

1. Overall Scenario of Foreign Assistance Management FY 2019-20

One of the main goals of the present government's long-term development plan is to establish Bangladesh as a middle-income country by 2021. To achieve this goal, the government has placed special emphasis on increasing investment in the development sector. Considering the constraints on providing resources from internal sources, foreign assistance is essential in the current financial management to meet investment demand as per development goals. Bangladesh's total investment target was set at 8.6% of GDP in the budget of the financial year. The government's budget deficit was set to be financed by a net foreign assistance of 2.4% of GDP. Under the Government's Rules of Business, ERD is concerned with the search and collection of foreign assistance.

Bangladesh has already attained the lower middle-income country category and is well-poised to achieve its vision of reaching the middle-income country status by 2021. It is an outcome of the prudent fiscal policy and financial management of the government. To reach the middle-income country level by 2021, according to the 7th Five-Year Plan, the GDP growth rate should gradually increase from 6.5% to 8% in 2020 fiscal year (average 7.4% from 2016 to 2020). Therefore, the investment which was 32.8% in 2019-20, should also gradually increase to 34.4% of GDP in FY 2020. Furthermore, the collection and effective utilization of foreign assistance is essential to meet the investment demand in consideration of the FY 2020. ERD is striving to collect significant foreign assistance to accomplish the investment needs in the social front, including electricity, transportation, physical infrastructure, education and health.

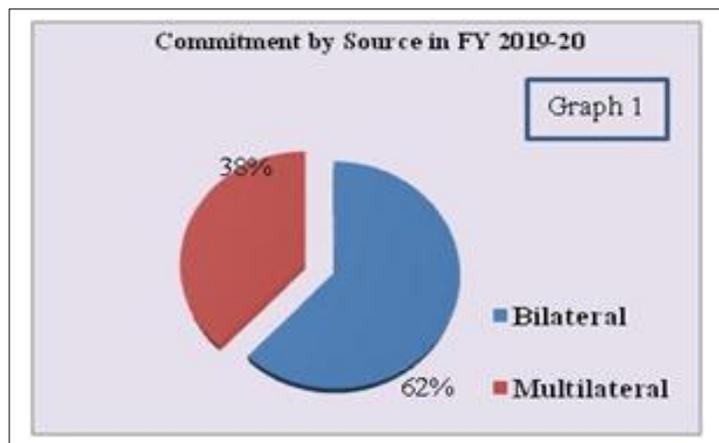
Commitments received from last five fiscal years, i.e. from 2015-16 to 2019-20 amounts USD 59.61 billion, which is an average of USD 11.92 billion per FY. At the same time, the disbursement of foreign assistance amounts USD 27.27 billion which is an average of USD 5.45 billion per FY. The amounts of commitment and disbursement of foreign assistance in the FY 2019-20 are USD 9.724 billion and USD 7.121 (provisional) billion respectively, which is the highest disbursement in the post-independence period.

1.1 The achievements of the overall activities of ERD in FY 2019-20

Foreign Assistance Mobilization

Under the Foreign Assistance Collection Programme, a total commitment of USD 9.724 million has been signed in FY 2019-20. Of these, the grant amount and the loan amount are USD 502.28 million and USD 9222.14 million, respectively. The target for foreign assistance (commitment) was set at USD 6000.00 million in the FY 2019-20, against which the commitment was achieved by 162.07%. During this fiscal year, the highest foreign assistance (commitment) amounting USD 1798.86 million was received from the ADB among the multilateral development partners.

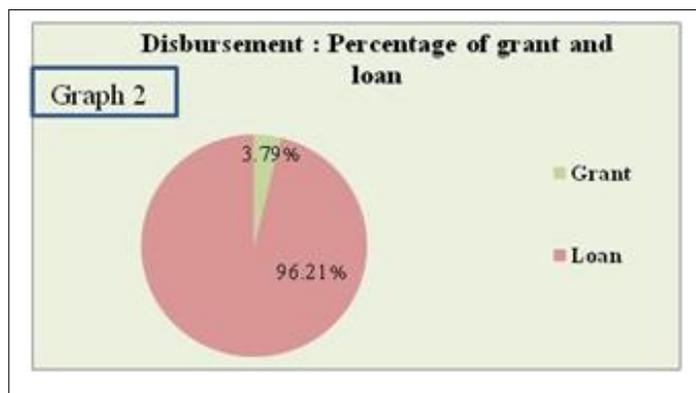
The maximum commitments were received from Japan among the bilateral development partners, amounting to USD 3117.77 million. Most of the total commitment to foreign assistance has come from the bilateral sources. The rate of commitments from multilateral and bilateral sources can be seen in **Graph 1**.



In FY 2019-20, a total of 66 agreements have been signed with 20 development partners for foreign assistance, of which 34 are grant agreements and 32 are loan agreements. A brief depiction of the agreements is cited in *Appendix-I*.

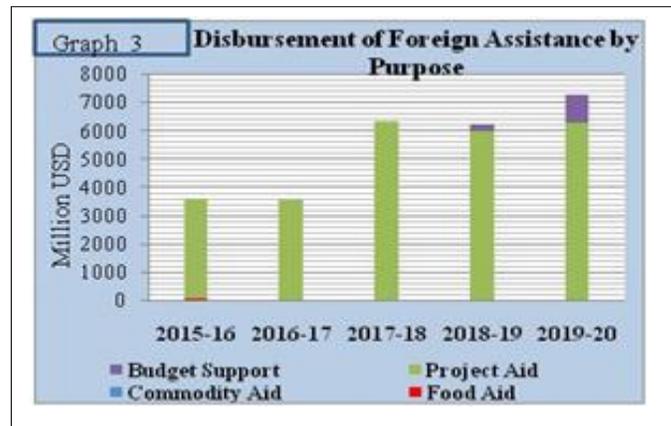
Disbursement of Foreign Assistance

In FY 2019-20, the total disbursement of foreign assistance amounts USD 7121.34 million. Of these, the grant and the loan amounts are USD 275.73 million and USD 6845.61 million respectively. The ratio of loan and grant in the total disbursements is presented in **Graph 2**.



In the aforesaid fiscal year, the revised target for disbursement of foreign assistance as per RADP was USD 8324 million, against which 85.55% was disbursed. Out of this total amount of disbursement (FY 2019-20), USD 3647.84 million has come from the multilateral sources, whereas USD 3473.50 million was received from the bilateral sources. Among the multi-lateral sources, the highest disbursement of USD 1656.40 million came from the ADB in this fiscal year. At the same time, Japan topped the list among all the bilateral sources with the disbursement amount of USD 1685.74 million. Details of total disbursement by development partners are presented in *Appendix-II*.

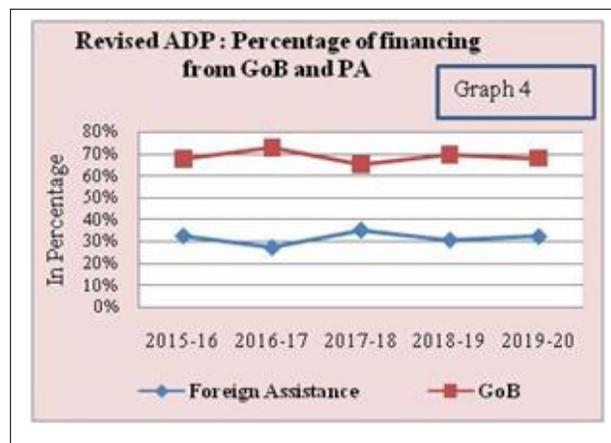
In the FY 2019-20, out of foreign assistance, the amounts of food assistance and project assistance are USD 0.00 million and USD 7121.34 million respectively. During this time, an amount of USD 1000.00 million budget support was received. However, in the past few years, there has been no disbursement for commodity assistance. The information regarding the purpose of disbursement in last several years is presented in **Graph-3 below**:



Based on a primary estimate, at the end of the FY 2019-20, the amount of foreign assistance in the pipe line has increased around USD 49.64 billion (provisional). Out of this, an amount of USD 59.44 billion has been added to the foreign assistance commitment pipe line in the last five fiscal years, i.e. from FY 2015-16 to FY 2019-20. This amount of commitment is supposed to be disbursed within the next five to six years. However, since the foreign assistance disbursement is directly related to the implementation of the projects, the disbursement is largely dependent on the efficiency of the project implementing Ministry/Division.

1.2 Annual Development Programme (ADP)

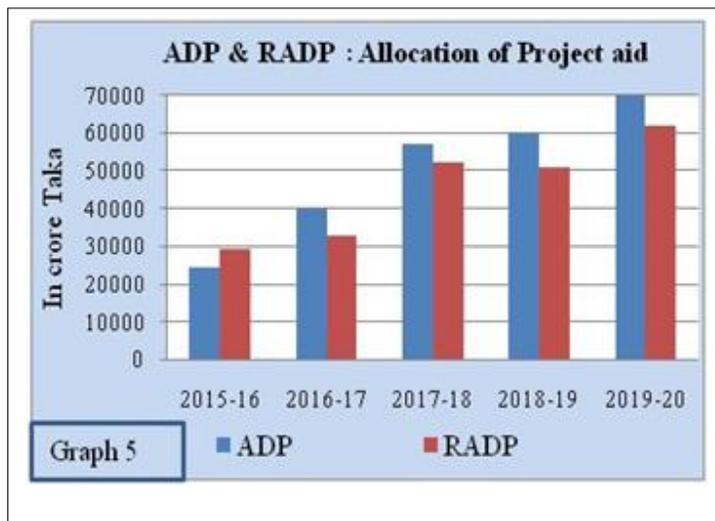
Although the dependence on foreign assistance in financing Annual Development Programmes (ADPs) is steadily declining, a significant portion of such programs are still being executed by foreign assistance. In the revised ADP of FY 2019-20, the amount of foreign assistance as project assistance amounts 32.13% of the total ADP size. A comparative picture of the financing ratio from the Government of Bangladesh and foreign assistance in the revised ADP of the last five years is shown in **Graph-4**.



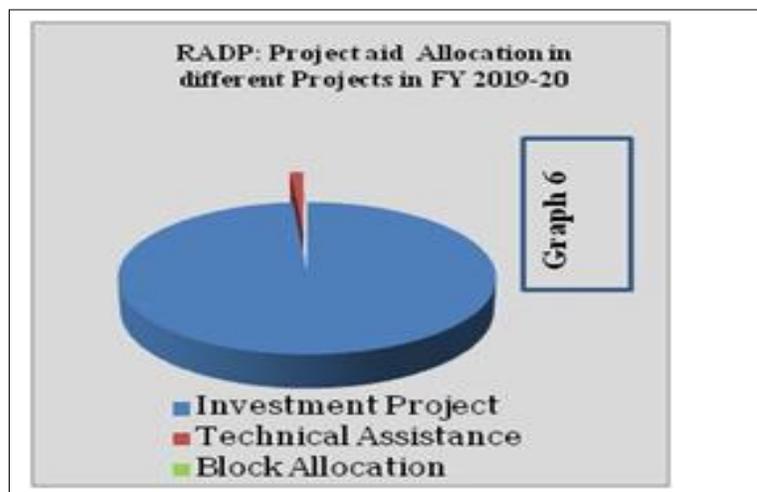
In the FY 2019-20, the allocation for project assistance in the ADP amounted BDT 71,800.00 crore (USD 8447.00 million) while the allocation for food assistance was BDT 252.00 crore (USD 30.00 million). Due to the decrease in the demand for project assistance of the Ministries/Divisions implementing the project, the allocation of project assistance amounting BDT 62,000.00 crore (USD

7294.00 million) and food assistance of BDT 252.00 crore (USD 30.00 million) was made to the revised ADP in this FY.

The allocation of the project assistance to the revised ADP for the FY 2018-19 was BDT 51,000.00 crore (USD 6071.00 million) that is, in FY 2019-20, the allocation of project assistance to the revised ADP has increased by 21.56% as compared to FY 2018-19. It should be noted that since the independence, the allocation of project assistance in the revised ADP for all fiscal years has been lower than that of ADP. The allocation of project assistance in ADP and RADP in the last five FYs is displayed in **Graph-5**.

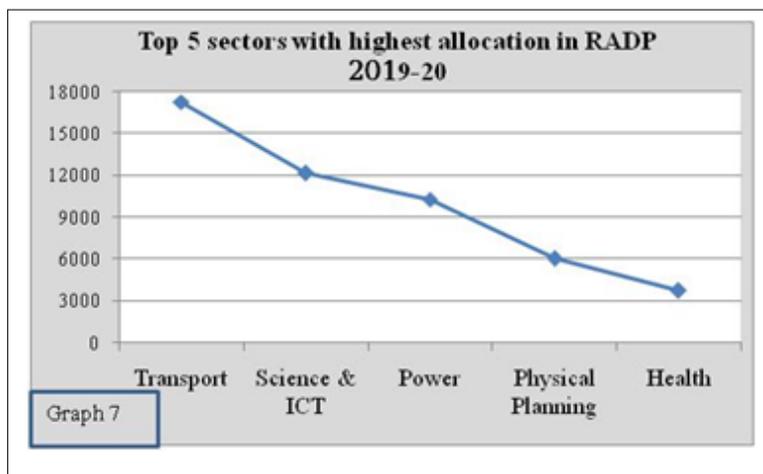


The total number of foreign-assistance projects in the revised ADPs in FY 2019-20 is 320, out of which 114 are technical assistance projects and 206 are investment projects. In this FY, an amount of BDT 61200.99 crore was allocated for investment projects, while BDT 799.01 crore was allocated for technical assistance projects. No allocation has been reserved for special needs. A comparative allocation ratio of project assistance is cited in **Graph-6**.



As in the last FYs, project assistance was allocated to 17 sectors in the FY 2019-20 where transport, science and ICT sectors received the highest allocation of foreign assistance. The information of top

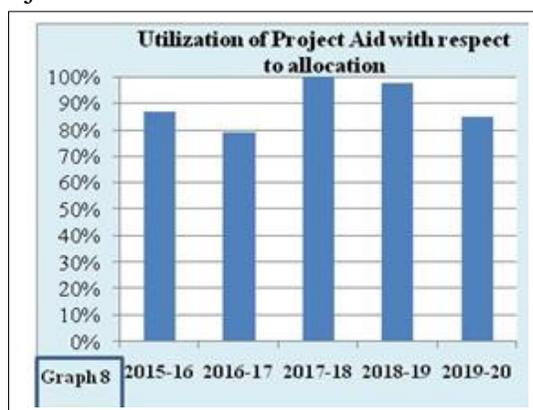
five sectors with the maximum allocation of foreign assistance in the revised ADP in FY 2019-20, is specified in **Graph-7**.



The allocation of sector-wise project assistance in the revised ADP for this FY is shown in **Appendix-III**. On the other hand, the Ministry of Science and Technology has received highest support from the Ministry/Division-wise allocation. **Appendix-IV** contains the information of the Ministry/Division-wise allocation.

Initiatives to increase the use of project support

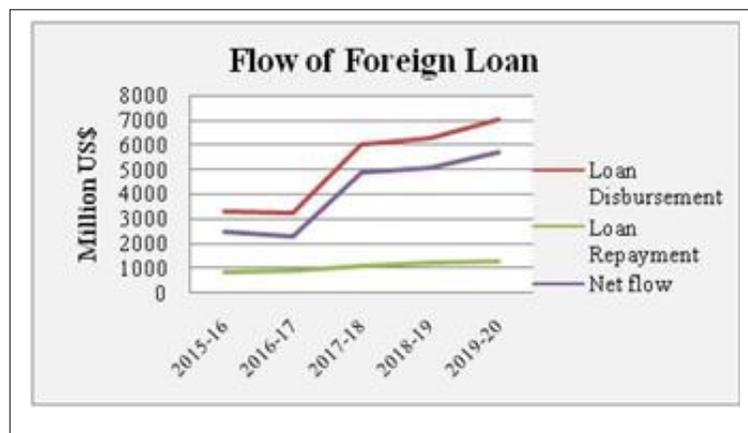
ERD has been continuously taking various initiatives to ensure maximum utilization of project assistance allocated to ADP projects. For the past few years, quarterly tripartite portfolio meetings, at the Wing-level, have been held with Ministries/Divisions and development partners. Slow moving projects are being identified in view of the pace of the disbursement of foreign assistance during the time period after the signing of the agreement. These projects are being reviewed at quarterly tripartite portfolio meetings. Moreover, there are biennial meetings at the Secretary-level and annual meetings at the Hon'ble Finance Minister's level to review the progress of the most allocated projects. Apart from these initiatives, the progress of the project implementation is monitored through a series of inspections for identifying the problems that may arise during implementation of the projects. All these initiatives taken by ERD plays a vital role towards increasing the utilization of project assistance allocated in favor of ADP-based projects. The information about the utilization of project assistance is presented in **Graph-8**.



A Fast Track Project Monitoring Committee was constituted under the Chairmanship of the Hon'ble Prime Minister on 15 May 2013 to accelerate the implementation of nationally important and major projects. After the formation of the committee, a total of five meetings have been held till June 2019. Padma Multipurpose Bridge Project, 2X600 MW MOITRI Super Thermal Power (Rampal) Project, Ruppur Nuclear Power Plant Establishment Project, Dhaka Mass Rapid Transit Development (Metro Rail) Project, LNG Floating, Storage and Regasification Unit Construction Project, Paira Deep Sea Port Construction Project, Matarbari 2X600 MW Ultra Super Critical Coal Fired-Power Project, Padma Multipurpose Bridge Rail Link Project and Dohazari-Ramu Cox's Bazar & Ramu-Myanmar Ghundum Single Line Dual – gauge track construction project have been identified as nine fast track projects. A Fast track project monitoring task force has been set up to closely monitor the activities of these projects.

External Debt Management

ERD manages foreign debt of the government. This Division has been using the internationally standardized software 'Debt Management Financial Analysis System' (DMFAS) since 1992 to facilitate the task of debt management. Bangladesh's ability to manage foreign debt has attained the global standard. Currently, most of the foreign borrowings taken by the government are medium and long-term loans, which are usually of a concessional nature. An analysis of the government's debt repayment data from a foreign source shows that the net flow of foreign debt has increased by 13.18% in this FY as compared to the previous fiscal. **Graph-9** specifies the data of foreign debt flows of the past few years.



1.3 Debt Servicing

ERD manages foreign debt repayment activities. The Division has paid a total of USD 1726.22 million against foreign debts to the development partners in the FY 2019-20. Of these, the principal amount is USD 1269.53 million while interest is USD 456.69 million. In this FY, the budget allocation for foreign loan repayments was USD 1850.00 million. It should be noted that since independence, Bangladesh has been able to repay the loan in due time. Even Bangladesh never requires applying for re-scheduling of installments in repayment of loans.

1.4 Debt Sustainability

Several indicators are used globally to determine the sustainability of foreign debt. One of the most prevalent indicators is the foreign loan status and the comparative analysis of the country's GDP, export earnings, revenue income with the repayments of principals & interests. To this end, the World Bank and IMF have determined the risk borderline of debt sustainability indicators for the developing countries. A comparative picture of Bangladesh's foreign debt sustainability indicators for the FY 2015-16, 2016-17, 2017-18& 2018-19 are presented below:

Table 1:

Financial Year	Indicators	Foreign Debt to		Debt Service to	
		GDP	Export plus Remittance	Revenue	Export plus Remittance
2015-16		13.2%	56.2%	10.8%	4.6%
2016-17		12.8%	63.6%	7.9%	4.0%
2017-18		13.9%	68.6%	8.3%	3.9%
2018-19		14.7%	70.4%	9.4%	4.4%
Threshold Level		40%	150%	30%	20%

The above index analysis specifies that the foreign debt sustainability of Bangladesh is far below the maximum risk limit. It reveals that Bangladesh's foreign debt sustainability is at a satisfactory level. This has also been reflected in the published observations of credit rating institutions such as Moody's Investors Service (Moody's), Standard and Poor's (S&P) and Fitch Ratings. These organizations have placed Bangladesh in the same sovereign debt index in their reports. In this rating list, Moody's, S&P and Fitch have also termed Bangladesh's credit situation stable by providing Ba3, BB- and BB- ratings respectively this year.

Initiatives taken to reduce the risk of non-concessional loans

Additional investment demand has been created to achieve the target of establishing Bangladesh as a middle-income country by 2021. On the other hand, due to the slowdown in the global economy, the complexity of Europe-centric debt and the changing geopolitical context, the sources of flexible debt have shrunk.

In addition, as the state-owned enterprises and autonomous organizations are taking non-concessional loans against government guarantees, the risk of foreign debts is increasing steadily. The Standing Committee on Non-Concessional Loan (SCNCL) was constituted with the chairmanship of the Hon'ble Finance Minister on 31 May 1980 to examine and approve the flexibility of the loan in a process consistent with the international best practice for mitigation of risk of hard conditions. Foreign loans with less than 35% grant element are required to be presented to this Committee for examination and approval. This Committee scrutinizes and approves the non-concessional loan proposals. SCNCL has approved the proposal for taking fifteen non-concessional loans in the FY 2019-20. It is mentionable that a total of 55 proposals for non-concessional loans have been approved till June 2020.

1.5 Policy and Procedural Reforms

Foreign Assistance Management System (FAMS) is web-based application software developed for intensive monitoring and the accelerating the management of foreign assistance. Project implementing Ministries/Divisions/Agencies and Bangladesh Bank, CGA offices and every foreign assistance projects are connected to this system online. Through this software, the overall management and reporting of foreign assistance, including the collection and usage of foreign assistance, monitoring of disbursements and formulation of ADPs, are being carried out. The running software is in the process of being connected to IBAS++, AIMS, including other systems developed by the Planning Division and IMED. A second phase of the project is underway to make the system more user-friendly and upgraded.

To expedite the implementation, ensure proper preparation and to carry out the preparatory work of the project within the stipulated time, the 'Allocation and Management Policy of the project preparatory work' and 'Checklist of the preparatory work of the project' have been formulated. It has already been published in the Gazette and sent to all Ministries/Divisions.

1.6 Future Plans

Targets related to commitment and utilization of foreign assistance and debt repayment for the FY 2020-21;

1. The foreign assistance commitment target of USD 6,000.00 million has been estimated;
2. The foreign assistance disbursement target is estimated at USD 8319 million;
3. In the ADP, a total of BDT 70,502 crore has been allocated for the project assistance in favor of 308 (technical 103+ investment 205) foreign assistance projects; and
4. For the repayment of foreign loan and loan interest, a total of BDT 18,275 crore has been allocated in the budget.