

## Outcome Document

### Workshop on Draft Study Report on Transition Financing for Sustainable Graduation of Bangladesh

*Organized by the Support to Sustainable Graduation Project, ERD*

A workshop on the draft study report on 'Transition Financing for Sustainable Graduation of Bangladesh' took place on 15 November 2023 at the NEC II Conference Room of ERD. Senior Secretary of the Economic Relations Division Ms. Sharifa Khan attended the workshop as chief guest. Additional Secretary and Wing Chief of the Development Effectiveness of ERD Mr. Farid Aziz chaired the workshop. Major discussions and recommendations coming from the event are documented below.

#### **Welcome Remarks by Mr. Farid Aziz, Additional Secretary & Project Director, SSGP, ERD**

In the beginning of his welcome remarks, Mr. Farid Aziz underscored the vital role of foreign assistance in Bangladesh's economic planning, budgeting and development. He also pinpointed the potential impact of LDC graduation and other ongoing global dimensions on the future flow of external financing into the country. Against this backdrop, he recalled that a study is being carried out by ERD under the guidance of the National Committee on LDC Graduation and with support from SSGP to explore the potential avenues of transition financing in the context of the country's economic transformation. He further recalled that the draft report of the study was earlier shared with the relevant stakeholders through a workshop back in May 2023 and the report had been subsequently updated incorporating the feedback coming from that workshop. Mr. Aziz called for further suggestions and recommendations from the participants which would help to finetune the final study report. He also mentioned that the research would provide valuable inputs into the relevant policy formulations of the government.

#### **Presentation on Draft Study Report on 'Transition Financing for Sustainable Graduation of Bangladesh' by Mr. Md. Anwar Hossain, Additional Secretary, Asia Wing, ERD:**

In the beginning of his presentation, Mr. Md. Anwar Hossain highlighted the objectives, methodology and limitations of the study. He also presented a broad structure of the study report. Afterwards, he highlighted the key sources of development financing including the external and domestic sources. He also explained that how the financing mix of countries change in line with their income levels. Afterwards, he highlighted some key trends of DP financing in Bangladesh including a comparative picture of grants and loans, shares of different types of ODAs and the share of bilateral and multilateral DP financing in terms of percentage. Reflecting on the debt profile of Bangladesh, Mr. Anwar pointed out that the share of short-term debt had witnessed an increasing trend in recent times. He also highlighted that the recent trend of currency devaluation had resulted in increased debt which had posed constraints to fiscal space. He also pointed out that private sector debt had sharply increased from \$9.25 billion in December 2016 to \$22.25 billion in June 2023. Afterwards, he identified some key challenges in terms of external financing in Bangladesh and subsequently came up with some policy recommendations for meeting those challenges.

## Discussions by the Panelists

### **Dr. Md. Kabir Ahmed, Executive Director, Bangladesh Bank:**

Dr. Ahmed, in his remarks, observed that since the government is focusing on building ‘Smart Bangladesh’—the study should provide special focus on identifying the suitable financing modalities for technology driven growth path. Noting that the local financial market or banks are not ready for financing hi-tech ventures—he underscored the need for establishing a specialized technological finance corporation in the country. Citing the example of China and Vietnam which had encouraged foreign direct investment in their export-oriented industries—he observed that the study should provide some specific recommendations for attracting FDI. Citing examples of overseas markets, he pointed out that bond market might be subject to external shocks or fluctuations. Pointing out the recent trends of savings and investment rate—he also said that the study should come up with some specific suggestions for increasing the savings and investment rate of the country. Mr. Ahmed observed that the study should feature some sectoral assessments. He also opined that the research paper should provide some empirical analysis and projection on the potential investment scenario of the country over the next ten years.

### **Mr. Md. Shahriar Kader Siddiky, Additional Secretary, ERD**

Mr. Siddiky, in his speech, observed that the study should take into account the contingent effects e.g.- possible platforms, growth path, potential financing sources, economic trend, market uncertainty, global shifts etc. He also opined that the study should take into consideration the effects of dedollarisation and potential shift towards electronic currencies. He said that the study should provide some recommendations for effective management of transitional financing in light of the government’s long-term goals like Vision 2041. He called for greater analysis on whether the country is ready to hold debt or not. Against this backdrop, he identified appropriate business environment as a crucial factor. In this context, he observed that the study should identify the opportunities and required partnership modalities for ensuring an appropriate business environment. Mr. Siddiky also observed that the study should carry out some readiness and trend analysis on currency management to evaluate whether the country is ready for using multiple currencies in terms of external financing. He also opined that the study should provide some detailed strategic directions about what sort of approach the country should follow in moving towards blended financing and or non-concessional financing. Mr. Siddiky also pointed out that the report should highlight some possible avenues for fetching open source financing. He observed that the study should highlight in detail the potential challenges and opportunities. He also observed that the report should focus on how to better utilize the potentials of regional platforms and regional currencies. Lastly, he opined that the study should provide a comparative picture of how various countries had moved towards non-concessional financing.

## Open floor Discussion

At this stage, the floor was opened for feedback from participants. During this session, the following suggestions and recommendations came from them:

- Additional Secretary and Wing Chief of the FABA Wing of ERD Mr. Md. Mostafizur Rahman said that although the private sector borrowing should not be discouraged—the crucial thing would be to ensure proper utilization of such loans. He also observed that there should be a

unitary body or agency comprising representatives from ERD, Bangladesh Bank and other relevant government entities for effective debt management. He also called for enhancing the implementation capacity of the government agencies.

- Representative from the Finance Division said that the study should provide a comparative analysis of the measures taken by other major competitors of Bangladesh in the area of non-concessional financing. She also observed that the study should include an exit plan in the context of LDC graduation. She also proposed that there should be a separate study on risk analysis and risk management.
- Mr. Md. Mizanur Rahman from Bangladesh Bank said that the study report should have special focus on climate financing given the special emphasis put by the major development partners on climate issues.
- Representative from the National Board of Revenue said that NBR should regularly monitor whether any instance of over invoicing is taking place when foreign loans are used for purchasing raw materials or capital machineries.
- Representative from the General Economics Division of the Planning Commission affirmed that any duplication should be avoided while initiating a new project. She also called for sharing the LDC Graduation related study reports with the Planning Commission regularly. She also observed that the country should focus on enhancing the skill base of its workforce for gaining higher remittance. She also opined that many of the upcoming policies should be aligned with the latest technological trends like 4IR, cryptocurrency etc.
- Pointing at the declining trend of private borrowings-- Dr. Mostafa Abid Khan from SSGP said that the report should have some specific recommendations on how to address this issue.
- Reflecting on the growing global and local inclination towards commercial borrowing—Mr. Md. Rezaul Bashir Siddique said that a separate wing might be required in ERD in the future to deal exclusively with commercial borrowing.
- He also underscored the need for formulating a policy document which would provide fundamental guidelines for negotiating with the development partners. He recalled that a draft National Development Cooperation Policy was formulated back in 2014-15 considering that requirement.
- Mr. Md. Masud Rana Chowdhury from the General Economic Division of the Planning Commission said that the report may analyse how to better explore and utilize the fundings coming from the philanthropic organizations. He also pointed out that Bangladesh is projected to require USD 928 million to implement SDGs by 2030. He observed that although Bangladesh is in a comfortable position in term of attracting ODA for SDG implementation—the country is yet to attract satisfactory level of FDI in this area.

**Speech by the Chief Guest - Ms. Sharifa Khan, Senior Secretary, Economic Relations Division, Ministry of Finance**

The chief guest, in her remarks, observed that the study report apparently gave the impression that private investment could be risky. She further opined that the report should rather provide a thorough analysis on whether private sector investment is utilized properly. She also observed that some key facts and figures presented in the report should be thoroughly rechecked to ensure factual accuracy. She also affirmed that there should be greater emphasis on climate financing since Bangladesh is one of the most vulnerable countries to climate change and as there are wider scopes for receiving soft loans from this window. Noting that Bangladesh would have to avail non-concessional borrowings to a greater extent in the near future-- she recommended that the study should analyse whether

Bangladesh has the capacity to absorb non-concessional loans. She said that the report should provide some analysis on their potential long term and short-term impacts of the recent trends of DP financing. She also observed that the report should contain some analysis on the potential impacts of dedollarisation and the subsequent shift towards multiple currencies. Noting that the report had put forward some recommendations-- she also called for incorporating the mechanism of implementing those recommendations.

### **Conclusion by the Chair - Mr. Farid Aziz, Additional Secretary, ERD**

The Chair, in his concluding remarks, thanked all the participants for their feedback and recommendations. He hoped that those suggestions and recommendations would help to finetune the final study report. He concluded the workshop by thanking all the participants.

### **Major Recommendations**

The workshop came up with the following major recommendations:

- Since the government is focusing on building 'Smart Bangladesh'—the study should provide special focus on identifying the suitable financing modalities for technology driven growth path.
- As the local financial market or banks are not ready for financing hi-tech ventures— a specialized technological finance corporation can be established in the country for providing financing to technology centred ventures.
- The study should provide some specific recommendations for attracting Foreign Direct Investment.
- The study should come up with some specific suggestions for increasing the savings and investment rate of the country.
- The study should feature some sectoral assessments.
- The research paper should provide some empirical analysis and projection on the potential investment scenario of the country over the next ten years.
- The study should take into account the contingent effects e.g.- possible platforms, growth path, potential sources of financing, economic trend, market uncertainty, global shifts etc.
- The study should take into consideration the effects of dedollarisation and potential shift towards electronic currencies.
- The study should provide some recommendations for effective utilization of transitional financing sources in light of the government's long-term goals like Vision 2041.
- There should be some in depth analysis in the report on whether the country is ready to hold debt or not. In this context, the study should identify the opportunities and required partnership modalities for ensuring an appropriate business environment.
- The study should carry out some readiness and trend analysis on currency management to evaluate whether the country is ready for using multiple currencies in terms of external financing.
- The study should provide some detailed strategic directions on what sort of approach the country should follow in moving towards blended financing and or non-concessional financing.
- The report should highlight some possible avenues for fetching open source financing.
- The report should focus on how to better utilize the potentials of regional platforms and regional currencies.

- The study should provide a comparative analysis of the measures taken by other major competitors of Bangladesh in the area of non-concessional financing.
- The report should contain a thorough analysis on whether private sector investment is utilized properly.
- There should be a unitary body or agency comprising representatives from ERD, Bangladesh Bank and other relevant government entities for effective debt management.
- There could be a separate study on transition financing related risk analysis and risk management.
- The study report should have special focus on climate financing given the special emphasis put by the major development partners on climate issues.
- Customs authority should regularly monitor whether any instance of over invoicing is taking place when foreign loans are used for purchasing raw materials or capital machineries.
- Future policies of the government should be aligned, in relevant cases, with the latest technological trends like 4IR, cryptocurrency etc.
- The report should have some specific recommendations on how to address the declining trend of private borrowings.
- In light of the growing global and local inclination towards commercial borrowing-- a separate wing might be established in ERD in the future to deal exclusively with commercial borrowing.
- A policy document should be formulated to provide fundamental guidelines for negotiating with the development partners.
- The report should outline some specific recommendations on how to generate more private financing and FDI for implementing SDGs.
- All the key facts and figures presented in the report should be thoroughly rechecked to ensure factual accuracy.
- There should be greater emphasis on climate financing since Bangladesh is one of the most vulnerable countries to climate change and as there are wider scopes for receiving soft loans from this window.
- The study should contain an analyse on whether Bangladesh has the capacity to absorb non-concessional loans.
- The report should provide some analysis on the potential long term and short term impacts of the recent trends of DP financing.
- The recommendations put forward by the report should also include the mechanism of implementing those recommendations.