



Role of Foreign Financing in Response and Recovery to COVID-19

Abdur Rouf Talukder

Senior Secretary

Finance Division

Mr. Abdur Rouf Talukder joined the Bangladesh Civil Service in 1988 (BCS 1985 batch). He worked in wide range of government positions in his long illustrious career but his specialization in public finance and economic management has brought him back to Finance Division at almost every rank of his career. He worked more than 18 years in Finance Division before elevating to the position of Finance Secretary on 17 July 2018.

Apart from his long career in Finance Division, Mr. Talukder has served in Ministry of Industries, Ministry of Food, and Ministry of Information. He also worked at Bangladesh High Commission, Kuala Lumpur as First Secretary (Commercial). He holds an M.Sc. in Development Management from the University of Birmingham, UK and an MBA from Institute of Business Administration (IBA) of the University of Dhaka.

The global economy has been facing unprecedented challenges since the beginning of 2020 due to COVID-19 pandemic. Along with taking numerous lives, it has reverberating impacts on economic and social activities worldwide. Nations have taken various steps to save lives, protect the poor and vulnerable, protect businesses and jobs, scale-up shock response, and build an overall resilient recovery. To get back on track, countries have taken the new projects along with restructuring and the emergency components of existing projects. International Financial Institutions (IFIs) and developed countries have played a significant complementary role in this regard through deploying their disaster finance instruments. According to the UNDP, the Multilateral Development Banks (MDBs) have collectively provided US\$230 billion across developing countries to reduce the impact of the pandemic by mid-2021. The COVID-19 pandemic has not only caused immeasurable socio-economic suffering but could also disrupt global efforts to achieve the Sustainable Development Goals (SDGs) by 2030. Recovery financing of IFIs across developing countries are also helping the world to meet an annual financing gap of US\$2.5 trillion for achieving the SDGs. Bangladesh is also not beyond the benefits of these international recovery financing packages. Foreign financing has played an essential role in successfully dealing with the problems arising from the COVID-19 pandemic in Bangladesh.

The Government of Bangladesh has formulated an overall program with short, medium, and long-term targets to address the crisis arising from the COVID-19 pandemic and overcome the potential adverse effects of the pandemic on the economy. This program had four main strategic aspects. The first strategy was to increase government spending. In this respect, priority was given to creating jobs and discouraging luxury spending. The second strategy was to provide low-interest credit facilities through the banking system to industries and business enterprises to revive economic activities and increase the competitiveness of entrepreneurs at home and abroad. The third strategy was to increase the scope of the government's social security programs to protect the ultra-poor and the low-income groups who have suddenly become unemployed as well as the people engaged in informal sectors. The fourth and last strategy was to increase the money supply in the market.

Following the guidelines of Hon'ble Prime Minister Sheikh Hasina, the government undertook a comprehensive economic recovery program containing 28 fiscal and stimulus packages to the tune of Tk. 1,877 billion (US\$ 22.08 billion) to facilitate the implementation of these strategies. The main features of this program are provided in the following:

| Serial No. | Name of the package | Program Size (Taka billion) |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 1 | Special Fund for salary support to workers of export-oriented manufacturing industries, including ready-made garments | 50.0 |
| 2 | Working capital loans with low interest to affected industries and service sector enterprises | 730.0 |
| 3 | Working capital loans with low interest to affected micro, small and medium enterprises, including cottage industries | 400.0 |
| 4 | Expanding the Export Development Fund (EDF) and lowering the interest rate of the Fund | 170.0 |
| 5 | Introducing Pre-Shipment Credit Refinance Scheme to enhance the capacity of exporters | 50.0 |
| 6 | Special honorarium to the frontline doctors, nurses, and medical workers | 1.4 |
| 7 | Providing compensation to the families of doctors, nurses, health workers and other frontline workers in case of death | 7.5 |
| 8 | Free distribution of rice and other food items to the poor who have suddenly become jobless due to the coronavirus outbreak | 25.0 |
| 9 | Selling rice at subsidized price (10 Taka per kg) to the low-income people | 7.7 |
| 10 | Providing direct cash transfer to the poor families across the country | 13.3 |
| 11 | Expanding the coverage of key social safety net programs (Old Age allowance and Widow and Destitute Women Allowance) | 8.2 |
| 12 | Construction of homes for ultra-poor homeless citizens across the country (rural areas) | 21.3 |
| 13 | Providing support for farm mechanization to increase agricultural productivity | 32.2 |
| 14 | Enhancing the subsidy in agriculture | 95.0 |
| 15 | Introducing agriculture refinancing scheme | 80.0 |
| 16 | Refinancing scheme for low-income professional farmers/small traders | 30.0 |
| 17 | Expansion of low-interest credit facility through five publicly owned specialized banks to generate self-employment | 32.0 |
| 18 | Government subsidy to commercial banks for partial interest waiver of loans deferred during April-May/2020 | 20.0 |
| 19 | Credit Risk Sharing Scheme (CRS) for the SME sector | 20.0 |
| 20 | Social security for underprivileged workers in export-oriented garments, leather products and footwear | 15.0 |
| 21 | Reviving rural economy and job creation activities in rural areas through 8 specialized publicly owned development organizations | 15.0 |
| 22 | Further expanding the coverage of key social safety net programs (Old Age Allowance and Widow and Destitute Women Allowance) | 12.0 |
| 23 | Direct cash transfer to targeted population in phase II | 9.3 |
| 24 | Cash transfer to daily labourers, transport workers, small traders, shipping sector workers etc. | 4.5 |
| 25 | Special OMS of food to help low-income people in urban areas | 1.5 |
| 26 | Providing food assistance in response to the request of the citizen on telephone number 333 | 1.0 |
| 27 | Providing loan assistance (at 4% interest) through PalliSanchay Bank, Karmasangsthan Bank, and PKSF to finance employment generating activities in rural areas | 15.0 |
| 28 | Providing working capital loan to hotels/motels/theme parks in the tourism sector for payment of salaries to their employees | 10.0 |
| Total (In Taka billion) | | 1,876.79 |
| Total (in US\$ billion) | | 22.08 |
| As % of GDP | | 6.23 |

The government has demonstrated a remarkable success in receiving budget support assistance, in form of mostly loan and partly grant, from various development partners in recent years. Budget support is extended in a single or multi-tranche to undertake different priority programs. The payments against budget support are triggered on fulfilment of certain agreed policy objectives between the recipient country and Multilateral Financial Institutions. It gives the recipient country more flexibility to align assistance spending with national priorities in comparison to project assistance. For example, the World Bank has been working with the government for the last three years in implementing the 'Programmatic Jobs Development Policy Credit' (DPC). The DPC is a US\$750 million planned series of three budget financing operations (each with US\$250 million) to support the GoB's program of reforms.

The international communities, especially the multilateral development banks (MDBs) have extended their budget support assistance to Bangladesh for addressing the pandemic and supporting the economic recovery. To tackle the economic impact of the COVID-19 pandemic effectively by facilitating economic recovery program and to assist in the procurement of vaccines, the government has either received, or has been in discussion to receive, budget support assistance from the International Monetary Fund, World Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Japan International Cooperation Agency, OPEC Fund, EDCF (Korea), European Union, Germany, French Development Agency and European Investment Bank. The budget support extended by the MDBs and bilateral development partners have been instrumental in enhancing the government's capacity to steer the economy during the pandemic. It has helped the government to stimulate the economy and also providing critical funding to mass vaccination program.

The government, by October 2021, has received budget support of over US\$ 3 billion from various development partners and is on course to receive further support of US\$ 2.5 to 3 billion by June 2023. The government has received US\$ 1 billion from ADB, US\$ 330 million from JICA, US\$250 million from AIIB, Euro 136.9 million from European Union and Germany, US\$ 70 million from OPEC fund, US\$ 57 million from AFD and US\$ 50 million from EDCF (Korea). Furthermore, Balance of Payment support amounting to US\$ 732 million has been received from IMF. In addition to budget support, the government has received loan of US\$ 1.4 billion (US\$ 940 million from ADB and US\$ 500 million from the World Bank) as vaccine support to implement the COVID-19 vaccination programme of the country. A further loan of US\$ 790 million (US\$ 500 million from AIIB and US\$ 290 million from the European Investment Bank) for the same purpose is under negotiation.

With the help of the budget support assistance, the fiscal and stimulus packages adopted by the government have been designed in a planned and coordinated manner to ensure that the maximum number of people in the country is benefitted from packages. The ultimate goal of the government was to provide assistance to the economy for a quick and balanced economic recovery and the budget supports are helping government to achieve that goal.

The current economic trend in Bangladesh and the performance of its macro-economic indicators reflect that Bangladesh has weathered the COVID-19 economic shocks well. Even though GDP growth rate showed a decline to 3.5 percent in FY20, it rebounded and it is 5.47 percent (provisional) in FY21. The foreign exchange reserve has grown to a record US\$ 48.02 billion in August 2021. The revenue collection by the National Board of Revenue during FY21 has also registered a 20.06 percent growth. Furthermore, commodity and food prices have remained largely stable despite the quantitative easing and injection of government funds through the stimulus packages and the repeated floods in this year's monsoon season. Considering this trend in the Bangladesh economy, it is evident that the stimulus measures have played a highly effective role in countering the adverse economic shocks of COVID-19, and foreign financing has an important balancing role in the quick response and recovery processes.

