

Contextualising the OECD Multilateral Development Finance Report: Bangladesh and Development Finance Response to COVID-19

Presented by

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1. About the Report “Multilateral Development Finance Report 2020

- 1. A substantive and relevant report – both in terms of framework and context**
- 2. Frames on three broad sets of issues**
 - **Overview of the multilateral development system with elaboration of its evolution and current structure**
 - **Key trends of multilateral funding (inflows) and their strategic relevance**
 - **Key trends in multilateral financing (outflows) and their impact and prospect**
- 3. Wish there was another chapter on “Development Effectiveness” of multilateral development finance**
- 4. The trends identified and issues raised in the OECD report, have been interpreted in the context of Bangladesh in the following two sections**

2. Development Finance Flows to Bangladesh – General Trends and COVID Situation

2.1 Role of Foreign Aid – General Trends

- In FY 2019-20, Bangladesh received about USD 7.12 billion foreign aid. A year before, the figure was USD 6.2 billion.
- Bangladesh has emerged as a low foreign aid dependent economy (2 % of GDP), more dependent on export revenue (15 % of GDP) and remittance income (6 % of GDP).
- However, more than one-third of the ADP is financed by foreign project aid.
- This aid dependence is more pronounced in case of health and education (ODA from DAC-OECD) and transport and communication (multilaterals and Southern providers).

2. Development Finance Flow to Bangladesh – General and COVID Trends Situation

2.1 Role of Foreign Aid – Bangladesh Trends

- Two-thirds (decreasing) share came as concessional finance and the rest as other forms of official flows
- The share of loans is about 96 % and the share of grants is about 4% of the total flow in 2019-20
- Share of DAC in ODA is about 49 %
- Equally split between multilateral and bilateral sources, but multilaterals' share is gradually increasing.
- Increase in the share of bilateral at the margin is due to Southern flows.

2. Development Finance Flow to Bangladesh – General and COVID Trends Situation

2.1 Role of Foreign Aid – Bangladesh Trends

- Sectoral composition of foreign aid inflow
 - Almost 40 % each for social and economic infrastructure
 - Multisector- almost 8 %
 - Humanitarian- another 8 % (Rohingya Support)
- External debt stock remains comfortable at about 38 % of GDP
- Debt per capita- about USD 232 (increasing slowly)
- Debt service liability – about 6.5 % of goods and services and primary income. However, creeping upward trend since 2015.

2. Development Finance Flow to Bangladesh – General and COVID Trends Situation

2.2 COVID Situation

- A less than full listing shows that at least USD 4 billion worth of fresh aid commitment was made in the context of COVID 19
- This amount accounts for about 1% of the GDP
- About 90% of the total amount came from multilateral development banks and funds and another 2.4% from the UN System
- Bilateral sources accounted for about 7.8%
- However, the estimated shares of the UN System and bilaterals are on the low side as they do not include “repurposed” funds from the existing projects – but these are not fresh money
- Bilateral funds were also channeled through the UN System

2. Development Finance Flow to Bangladesh – General and COVID Trends Situation

2.2 COVID Situation

- A classification of the estimated flows indicate that about 46% came as Budgetary Support and another about 39.5% as sectoral support with COVID alignment.
- COVID-19 emergency health and associated support accounted for about 14.5%.
- Significant presence of budget support has given necessary flexibility in expanding the country's fiscal space.
- The sectoral support are of few earlier and new projects with an add on COVID element

2. Development Finance Flow to Bangladesh – General and COVID Trends Situation

2.2 COVID Situation

- Among the multilaterals, the World Bank accounted for more than one-third (36%), followed by IMF (18.8%) and ADB (16.8%)
- EU (10.2%) and AIIB (9%) also figured prominently.
- Budget support came from all the important multilaterals- IMF (100%), ADB (76.6%), AIIB (71.4%), World Bank (17.78%)
- No specific information could be located for Vertical Funds as well as private philanthropy
- Distinguishing features Bilateral Japan provided Budget Support, while multilaterals gave matching grants for sector-wide programmes

3. Outlook and Policy Perspectives

3.1 The framework provided by the FYP (2021-2025)

- External resource to provide 12.6% of total outlay
- About 54% of the total external resource (ODA and OOF) to come through public sector
- Net external borrowing to finance fiscal deficit will gradually increase to 2.37% of GDP (2025), i.e. about 47.4% of net fiscal deficit
- About USD 10 billion annual flow has been programmed – obviously a overwhelming part of it will be loan (blended or otherwise from Southern source)
- Has serious implications for collateral domestic resource mobilisation (which has fallen as a share of GDP in FY20) and debt sustainability (debt stock as share of GDP and per capita on creeping rise since 2016)

The 8FYP is more ambitious about “external resources” – not necessarily about “development finance” – mobilisation!

3. Outlook and Policy Perspectives

3.2 Outstanding issues- Three major external finance demands for Bangladesh

- Financing post-COVID rebound and recovery
- Locating compensatory concessional finance in view of dual transition (LIC to LMIC and out of LDC)
- Mobilising for covering shortfall of SDG financing

Three major policy management challenges-

- Improved choices of external finance
- Vigilance about debt sustainability
- Access to real time data and information

Need an updated *National Policy on Development Cooperation*

3. Outlook and Policy Perspectives

3.3 Challenges of the Multilateral Financial System

- Move from “a la carte” multilateralism to **“inclusive and integrated multilateralism”**
- Refashion development cooperation architecture with **adequate space for new providers** (e.g. Southern, Private Philanthropy, Impact Investor) and **new instruments** (e.g. Blended Finance, Sovereign Wealth Fund)
- Create more scope for **collective action** on the part of the recipients to ensure ownership, alignment, harmonization and accountability – **GPEDC principles**
- Embed **“development effectiveness”** related concerns in the multilateral flows ensuring effective reach to the LNOBs for achieving SDGs
- Innovate **new financial instruments** with greater concessional elements to service the development needs of the LMICs

Thank You

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