaul Movement* which was the pillar of success in this continuing support that resulted the rising of productivity in the agriculture sector (Kim, 2011). Noted that Korea's *Saemaul Movement* in 1970s was a merit base approach of rewarding performance that ensured effective utilization of aid by linking the performance what Bangladesh could not achieved till now. This approach created motivation and self-independency in people that increased the productivity in agriculture sector and increased the income of rural people. But, the country, Bangladesh, did not take any program, which can achieved such a good performance what Korea achieved in 1950s.

(iii) *Absorptive Capacity Constraints*: From the literature review, it reveals that the developing countries still exist in poor infrastructure and poor human capital, and thus the countries are not capable enough to handle the aid efficiently, even the more aid is available, that is, the developing countries suffer from absorptive capacity constraints, and they are limited in terms of the amount of foreign assistance they can productively utilize (Chenery, 1966; Millikan, 1957; and Rosenstein-Rodan, 1961). For an instance, it is also widely believed that there are diminishing returns to aid, that is, as developing countries have low levels of human capital and limited physical infrastructure, the returns from foreign assistance decline as the flow of aid increases (Quibria, 2007). Bangladesh is not out of these scenes, and the country suffers from absorptive capacity constraints, that is, the country is limited in terms of the amount of foreign assistance it can productively utilize. The country has low levels of human capital and limited physical capital (both infrastructure and industry development), and thus Bangladesh shows low level portfolio performance which are reflected in achieving sufficient development impact.

(iv) *Physical Infrastructure Bottlenecks and Skills Shortages*: It is argued that if foreign assistance is directed toward improving the economy's productive capacity through investments in infrastructure, education, institutions, and health, this productivity increase

could potentially offset any loss of export competitiveness and real exchange rate overvaluation (Adam, 2006; McKinley, 2005), the factors that are responsible for aid effectiveness (Rajan, 2005). But the shortage of human capital and public infrastructure, the severe bottlenecks in Bangladesh, like other developing countries that are limiting their ability to absorb large amounts of aid, reflects that a large inflow of aid can help alleviate these constraints and become an important part of the solution strategy.

(v) Governance and Corruption: Some scholars suggest that foreign aid has a negative effect on economic growth through its adverse impact on governance (Rajan, 2007). They argue that manufacturing is highly dependent on the quality of governance, and that as the volume of aid increases, it reduces the government's accountability. In particular, the government slackens its efforts to maintain the rule of law, ensure predictable judicial outcomes and contract enforcement, and limit corruption. The country, like Bangladesh, is not out of this scenario, and namely, Bangladesh who is considered as high ranked in the most corrupted countries, where governance and corruption are clearly a serious problem to utilization the aid effectively. To the extent that foreign aid has indeed been a source of corruption, the culpability lies with both recipients and donors, as the aid delivery process—including procuring materials and awarding contracts and consultancies—is under the dual control of both donors and recipients.

(vi) Influence of Donors in Policy Matters: The multilateral international financial institutions are the principal source of aid now a day, and the terms and conditions of the International Development Association have somewhat hardened, and in addition, paradoxically, while aid related to investment and economic development has waned, its significance as a catalyst for policy change has strengthened. In recent years, donor representatives have not only become ubiquitous, but also seemingly omniscient, lavishly dishing out wisdom on virtually everything, above and beyond their specific areas of

economic assistance! This activity is actually hampering the economic development to establish the country himself as a self-sufficient.

(vii) Policy Conditionality: A common complaint is policy conditionality that is imposed by donors to the aid recipients while they provide aid, but a sizeable body of literature suggests that policy conditionality does not work and it is an ineffective approach (Rahman, 2008; Kanbur, 2006; Mosley, 1995). May be there are so many reason and the reasons may differ from country to country. However, remarkably notable that the donor and the recipient often have different views about the program, thus foreign aid would be offered to poorer countries based on evidence of progress, which would be measured in terms of outcomes, and not policies and other intermediate inputs. Therefore, the recipient countries should evolve their own development policy, and donors should shore up them to build up their capacity so that the recipients can grow and exercise the leadership and ownership as well by strengthening their institutions, expertise and management systems.

(viii) Disproportionate Aid Allocation: Bangladesh suffers from aid predictability and availability unlike Korea. In the early stage of foundation, Korea, as a recipient in 1950s, received almost 50% of its government expenditure as foreign assistance ($\approx 15\%$ of its GDP) where Bangladesh received a non-remarkable aid compared to Korea that could be another important reason for Korea in effectiveness of aid regarding development but not in Bangladesh.

Chapter VI

Policy Implications: Bangladesh

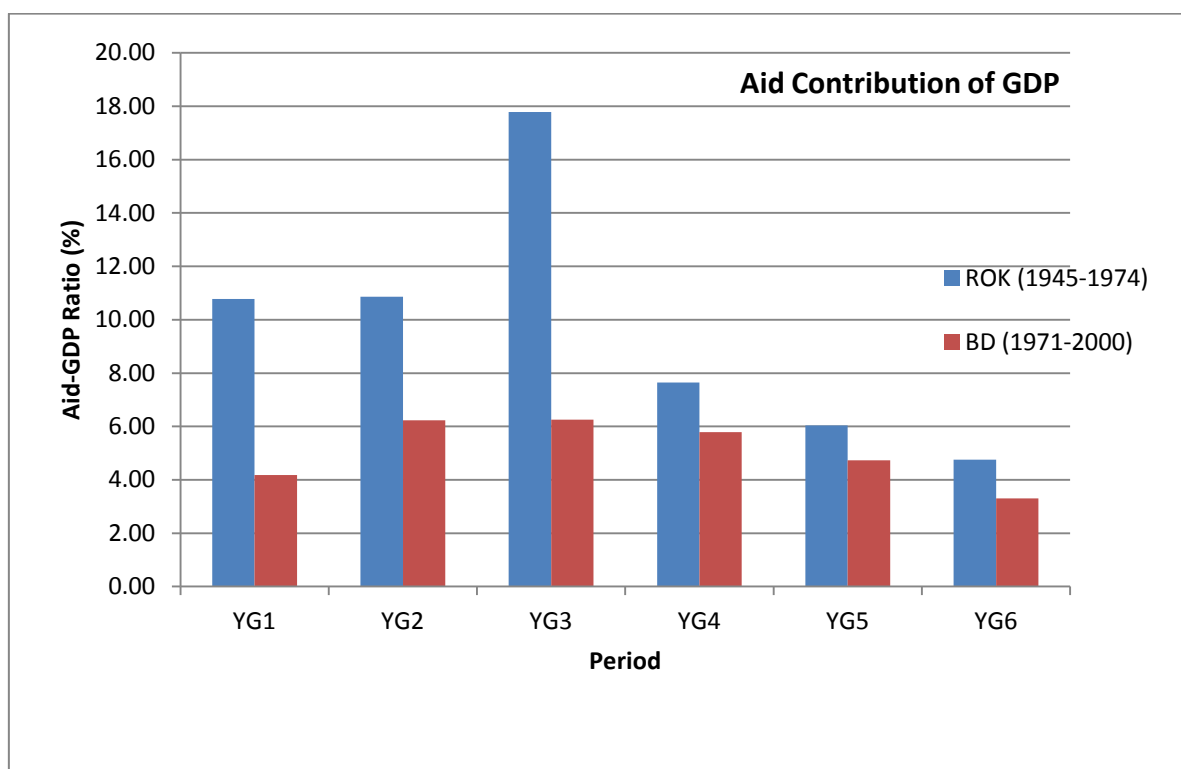
6.1 The “Two” Big Issues on Aid

The unique experience of Korea’s aid effectiveness suggests that ‘appropriate aid allocation’ and ‘opportunity to aid flexibility’ are most important for the effective utilization of aid. There are so many pre-requisite issues are involved in aid effectiveness, however, but it is defined not only from the development policy of aid management view but also from a common vision and a shared set of priorities. The manner in which aid is provided to Bangladesh is inadequate and non-flexible that reflects aspects to fragmented vision and unrelated priorities. As a result, its contribution for a tangible outcomes and impacts on lead development has been failed to make a position with respect to the main longer-term determinant of aid effectiveness. On the other hand, with the enactment of the Foreign Investment Promotion Act (1960), Korea actively attracted foreign investment from developed countries and effectively utilized the foreign resources through the execution of its Five-Year Economic Development Plan. If we analyze the Korea’s 30-year aid received data between 1945 and 1974, on average, Korea received more than 10 % of its total GDP and large portion was in non-project assistance (more than 90%) where as Bangladesh received only less than 5% for the same period (*Appendix 6*). From the late 1970s, the main form of development assistance to Korea changed from project-based loans to sector-based loans to figure out the development for a particular sector and structural adjustment loans to figure out the adjustment for economic structure as well.

(i) Appropriate Aid Allocation: Compare to any aid recipient developing countries in the world, the proportion of aid contribution in Korea was extremely high where Bangladesh is receiving very low proportionate amount of aid, and noted that the aid-GDP ratio at the beginning was only around 4% and, with a time being, it is declining dramatically (*Figure*

6.1). So the huge allocation of aid in Korea, which provided critical resources for government capital, investment, industrial infrastructure and technological development, was a significant turning point for aid effectiveness and Korea's development that placed Korea in the achievement of milestone performance but may not be possible for Bangladesh with inadequate aid allocation.

Figure 6.1: Aid Assistance as percentage of GDP in Korea and Bangladesh.

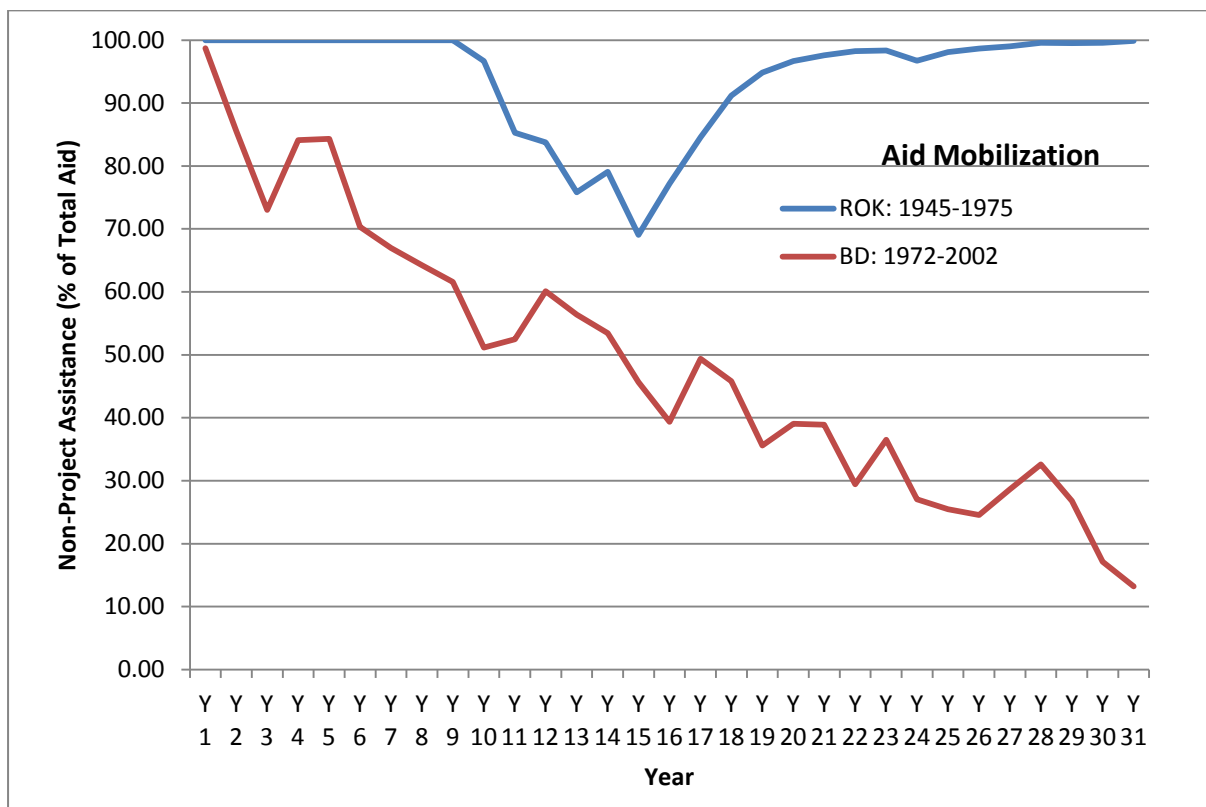


Note: Year Group YG1 is defined 1945-1949 for Korea (ROK) and 1971- 1975 for Bangladesh (BD) respectively and so on. The period here is considered 1945-1974 for ROK and 1971-2000 for BD.

(ii) Opportunity to Aid Flexibility: South Korea, in the history, had received large amount of aid and utilized this aid very efficiently and effectively where Bangladesh could not use the aid in efficient and effective way. One of the main reasons is limited flexibility of aid uses. The foreign assistance mobilization in Korea compare to Bangladesh revealed that Korea received aid mostly as non-project mode, where Bangladesh received aid as very rigid and specific project assistance (*Figure 6.2*). The non-project aid- the aid that is granted with less conditionality or without conditionality is more suitable than the project aid- the aid that is

very much rigid and not granted without comply the loan conditionality. So Bangladesh has no more flexibility or free room to use aid in the line of country context and what Korea did in 1960s and 1970s by allocating more aid in his focused industrial development.

Figure 6.2: Aid Assistance in Korea and Bangladesh by Type.



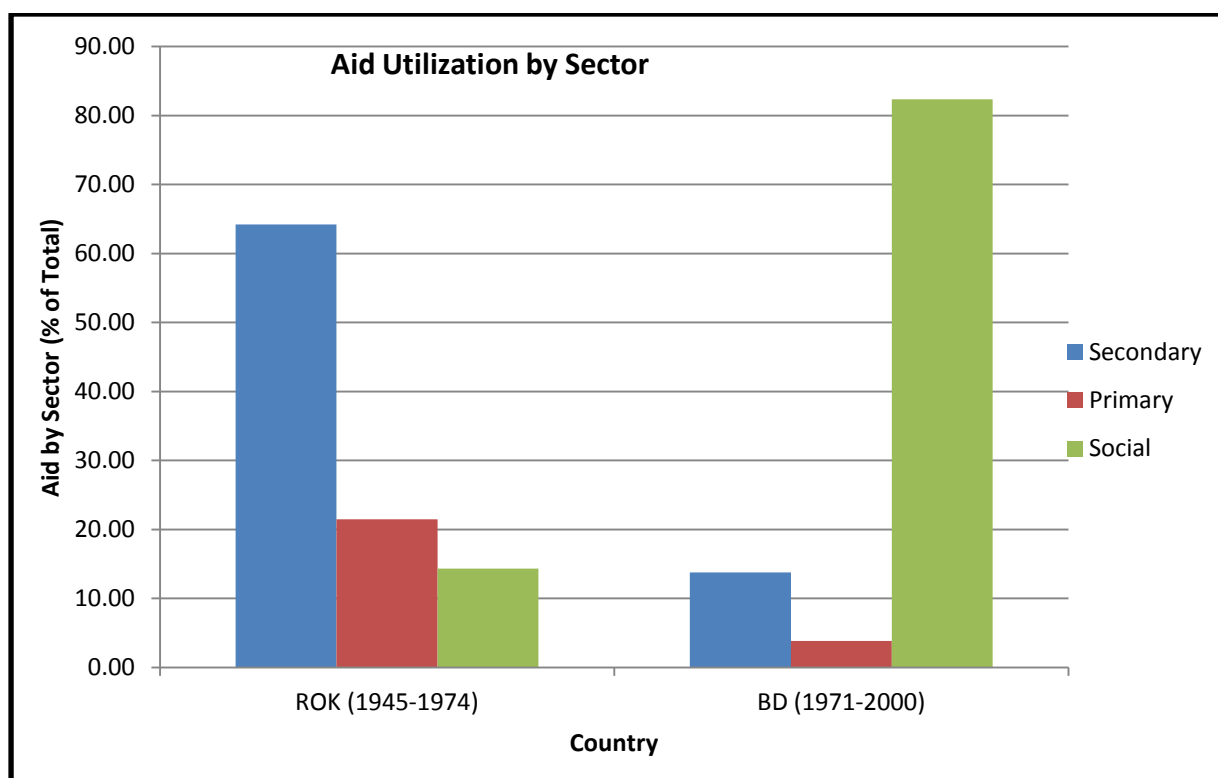
Note: Year Y1 is defined 1945 for Korea (ROK) and 1972 for Bangladesh (BD) respectively and so on. The period here is considered 1945-1975 for ROK and 1972-2002 for BD.

6.2 Effective Utilization: Aid Used with Planned Approach

Korea used his aid to develop the country as a emerging industrialized country, and to do so, Korea used aid with equal emphasis in agriculture to increase its agriculture productivity, physical infrastructure development and machinery procurements to turns the country agrarian economy to industrial economy, and education and technology assistance purpose to build a human capital to keep sustainable development for the long run goal. Moreover, at the same time, Korea adopted industrial policy and trade policy to promote international investment and exports and ensured a balance policy mechanism to increase the productivity

in both agriculture and industrial sector as well. As example, Korea promoted export financing through policy loan, linked the government support by allocating foreign aid with performance, and ensured policy implementation pushing toward competition and entrepreneurship, implemented land reform and education reform to ensure equal opportunity etc. On the other hand, Bangladesh neither received adequate amount of aid nor have such policy like Korea, and even the country does not have any policy instruments so that it can create a balance mechanism between physical development, agricultural development and human development. The country just expends more aid in social sector project to reduce poverty level, but it does not have any planned approach like Korea. While Korea emphasized equal measure in agriculture and industry both with promoting human capital, Bangladesh emphasized more aid allocation on social sector development only, neither in industrialization nor in sectoral transformation, and nor in human development (*Figure 6.3*).

Figure 6.3: Aid Assistance in Korea and Bangladesh by Sector.



6.3 Lesson Learned from Korea

Aid effectiveness is correlated with national policy efficiency. Korea had a good policy and thus they achieved a glorious result from aid which proved that aid can work if it is used effectively and efficiently. But if we see the present global aid scenario in terms of effectiveness, aid had largely remained unsuccessful in terms of achieving some of the major goals set by the Millennium Declaration, such as economic growth and poverty reduction, and the reasons behind this are poor economic policy in recipients countries, capacity constraints of recipients to implement the programs, lack of predictability of aid flows, increased conditionality by donors, lack of knowledge to assess the needs to allocate aid in different sectors, and lack of coordination between both donors and partners, that have been recognized as responsible for such depressing performance of aid in the recipients countries, which are also true for Bangladesh. But the significant learning from Korea could be pointed out that aid should be allocated not only in social sector, it also should be allocated in both primary and secondary sector as well with specific focus and target. Bangladesh, to contribute towards real sustainable development through aid, must lead its own development policies and strategies linking with performance, should emphasis equal opportunity to all by policy implementation, and have to manage them with its own development work on the ground. Nevertheless, failure to formulate of own development policies, aid continued to impose policy agendas that were externally driven and to pull policymaking capacity out of government while at the same time initiating unpredictable flow of finance. Therefore, Bangladesh needs to accumulate good economic policy in its own system and donors need to use the existing country's system to manage and allocate aid. In this circumstance, the donors need to give aid recipients more flexibility and free room to use the aid where the country capable and providing more emphasis to link the development in efficient and effective way so that more outcome could be achieved from the aid uses.

Chapter VII

Conclusion and Recommendations

7.1 Conclusion

The mixed success of foreign aid in Bangladesh can be traced to shared failures on the part of both the government and donors. Donors' current approach to aid suffers from some generic problems. The foregoing analysis highlights some measures, which are intended to (a) introduce greater flexibility in the delivery of aid, (b) provide recipient countries with more policy space, and (c) emphasize results, will be helpful to ensure aid effectiveness. But at the same time, Bangladesh should adopt complementary measures what Korea did in its development stage, and it could be the best learning for Bangladesh as an aid recipient. These measures include enhancing domestic capacity by improving human capital to implement sophisticated projects and creating an appropriate economic environment by focusing specific sectors for the economy to flourish economic growth and development.

7.2 Recommendations

The foregoing discussion highlights a number of issues that seem to have constrained the effectiveness of foreign assistance in Bangladesh. However, these issues are not in any sense unique to Bangladesh, but have a wider relevance. In light of the generic nature of these issues, the following recommendations to this end are drawn for Bangladesh to ensure the effective utilization of its aid resources:

First, aid effectiveness should be measured on the basis of economic outcomes, and thus aid mobilization must be shifted in favor of outcomes-based conditionality rather than policy-based conditionality, where the effectiveness focuses on impacts and outcomes rather than on inputs, activities, and outputs that can promote greater ownership and accountability;

Second, the current practice of donors undertaking details assessments of a country's entire policy environment is unnecessary, and thus government should be given free rein to choose their policies, which would help promote ownership of policies and strengthen accountability, thereby enhancing private sector confidence;

Third, the recipient countries should be given complete autonomy in managing their aid resources without donor interference and on the basis of national plans;

Fourth, under the new international development compact, the principal basis for allocating aid should be national plans and MDG assessments, and thus according to this perspective, a country's development performance would be measured in terms of its progress towards achieving the MDGs over a given time frame and further scaling up of assistance would be linked to this progress;

Fifth, maximizing the impact of aid on poverty reduction requires identifying and eliminating the major constraints to poverty reduction in a particular country, and this is where donor agencies can play an important supporting role to help the government for balancing the government policies to undertake positive policy actions.

APPENDICES

APPENDIX 1

The Chronicle of Development Assistance to Korea.

| Period | Aid Modality | Notions |
|---------------|--|--|
| 1945-1948 | Assistance during the United States Army Military Government in Korea | <ul style="list-style-type: none"> * Period of emergency relief for Koreans freed from the Japanese colonization; * Emergency assistance for economic recovery in regions occupied by the U.S. military; * Food supplies mainly of grain accounted for 41.6% of the assistance; * Emergency relief and reconstruction assistance from the UN; |
| 1949-1960 | Assistance during postwar restoration and economic reconstruction period | <ul style="list-style-type: none"> * Full-fledged economic assistance period for recovery from war and reconstruction; * Multilateral assistance from the UN (for postwar recovery) and the U.S. (for economic stability and defense consolidation); * Since the armistice, assistance was given in consideration of Korea's strategic importance in the Cold War era and international security; |
| 1961-1975 | ODA in the early stage of economic development | <ul style="list-style-type: none"> * Diversification of donor countries; * Assistance from international organizations such as the ADB and the IDA; * An active assistance period with the largest ODA to Korea; * Various cooperation programs including technological cooperation grants and tied loans; * The government planned to fund much of the Economic Development Plan by attracting grant-type aid and development aid loans; |
| 1976-1990 | ODA in the late stage of economic development | <ul style="list-style-type: none"> * In the process of formulating and promoting the development plan, the kinds of fund and sectors for investment were chosen more discreetly; * Overall reduction of assistance; |

Source: <http://www.odakorea.go.kr/eng/introduction/history.php>.

APPENDIX 2

The 'step by step' Progress on Korea's Development Co-operation.

| Year | Step to forward |
|------|---|
| 1963 | * MOFAT and MOST execute the first invitational training program for developing nations under the sponsorship of the USAID; |
| 1965 | * MOFAT and MOST launch the invitational training program with government funds; |
| 1967 | * MOFAT and MOST launch the invitational training program for foreigners in cooperation with the UN and other international organizations; |
| 1968 | * MOST initiates a technology transfer project funded by the Korean government MOST starts the experts dispatching program with government funds; |
| 1975 | * MOL embarks on the technical trainees program; * The program is undertaken by MOST for the 1975-1982 periods; * MOL retakes the program after 1983; |
| 1977 | * MOFAT invites development-related foreign experts in cooperation with the UN and other international organizations; * MOFAT commences assistance in commodity provision; |
| 1981 | * Start Research Cooperation Program with KAIST; |
| 1982 | * Initiate the International Development Exchange Program (IDEP); |
| 1983 | * Begin the Invitational Training program for construction technicians; |
| 1984 | * Embark on Gratis Construction and Technology Transfer (MOCT); * Commence the operation of the training center; |
| 1987 | * Establish the Economic Development Cooperation Fund (EDCF); * Consign technology transfer project to the Korea Science and Engineering Foundation (Ministry of Science and Technology, MOFAT); * The first EDCF loan to a developing country (Nigeria) is approved; |
| 1988 | * Start technical assistance in communication to developing countries; |
| 1989 | * First dispatch of UNESCO Korea Youth Volunteers; * The Economic Planning Board begins grant-type technology transfer program; * The first disbursement of EDCF by the Export-Import Bank of Korea; * The first EDCF concessional loan contract of with Nigeria; |
| 1991 | * Foundation of Korea International Cooperation Agency (KOICA); |
| 1993 | * Co-financing agreement with the ADB; |

| Year | Step to forward |
|-------------|--|
| 1992 | * Co-financing agreement with the World Bank; * KOICA initiates project-type assistance; |
| 1995 | * KOICA initiates the Korea Overseas Volunteer program; * KOICA starts the NGO Support Program; * International Cooperation Training Center opens; |
| 1996 | * Korea joins the OECD; * Annual disbursement of economic cooperation fund exceeds 100 million USD; |
| 1997 | * KOICA and EXIM Bank sign a collaboration agreement; |
| 2000 | * Approval for the first time the co-financing with the Inter-American Development Bank (IDB); |
| 2001 | * Approved ECDF in cumulative terms exceeds 1.6 billion USD; |
| 2002 | * KOICA embarks on Special Assistance Program for Afghanistan; |
| 2003 | * KOICA starts Special Assistance Program for Iraq; |
| 2005 | * KOICA Reconstruction Program for regions affected by the Tsunami disaster; |
| 2007 | * Launch of the Task Force for Korea's Join in the OECD-DAC; |
| 2010 | * Join to the OECD-DAC; |

Source: <http://www.odakorea.go.kr/eng/introduction/history.php>.

APPENDIX 3

The use of Japanese Reparation Fund.

| Sector | Amount (\$ millions) | % |
|---|---------------------------------|----------|
| Agriculture | 39 | 7.8 |
| Fishery | 27 | 5.4 |
| Manufacturing | 278 | 55.6 |
| Construction of POSCO | 119 | 23.9 |
| Purchase of raw materials | 133 | 26.5 |
| Promotion of SMEs | 22 | 4.5 |
| Science and Technology | 20 | 4.0 |
| Equipments for practical training for the schools | 6 | 1.2 |
| Equipments/facilities at KIST | 3 | 0.6 |
| Social Infrastructure | 90 | 18.0 |
| Construction of Soyang-river dam | 22 | 4.4 |
| Gyeongbu (Seoul-Busan) Expressway | 7 | 1.4 |
| Improvement of Railway system | 20 | 4.2 |
| Construction of Yongdong Thermal Powerhouse | 2 | 0.4 |
| Expansion of Waterworks | 4 | 0.8 |
| Construction of Namhae Bridge | 2 | 0.4 |
| Rehabilitation of Han-river Bridge | 1 | 0.2 |
| Power Distribution facilities | 4 | 0.7 |
| Expansion of out-of-town Telephone lines | 4 | 0.8 |
| Total (Reparation funds for free and public loans) | 500 | 100.0 |

Source: EPB (1976), White Book on Reparations pp. 378-381

APPENDIX 4

Table A.1: Total Aid Received and Allocation (Korea: 1945-1975).

| Year | Amount (\$ millions) | Source | Supporting Assistance (\$ millions) | | Sectoral Allocation (% of Total Aid) | | |
|------|-------------------------|---------------------|--|-----------------|--------------------------------------|---------|--------|
| | | | Project | Non- Project | Ind. & Manf. | Primary | Social |
| 1945 | 4.90 | GARIO | 0 | 4.90 | 0.00 | 0.00 | 100.00 |
| 1946 | 49.95 | " | 0 | 49.95 | 3.94 | 28.45 | 67.61 |
| 1947 | 175.40 | " | 0 | 175.40 | 17.38 | 29.09 | 53.52 |
| 1948 | 179.60 | " | 0 | 179.60 | 7.63 | 38.61 | 53.76 |
| 1949 | 116.50 | " (*) | 0 | 116.50 | 10.17 | 58.09 | 31.74 |
| 1950 | 58.70 | ECA, CRIK, UNKRA | 0 | 58.70 | 4.92 | 43.20 | 51.87 |
| 1951 | 106.50 | " | 0 | 106.50 | 30.85 | 27.34 | 41.80 |
| 1952 | 161.00 | " | 0 | 161.00 | 35.95 | 26.57 | 37.48 |
| 1953 | 201.20 | ICA, CRIK, UNKRA | 0 | 201.20 | 23.65 | 32.27 | 44.08 |
| 1954 | 179.90 | " | 6.00 | 173.90 | 45.85 | 21.88 | 32.27 |
| 1955 | 236.70 | " | 34.80 | 201.90 | 48.66 | 26.16 | 25.18 |
| 1956 | 326.70 | " (*) | 53.10 | 273.60 | 47.76 | 36.81 | 15.43 |
| 1957 | 382.90 | " | 92.60 | 290.30 | 43.11 | 31.65 | 25.23 |
| 1958 | 321.30 | " | 67.20 | 254.10 | 43.33 | 38.82 | 17.86 |
| 1959 | 222.20 | " | 68.80 | 153.40 | 35.96 | 45.56 | 18.48 |
| 1960 | 246.70 | " | 56.30 | 190.40 | 59.43 | 27.30 | 13.27 |
| 1961 | 192.80 | ICA, DLF | 29.80 | 163.00 | 64.60 | 27.35 | 8.05 |
| 1962 | 245.50 | " | 21.70 | 223.80 | 65.70 | 27.34 | 6.96 |
| 1963 | 252.30 | " | 13.00 | 239.30 | 73.63 | 20.12 | 6.24 |
| 1964 | 164.80 | " | 5.50 | 159.30 | 72.28 | 24.87 | 2.85 |
| 1965 | 176.90 | " | 4.30 | 172.60 | 74.42 | 21.61 | 3.97 |

| Year | Amount (\$ millions) | Source | Supporting Assistance (\$ millions) | | Sectoral Allocation (% of Total Aid) | | |
|------|-------------------------|----------|--|-----------------|--------------------------------------|---------|--------|
| | | | Project | Non- Project | Ind. & Manf. | Primary | Social |
| 1966 | 300.70 | DLF, ODA | 5.20 | 295.50 | 76.34 | 19.36 | 4.30 |
| 1967 | 334.80 | " | 5.60 | 329.20 | 83.62 | 12.37 | 4.02 |
| 1968 | 299.90 | " | 9.90 | 290.00 | 82.73 | 13.04 | 4.22 |
| 1969 | 395.60 | " | 7.50 | 388.10 | 86.44 | 10.73 | 2.84 |
| 1970 | 470.00 | " | 6.40 | 463.60 | 86.22 | 10.45 | 3.33 |
| 1971 | 509.10 | " | 5.10 | 504.00 | 81.21 | 15.28 | 3.51 |
| 1972 | 807.30 | " | 3.40 | 803.90 | 86.87 | 8.85 | 4.28 |
| 1973 | 688.70 | " | 3.30 | 685.40 | 80.89 | 10.85 | 8.26 |
| 1974 | 493.10 | " | 2.10 | 491.00 | 70.41 | 15.82 | 13.77 |
| 1975 | 863.90 | " | 0.90 | 863.00 | 79.84 | 10.00 | 10.10 |

Source: Anne O. Krueger (1982), *The Development Role of the Foreign Sector and Aid, Studies in the Modernization of the Republic of Korea: 1945-1975*.

APPENDIX 5

Table A.2: Total Aid Received and Distribution: Bangladesh 1972-2009.

| Year | Total Amount (\$ millions) | Supporting Assistance (\$ millions) | | Sectoral Distribution (% of Total Aid) | | |
|------|-------------------------------|--|---------------------------------------|--|----------------------------|----------|
| | | Project | Non-Project (Aid and Commodity) | % Industry & Power | % Primary (Agriculture) | % Social |
| 1972 | 270.80 | 3.50 | 267.30 | 0.00 | 0.00 | 100.00 |
| 1973 | 551.50 | 80.00 | 471.50 | 1.76 | 0.13 | 98.11 |
| 1974 | 461.10 | 124.40 | 336.70 | 6.94 | 0.50 | 92.56 |
| 1975 | 901.00 | 143.00 | 758.00 | 5.79 | 0.70 | 93.51 |
| 1976 | 800.50 | 125.50 | 675.00 | 6.87 | 0.44 | 92.69 |
| 1977 | 534.80 | 158.60 | 376.20 | 12.19 | 2.00 | 85.81 |
| 1978 | 833.90 | 275.60 | 558.30 | 11.87 | 4.09 | 84.04 |
| 1979 | 1030.00 | 368.40 | 661.60 | 14.35 | 2.37 | 83.28 |
| 1980 | 1223.10 | 469.90 | 753.20 | 13.07 | 2.45 | 84.48 |
| 1981 | 1146.50 | 559.90 | 586.60 | 12.22 | 3.66 | 84.12 |
| 1982 | 1239.70 | 589.30 | 650.40 | 12.62 | 3.82 | 83.55 |
| 1983 | 1177.30 | 469.90 | 707.40 | 10.03 | 4.83 | 85.14 |
| 1984 | 1268.40 | 552.80 | 715.60 | 13.88 | 8.28 | 77.85 |
| 1985 | 1269.50 | 590.90 | 678.60 | 15.90 | 6.00 | 78.10 |
| 1986 | 1306.00 | 709.80 | 596.20 | 20.57 | 5.03 | 74.40 |
| 1987 | 1595.10 | 967.20 | 627.90 | 33.15 | 3.08 | 63.77 |
| 1988 | 1640.40 | 830.50 | 809.90 | 16.31 | 3.62 | 80.07 |
| 1989 | 1668.50 | 903.90 | 764.60 | 20.16 | 4.03 | 75.82 |
| 1990 | 1809.60 | 1165.40 | 644.20 | 16.94 | 3.02 | 80.04 |
| 1991 | 1732.60 | 1055.90 | 676.70 | 15.89 | 2.98 | 81.13 |
| 1992 | 1611.40 | 984.20 | 627.20 | 11.60 | 4.01 | 84.39 |
| 1993 | 1675.00 | 1181.90 | 493.10 | 19.25 | 4.35 | 76.40 |
| 1994 | 1558.70 | 989.50 | 569.20 | 13.80 | 4.67 | 81.53 |

| Year | Total Amount (\$ millions) | Supporting Assistance (\$ millions) | | Sectoral Distribution (% of Total Aid) | | |
|------|-------------------------------|--|---------------------------------------|--|----------------------------|----------|
| | | Project | Non-Project (Aid and Commodity) | % Industry & Power | % Primary (Agriculture) | % Social |
| 1995 | 1739.10 | 1268.90 | 470.20 | 13.44 | 5.84 | 80.72 |
| 1996 | 1443.80 | 1076.40 | 367.40 | 13.78 | 4.89 | 81.33 |
| 1997 | 1481.20 | 1117.20 | 364.00 | 8.82 | 3.78 | 87.40 |
| 1998 | 1455.70 | 1038.70 | 417.00 | 6.70 | 3.32 | 89.97 |
| 1999 | 1536.00 | 1035.20 | 500.80 | 7.30 | 4.21 | 88.49 |
| 2000 | 1587.90 | 1162.80 | 425.10 | 9.36 | 4.12 | 86.52 |
| 2001 | 1368.70 | 1134.20 | 234.50 | 10.51 | 4.54 | 84.96 |
| 2002 | 1442.20 | 1251.30 | 190.90 | 11.27 | 3.34 | 85.38 |
| 2003 | 1585.00 | 1362.10 | 222.90 | 13.07 | 4.83 | 82.09 |
| 2004 | 1033.50 | 1001.90 | 31.60 | 19.76 | 4.84 | 75.40 |
| 2005 | 1488.50 | 1434.00 | 54.50 | 22.11 | 2.77 | 75.12 |
| 2006 | 1567.60 | 1470.40 | 97.20 | 14.29 | 3.34 | 82.37 |
| 2007 | 1630.60 | 1570.70 | 59.90 | 15.22 | 4.26 | 80.52 |
| 2008 | 2061.70 | 1950.70 | 111.00 | 17.66 | 1.74 | 80.60 |
| 2009 | 1847.30 | 1794.90 | 52.40 | 13.71 | 1.63 | 84.66 |

Source: Foreign Aid Budget and Accounts, Economic Relation Division, Ministry of Finance, Dhaka, Bangladesh, and http://www.erd.gov.bd/index.php?option=com_content&task=view&id=245&Itemid=263.

APPENDIX 6

Table A.3: The Aid Assistance and GDP in Korea (ROK) and Bangladesh (BD) for 30 Years Period.

| No. of Year | Year | | Total Aid Amount (\$ millions) | | GDP Nominal (\$ millions) | |
|-------------|------|------|--------------------------------|----------------|---------------------------|----------------|
| | ROK | BD | ROK (1945-1974) | BD (1971-2000) | ROK (1945-1975) | BD (1972-2002) |
| Y 1 | 1945 | 1971 | 4.90 | 110.00 | 900.00 | 8751.84 |
| Y 2 | 1946 | 1972 | 49.95 | 270.80 | 922.30 | 6288.24 |
| Y 3 | 1947 | 1973 | 175.40 | 551.50 | 964.80 | 8067.02 |
| Y 4 | 1948 | 1974 | 179.60 | 461.10 | 1007.5 | 12459.28 |
| Y 5 | 1949 | 1975 | 116.50 | 901.00 | 1090.15 | 19395.90 |
| Y 6 | 1950 | 1976 | 58.70 | 800.50 | 1183.78 | 10083.16 |
| Y 7 | 1951 | 1977 | 106.50 | 534.80 | 1238.04 | 9632.47 |
| Y 8 | 1952 | 1978 | 161.00 | 833.90 | 1293.32 | 13299.36 |
| Y 9 | 1953 | 1979 | 201.20 | 1030.00 | 1370.78 | 18126.34 |
| Y 10 | 1954 | 1980 | 179.90 | 1223.10 | 1428.44 | 19811.56 |
| Y 11 | 1955 | 1981 | 236.70 | 1146.50 | 1508.78 | 18023.92 |
| Y 12 | 1956 | 1982 | 326.70 | 1239.70 | 1595.30 | 17155.80 |
| Y 13 | 1957 | 1983 | 382.90 | 1177.30 | 1662.72 | 19638.61 |
| Y 14 | 1958 | 1984 | 321.30 | 1268.40 | 1756.05 | 21464.53 |
| Y 15 | 1959 | 1985 | 222.20 | 1269.50 | 1853.31 | 21167.31 |
| Y 16 | 1960 | 1986 | 246.70 | 1306.00 | 1892.27 | 23758.11 |
| Y 17 | 1961 | 1987 | 192.80 | 1595.10 | 2357.31 | 25605.92 |
| Y 18 | 1962 | 1988 | 245.50 | 1640.40 | 2746.23 | 27709.96 |
| Y 19 | 1963 | 1989 | 252.30 | 1668.50 | 3864.14 | 30476.55 |
| Y 20 | 1964 | 1990 | 164.80 | 1809.60 | 3558.49 | 30974.80 |
| Y 21 | 1965 | 1991 | 176.90 | 1732.60 | 3017.94 | 31334.84 |
| Y 22 | 1966 | 1992 | 300.70 | 1611.40 | 3806.45 | 32031.04 |
| Y 23 | 1967 | 1993 | 334.80 | 1675.00 | 4703.25 | 33853.08 |
| Y 24 | 1968 | 1994 | 299.90 | 1558.70 | 5955.98 | 37939.75 |

| No. of Year | Year | | Total Aid Amount (\$ millions) | | GDP Nominal (\$ millions) | |
|-------------|------|------|--------------------------------|----------------|---------------------------|----------------|
| | ROK | BD | ROK (1945-1974) | BD (1971-2000) | ROK (1945-1975) | BD (1972-2002) |
| Y 25 | 1969 | 1995 | 395.60 | 1739.10 | 7476.50 | 40725.76 |
| Y 26 | 1970 | 1996 | 470.00 | 1443.80 | 8900.69 | 42318.81 |
| Y 27 | 1971 | 1997 | 509.10 | 1481.20 | 9850.78 | 44033.57 |
| Y 28 | 1972 | 1998 | 807.30 | 1455.70 | 10735.32 | 45713.11 |
| Y 29 | 1973 | 1999 | 688.70 | 1536.00 | 13691.25 | 47123.82 |
| Y 30 | 1974 | 2000 | 493.10 | 1587.90 | 19229.61 | 47826.49 |

Source: World Bank, <http://www.nationmaster.com>, <http://www.odakorea.go.kr/eng/introduction/history.php>, Foreign Aid Budget and Accounts, Economic Relation Division, Ministry of Finance, Dhaka, Bangladesh, and http://www.erd.gov.bd/index.php?option=com_content&task=view&id=245&Itemid=263.

GLOSSARY

- a. **Paris Declaration:** The Paris Declaration on Aid Effectiveness, which was sponsored by the OECD, was signed by donors and partner countries in 2005 following the first High Level Forum on Harmonization in Rome, 2003. It included commitments and implementation targets in five areas: *ownership, alignment, harmonization, managing for results, and mutual accountability*.
- b. **Accra Agenda for Action:** Following the Paris Declaration, the signatories met in Accra, 2008 to assess progress toward the goals and strengthened commitments on aid effectiveness to improve the delivery of aid through stronger country ownership of development, greater predictability, better use of country systems, changing the nature of conditionality, and deeper engagement with civil society organizations.
- c. **High Level Forum- 4:** In November 2011, the international community met in Busan (Korea), for the Fourth High Level Forum on Aid Effectiveness. Multilateral and bilateral donors, partner countries, and civil society organizations assessed progress on implementing the 2005 Paris Declaration on Aid Effectiveness and its companion, and the 2008 Accra Agenda for Action.
- d. **Millennium Development Goals:** The UN Millennium Development Goals are the set of development targets that aimed to achieve the eight anti-poverty goals: *end poverty and hunger, universal education, gender equality, child health, maternal health, combat HIV/AIDS, environmental sustainability, and global partnership* by their 2015 target date by members of the United Nations during its millennium session in 2000.
- e. **Basket Case:** In the 18 years after its liberation in 1945, following World War II, Korea suffered depression, hyperinflation, and civil war, any one of which could make a country poor. Aid was critical in averting a humanitarian crisis in the wake of World War II and the

Korean War in a country that was already suffering low standards of living. The geopolitical uncertainty surrounding the Korean Peninsula, its eventual physical partition, which culminated with a civil war, never allowed development to get traction. The inept and corrupt Korean government bureaucracy under Syungman Rhee did not help the situation. As the 1960s began, it was becoming apparent that Korea was increasingly becoming dependent on aid while the failures of the Korean government gave merit to the label of a “basket case”.

f. **ROK-US Agreement on Aid:** In 1948, the policy objectives of the US aid program were formalized under the ROK-US Agreement on Aid, shortly after the founding of the Republic of Korea (ROK) led by the new Syngman Rhee government. Outline under 12 articles of the ROK-US Agreement on Aid, the conditional nature of the agreement was judged to be unfavorable and intrusive by the Korean government.

g. **Five Year Reconstruction Plan:** By mid 1949, the Korean and US government began preparations on economic reconstruction, and the Korean government took the initiative by devising a five year reconstruction plan, centered on industrial development to promote the manufacturing sector. The Korean plan was considered to be too ambitious by the ECA and downsized for three-year; however, the US congress opposed the plan and gave approval only for one year by reducing the size of plan.

h. **Normalization Relations with Japan:** Soon after Park Chung Hee took power, he systematically took several steps like anti-corruption camping, tax reform, normalization relations with Japan etc. However, the normalization of relations with Japan is one of the most underappreciated accomplishments of President Park, he made the decision to normalize relations with Japan in 1965 to secure foreign capital from Japan committed to provide as foreign assistance and used that fund to finance Korea’s industrialization.

i. **Millennium Development Goals (MDG) indicators:** The MDGs are a set of development targets aimed at eradicating extreme poverty and hunger; achieving universal primary

education; promoting gender equality and the empowerment of women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; and ensuring environmental sustainability. These targets, to be achieved by 2015, were set by members of the United Nations during its millennium session in 2000.

j. Poverty Reduction Strategy Paper: As of 2000, to receive development assistance, low-income countries (with the exception of India) are required to prepare national poverty reduction strategies. The governments, in collaboration with World Bank and International Monetary Fund staff, are supposed to prepare these national strategy documents, known as Poverty Reduction Strategy Papers. The papers describe countries' macroeconomic, structural, and social policies and programs to promote growth and reduce poverty, along with their associated external financing needs. According to the World Bank, these papers are guided by five core principle, namely, they should be (a) country driven, involving broadly based participation by civil society and the private sector in all operational steps; (b) results oriented, focusing on outcomes that benefit the poor; (c) comprehensive in recognizing the multidimensional nature of poverty; (d) partnership oriented, involving coordinated participation by development partners (bilateral, multilateral, and nongovernmental); and (v) based on a long-term perspective for poverty reduction

ENDNOTES

1. J. Faaland and J. R. Parkison, “Bangladesh: The Test Case of Development”, Boulder Co, Westview Press (1976).
2. Joon-Kyung Kim, “Lector note series on Korean Economic Development (spring)”, KDI School of Public Policy and Management (2011).
3. Michael P. Todaro and Stephen C. Smith, “Economic Development”, 11th Edition, Chapter 2, 37-57, Addison-Wesley (2011).
4. Roger C. Riddell, “Does Foreign Aid Really Work?”, 1st Edition, Chapter 1-2, 1-30, Oxford University Press (2007).
5. World Bank, “Assessing Aid: What Works, What Doesn’t, and Why”, Oxford University Press, New York.
6. Raghuram Rajan and Arvind Subramanian, “What Undermines Aid’s Impact on Growth?” NBER Working Paper No. 11657, World Bank (2005).
7. Joon-Kyung Kim and Kwang Sung Kim, OECD Working Paper on “From Aid to Development: The Korean Experience”, OECD workshop (2011).

REFERENCES

- Adam, C. S., and D. L. Bevan. 2006. Aid and Supply Side: Public Investment, Export Performance, and Dutch Disease in Low Income Countries, *World Bank Economic Review*, Vol. 20, pp. 261-290.
- Adsera, Alicia and Debraj Ray. 1998. History and Coordination Failure, *Journal of Economic Growth*, Vol. 3, pp. 267-276.
- Cassen, Robert et al. 1994. Does Aid work? Report to an Inter-government Task Force, Clarendon Press, Oxford.
- Cox, Aidan et al. 1997. Do the Poor Matter? A Comparative Study of European Aid for Poverty Reduction in India, Centre for Development Research, Copenhagen.
- Chenery, H., and A. M. Strout. 1996. Foreign Assistance and Economic Development, *American Economic Review*, Vol. 56, pp. 679-733.
- Easterly, William and R. Levine. 2000. It's Not Factor Accumulation: Stylized Facts and Growth Models, Policy Research group, World Bank.
- Hansen, Henrik and Finn Tarp. 2000. Aid Effectiveness Disputed, *Journal of International Development*, Vol. 12, pp. 375-398.
- Hausmann, R., L. Pritchett, and Dani Rodrik. 2005. Growth Acceleration, *Journal of Economic Growth*, Vol. 10(4), pp. 303-329.
- Hoff, Karal. 2000. Beyond Rosentain-Rodan: The Modern Theory of Underdevelopment Traps, Oxford University Press.
- Kanbur, Ravi. 2006. The Economics of International Aid In The Economics of Giving, Reciprocity, and Altruism. North Holland.
- Kim, Joon-Kyung and Kwang Sung Kim. 2011. Aid, Development, and Korea; Working Paper, OECD Workshop on From Aid to Development: The Korean Experience.

- Krueger, Anne O. 1982. *The Development Role of the Foreign Sector and Aid*, Harvard University Press, England.
- Lancaster, C. 1999. *Foreign Aid and Development in Africa*, University of Chicago Press, Chicago.
- Lee, Dae-geun. 2002. *The Korean Economy in the Post-Liberation Period and the 1950s* (Korean but corresponding data translated in English by Prof. Joon-Kyung Kim, KDI School), Samsung Electronic Research Institute, Korea.
- Lele, Uma and Ijaz Nabi. 1991. *Transitions in Development: The Role of Aid and Commercial Flows*, San Francisco, ICS Press, CA.
- Lipton, Michael and John Toye. 1991. *Does Aid Work in India? A Country Study of the Impact of Official Development Assistance*, Routledge, London.
- Lyons, Gene M. 1961. *Military Policy and Economic Aid: The Korean Case 1950-1953*, Columbus.
- Mason, Edwards S. et al. 1980. *The Economic and Social Modernization of the Republic of Korea*, Harvard University Press, England.
- McKinley, T. 2005. *Why Is the 'Dutch Disease' Always a Disease: The Macroeconomic Consequences of Scaling up ODA*, Working Paper, UNDP.
- Millikan, M. F., and W. W. Rostow. 1957. *A Proposal: Key to Effective Foreign Policy*, New York, USA.
- Mosley, Paul, J. Harrigan, and J. Toye. 1995. *Aid and Power*, 2nd Edition, London.
- Mosley, Paul and John Hudson. 1997. *Aid Effectiveness: Tests of the Robustness of Macro Relationships*, No. 31, Discussion Papers in Development Economics.
- Murphy, K., A. Shleifer, and R. Vishny. 1989. *Industrialization and the Big Push*, *Journal of Political Economy*, Vol. 97(5), pp. 1003-1026.

- Pritchett, Lant. 1997. Divergence Big Time, *Journal of Economic Perspectives*, Vol. 11(3), pp. 3-17, American Economic Association.
- Quibria, M. G., and Antu Murshid. 2007. Aid Effectiveness: A Critical survey of the Empirical Literature, University of Wisconsin, Department of Economics, Milwaukee.
- Quibria, M. G., and Shafi Ahmad. 2007. Aid Effectiveness in Bangladesh, Morgan State University. <http://mpa.ub.uni-muenchen.de/10299>.
- Rahman, Mashiur. 2008. Aid Development and Reform: Multiplicity Methodology and Emotiveness, SID, Bangladesh.
- Rajan, R. G., and A. Subramanian. 2007. Does Aid Affect Governance? *American Economic Review*, pp. 322-327.
- Rajan, R. G., and A. Subramanian. 2005. What Undermines Aid's Impact on Growth? Working Paper, NBEC, Cambridge, MA.
- Rodrik, Dani. 1995. Getting Interventions Right: How South Korea and Taiwan Grew Rich, *Journal of Economic Policy*.
- Rosenstein-Rodan, P. 1961. International Aid for Underdeveloped Countries, *Review of Economics and Statistics*, Vol. 43, pp. 107-138.
- Rosenstein-Rodan, P. 1943. Problems of Industrialization in Easter and South-East Europe, *Economic Journal*, Vol. 53, pp. 201-211.
- Sachs, J. 2005. *The End of Poverty: Economic Possibilities of Our Times*, Penguin Publishers, New York.
- Stern, E. et al. 2008. Thematic Study on the Paris Declaration, Aid Effectiveness, and Development Effectiveness; Ministry of Foreign Affairs, Denmark.
- Waal, Nicholas van de and Timothy Johnston. 1996. Improving Aid to Africa, Policy Essay No. 21, Overseas Development Council, Washington DC.