

# Development Finance Tracking: The Bangladesh Scenario

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# 7<sup>th</sup> Five Year Planning Financing

Aims: Economic and Social development through public sector investment in infrastructure and social development and through regulatory reforms conducive for private savings and investment.

Prime modality for financing: Making the tax system more equitable and undertaking expenditure programmes aimed at strengthening social protection for the underprivileged segments of the society.

# Steps need to be taken for Financing of National plan

- Increased private and public sector savings
- Rapid income growth for the private sector
- Increased revenue mobilization through reform and modernization of tax policy and tax administration
- Prudent spending of public sector resources for better public service delivery
- Incentive, subsidy and transfer programmes,
- Improved efficiency of public sector enterprises will be important for public sector resource efficiency and productivity.

# Financing of Seventh Five Year Plan Investment (FY 2016 prices)

Item: BDT in Billions (constant FY16 price)	Total	Share (%)	public	Share (%)	private	Share (%)
Total Investment	31,902.8	100.0	7,252.3	100.0	24,650.5	100.0
Domestic resources	28,851.0	90.4	6,384.6	88.0	22,466.4	91.1
External resources	3051.8	9.6	867.6	12.0	2,184.1	8.9

# Strategic financing for National Plan

- Total investment under the Plan will amount to Tk.31.9 trillion in constant FY16 prices (the first year of the Plan). As before, private sector investment will continue to play its dominant role under the Plan, accounting for 77.3% of the total investment in the economy under the Plan. Tk.7.25 trillion accounting for 22.7% public investment of total investment in the economy.
- Tk. 6.38 trillion will be funded by domestic resources (88%).
- National savings rates of about 28% to 29% of GDP provide a solid starting point.

# Strategic financing for National Plan

- The role of FDI/PPP in the domestic economy would need to increase significantly as part of the Plan financing strategy. Increasing the inflow of FDI in Bangladesh to 3% of GDP from current levels is required.
- Access to international capital market to finance large infrastructure projects by issuing sovereign bonds may also be considered as a source of external financing for domestic public investment.
- Government will be paying enhanced attention to implementation capacity, governance and result-based monitoring and evaluation (M&E) under the Plan

# Challenges

- The size of the public sector in Bangladesh is relatively small, Government budget accounting for only about 16% of GDP. With this small resource base it is extremely difficult to meet the growing demand for public services, including in the areas of health and education and provide adequate infrastructure support for acceleration of economic growth.
- It would not be possible for the government to undertake such a major investment plan in infrastructure based entirely on budgetary resources. The government would need to start its PPP initiative in full force to leverage public resources with private investment.

# Possible way out

All these spending plans will essentially entail that the budget size would probably need to increase to about 21.1% of GDP, a 5 percentage point increase in relation to GDP at the terminal year of the Seventh Five Year Plan. The increase in spending in terms of GDP would need to be about one percentage point per annum. Such an increase in the size of the budget would allow for increasing the education budget by 0.8 percentage points to 3.0% of GDP, increase the public spending on health care by at least 0.4 percentage points to 1.2% of GDP, and spending on social welfare by 0.3 percentage points to 2.3% of GDP.



# Annual Budget and Annual Development Programme (ADP)

- Annual Budgets will be formulated in a manner consistent with the realization of the Seventh Plan objectives.
- ADP will formulate the annual investment programme of the Government which details the different projects being undertaken by the Government, together with costs, cumulative expenditure, projected expenditure during the period, sources of financing etc. This is mainly consists of development financing.
- Annual Budget and ADP ought to be synchronized to use them as tools for achieving the objective of the plan.

# ADP

- A major part of the ADP will be financed from domestic sources comprising fiscal savings and borrowing from the domestic banking and nonbank sources. External financing, primarily in the form of concessional loans from official multilateral and bilateral sources will continue to supplement the public sector development spending.
- Bangladesh needs about \$9 billion (more than 5% of current GDP) in additional investment in major infrastructure projects per year to sustain growth at a higher level. Although government currently spends about 5% of GDP on ADP, one third of which is allocated for communications and power. This means current major infrastructure investment amounts to about \$3-3.5 billion.
- The Seventh Plan aims to increase the size of the Government spending by about 5 percentage points to 21% of GDP by FY20. More than 20% of the increase will be on account of the larger ADP.

# External Financing

ODA is accounted for 33% of Annual Development Programme (ADP) expenditure in 2013-14. Thus, one of the key strategies of the Seventh Five Year Plan will be to ensure effective partnership with development partners to ensure better use and results of foreign assistance.

# External Financing Scenario

In 2016, external resources amounting to US\$ 7.05 billion has been mobilized which is the highest since independence. Out of this, transport and power sector have the major allocations amounting to US\$ 2.34 and US\$ 1.68 billion respectively. The other major sectors which have significant allocations are education (US\$ 0.73 billion), health (US\$ 0.65 billion), agriculture (US\$ 0.42 billion) and ICT (US\$ 0.35 billion).

# External Financing Scenario

- Up to June 30, 2016 a total of about US\$ 99.20 billion of external assistance was committed. The share of food aid is US\$ 6.88 billion , commodity aid is US\$ 11.07 billion , project aid is US\$ 77.67 billion and budget support is 3.58 billion of the total commitments.
- 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 15 per cent and 85 per cent respectively in FY 2015 – 16.

# External Financing Tracking Tool

AIMS: It is a software application that records and processes information about development activities and related aid flows. AIMS has information on projects, funding, donors, implementer, sector, locations, and, so on...

FAMS: ERD has taken initiative to develop a computerized system for managing of foreign aid .The system , named FAMS, has been launched in June 2017 and will be fully operative by June 2018 . The system will cover activities from borrowing program to foreign aid allocation to projects included in the Annual Development Program (ADP).

# Aid Utilization and Debt Sustainability

- Aid utilization is in a state of a critical juncture. This criticality arises from slow implementation of projects.
- The government's fiscal deficit level should still remain at about 5% of GDP so that with 7%-8% GDP growth over the medium run there would be no question about debt sustainability and government is able to maintain that deficit level.

# SDG Financing Options

- ❑ Five potential sources of gap financing have been suggested in this report which are:
  - ❑ Private Sector Financing
  - ❑ Public Sector Financing
    - Enhancing the SDG orientation of the Budget
    - Bond Financing
    - Deregulation of Energy Prices
    - Debt-Financing
    - Enhanced Tax Effort
    - Savings from Efficiency Gains
  - ❑ Public-Private Partnership (PPP)
  - ❑ External Financing
    - Foreign direct investment
    - Foreign Aid and Grants
  - ❑ Non-Government Organization (NGO)



# Summary of Financing Options (USD in billion)

	FY17-FY20	FY21-FY25	FY26-FY30	FY17-FY30
Total additional amount from domestic sources (86.11% of total)	125.66	379.43	805.58	1,310.67
Total additional amount from external sources (14.89% of total)	25.63	63.41	125.45	214.49
Annual average additional amount from domestic sources	31.42	75.89	161.12	93.62
Annual average additional amount from external sources	6.41	12.68	25.09	15.32
of which FDI**	3.24	9.50	20.01	11.47
Grants and aid	3.17	3.18	5.08	3.86

\*\*In FY2017, the additional FDI requirement would be USD 1.10 billion which will increase to USD 26.24 billion by FY2030.

# Summary of Costing Exercise (USD in billion)

	FY17-FY20	FY21-FY25	FY26-FY30	FY17-FY30
Total additional unsynchronized cost	199.6	563.35	1,136.91	<b>1,899.85</b>
Total additional synchronized cost**	151.29	442.84	931.03	<b>1,525.16</b>
Annual average synchronized cost	<b>37.82</b>	<b>88.57</b>	<b>186.21</b>	<b>108.94</b>
Total synchronized BAU cost	789.90	1,419.08	2,143.42	<b>4,352.40</b>
Annual average synchronized BAU cost	197.47	283.82	428.68	<b>310.89</b>

\*\*Total additional synchronized cost is 19.75 percent of the accumulated GDP under 7FYP extended scenario during the period FY2017-FY2030.

# Conceptual framework: Synchronization



	SDG1	SDG2	SDG3	SDG4	SDG5	SDG6	SDG7	SDG8	SDG9	SDG10	SDG11	SDG12	SDG13	SDG14	SDG15	SDG16	SDG17			
SDG1	Own				Syn														Totals for Unsynchronized cost	
SDG2		Own				Syn														
SDG3			Own																	
SDG4				Own				Syn												
SDG5					Own															
SDG6						Own														
SDG7							Own		Syn											
SDG8	Syn							Own												
SDG9								Syn	Syn	Own										Syn
SDG10										Own										Syn
SDG11			Syn								Own									
SDG12								Syn				Own								Syn
SDG13	Syn												Own							
SDG14			Syn			Syn								Own						Syn
SDG15			Syn												Own					
SDG16								Syn								Own				Syn
SDG17																				Own
Totals for Synchronized cost																				



THANK YOU