Overview

In the context of new status of Lower Middle Income Country (LMIC), the financing landscape has been changing rapidly; scope of mobilization of foreign assistance in concessional term has become less than previous years.The major Development Partners such as World Bank and Japan have already adjusted their financial terms and conditions either by shortening maturity and grace period or by increasing interest rates. Moreover,to meet the investment needs, especially for some big and nationally important projects such as Ruppur Nuclear Power Plant, borrowing on non-concessional terms from bilateral sources has increased. In 2019, external resources amounting to US$ 9.91 billion has been mobilized which is the 3rd highest since independence. Out of this, power and transport sector have the major allocations amounting to US$ 2.48 and US$ 1.76 billion respectively. The other major sectors which have significant allocations are education (US$ 1.54 billion), public administration (US$ 1.15 billion), agriculture (US$ 1.03 billion), rural development and institutions (US$ 0.7 billion) and social welfare (US$ 0.40 billion). External resources, one of the main sources of financing development activities, have been playing a pivotal role. The scenario of realization of committed assistance has been improved compared to the last few years. An amount of US$ 6.54 billion was disbursed in 2019 which is also the highest since independence. Comparing with 2018, the commitment has decreased by 33.80 percent and disbursement have increased by 2.72 per cent.

Despite the increased mobilization of external assistance, Bangladesh has been able to maintain a comfortable debt sustainability position in terms of solvency and liquidity. The ratio of government's external debt stock as on 30.06.2019 to GDP is 12.72% vis-à-vis the threshold limit of 40% reveals the solid solvency position. The ratio of government's external debt service obligation in FY 2016-17 to export of goods and services is 2.66% vis-à-vis the threshold limit of 20% mirrors good liquidity condition of Bangladesh. However, mobilization of non-concessional loans has been increasing recently. An amount of US$ 4.3 billion non-concessional loan has been mobilized in 2019 which stood at 51.76% of total loans committed. On the other, the volatility of exchange ratesand increasing trends of LIBOR have increased the risks of escalation of borrowing costs in the coming years.

2. Thissection of the document is organized into following different parts:

i. **Part-1**focuses on the objectives of external resources management with a snapshot of key information of external resource flows and some important macro-economic indicators;
ii. **Part-2** presents information, analysis and evaluation of external resource flow into Bangladesh;
iii. **Part-3** highlights external debt portfolio including changes in external debt stock with currency composition and maturity structure, debt servicing, and other important debt related issues;
iv. **Part-4** indicates risks associated with external debt portfolio and debt sustainability status;

v. **Part-5** describes some steps taken inrecent times in the area of aid and debt management.

3.Part-1: Objective of External Resource Management and a Snapshot of key Information

3.1Objectives: The primary objectives of external resource management are:

(a) to ensure mobilization of government's external resource in line with national development strategyatlowest possible cost;

(b) to contain debt burden in a comfort zone consistent with a prudent degree of risk.

3.2 Snapshot:A snapshot of key information relating to external resource flow such as aid in the pipeline, commitment,disbursement, debt stock, debt servicing and aid channeled through Non-Government Organization (NGO) of FY 2018-19 are given in the table below. It also captures related macroeconomic indicators which would offer readers an opportunity to have a broad appreciation of external debt of the country in the context of overall macro-fiscal situation of the country.

A.Foreign Aid Flow and Debt

	FY 2018-19	FY 2017-18
1. Flow of Foreign Aid	*(In million US$)*	*(In million US$)*
(i) Opening Pipeline	**44,529**	**35,749**
(ii) Total Commitment	**9,907**	**14,975**
Grant	1,572	705
Loan	8,335	14,270
Projects	9,907	14,975
Non-projects	0	0
(iii) Total Disbursement	**6,542**	**6369**
Grant	279	382
Loan	6,263	5,987
Projects	6,520	6,356
Non-projects	22	13
(iv) Closing Pipeline	**47,268**	**44,529**
(v) Foreign grant channeled through NGO		
Amount Approved	1,098	878
Amount released	95	827
2. External Debt Stock	*(In million US$)*	*(In million US$)*
Total public sector outstanding debt	**44,479**	**38,236**
(a) General Government Debt (Medium & Long Term)	**38,475**	**33,512**
Multilateral	26,630	24,329
Bilateral	10,803	8,104
Supplier/Buyer's Credit	1042	1079

	FY 2018-19	FY 2017-18
	(In million US$)	*(In million US$)*
(b)Government's Guaranteed debt	**6,004**	**4,723**
Air Craft	637	528
Crude Oil	415	558
Power	4020	2,601
IMF	775	873
BTRC	157	163
3. External Debt Service	*(In million US$)*	*(In million US$)*
Total debt servicing	**2,823**	**2,198**
(a) Principal	**2,336**	**1,810**
General Government (Medium & Long Term)	1202	1.110
Air Craft	148	79
Crude Oil	791	467
Power	88	125
IMF	89	26
BTRC	18	3
(b) Service Charge	**487**	**388**
General Government (Medium & Long Term)	391	299
Air Craft	23	16
Crude Oil	15	9
Power	49	59
IMF	7	5
BTRC	2	0.3

B. Macro Economic Statistics

Macro Economic Statistic	FY 2018-19	FY 2017-18
i. GDP growth rate (Base Year: 2005/06)	8.13	7.86
ii. GDP at current price (Base year: 2005/06 in million US$)	302,432	274,117
iii. GDP as per PPP at Current Int'l Dollar (in million US$)*	837,558	758,178
iv. Per Capita Income (Base year: 2005/06 in US$)	1,909	1,751
v.**Export of Goods and Services (In million US$)**	**43,500**	**40,744**
Merchandise (FoB)	37,190	36,205
Services	6,310	4,539
v. **Import (In million US$)**	**59,915**	**58,865**
Food	1,552	3,099
Capital Machinery	5,413	5,462
vi. **Foreign Exchange Reserve (in million US$)**	**32,716**	**32,916**
vii. **Remittance (in million US$)**	**16,420**	**14,982**
Of the total from: KSA	3,110	2,592
UAE	2,540	2,430
USA	1,843	1,998

* Reference: World Economic Outlook Database, October, 2019 IMF

4.Part-2: Aid flow, Composition and Trend

Up to June 30, 2019 a total of about US$ 142.04 billion of external assistance was committed. According to the classification by purposes the share of food aid is US$ 6.88 billion, commodity aid is US$ 11.07 billion,project aid is US$ 138.26billionand budget support is 3.83billion of the total commitments.

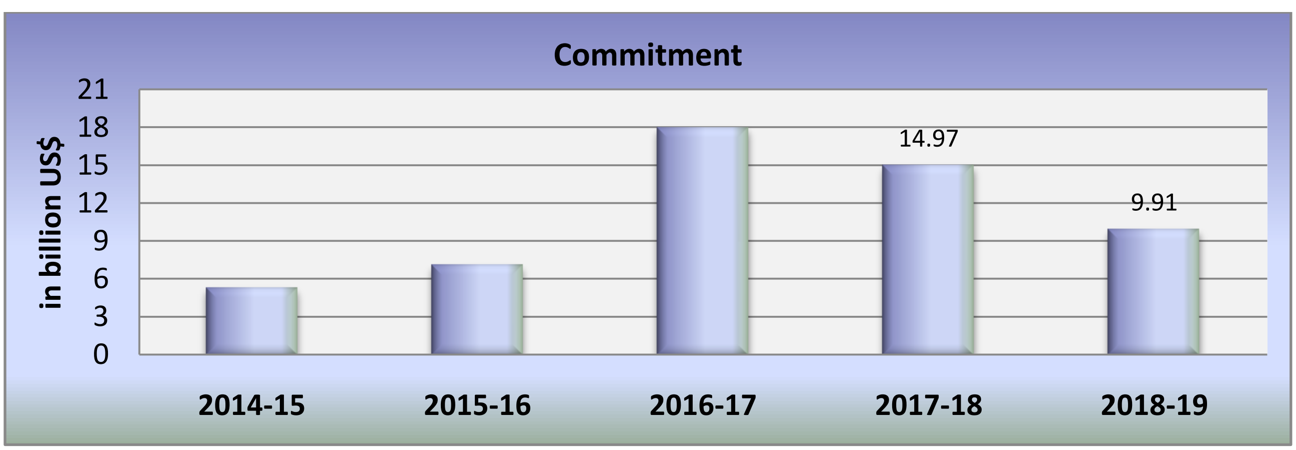
For the period since independence upto June 30, 2019, a total amount of about US$ 85.93 billion of foreign aid was disbursed, of which US$ 27.70 billionis grant and US$ 58.23 billionis loan. Of the total amount, US$ 6.93 billion as food, US$ 10.91 billionas commodity,US$ 64.26billion as project aid and US$ 3.83 billion as budget support were disbursed.

Significant changes have taken place in case of the total aid package to the country over fortysixyears since independence.The share of grant is declining graduallyvis-à-vis the share of loan.Considering sources of the total aid flows, multilateral aidhas been growing through years compared to bilateral aid. Vulnerable food security and shift in global economic power-structurehave made aid mobilization more difficult than ever before.It is facilitated through a variety of means. Co-ordination with Development Partner (DP)such as holding periodicmeetings of the Bangladesh Development Forum, greater partners has an important bearing on the interaction of the Local Consultative Groups which aims at aid effectiveness and harmony, regular triangular portfolio meetings of ERD, DPs and project implementing ministries/agencies etc.

Some key features for the financial year 2018-19 related to external aid are discussed below.

4.1 Commitments:

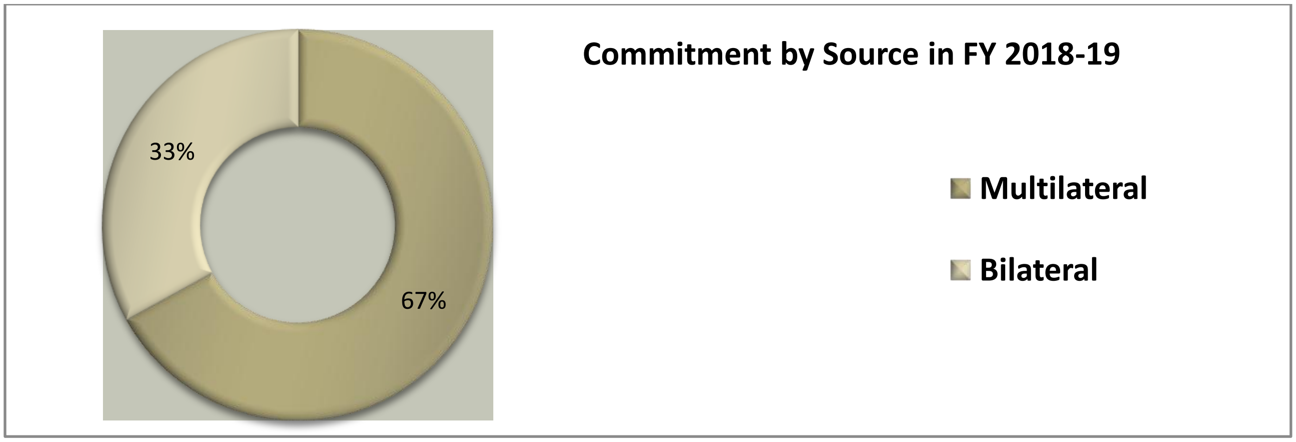
Duringthe FY 2018-19, a total of US$9.91 billion of external assistance was committed. The commitment of foreign aid for FY2018-19 is the3rdlargestfollowed bythe commitment of US$14.97 billion in FY 2017-18. Compared to last fiscal year, the growth of commitment is minus 30.80per cent. Graph-1 shows commitment of foreign aid for last five years.



Graph 1

In FY2018-19 projectaid constituted thelion's share of the whole amount of commitment. There is no commitment for the food aid andcommodity aidin thisfinancial year.

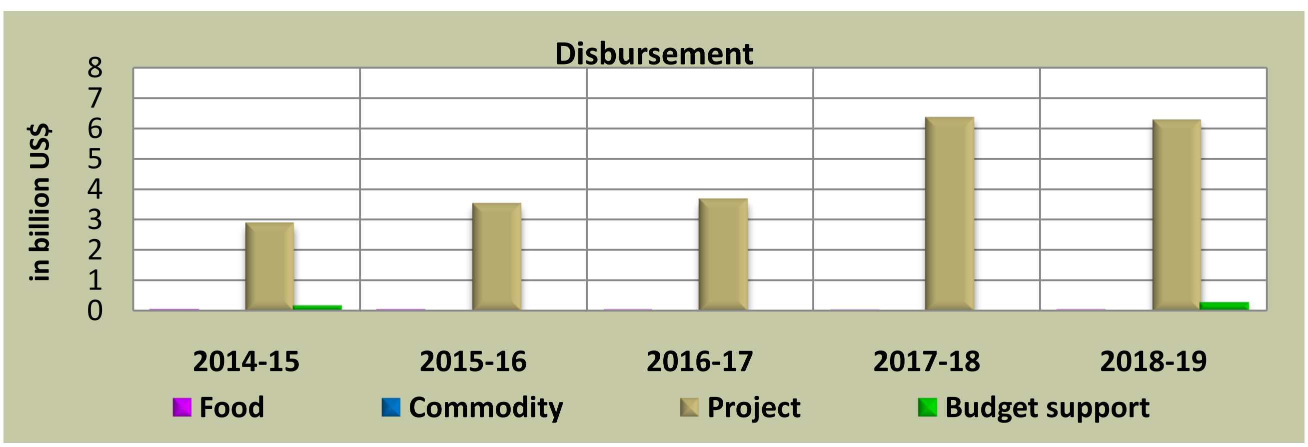
According tosource of financing,commitment from multilateral agencies and bilateral sourcesare US$ 5839.76million and US$4067.10 millionrespectively. Composition of commitment is shown for the FY2018-19in graph 2.



Graph-2

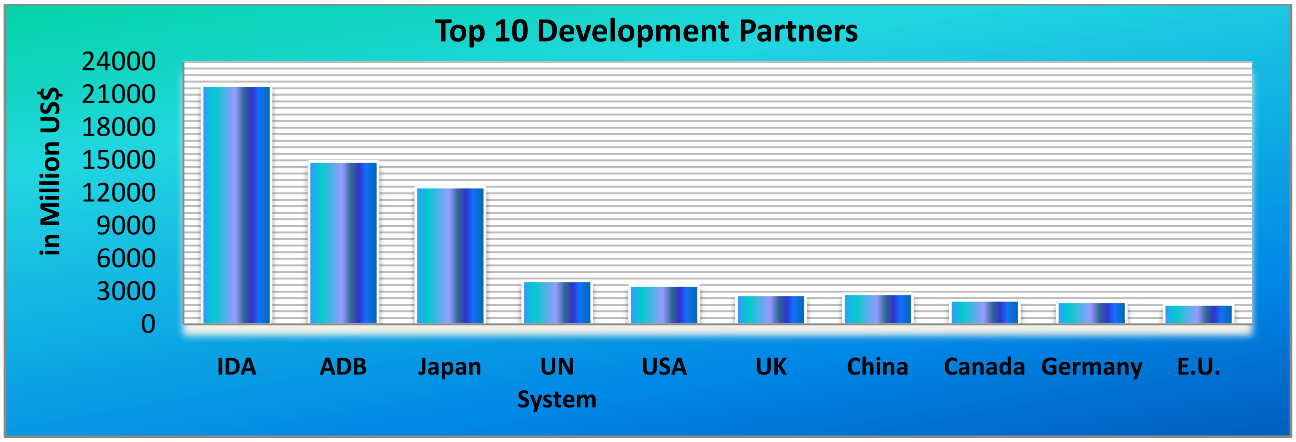
4.2 Disbursement:

In the FY2018-19, a total amount of US$ 6.54 billion was disbursedwhich registered thehighest disbursement in a single financial year since independence. Disbursement duringFY 2018-19is 2.67 per cent higher than the disbursement of the previous year. Ofthis US$ 279.70million is grant and US$ 6262.87 millionis loan.Ofthe total amount, food aid,project aidand budget support are US$ 22.61 million,US$ 6268.82million and 251.14 respectively. Multilateral donors disbursed the lion's share of the total disbursement amounting to US$ 3611.99million and bilateral donors disbursed US$ 2930.58million. Graph-3 shows a comparison of disbursement by purpose in different years.



Graph-3

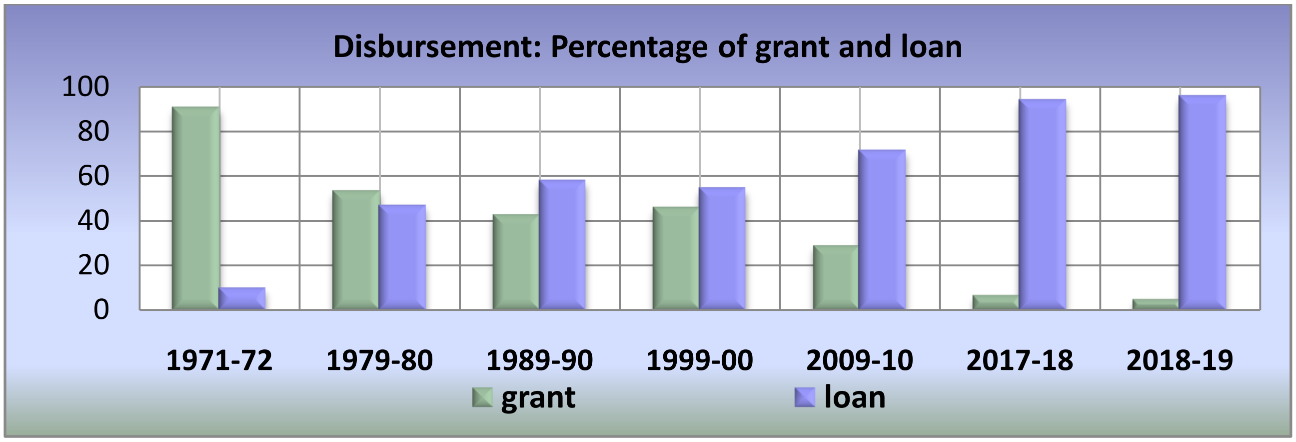
Since 1972 on a cumulative basis of aid disbursement, the major multilateral development partner is IDA followed by ADB. On the other hand, Japan ranks as the largest bilateral development partner followed by theUSA. Disbursement of top 10 development partners according to their cumulative contribution since independencehas been presented ingraph-4.



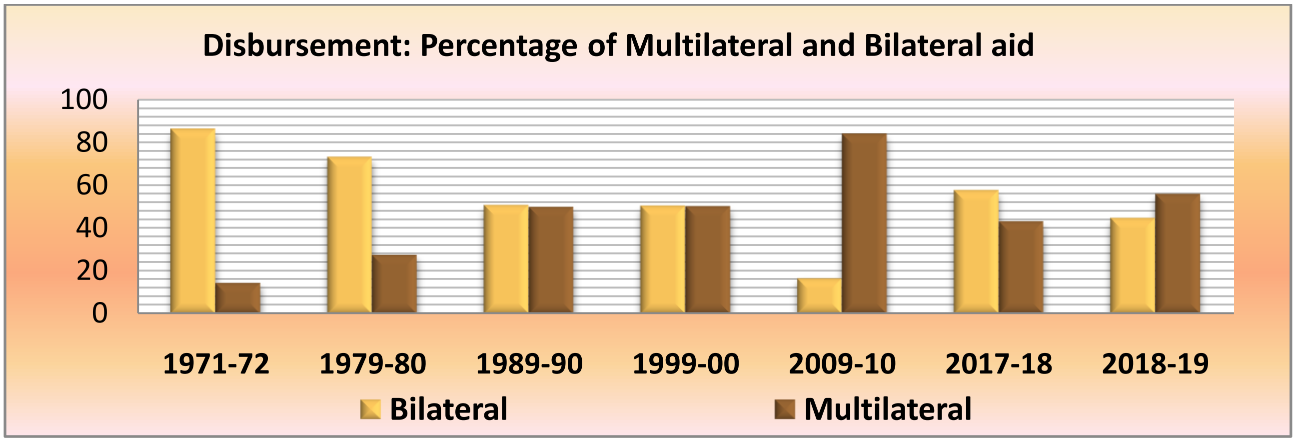
Graph-4

4.3 Changing scenarios in aid composition

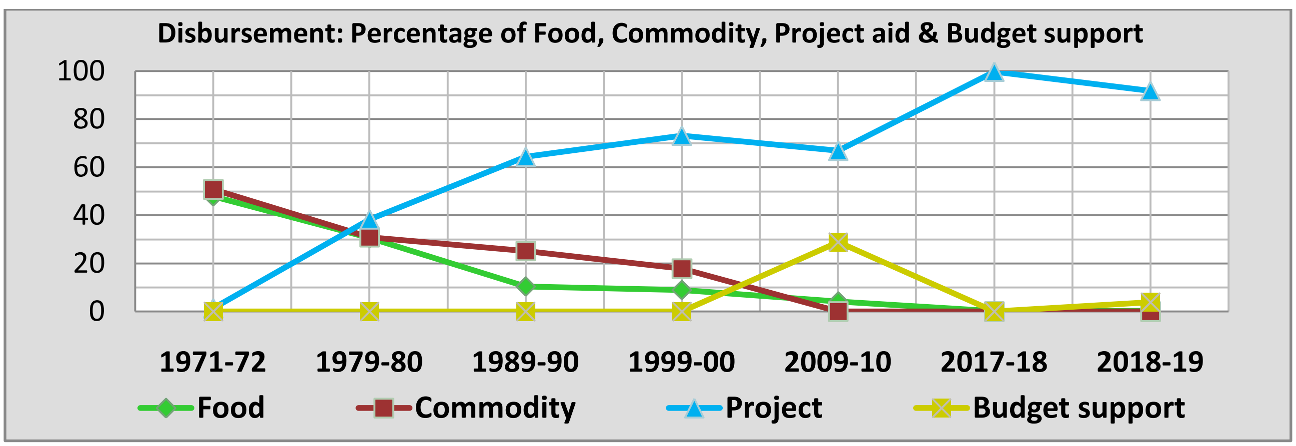
Over the past several years changes have taken place in the composition of foreign aid disbursement.The share of grant is declining and share of loan is increasing gradually. The share of grant and loan of disbursed aid was 90.5 per cent and 9.5 per cent in FY 1971-72 which stood at 4.3 per centand 95.7 per cent respectively in FY2018-19. Similarly, multilateral aid has increased over the period. The share of bilateral aid has decreased from85.7 per cent inFY 1971-72 to 44.4 per centin FY 2018-19. On the other hand, share of multilateral aid has increased from 14.3per cent in FY 1971-72 to 55.6per cent in FY2018-19. However, there is an increasing trend in the share of bilateral aid since FY 2010-11 compared to past couple of years.Some bilateral development partners such as China, Russia and Indian have become more active in the global aid architecture. Bangladesh, like many other countries, has been mobilizing resources from these countries to fulfill it's growing investment needs in the large infrastructures projects.Moreover, over time, the flow of food and commodity aid hasdrastically declined. Food aid, which was 47.9 per cent in FY 1971-72, has decreased to 0.3 per cent in FY2018-19. Similarly, commodity aid has come down to nil in FY 2018-19from 50.8 per centin FY 1971-72. On the other hand, project aid has shot up from 1.3 per cent to 99.7 per cent during the same period. Changesin disbursement pattern over the years can be seen in Graph -5, 6and 7.



Graph -5



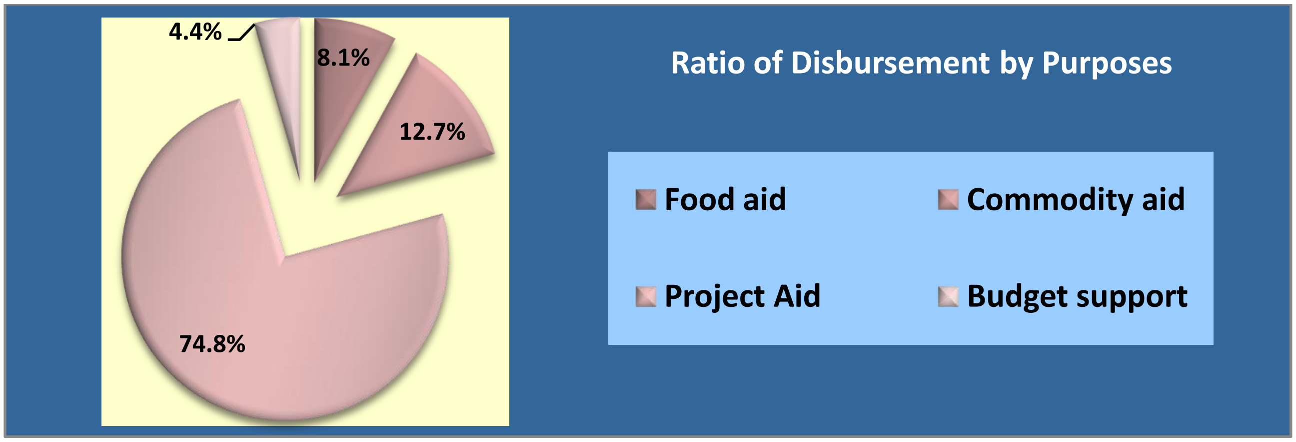
Graph -6



Graph -7

4.4 Aid Utilization:

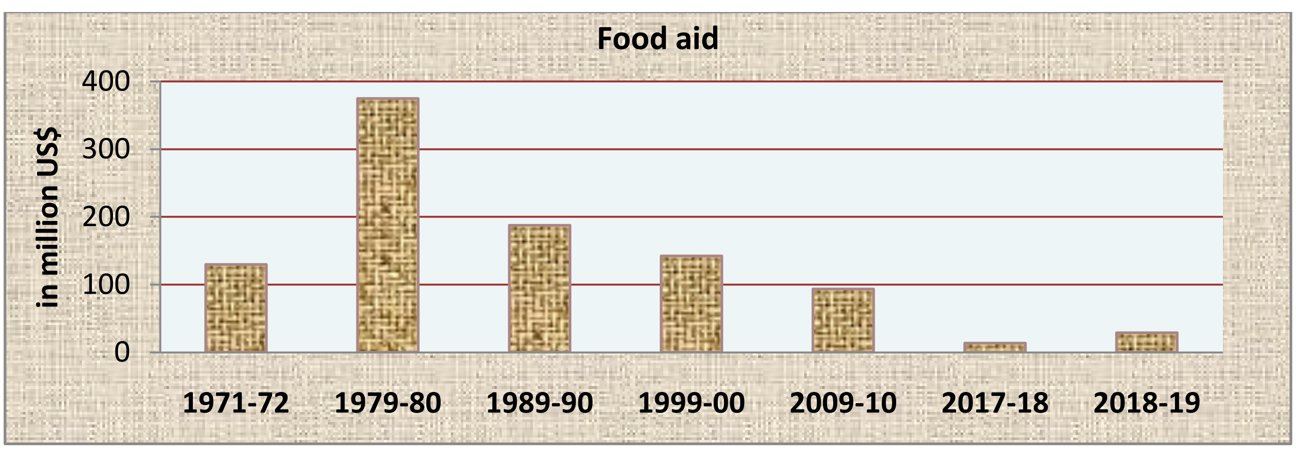
Aid utilization is in a state of a critical juncture. This arises from slow implementation of projects. Over time, food aid and commodity aid havelost their place as important constituents of total aid package. On the other hand, project aid has become more and more popular and important mode of assistance considering the purpose of aid. From independence to June30, 2019, a total of US$ 85.93 billion of foreign aid was disbursed on a cumulative basis. As a policy the donors reduced commodity and food aid as a young nation matured over years. The food and commodity aid is generally replaced by more and more project aid. The bilateral aid gives way to more multilateral concessional loan.The share of total food aid, commodity aid,budget support and project aid have been shown in the following pie chart.



Graph-8

4.4.1 Food aid:

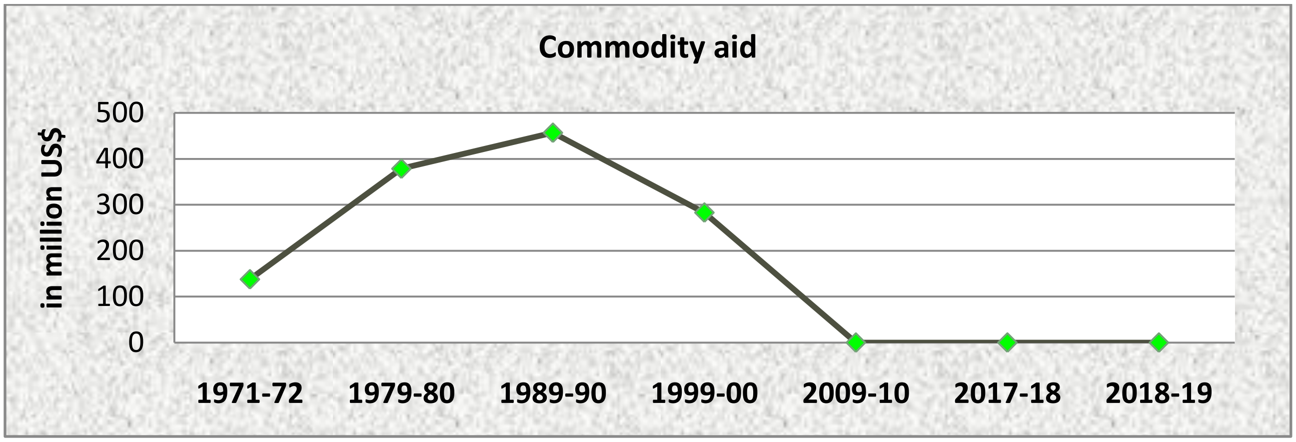
Food aid is now availed of in reduced volumes and occasionally received in larger amount to support natural calamities like floods, cyclones and unfavorable weather conditions. This is because self-sufficiency has been nearly achieved in recent years with the increased food production. Although, a persistent level of food aid is essential to assist the poorest section of the population and to run the targetedsafety net programs like VGD and FFW.The share of food aid has gradually declined over the years which are presented in the bar chart below.



Graph-9

4.4.2 Commodity aid:

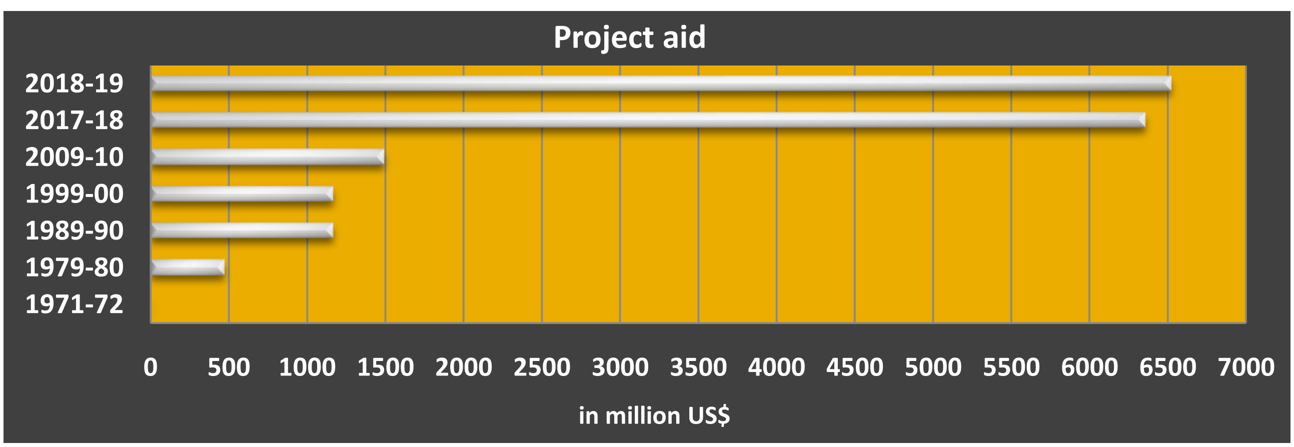
Generally, commodity aid is offered for acquisition of intermediate inputs and raw material and thus, provide cushion to balance of payments.Increasing export volume, tax revenue growth and consistent increased flow of foreign remittancehave eased balance of payment deficit from own resources. In the process, the share of commodity aid has declined considerably in the recent years and zeroed inFY2018-19.



Graph-10

4.4.3 Project aid:

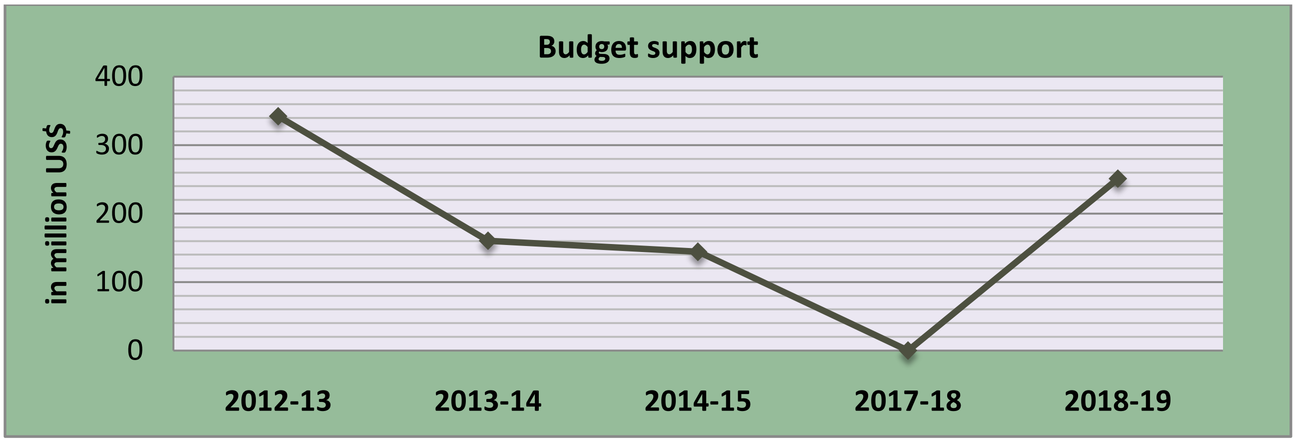
The largest share of foreign assistance comprises of project aid. It is extended by the development partners primarily to finance projects included in the Annual Development Program (ADP). The share of project aid excluding budget support has increased over years as shown in graph 11.



Graph-11

4.4.4 Budget support

Budget support is extended in one single or multi tranche to undertake different priority programs.The payments against budget support are triggered on fulfillment of certain agreed policy objectives between the recipient country and Multilateral Financial Institutions. It gives recipient country more flexibility to align aid spending with national priorities in comparison to project aid. Therefore, budget support is becoming more popular form of receiving external aid. However, budget support does not come by very frequently. It is usually offered sparingly on occasions where development partners trigger payment only after recipient countries achieve previously agreed benchmarks. Disbursement under budget support scheme for the last couple of years including US$ 251.14 million in FY 2018-19has been shown in graph-12.

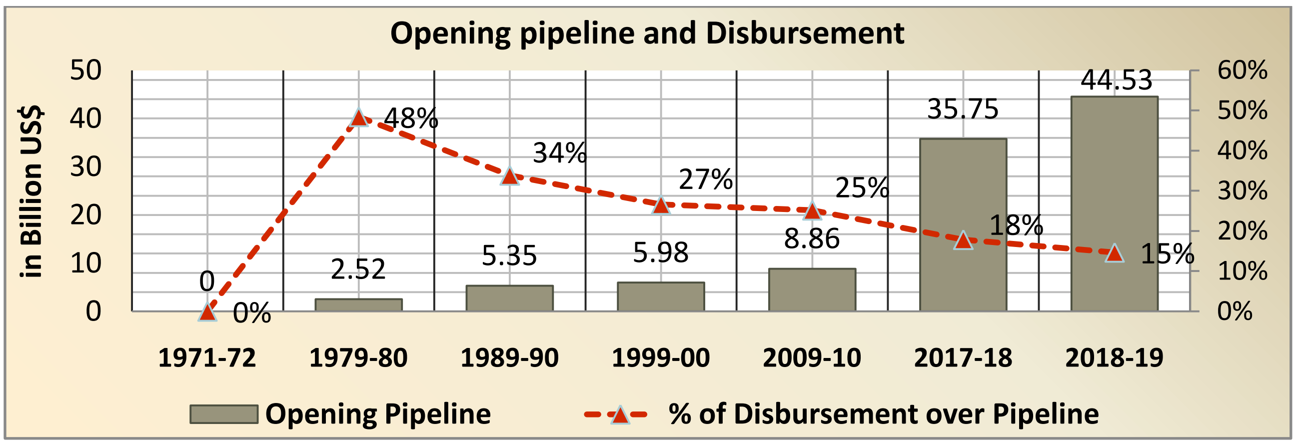


Graph-12

4.5 Aid in the pipeline

FY 2018-19began with an opening pipeline of about US$ 44.53 billion on July 1, 2018. The new commitment during the period amounted to US$ 9.91 billion andtotal disbursement during FY 2018-19amounted to US$ 6.54 billion. The closing pipeline as on 30th June, 2019stood at about US$47.27 billion after cancellation/adjustment which is 6.15per cent higher than that of the previous year. The sharp increase of closing pipeline in the past couple of years has occurred due to the larger commitments during FY 2017 and 2018. In the FY 2017, Russian credit of US$ 11.38 billion for Ruppur Nuclear Power Plant Project and in the FY 2018, Indian credit of US$ 4.5 for 3rd Line of Credit and in the FY2019, Japanese credit of US$1.33 billion for matarbari coal fired power project are the main factors for the spike in the pipeline.The disbursement of foreign aid during FY 2018-19as a percentage of pipeline opening balance is near 14.69 per cent.In FY 2018-19, the disbursementas percentage of opening pipeline is decreased by 3.13compared to that of the last financial year.

Slow implementation of project results in slow disbursement of aid which leads to time and cost overrun. It impacts negatively on the balance of payments leading to increased borrowing from domestic sources. Factorscreating difficulties in the speedy implementation of projects or utilization of economic assistanceare manifold. Projects are often designed without proper planning or feasibility studies. Also people engaged in the project preparation are not properly trained. In many cases, faulty design of the project leads to a revision of the Development Project Proposal (DPP)/Technical Project Proposal (TPP) even before commencement of the project. Lengthy approval process of the DPPs/TPPs takes longer time to start the projects.Sometimes, projects are not adequately staffed with right kind of people. Moreover, in many cases, project personnel are transferred (in case of government officials) and/or moved to another job.Procurement related bottlenecks and challenges in land acquisition process also slow down the speed of project implementation. Besides, projects involving several sectors/organizations often suffer from lack of coordination.On the other hand,delay in approval of awarding contracts, delay in appointing consultants, delay in releasing fund and lack of coordination among co-financers,(in case of multi-donors funded projects)were found to be the causesof slow disbursement. In graph 14disbursementratios over opening pipeline in different years have been shown.



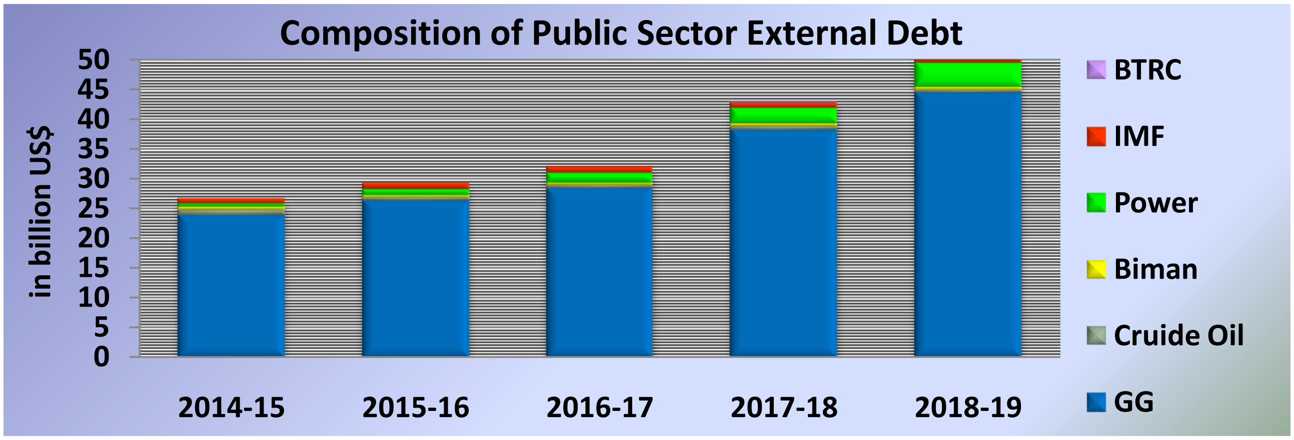
Graph-13

5. Part- 3: External Debt management

Managing external debt is more sensitive to some extent than that of domestic debt. Domestic debt is a charge on budget and must be servicedwith government revenue and/or additional domestic borrowings. Whereas external debt, in addition of meeting repayment obligation with government revenues, is also a charge on balance of payments and it is servicedwith foreign exchange by drawing down on the reserve. Large trade deficit, savings-investment gap, slow growth of revenue and rapid growth of public expenditures contribute to the increased external debt of the country.

5.1 Public Sector External Debt: The external borrowings of Bangladesh consist mainly of public sector external debt. The share of private sector external borrowing is negligible. The total Public Sector External Debt has increased from US$ 973.80 million in FY 1974-75 to about US$ 44.48 billion in FY 2018-19 which constitutes a debt liability of 14.7 per cent of GDP. The per capita debt obligation of the country has risen from US$ 6.59 in 1973-74 to US$ 268.67 in FY 2018-19.Public sector external debt consists of General Government debt and guaranteed debt of State Owned

Enterprises (SOEs) and debt to IMF. Composition of public sector external debt may be seen in the following graph:



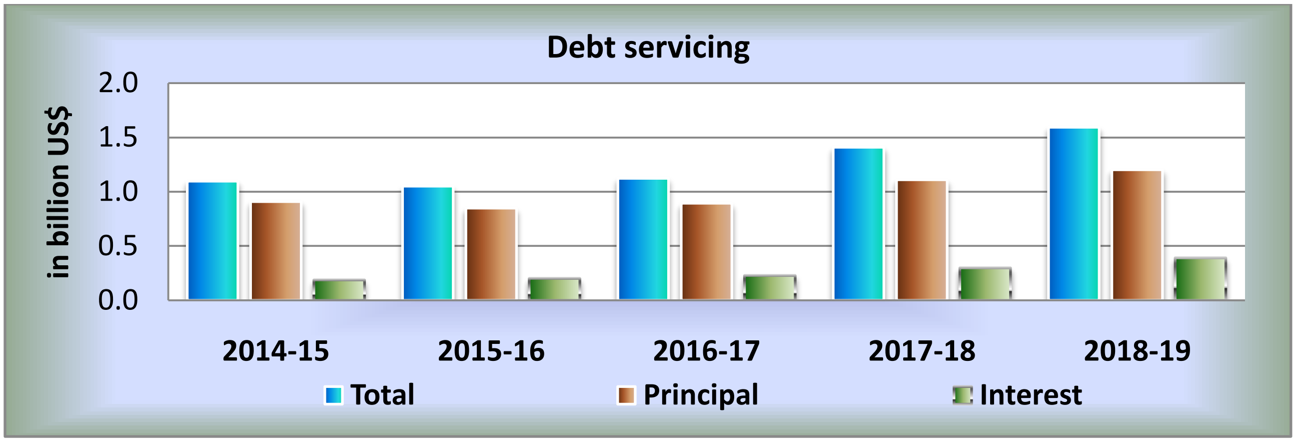
Graph-14

5.2 General Government Debt

The General Government debt amounting to US$ 38.47 billion is the major component of Public Sector External Debt. All of the general government external loans are Medium and Long Term (MLT) in nature. The share ofMLTdebt is 86.50per cent of total Public Sector External Debt and it constitutes a debt liability of 12.72 per cent of GDP. Most of MLT credits are acquired on concessional terms with a weighted average grace period of 8.0 years, a weighted average maturity period of 30.3 years and aweighted average repayment period of 22.3 years. These credits mainly come from bilateral and multilateral sources. Economic Relations Division manages theGeneral Government external debt.Few issues related to General Government external debtare presented in the following paragraphs:

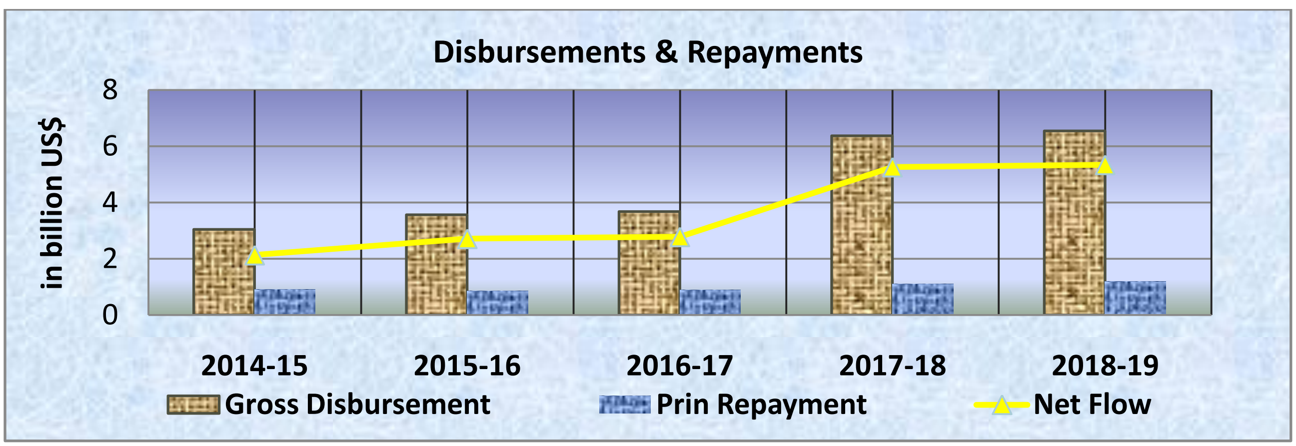
5.2.1 Debt Servicing

A total expense for debt servicing of the government is US$ 1593.78 million in FY 2018-19. Of the total, principal repayment is US$ 1202.31million and interest is US$ 391.47million. Of the total debt servicing amount US$ 1126.37million is paid to multilateral creditors and US$467.41million is paid to bilateral creditors. Statistics of debt servicing for the last five years are shown in Graph-15.



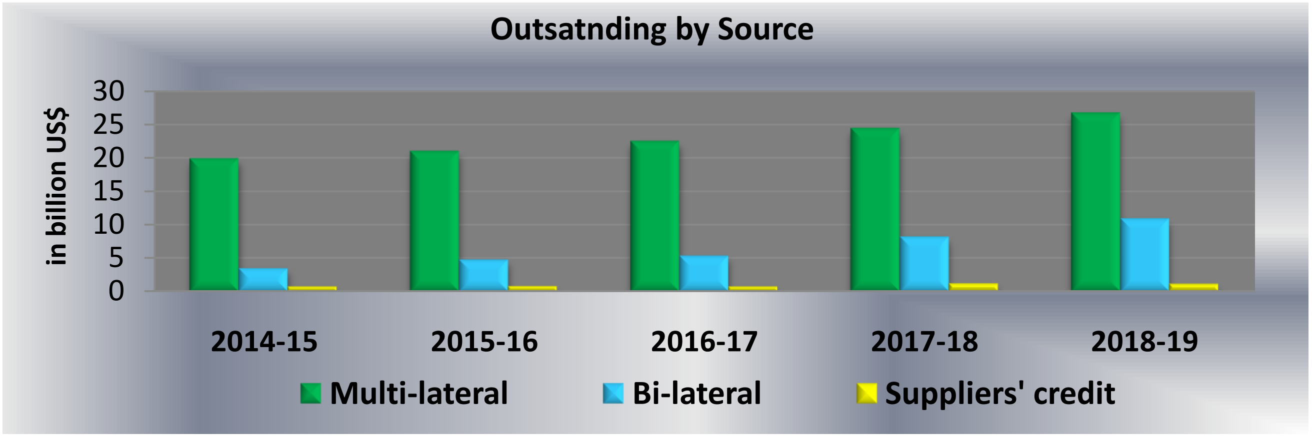
Graph-15

5.2.2 Net Flows and Transfer: Net flows, which account for the difference between disbursement and amortization (principal repayment), registered a positive value in FY 2018-19by US$ 5341.09million. In the FY 2017-18 net flows were US$ 5258.95million. Compared toprevious year, net flowincreased by 1.56per cent in FY 2018-19.Since independence net flow of each financial year has been always registering a positive valuedue to the higher disbursements than amortization.Moreover,net transfer which is the residual value after netting of interest payments from net flows, has also been scoring positively since independence.Graph below shows the net flows for the last five financial years.



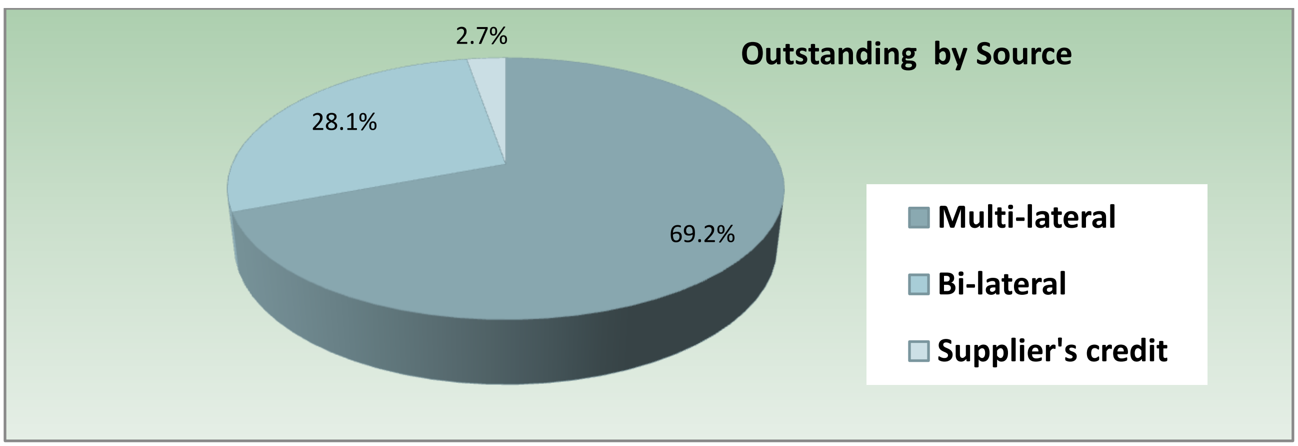
Graph-16

5.2.3Source composition:Usually, external debt is mobilizedfrom bilateral, multilateral and commercial sources. Except few non-concessional loans, almost all the loans received from different sources are concessional in nature. Bangladesh as a policy generally refrains from contracting commercial loan. The share of outstandingdebt as on 30th June 2019 from multilateral source is US$ 26.63 billion, while it is equal to US$ 10.80 billion in case of bilateral sources and suppliers' credit US$ 1.04 billion.



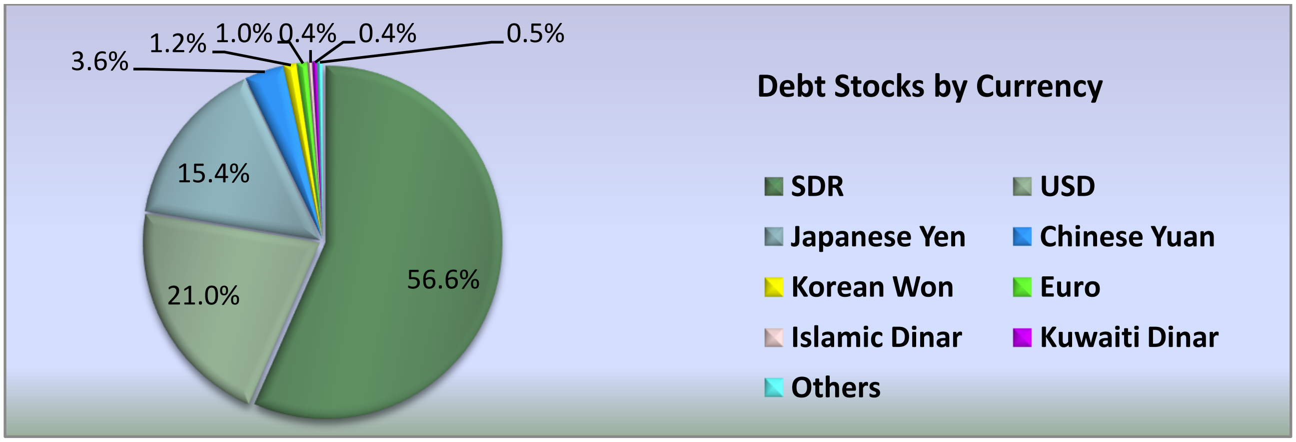
Graph-17

In FY 2018-19 the share of multilateral outstanding loans increased by 9.45 per cent compared to that of FY 2017-18. Similarly, share of bilateral outstanding loan increased by 33.33 per cent and outstanding of suppliers'/buyers' credit decreased by 3.70per cent compared to last financial year. The share of debt outstanding by source for the FY 2018-19 are shown in graph-18.



Graph-18

5.2.4Currency composition: External MLT debt as on 30th June 2019 mainly composed of eight major currencies, such as Special Drawing Right (SDR), United States Dollar, Japanese Yen, Korean Won,Islamic Dinar, European Union Euro, Kuwaiti Dinar and Chinese Yuan. The currency structure of external debt remains virtually unchanged.In terms of denominationSDR continues to account for the largest share.The share of SDR stood at56.60percent in FY 2018-19compared to 60.9percent in 2017-18. World Bank and ADB (ADF) provided loans in SDR denomination. Due to the disbursements of SDR denomination loan of the two multilateral agencies debt stock in SDR is still predominant in the debt portfolio.Similarly, the share of debt stock of USDincreased to 21.01per cent in FY 2018-19 from 19.0 per cent in FY 2017-18. USD occupied the second largest share of the total debt stock. New net flows of loan in USD from various new bilateral creditors like Russia, and India constituted increased share of USD loan in the debt portfolio. On the other hand, Japanese Yen gained its share by 1.4 per cent compared to previous year's share of debtstock due to record highest disbursement of loan.The share of major currencies in the debt stock may be seen in the followinggraph.



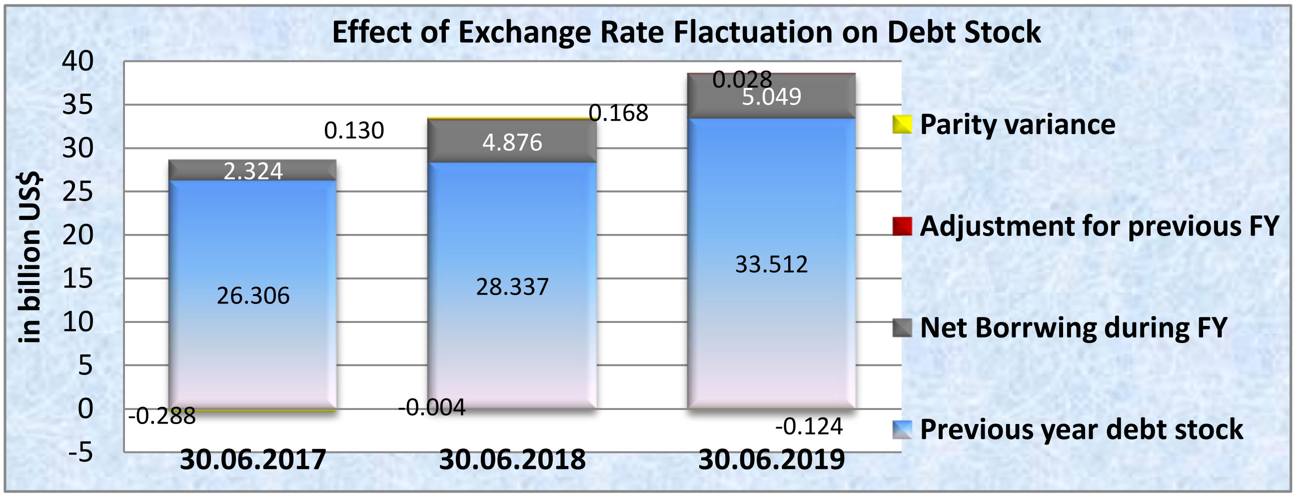
Graph-19

6. <u>Part-4: Risk Analysis</u>

Around 86.5% of the total external debt is derived from Medium and Long Term loan and most of the loans are mobilized under fixed term interest rate basis. Therefore, therisks of existing external debt portfolio is minimized considering thatour portfolio is exposed mainly to exchange rate fluctuation and, minimally, to interest rate change. However, there are some other risks which are related to economic performance and overall debt strategy of the country. To examine the risks of the debt portfolio, detailed information related to currency composition, interest rate, maturity and repayment period are required. As ERD only manages General Government loans, therefore risks analysis of existing external debt portfolio is confined within the purview of General Government debt which may be seen in the following few paragraphs.

6.1 Foreign Currency Risk

The total government medium and long term external debt stock increased to US$ 38.475 billion as on 30th June 2019 from US$ 33.511 billion as on 30th June 2018, indicating an increase of US$ 4.964 billion during the year.However, net government external borrowing during the same period stood at US$ 4.964billion. Episodes of depreciation of US dollar against SDR and appreciation against Japanese Yen were frequent during the year (parity variance). This parity variance recorded a decrease of US$ 0.124billion to the debt stock in US dollar during the year.



Graph-20

But the flip side is that excessive concentration of SDR in the debt portfoliohas the effect of exposing the public debt to one single currency exchange rate risk.As the share of SDR in debt stock is more than 57%, adepreciation of the nominal value of US dollar against SDR may causean increase of debt stock in US dollar without adding new loan to the debt portfolio. Similarly, it may also increase expenditure in US dollar on account of debt servicing as most of SDR loans are paid in US dollar. Adverse movement of exchange rate between foreign currencies and local currency causes increase of debt servicing expenditure in Taka. However, in the FY 2018-19the value of SDR against US dollar appreciated slightly. LIBOR rate has increased considerably compared to last financial year. Moreover, the value of taka was depreciated against US dollar. However, actual expenditure of debt servicing in Taka was less than the budget provision. An amount of Taka 10102.77crore and Taka 3288.98crore paid as principal and interest respectively against the budget provision of Taka 10416crore and Taka 3444crore which made anunder expenditure of Taka468.25crore in total for the government.

6.2 Liquidity Risk

The capacity of servicing external debt is measured by **liquidity monitoring indicators**. Interest service ratio and total debt service ratio are the two key indicators for the purpose. **Interest service ratio** is measured by the cost of external debt as a percentage of export. In FY 2018-19 the interest service of MLT debt ratio is 0.79 per cent which was 0.73 percent in FY 2017-18. **Total debt service ratio** is the ratio of total debt service (principal plus interest payment) as percentage of export. Total debt service of MLT debt ratio is 3.66 per cent in FY 2018-19 compared to 3.46 per cent in FY 2017-18. The rollover ratio, the ratio of amortization over total disbursement in a single year also indicates the comfort zone of liquidityposition. The Rollover ratio in case of

MLT debt went up to 24.3 per cent in FY 2018-19 which was 17.4 per cent in FY 2017-18. Total debt service payment to revenue earning is also an important tool to monitor liquidity risk. The total debt service to revenue in FY 2018-19 and 2017-18 are 5.31 percent and 5.11 percent respectively.

6.3Solvency Risk

Debt burden indicator is measured by various ratios. Of these, one is the ability to repay all outstanding debt from export earnings in a single year. In FY 2018-19, outstanding of MLT debt stood at 88.45 per cent of the export earnings compared to 82.2 per cent of the same in FY 2017-18. Based on the result of the above analysis it could be said that solvency risk does not pose any significant threat to the external debt portfolio.

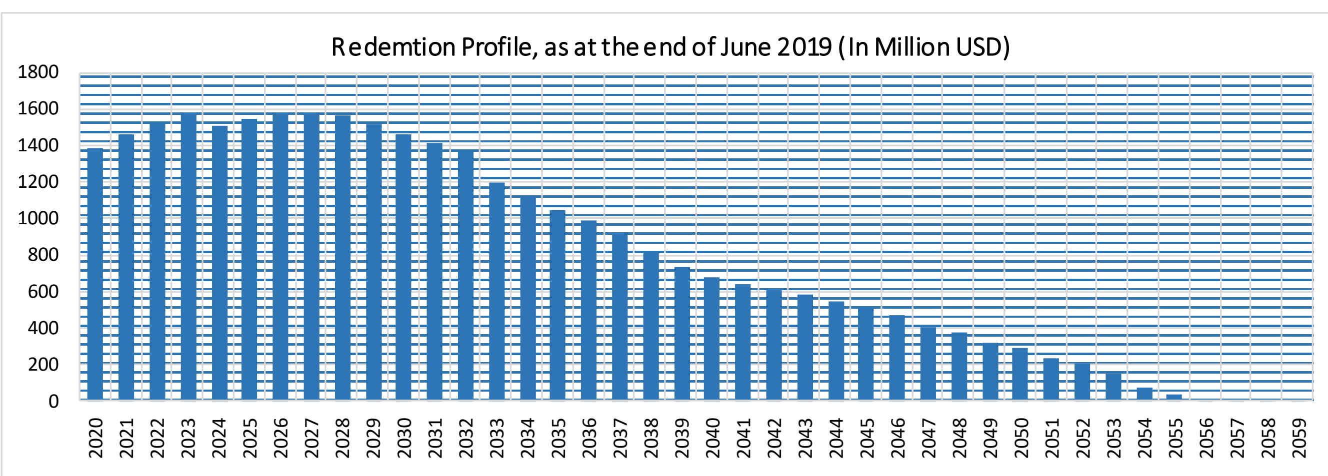
6.4Re-fixing and Interest Rate Risk

Interest rate risk does not pose significant threat to the external debt portfolio as almost all external loans are acquired at concessionary fixed rates. On the Other hand, there is no such refinancing risk as only 4.3% of outstanding debt will mature in the next financial year.

Risks	Indicators	FY 2018	FY 2019
Cost of Debt	Weighted Average interest Rate	1.2%	1.4%
Refinancing Risk	Average Time To Maturity (ATM) (Years)	12.6	12.0
	Debt maturing in 1yr (% of total)	4.0%	4.0%
Interest Rate Risk	Average Time to Repayment (ATR) (years)	11.5	11.0
	Debt re-fixing in 1yr (% of total)	14.9%	14.5%
	Fixed rate debt (% of total)	88.4%	88.0%

However, interest rate risk is high when the variable interest rate dominated debt portfolio exists. Recently few loans have been mobilized at variable interest rate. All that is required to keep a close eye on the issue of interest rate risk for coming years.

Redemption profile of debt at the end of June 2019 does not pose any risk as there is no extreme spike of amortization seen in the graph-21. According to the redemption profile amortization is smoother and it will remain below 1.6 billion in the medium term.

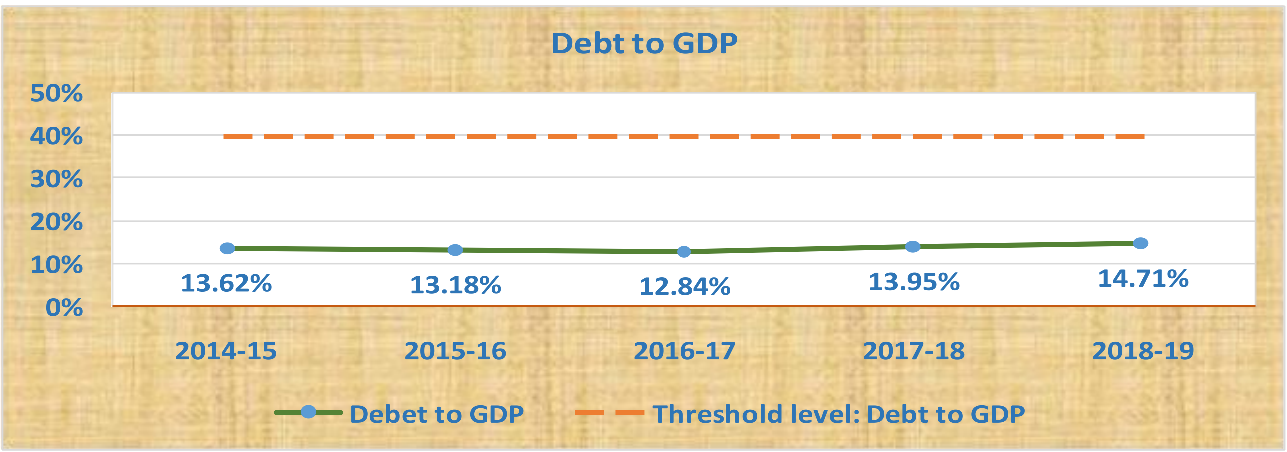


Graph-21

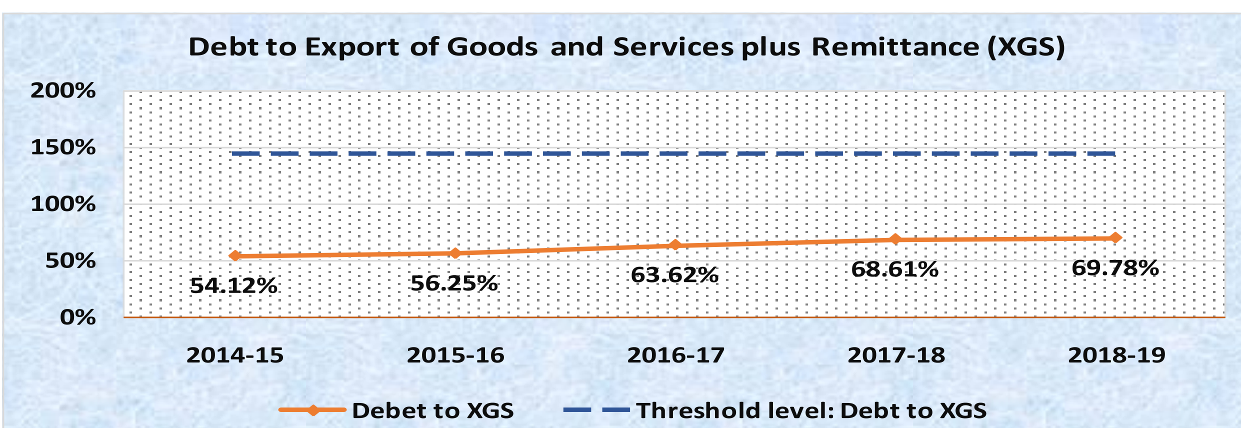
6.5Debt sustainability of overall Public Sector External Debt

Broadly overall debt sustainabilityis measured by applying two aggregate sets of indicators. One is the ratio of ***total debtoutstanding***(public sector external debt) ***toGDP***. The other one is the ratio of ***debt servicing toexport of goods and services and revenue earning***. Overall debt sustainability situation of Bangladesh is presented in the followinggraphs.

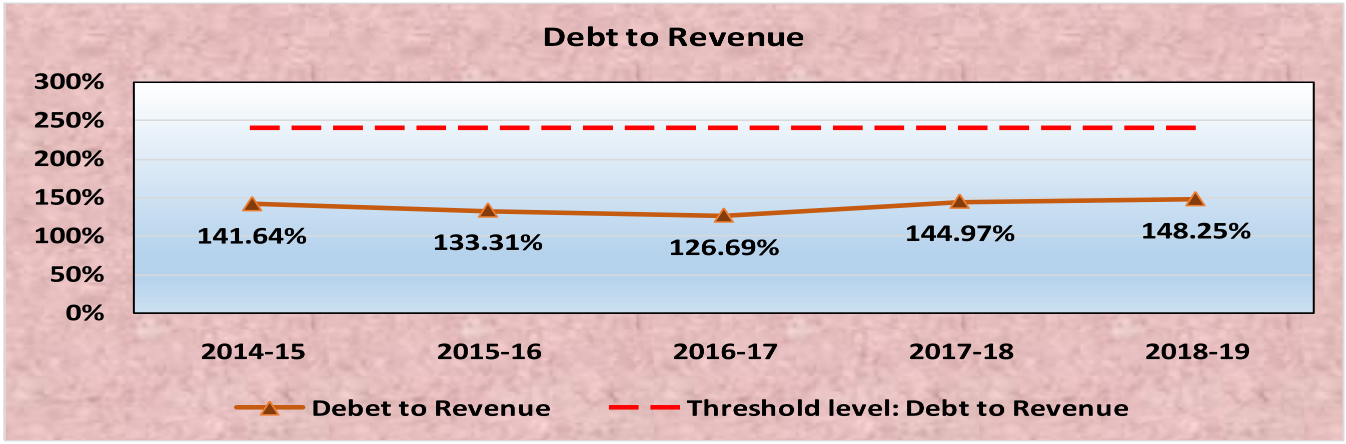
<u>Debt Stock to GDP, Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level</u>



Graph-22

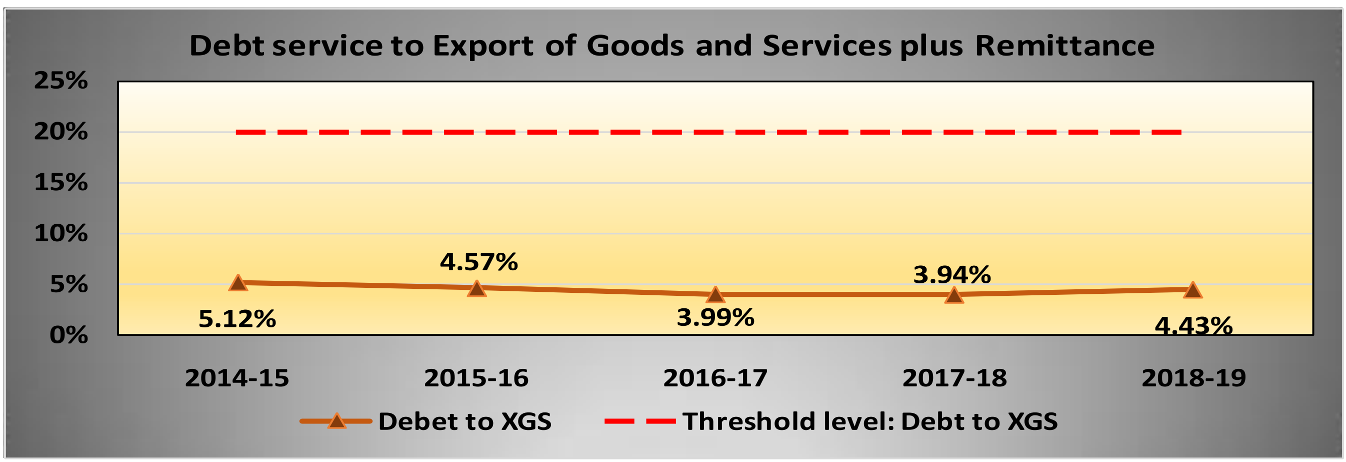


Graph-23

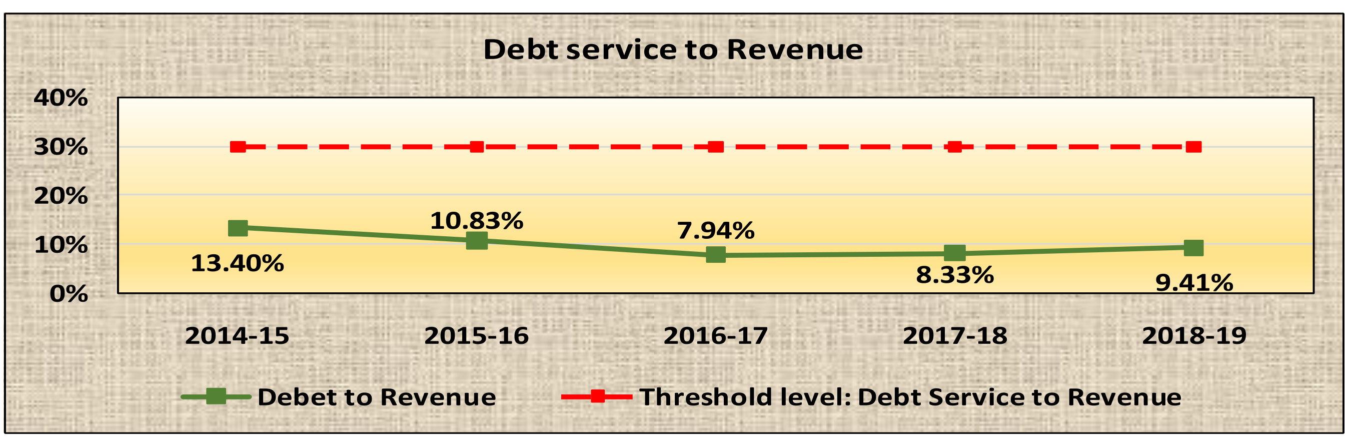


Graph-24

<u>Debt Service to Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level</u>



Graph-25



Grapg-26

From the above indicators it is clear that all the indicatorsof the external debt sustainability related to debt stock and debt service have improved in FY 2016-17 compared to the previous year. All the indicators are below the level of threshold. According to present classification by World Bank, Bangladesh is categorized as "less indebted" country.

7. Part-5: Developments in Aid and Debt Management

7.1Institutional Strengthening and Capacity Building: The recent IMF/WB/UNCTAD and the DeMPA Missions highlighted in their findings the need to improve on the institutional arrangement of public debt management. Economic Relations Division took a number of activities that should lead to improved institutional arrangement for external debt management. One of the major initiatives is up-gradation of Foreign Aid Budget and Accounts (FABA) Branch to FABA wing. In addition, a number of domestic and foreign programmers' were arranged that exposed officials of the debt management entities to specialized training in risk analysis, debt strategy analysis and related areas in order to gain best practice and experience. In September, 2015 a new wing, Development Effectiveness Wing has been established in ERD for responding to the changing dynamics of international development cooperation. The broad mandate of this Wing is to undertake analytical and research work to help ERDin adaptingstrategic policy measures for ensuring aid effectiveness.

7.2Development in Borrowing Strategy: Since independence, Bangladesh has been depending on concessional loan from multilateral and bilateral agencies/countries. However,besides complex and time consuming loan approval process, the concessional loans are usually conditional. Moreover, Bangladesh's access to the ODA is limited compared to increased investment need for fulfilling the national development strategy. Global economic recession has also adversely affected mobilizing foreign aid in concessional terms. But, interest rates in the external borrowing markets are at still low.

In this context, the Government is evaluating various financing alternatives nowto bridgethe financing gaps. Government already signed agreement with Russia, European Investment Bank, France Development Agency, Exim Bank of China etc. to borrow at a market floating interest rate. For ensuring better screening of non-concessional loan, the government has for a long time a high level committee naming "Standing Committee on Non-Concessional Loan" to contain debt burden in a comfort zone consistent with a prudent degree of risk.The Committee approved37proposalsof non-concessional loans from 1st July 2013 to 30th June 2017.

7.3Debt Management System: Bangladesh developed a debt accounting and management system immediately after the liberation of the country with some assistance from IMF. This was refined into a system by 1978. UNCTAD reviewed the system and based on it developed its Debt Management and

Financial Analysis System (DMFAS). Since 1992 FABA has been using UNCTAD formulated software, for managing external debt. In June 2013 DMFASwas successfully upgraded from version 5.3 to version 6.0 under Deepening MediumTerm Budget Framework (DMTBF) project of SPEMP. DMFAS version 6.0 is a web based softwarethat connected Office of the Controller Generalof Account, Bangladesh Bank, Economic Relations Division (ERD) and Finance Division through Wide Area Network (WAN). The essence of this interconnectivity is to improve debt data quality and reporting among the institutions concerned. The operational linkages among institutions are yet to be completed. Once this process is completed, the quality of the country's debt management capacity will be substantially enhanced.

7.4Initiative towards aid effectiveness: Areal time data sharing platform between ERD and Development Partners, Aid Information Management System (AIMS) is in operation since 2013. The AIMS captures data of commitments and disbursements, both of public and non-public sectors, from development partners.It provides a robust picture of aid flows by capturing aid data flowing to non-public sector along with public sector. Moreover, Development Effectiveness Wing of ERDis currently working on drafting adevelopment cooperation policy. Bangladesh is actively working with some major international organizations related to aid transparency and effectiveness. Honorable Minister, Ministry of Finance is one of the Co-Chairs of Global Partnership for Effective Development Cooperation which advocates effective development across the globe. Secretary, ERD is working as Vice-chair of the governing board of International Aid Transparency Initiative (IATI) which makes information about aid spending easier to access, use and understand. Asia Pacific Development Effectiveness Facility (AP-DEF), a country-led regional platform, chaired by the Government of Bangladesh, also supports countries to implement their national agendas on development finance and cooperation. The Facility is a platform for regional dialogue, cooperation, and sharing of country knowledge and experiences.

7.5Monitoring of slow disbursing projects/ programs: To speed up disbursement against commitment, ERD has taken some measures which are as follows:

(i) Initiatives have been taken to indentify slow moving projects by using following criteria:

- Projects which failed to achieve disbursement of less than 80% of the commitments over a period of 5 years or more;
- Projects which failed to achieve disbursement of less than 50% of the commitments over a period of 3 years or more; and
- Projects which failed to achieve disbursement of less than 10% of the commitments over a period of 1 year or more.

(ii) To expedite project implementation and establishing better cooperation among stakeholders, ERD arranges 'Tripartite Review Meeting' among ERD, Line Ministries and DPs at least once in three months at the Wing Chief level and biennially at the Secretary level. Progress, bottlenecks, measures taken to mitigate the bottlenecks of project implementation is monitored in the Tripartite Review Meeting. Variance between planned disbursements according to DPP/TPP and actual disbursements are also examined in the meeting.

(iii) ERD officials inspect the slow moving projects and submit report regularly.

7.6 Fast Track Project Monitoring Committee: A high level committee, chairedby honorable Prime Minister,has been established to monitor progress of the large projects that have or will have transformational value in economic development of the country. Up to June 2017, ten projects have been selected for monitoring by the committee. The Projects are: Padma Multi-purpose Bridge Project, 2X600 MW Maitree Super Tharmal Power Project (Rampal), Ruppur Nuclear Power Plant Project, Dhaka Mass Rapid Transit Development Project (Metro Rail), LNG Terminal construction Project, Sonadia Deep Sea Port Project, Matarbari 2X600 MW Ultra Super Critical Coal Fire Power Project,Paira Sea Port Project, Padma Rail Link Project and Construction of Single Line Duel Gauge Track from Dohazari to Ramu-Cox Bazar- Ghumdum (near to Myanmar).

7.7Initiatives towarddiversification of sources of external resources: To strengthen the platform of South-South Cooperation, according to the decision of High Level Meeting on 'South-South and Triangular Cooperation in the Post 2015 Development Agenda: Financing for Development in the South and Technology Transfer', Bangladesh has communicated with 127 countries as an initiative to establish Finance and Development Ministers' Forum of the South. A number of countries have already responded positively. Moreover, Bangladesh has communicated with the UN to take initiative for a Resolution of General Assembly regarding establishing Finance and Development Ministers' Forum of the South. Besides that Senior Secretary of ERD has been nominated as National Designated Authority (NDF) to coordinate with Green Climate Fund (GCF), established under UN Framework Convention on Climate Change (UNFCCC), to ensure just share for Bangladesh as it is one of the worst victims of the climate change.

7.8Bangladesh Development Forum (BDF): The 2nd meeting of Bangladesh Development Forum (BDF) was held on 15-16 November, 2015 in Dhaka. Honorable Prime Minister of the Government of Bangladesh Sheikh Hasina, MP, inaugurated the BDF main session. The then president-designate Mr. JinLiqum of AIIB and Vice-President Mr. Wencai Zhang of ADB were present among a total of 1964 representatives from Development Partners, international development agencies, foreign missions, civil society organizations, private sector, think tanks, research organizations and Ministries/Divisions of the Government of Bangladesh. The forum serves as an important platform for dialogue on ways to accelerate Bangladesh's development. It allowed the government to share its plan for achieving development and poverty reduction as set out in the 7th Five Year plan and in line with SDGs. Development Partners also shared their views and ideas. The forum also serves to affirm broad-ranging support for Bangladesh's Development. The next meeting of the forum is scheduled for January 17 and 18 of 2018.

7.9Developing Foreign Aid Management System (FAMS): ERD has taken initiative to develop a computerizedsystem for managing foreign aid.The system, named FAMS, launched in June 2017. It will be fully operative by June 2018.The system will cover activities from borrowing programs to foreign aid allocation to projects included in the Annual Development Program (ADP). The projects and related ministries/ divisions will be connected by web based software. The software will be designed in a way that can facilitate trackingprogress of project implementation both in terms of aid disbursement and utilization.Besides that, the system will provide the facility to get aid inflow data routing through Bangladesh Bank. The system will strengthen the capacity of ERD in the formulation of budget related to foreign aid as well as aligning aid with 7th Five Year Plan.

7.10 Initiative towards project readiness: To ensure readiness for implementation of the projects, ERD prepared a check list of jobs to be complemented at the formulation stage ofprojects. Consequently, a policy of allocating and managing fund for preparation of project and completion of jobs listed in the check list was also prepared. The Cabinet Committee on Economic Affairs approved both the check lists and the policy on 08.02.2017. It was published as a gazette on 6.3.2017. It is expected that the lead times for commencing implementation of the project will be reduced considerably. It is implied that the rate of utilization of aid in the pipeline will be improved with faster implementation of projects.

7.11 Efforts towards implementation of SDG: The preliminary assessment of General Economic Division (GED) of the Ministry of Planning shows that it may require around US$928.48 billion worth of additional resources for full implementation of SDGs from 2017 to 2030.That mean, annual average cost would be 66.32 billion US$ which is 19.75% of the accumulatedGDP. Importantly, external resources are estimated as 14.89% (9.95% FDI and 4.94% foreignaid and grant) of total resource requirement. According to Target 17.2 of SDGs Developed Countries are supposed to fulfill their commitments in providing Official Development Assistance (ODA) at a minimum rate of 0.7% of the GNI of respective countries. It has been urged to provide at least 0.15-0.20% of GNI to LDCs out of the total target flowof ODA. ERD has undertaken several strategicInstitutional and policy measures to harness resources to support Bangladesh's SDGsimplementation.Bangladeshparticipated in High Level Political Forum (HLPF) and presented **Voluntary NationalReview (VNR)** focusing the progress and challenges related to the implementation SDGs. ERD played a vital role in drafting and finalizing the VNR for Bangladesh.ERD closely worked with GED in conducting **Data Gap Analyzing** to examine availability of data regarding theindicators for tracking the progresses of achievement of SDGs. According to the mapping (related to who will do what in achieving targets) of GED, ERD is responsible toperform as Lead Division for 15 Targets, Co-Lead for 2 Targets and to perform as Associate foranother 29 Targets. To facilitate preparing **Action Plan to Implement SDGs through Five Year Plans,** actions plan for ERD-Leaded 15 Targets has been finalized and sent to GED for final compilation.ERD has also provided inputs to other ministries for the cases where it is performing as Co-Leador Associate ministry. ERD is actively contributing to various initiatives in different capacities which are as follows:

i) Working as member of **SDG Implementation andMonitoring Committee"** established in Prime Minister's Office under the leadership of Principal Coordinator for SDG Affairs to coordinate and facilitate overall implementation andmonitoring of SDGs.

ii) ERD is providing data on relevant indicators to **SDG Tracker**- a macro-level data repository system prepared by a2i project of Prime Minister's Office to facilitate the results based monitoring system within Government.