Overview

As a gateway to the higher trajectory growth path for taking Bangladesh to middle income country level by 2021, Bangladesh has already reached at level of lower middle income country. Various development indexes reflect commendable socio-economic progress of Bangladesh. Per capita income increased from USD 928 in FY 2011 to USD 1314 in FY 2015. Poverty with upper poverty line reduced from 29.9% in FY 2011 to 24.8% in FY 2015. Enrollment in primary school reached 97.7% in 2014 from 94.8% in FY 2010. However, according to the 7th Five Year Plan (FYP) to secure a growth to reach the target of 2021, the present investment of 28.9 per cent of GDP needs to be increased to 34.4% by 2020. According to the document of 7th FYP, flow of FDI is very competitive and highly sensitive to the investment climate as well as political and social stability of a country. Bangladesh is only a minor player in FDI with US$ 1.5-2 billion of inflows in FY 2014-15 compared to India's US$ 28 billion, Indonesia's US$ 18 billion, Malaysia's US$ 12 billion, and Vietnam's US$ 10 billion.

In this context, government during the reported time had to access non-concessional external loans for financing infrastructure projects, reduce the financing gap, and ramp up investment needed to launch the country to a higher trajectory growth path. A quick check at the commitment and disbursement would find that there has been a significant increase of resources flow both in concessional as well as non-concessional loans. Total commitment of foreign aid in FY 2014-15 is US$ 5.26 billion. Of the total committed amount, non-concessional is US$ 989 million which stood at 18.8% of total commitment. On the other hand, total disbursement in FY 2015 is US$ 3.04 billion that crossed the US$ 3 billion landmark in the last two consecutive years. Despite exercising the flexibility in accessing both types of loan, Bangladesh maintains its position in a comfort zone in terms of solvency and liquidity. The ratio of general government's external debt stock as on 30.06.2015 to GDP is 12.25% vis-à-vis the threshold limit of 40% reveals the solid solvency position. The ratio of general government's external debt service obligation in FY 2014-15 to export of goods and services is 2.23 % vis-à-vis the threshold limit of 20% mirrors good liquidity condition of Bangladesh.

2. This section 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 in recent times in the arena of aid and debt management.

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

3.1 Objectives: The primary objectives of resource management are:

(a) to ensure mobilization of government's external resource in line with national development strategy at lowest 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 2014-15 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 2014-15	FY 2013-14
1. Flow of Foreign Aid	*(In million US$)*	*(In million US$)*
(i) Opening Pipeline	**18,175**	**16,624**
(ii) Total Commitment	**5,258**	**5,844**
Grant	493	498
Loan	4,765	5,346
Projects	5,252	5,844
Non-projects	6	0
(iii) Total Disbursement	**3,043**	**3,084**
Grant	571	681
Loan	2,472	2,403
Projects	2,861	2,886
Non-projects	182	198
(iv) Closing Pipeline	**18,694**	**18,175**
(v) Foreign grant channeled through NGO		
Amount Approved	532	819
Amount released	750	719
2. External Debt Stock	*(In million US$)*	*(In million US$)*
Total public sector outstanding debt	**26,533**	**27,036**
(a) General Government debt (Medium & Long Term)	**23,901**	**24,388**
Multilateral	19,844	20,442
Bilateral	3,428	3,406
Supplier/Buyer's Credit	629	540

	FY 2014-15	FY 2013-14
2. External Debt Stock	***(In million US$)***	***(In million US$)***
(b) Government's Guaranteed debt	**2,672**	**2,647.5**
Air Craft	563	641
Crude Oil	834	877
Power	591	313
IMF	684	813
Telecom	0	3.5
3. External Debt Service	***(In million US$)***	***(In million US$)***
Total debt servicing	**2,514**	**3,004**
(a) Principal	**2,252**	**2,741**
General Government (Medium & Long Term)	909	1,088
Air Craft	78	36
Crude Oil	1192	1,511
Power	16	16
IMF	54	83
Telecom	3	7
(b) Service Charge	**261**	**263**
General Government (Medium & Long Term)	188	206
Air Craft	10.6	0.4
Crude Oil	40.6	50
Power	11	6
IMF	10.8	0.7
Telecom	0.05	0.2

B. Macro Economic Statistics

Macro Economic Statistic	FY 2014-15	FY 2013-14
i. GDP growth rate (Base Year: 2005/06)	6.55	6.12
ii. GDP at current price (Base year: 2005/06 in million US$)	195,159	173,752
iii. GDP as per PPP at Current Int'l Dollar (in million US$)*	576,986	535,645
iv. Per Capita Income (Base year: 2005/06 in US$)	1,316	1,190
v. **Export of Goods and Services (In million US$)**	**33,785**	**32,830**
Merchandise	30,768	29,765
Services	3,017	3065
vi. **Import (In million US$)**	**45,190**	**40,732**
Food	1,491	1,465
Capital Machinery	3,321	2,332
vii. **Foreign Exchange Reserve (in million US$)**	**25,020**	**21,508**
viii. **Remittance (in million US$)**	**15,317**	**14,115**
Of the total from: KSA	3,345	3,119
UAE	2,824	2,685
USA	2,380	2,323

* Reference: World Economic Outlook Database, October, 2015 IMF, collected from Finance Division.

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

Up to June 30, 2015 a total of about US$ 92.15 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$ 70.63 billion and budget support is 3.57 billion of the total commitments.

For the period since independence up to June 30, 2015, a total amount of about US$ 65.44 billion of foreign aid was disbursed, of which US$ 25.91 billion is grant and US$ 39.53 billion is loan. Of the total amount, US$ 6.83 billion as food, US$ 10.91 billion as commodity, US$ 44.13 billion as project aid and US$ 3.57 billion as budget support were disbursed.

Significant changes have taken place in case of the total aid package to the country over forty four years since independence. The share of grant is declining gradually vis-a-vis the share of loan. Considering sources of the total aid flows, multilateral aid has been growing through years compared to bilateral aid. Vulnerable food security and shifting in global economic power-structure have made aid mobilization more difficult than ever before. It is facilitated through a variety of means Co-ordination with development such as holding meetings regularly 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 triangle portfolio meetings of ERD, donors and project implementing ministry/agencies etc.

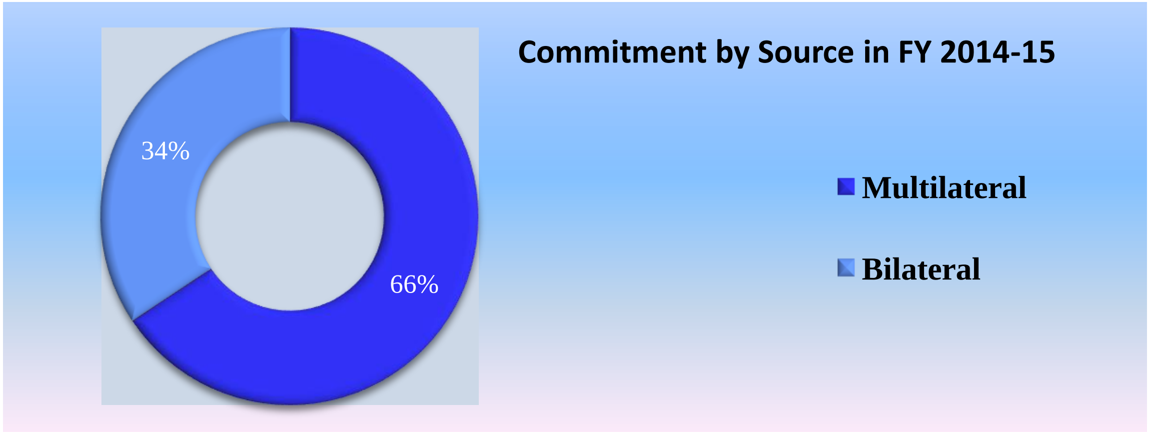
Some key features for the financial year 2014-15 related to external aids are discussed below.

4.1 Commitments:

During the FY 2014-15, a total of US$ 5.26 billion of external assistance was committed. The commitment of foreign aid for FY 2014-15 is the fourth largest after a record commitment of US$ 5.97 billion in FY 2010-11. Compared to last fiscal year, the growth of commitment is minus 10.02 per cent. Graph-1 shows commitment of foreign aid for last five years.

Graph 1

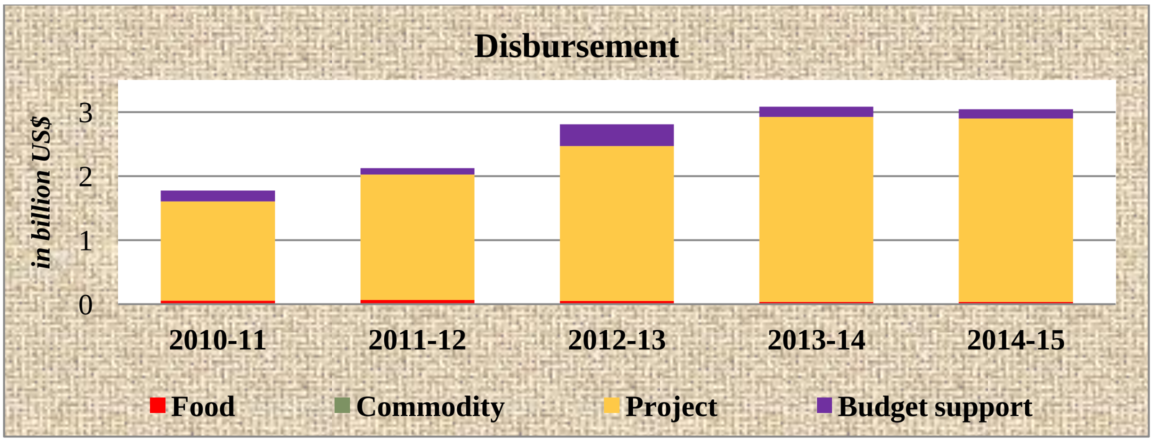
In FY 2014-15 projects aid constituted lion share of the whole amount of commitment. There is no commitment for the budget support and commodity aid in this financial year. According to source of financing, commitment from multilateral agencies and bilateral sources are US$ 3452.97 million and US$ 1805.49 million respectively. Composition of commitment is shown for the FY 2014-15 in graph 2.



Graph-2

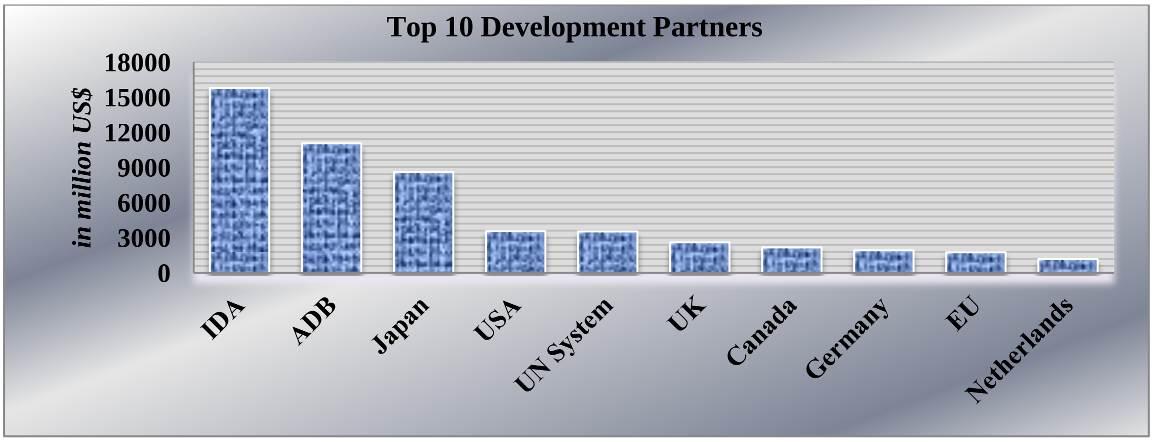
4.2 Disbursement:

In the FY 2014-15, a total amount of US$ 3.04 billion was disbursed which registered second highest disbursement in a single financial year since independence. Disbursement during FY 2014-15 is 1.34 per cent lower than the disbursement of the previous year. Of this US$ 570.83 million is grant and US$ 2472.25 million is loan. Of the total amount, food aid, project aid and budget support are US$ 37.53 million, US$ 2861.30 million and US$ 144.24 million respectively. Multilateral donors disbursed lion share of the total disbursement amounting to US$ 2095.96 million and bilateral donor disbursed US$ 947.11 million. Graph-3 shows a comparison of disbursement by purpose in different years.



Graph-3

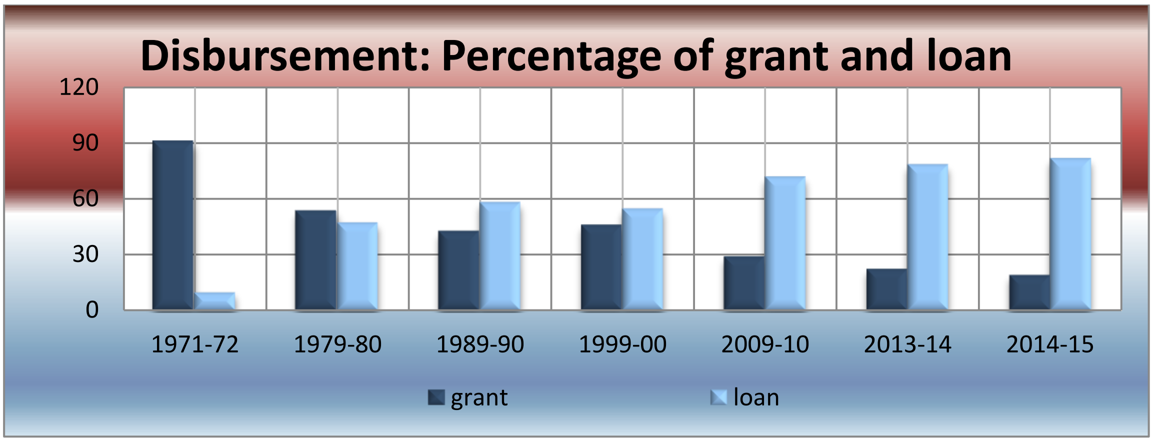
Since 1972 on a cumulative basis of aid disbursement, the major multilateral development partner is IDA followed by ADB. On the other hand, Japan ranks as the largest bilateral development partner followed by the USA. Disbursement of top 10 development partners according to their cumulative contribution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



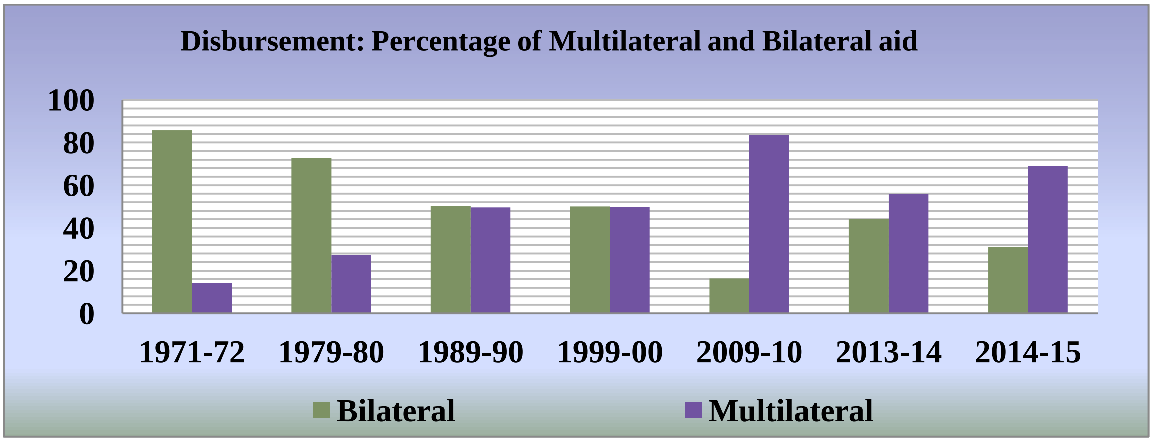
Graph-4

4.3 Changing scenarios in aid composition

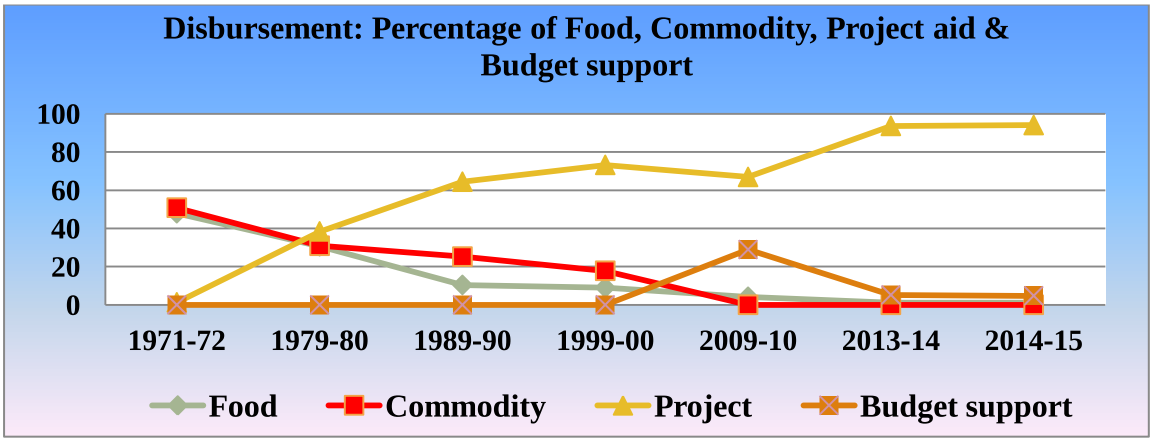
Over the past several years changes have taken place in the composition of foreign aid disbursement. The share of grant is declining and share of loan is increasing gradually. The share of grant and loan of disbursed aid was 9.5 per cent and 90.5 per cent in FY 1971-72 which stood at 18.8 per cent and 81.2 per cent respectively in FY 2014-15. Similarly, multilateral aid has crossed the stock of bilateral aid. The share of bilateral aid has decreased from 85.7 per cent in FY 1971-72 to 30.1 per cent in FY 2014-15. On the other hand, share of multilateral aid has increased from 14.3 per cent in FY 1971-72 to 68.9 per cent in FY 2014-15. However, there is an increasing trend of the share of bilateral aid since FY 2010-11 compared to past couple of years. Moreover, over time, the flow of food and commodity aid has drastically declined. Food aid, which was 47.9 per cent in FY 1971-72, has decreased to 1.2 per cent in FY 2014-15. Similarly, commodity aid has come down to nil in FY 2014-15 from 50.8 per cent in FY 1971-72. On the other hand, project aid has shot up from 1.3 per cent to 98.8 per cent during the same period. Changes in disbursement pattern over the years can be seen in Graph - 5, 6 and 7.



Graph -5



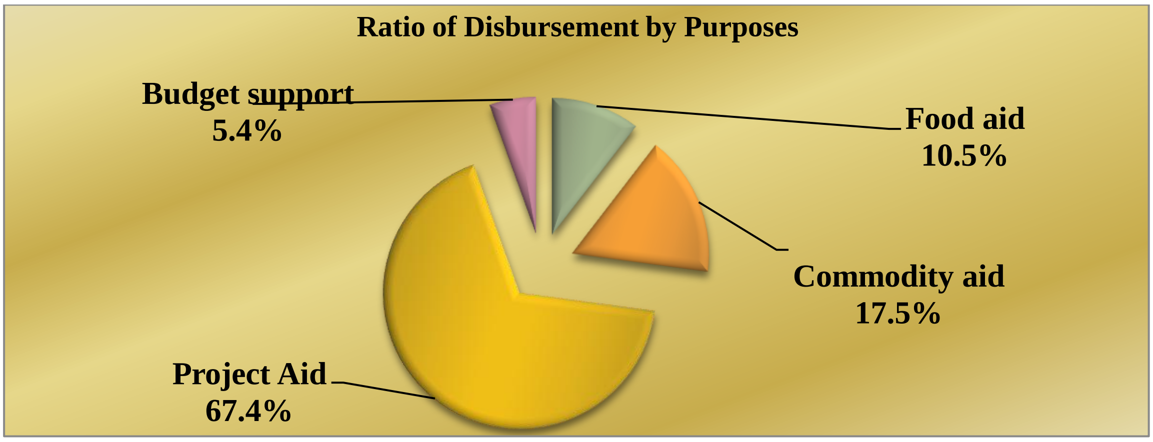
Graph -6



Graph -7

4.4 Aid Utilization:

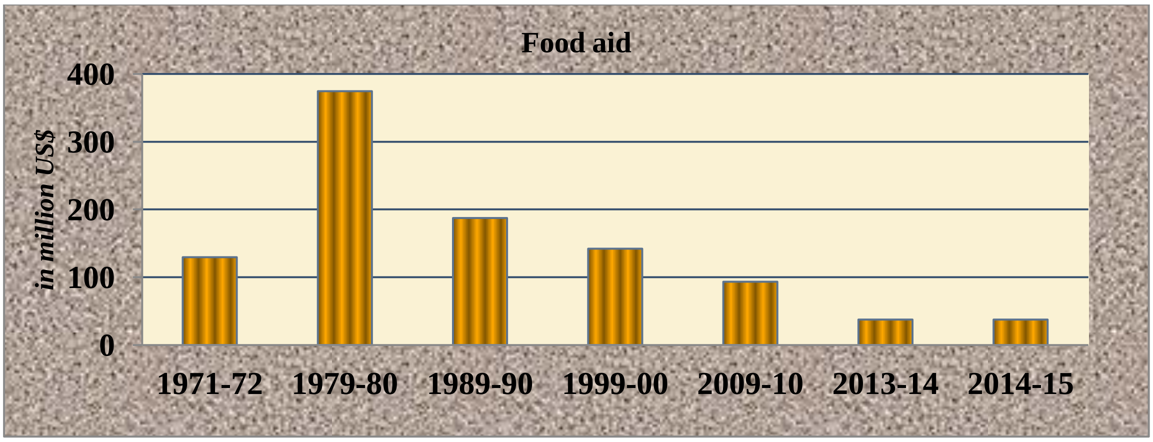
Aid utilization is in a state of a critical juncture. This criticality arises from slow implementation of projects. Over time, food aid and commodity aid have lost their pace as important constituents of total aid package. On the other hand, project aid has become more and more popular and important mode of assistance considering the purpose of aid. From independence to June 30, 2015, a total of US$ 65.44 billion of foreign aid was disbursed on a cumulative basis. As a policy the donors reduced commodity and food aid as a young nation matures over years. The food and commodity aid is generally replaced by more and more project aid. The bilateral aids give 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:

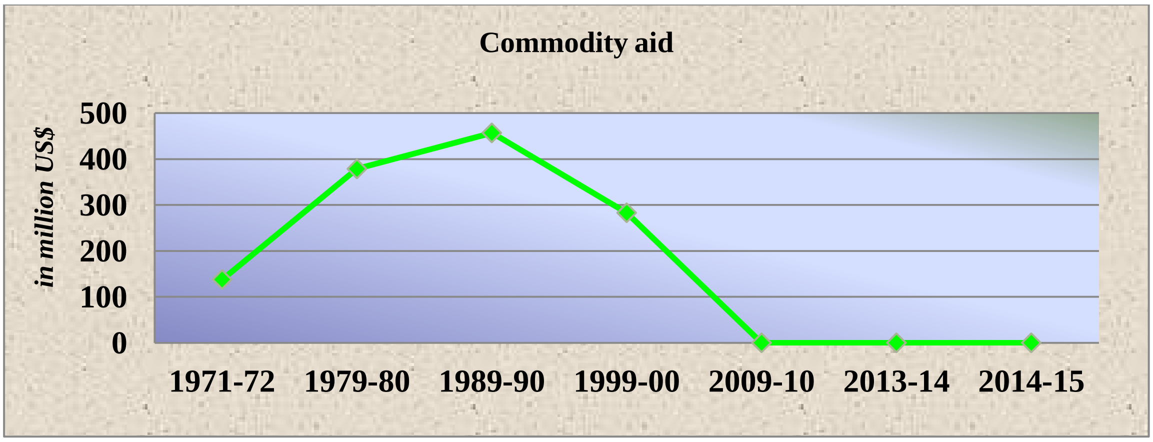
Food aid is now availed of in reduced volumes and occasionally received in larger amount to support natural calamities like floods, cyclones and unfavorable weather conditions. This is because self-sufficiency has been nearly achieved in recent years with the increased food production. Although, a persistent level of food aid is essential to assist the poorest section of the population and to run the targeted safety 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:

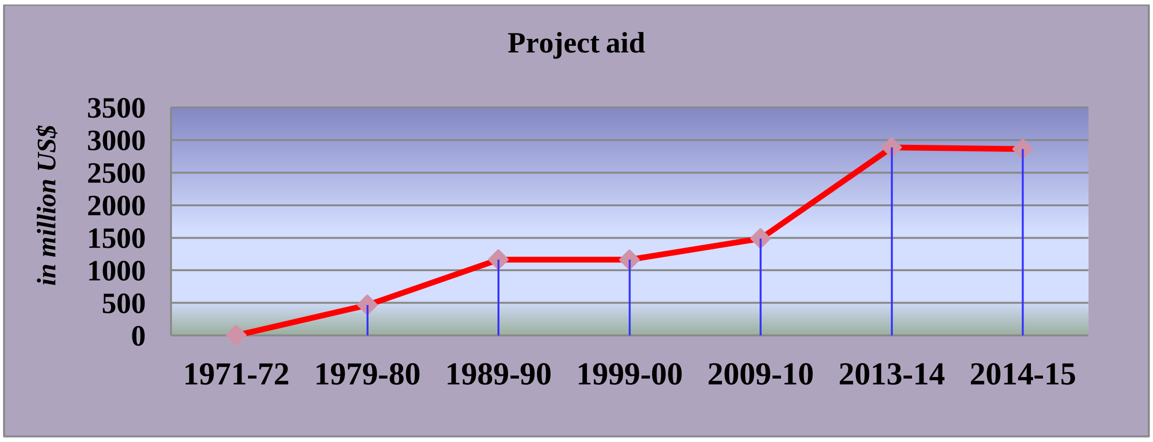
Generally, commodity aid is offered for acquisition of intermediate inputs and raw material and thus, provide cushion to balance of payments. Increasing export volume and tax revenue growth, consistent increased flow of foreign remittance have eased balance of payment deficit from own resources. In the process, the share of commodity aid has declined considerably in the recent years and zeroed in FY 2014-15.



Graph-10

4.4.3 Project aid:

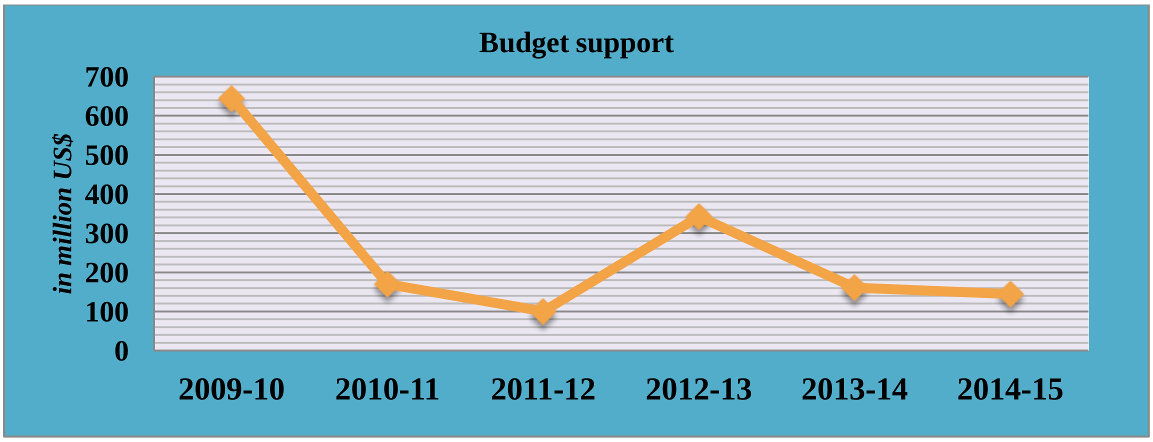
The largest share of foreign assistance comprises of project aid. It is extended by the development partners primarily to finance projects included in the Annual Development Program (ADP). The share of project aid excluding budget support has increased over years as shown in graph 11.



Graph-11

4.4.4 Budget support

Budget support is extended in one single or multi tranche to undertake different priority programmes. 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, the budget support does not come by very frequently. They are usually offered sparingly in occasion where development partners trigger payment only after recipient countries achieve previously agreed benchmarks. Disbursement under budget support scheme for last couple of years has been shown in graph-12.

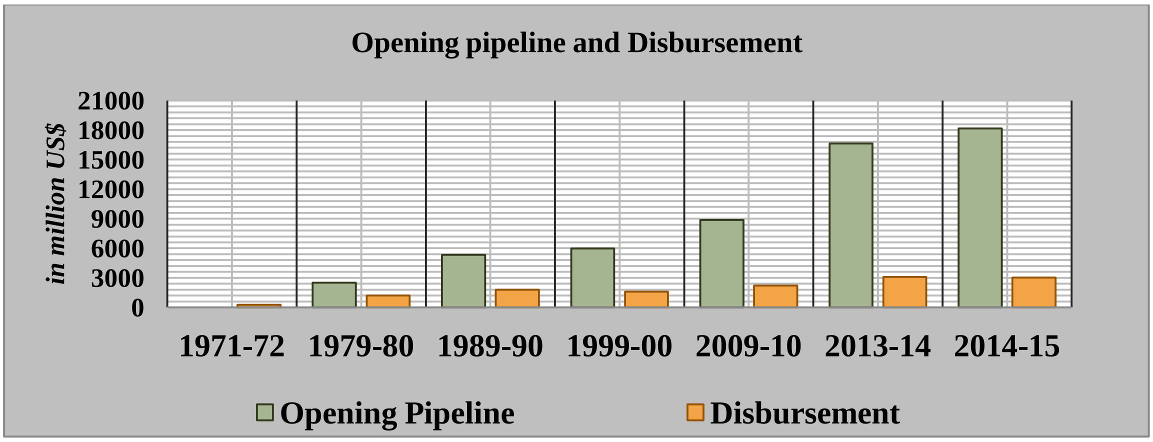


Graph-12

4.5 Aid in the pipeline

FY 2014-15 began with an opening pipeline of about US$ 18.17 billion on July 1, 2014. The new commitment during the period amounted to US$ 5.26 billion and total disbursement during FY 2014-15 amounted to US$ 3.04 billion. The closing pipeline as on 30th June, 2015 stood at about US$ 18.69 billion after cancellation/adjustment which is 2.85 per cent higher than that of the previous year. The disbursement of foreign aid during FY 2014-15 as a percentage of pipeline opening balance is near 16.74 per cent. The disbursement of FY 2014-15, as percentage of opening pipeline is decreased by 1.8 compared to that of the last financial year.

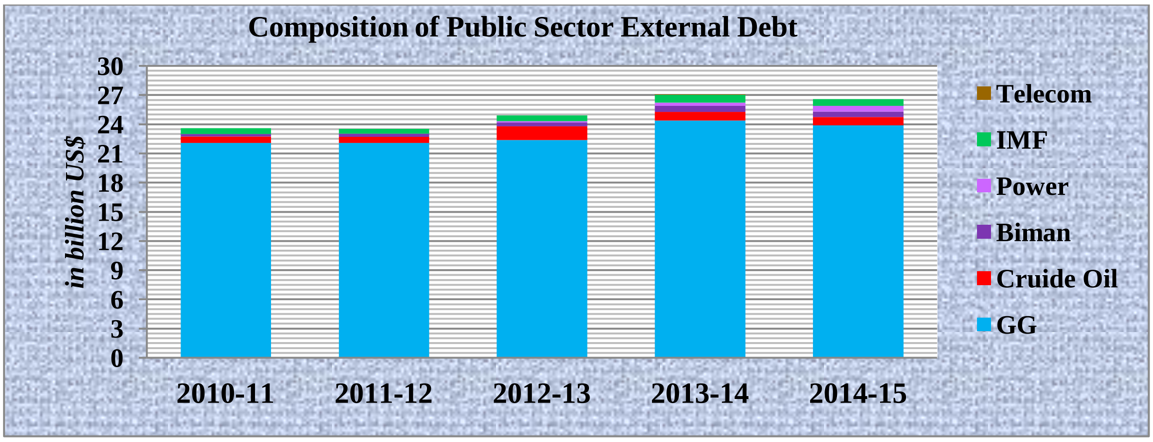
Slow implementation of project results in slow disbursement of aid which leads to time and cost overrun. It impacts negatively on the balance of payments leading to increased borrowing from domestic sources. Factors creating difficulties in the speedy implementation of projects or utilization of economic assistance is 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 (in case of other). Procurement related bottlenecks and challenges in land acquisition process are 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 causes of slow disbursement. In graph 14 disbursements from 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 serviced with 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, be serviced with 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 borrowing of Bangladesh consists 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$ 26.57 billion in FY 2014-15 which constitutes a debt liability of 13.6 per cent of GDP. The per capita debt obligation of the country has rose from US$ 6.59 in 1973-74 to US$ 168.29 in FY 2014-15. 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 following graph:



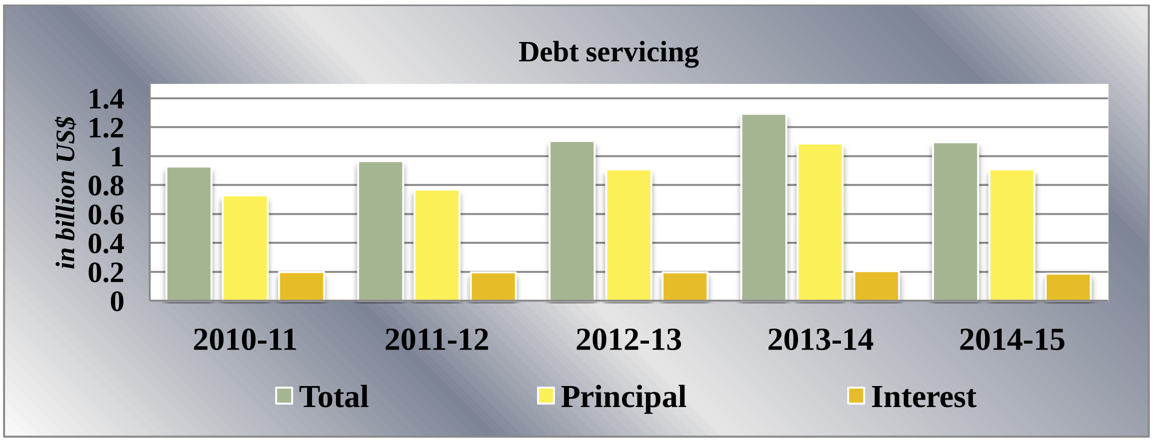
Graph-14

5.2 General Government Debt

The General Government debt amounting to US$ 23.90 billion is the major components of Public Sector External Debts. All of the general government external loans are Medium and Long Term (MLT) in nature. The share of MLT debt is 89.9 per cent of total Public Sector External Debt and it constitutes a debt liability of 12.25 per cent of GDP. Most of MLT credits are acquired on concessional terms with an average grace period of 8.6 years and an average repayment period of 31.2 years. These credits mainly come from bilateral and multilateral sources. Economic Relations Division manages the General Government external debt. Few issues related to General Government external debt are presented in the following paragraphs:

5.2.1 Debt Servicing

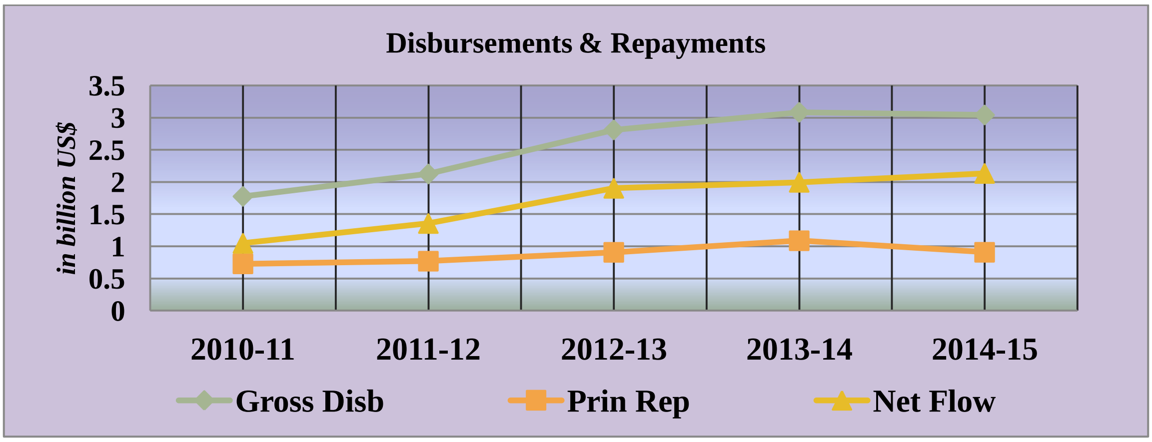
A total expense for debt servicing of the government is US$ 1097.2 million in FY 2014-15. Of the total, principal repayment is US$ 909.5 million and interest is US$ 187.7 million. Of the total debt servicing amount US$ 894.5 million is paid to multilateral creditors and US$ 202.7 million is paid to bilateral creditors. Statistics of debt servicing for the last five years are shown in Graph-15.



Graph-15

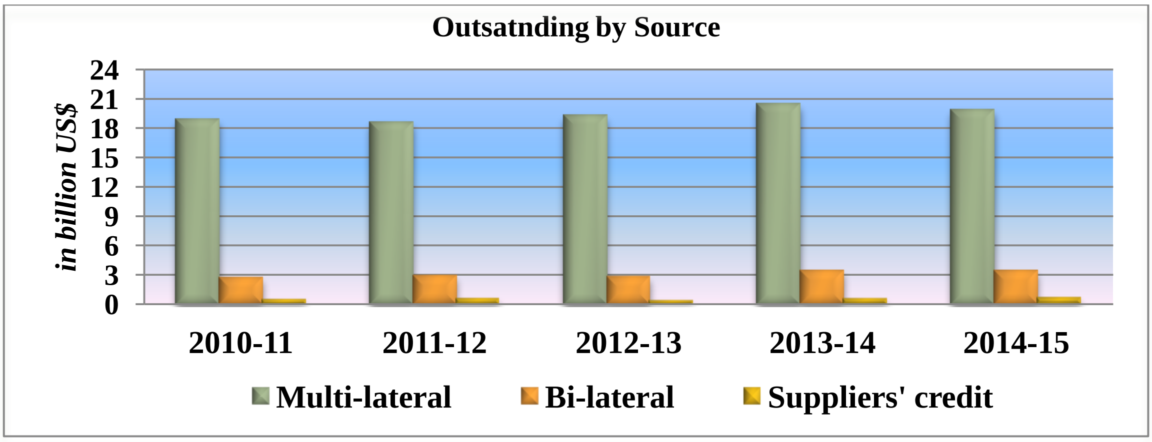
5.2.2 Net Flows and Transfer

Net flows, which accounts for the difference between disbursement and amortization (principal repayment), registered a positive value in FY 2014-15 by US$ 2133.62 million. In the FY 2013-14 net flows was US$ 1995.90 million. Compared to previous year, net flow increased by 6.9 per cent in FY 2014-15. Since independence net flow of each financial year has been always registering a positive value due 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.



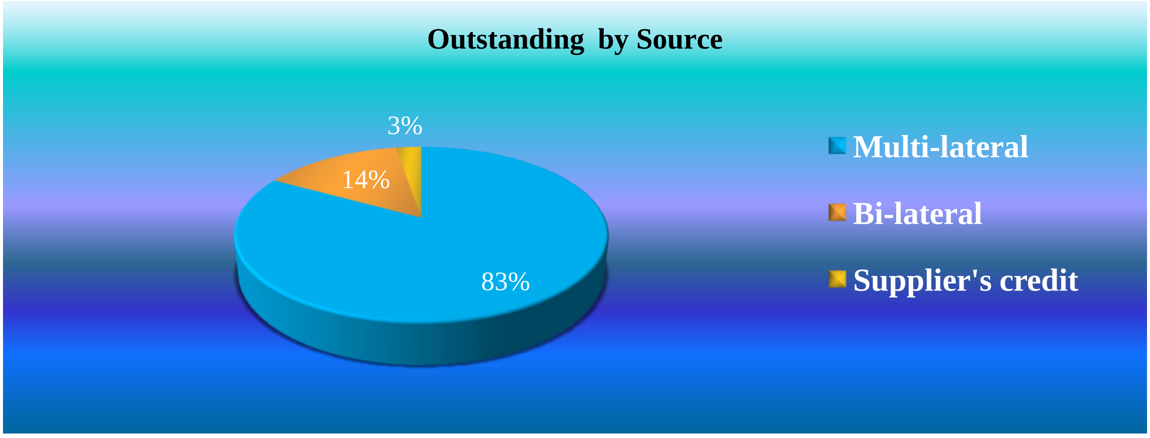
Graph-16

5.2.3 Source composition: Usually, external debt is mobilized from 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 outstanding debt as on 30th June 2015 from multilateral source is US$ 19.84 billion, while it is equal to US$ 3.43 billion in case of bilateral sources and suppliers' credit US$ 0.63 billion.



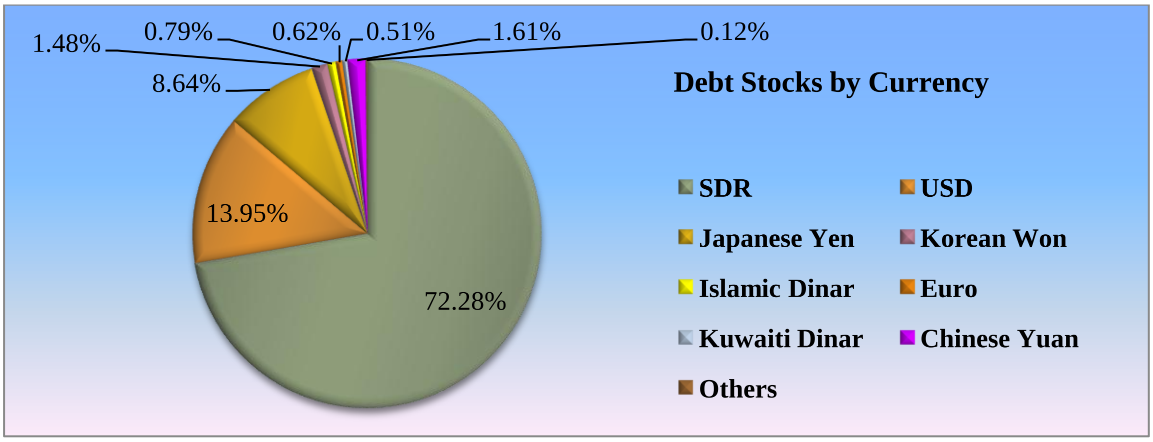
Graph-17

In FY 2014-15 the share of multi-lateral outstanding loans decreased by 2.94 per cent compared to that of FY 2013-14. Contrary, share of bilateral and suppliers'/buyers' credit outstanding loan increased by 0.29 per cent and 16.67 per cent respectively compared to last financial year. The share of debt outstanding by source for the FY 2014-15 are shown in graph-18.



Graph-18

5.2.4 Currency composition: External MLT debt as on 30th June 2015 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 term of domination SDR continues to account for the largest share. The share of SDR stood at 72.28 per cent in FY 2014-15 compared to 73.60 per cent in 2013-14. The decrease of debt stock in SDR is due to appreciation of value of US dollar and new net flows of loan with different currencies other than SDR from several bilateral creditors. Contrary, the share of debt stock of USD increased to 13.95 per cent in FY 2014-15 from 12.40 per cent in FY 2013-14, though USD occupied the second largest share of the total debt stock. Decrease of the share SDR loan in terms US dollar constituted an increased share of USD loan in the debt portfolio. On the other hand, Japanese Yen lost it share by 0.51 per cent compared to previous year's share into debt stock due to depreciation of Japanese Yen against US dollar. The share of major currencies in the debt stock may be seen in the following graph.



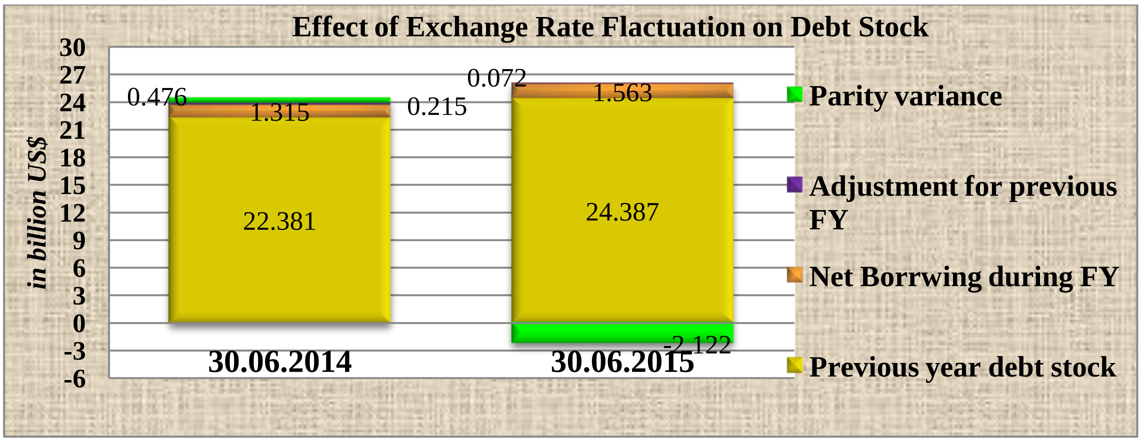
Graph-19

6. Part-4: Risk Analysis

Around 90% 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, the risks of existing external debt portfolio is minimized considering that our 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 following few paragraphs.

6.1 Foreign Currency Risk

The total government medium and long term external debt stock decreased to US$ 23.901 billion as on 30th June 2015 from US$ 24.387 billion as on 30th June 2014, indicating an decrease of US$ 0.487 billion during the year. However, net government external borrowing during the same period stood at US$ 1.563 billion. Episodes of appreciation of US dollar against SDR and Japanese Yen were frequent during the year (parity variance). This parity variance recorded a decrease of US$ 2.122 billion 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 portfolio has 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 72 %, a depreciation of the nominal value of US dollar against SDR may cause an increase of debt stock in US dollar without adding new loan to the debt portfolio. Similarly, it may also increase of expenditure in US dollar on account of debt servicing as most of SDR loan 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 2014-15 the value of SDR against US dollar depreciated considerably. Thus, actual expenditure of debt servicing in Taka was much less than the budget provision. An amount of Taka 7065.53 crore and Taka 1458.12 crore paid as principal and interest respectively against the budget provision of Taka 7900 crore and Taka 1688 crore which made an under expenditure of Taka 1064.34 crore in total for the government.

6.2 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. Interest rate risk is high when the variable interest rate dominated debt portfolio exists. Recently few loans have been mobilized at variable interest rate. In this circumstance, it is required to keep a close eye on the issue of interest rate risk for coming years.

6.3 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 2014-15 the interest service of MLT debt ratio is 0.56 per cent which was 0.63 per cent in FY 2013-14. **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 3.25 per cent in FY 2014-15 compared to 3.94 per cent in FY 2013-14. The rollover ratio, the ratio of total amortization over total disbursement in a single year also indicates the comfort zone of liquidity position. The Rollover ratio in case of MLT debt went down to 30 per cent in FY 2014-15 which was 35.3 per cent in FY 2013-14. Total debt service payment to revenue earning is also an important tool to monitor liquidity risk. The total debt service to revenue in FY 2014-15 and 2013-14 are 5.85 per cent and 7.10 per cent respectively.

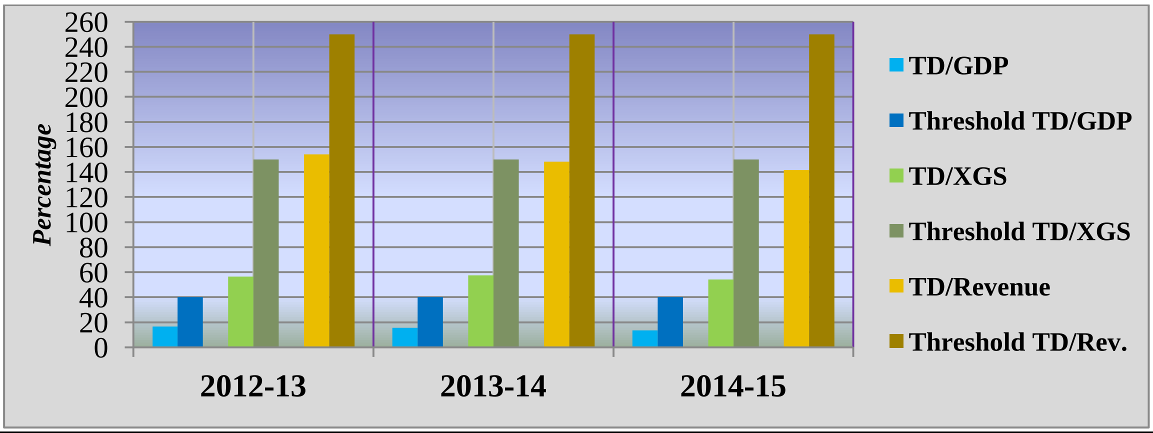
6.4 Solvency Risk

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 2014-15, outstanding of MLT debt stood at 70.7 per cent of the export earnings compared to 74.3 per cent of the same in FY 2013-14. 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.

6.5 Debt sustainability of overall Public Sector External Debt

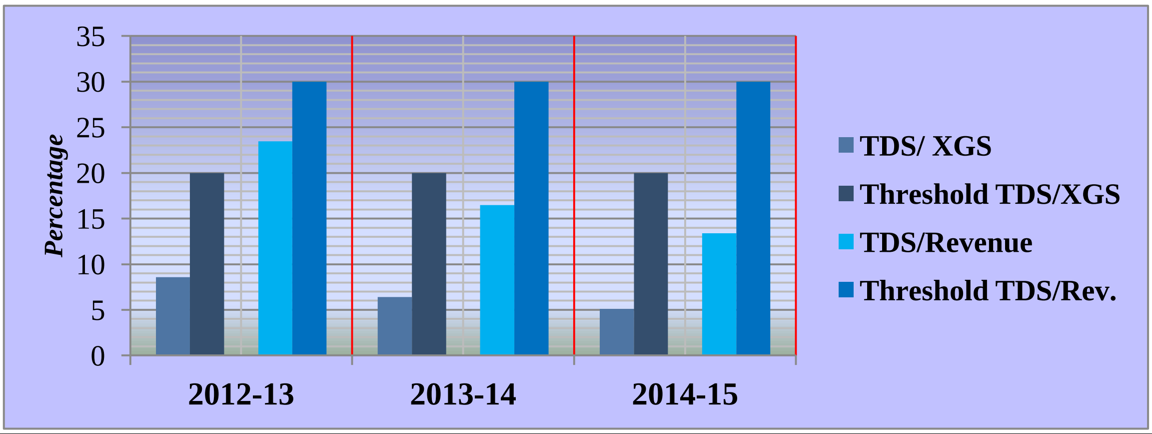
Broadly overall debt sustainability is measured by applying two aggregate sets of indicators. One is the ratio of ***total debt outstanding*** (public sector external debt) ***to GDP, Export of Goods and Services and Revenue Earning***. The other one is the ratio of ***debt servicing to export of goods and services and revenue earning***. Overall debt sustainability situation of Bangladesh is presented in the following graphs.

Total Debt Outstanding (TD) to GDP (Base year: 2005/06), Export of goods & services (XGS) And Revenue ratio and Threshold Limit ratio:



Graph-21

Total Debt Servicing (TDS) to Export of goods & services (XGS) and Revenue ratio and Threshold Limit ratio:



Graph-22

From the above indicators it is clear that all the indicators of the external debt sustainability related to debt stock and debt service are improved in 2014-15 compared to the previous year. All the indicators are well 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

7.1 Institutional 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 programmes also 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.

7.2 Development in Borrowing Strategy: Since independence, Bangladesh has been exploring the 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 added adverse effect in mobilizing foreign aid in concessional term. On the contrary, interest rates in the external borrowing markets are at historical lows.

In this context, the Government is evaluating various financing alternatives in very recent time to bridge the 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 formed 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 already approved 20 proposals of non-concessional loans up to 30th June 2015.

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

7.4 **Launching Aid Information Management System (AIMS):** For better and smooth sharing of information between ERD and Development Partners, Aid Information Management System (AIMS) software has been prepared, installed and launched in ERD in FY 2013-14 under 'Strengthening Capacity for Aid Effectiveness in Bangladesh Project' funded by AusAid, Danida, DFID and UNDP. Till 30th June 2015 around 14 development partners has been providing data into in the AIMS. The software facilitates receiving real time data related to commitments and disbursements, both of public and non-public sectors, from development partners. It is hoped that this tool would be strengthen the capacity of ERD in analyzing aid effectiveness in Bangladesh. Moreover, it will provide a robust picture of aid flows by capturing aid data flowed to non-public sector along with public sector.

7.5 **Monitoring 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 biannually at the Secretary level. Progresses, bottlenecks, measures taken to mitigate the bottlenecks of project implementation are 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, chaired by 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 2015, eight 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 and Paira Sea Port Project.

7.7 **Initiatives toward diversification of sources of external assistance:** Bangladesh has signed Article of Agreement on 24/10/2014 to be one of the founder members of Asian Infrastructure Investment Bank (AIIB). It opens up the new opportunity of mobilizing additional foreign financing for infrastructure projects in years to come.

To strengthen the platform of South-South Cooperation, ERD organized two international seminars in the FY 14-15. 'Regional Meeting on Financing Graduation gap of Asia-Pacific LDCs' and High Level Meeting on 'South-South and triangular Cooperation in the Post 2015 Development Agenda: Financing for Development in the South and Technology Transfer'. The principal objectives are to share experiences and to find out scope and means of assistance among LDCs countries.

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 worst victim of the climate change.

7.8 **Developing Foreign Aid Management System (FAMS):** ERD has taken initiative to develop Foreign Aid Management a system for management of foreign aid The system will be launched within June 2016 and fully operative by June 2017. The system will cover activities from borrowing program 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 tracking progress 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 formulation of budget related to foreign aid as well as aligning aid with 7th Five Year Plan.