



# **Eighth UNCTAD Debt Management Conference**

Geneva, 14 - 16 November 2011

## **Countries' Perspectives on Capacity Building Needs in Debt Management (Part A)**

by

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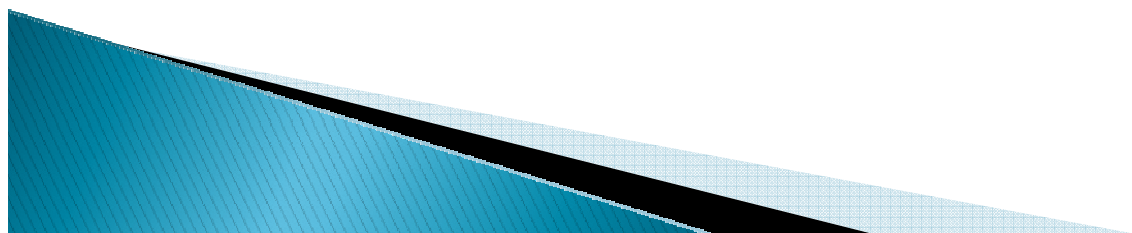
Joint Secretary, Finance Division, Ministry of Finance of  
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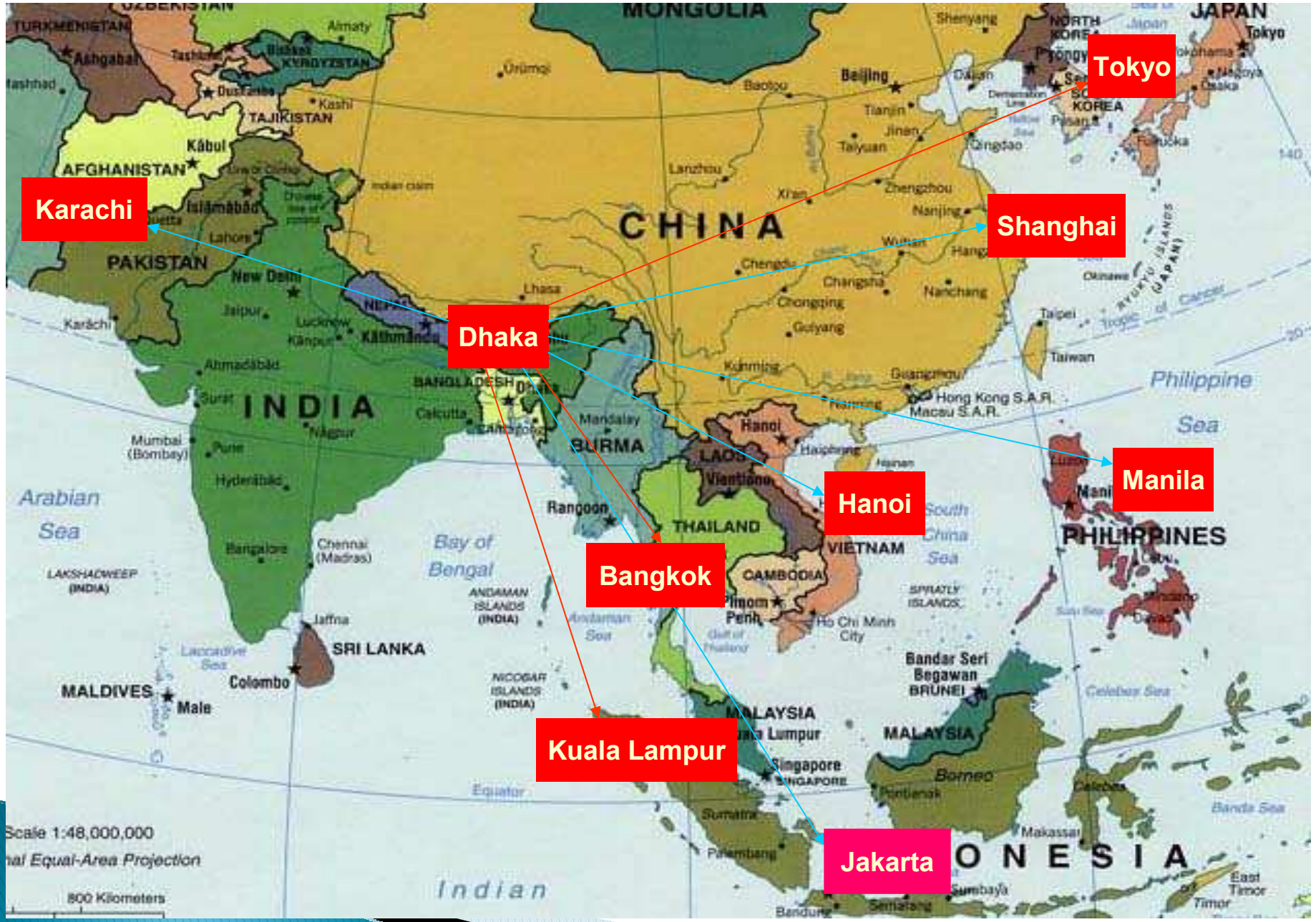
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**8<sup>th</sup> UNCTAD's Debt Management Conference**  
**14-16 November 2011**  
**Geneva, Switzerland**

**Topics: Countries' Perspectives on Capacity  
Building Needs in Debt Management**

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**Karachi**

**Dhaka**

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**Kuala Lumpur**

**Jakarta**

**Hanoi**

**Manila**

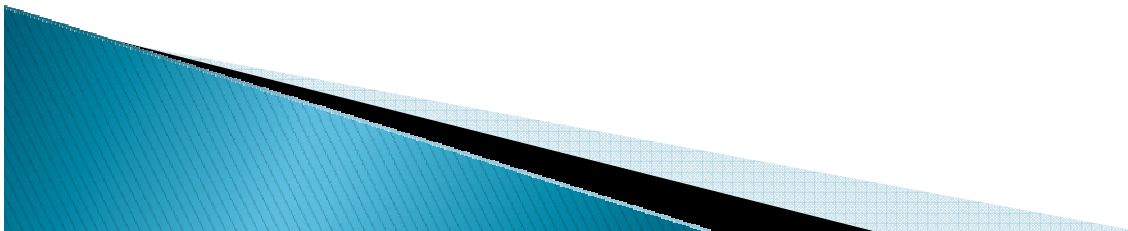
**Shanghai**

**Tokyo**

Scale 1:48,000,000  
Mercator Equal-Area Projection  
800 Kilometers

Part –A

External Debt



# At a Glance Bangladesh

1. Population	142.32 million
2. Area	147,570 s km
3. Population Density	964 / s km
4. Life Expectancy	65 Years
5. Literacy Rate	65%
6. Poverty Rate	31.5%
7. GDP	US\$ 106 billion
8. GDP Growth Rate	6.7%
9. Per-Capita Income	US\$ 1980 (ppp)
10. Export	US\$ 23.0 billion
11. Import	US\$ 30.33 billion
12. Remittance	US\$ 11.7 billion

# Importance of External Aid

- In Bangladesh, there exists a gap between Government's Income - Expenditure and Investment.
- External Aid is playing a vital role for bridging the gap.

## SOURCES OF PUBLIC FINANCING:

- Domestic borrowing
- External borrowing + grant



**Budget Deficit  
5.0%  
of GDP**

**External Aid  
2.0% of GDP**

**Domestic debt  
3% of GDP**

# Institutional Arrangements

Ministry of Finance (MOF) is responsible for domestic and external borrowing. This is managed through four institutions :

- **Finance Division** (co-ordination, monitoring, budgeting, expenditure control, and macro-economic policies)
  - **Economic Relations Division** (ERD): (External public & publicly guaranteed loans and grants)
  - **The Bangladesh Bank** ( treasury bills, bonds, balance of payment, cash remittance to creditors for debt servicing, and management of private sector external debt through Board of Investment)
  - **National Savings Directorate** (NSD)\_ is a separate entity under MOF for issuing retail small savings certificates (tap issuance)
- Cash and Debt Management Committee (CDMC)**, comprises of high officials from all DeM entities acts as a key decision making body in DeM operations

# External Debt Management Strategy

- Considered concessional external borrowing (IDA only country) “usually grant or soft credits should be negotiated”.
- Bilateral sources (Japan, China, USA, Middle East Countries, Korea, India, Sweden, Spain, etc.)
- Multilateral sources (IDA, ADB, IFAD, OPEC, IDB, NDF, etc.)
- No borrowing from International Capital Market.
- Less Priority for taking Supplier’s Credit.
- Given the increasing scarcity of concessional resources and the country's need for greater resources for sustainable development, Bangladesh recently borrowing from ADB’s non-concessional windows as Ordinary Capital Resources (OCR).
- Debt service obligation should not be more than 18% of annual export earnings.



# Database & Information System

The government, cognizant that sophisticated debt management instruments should be used to ensure sustainability, accountability and transparency. Accordingly Debt Management and Financial Analysis System (DMFAS) has been used by ERD since 1992 aim at to improve the country's capacity to manage its external debt.

FABA generally share all external debt related information with Finance Division and Central Bank at least once a month.

Reconciliation of debt data between Donors & FABA on bi-annual basis.

ERD also send information to IMF, WB and other Donors and review missions as and when required.

Submit external debt figures to the Parliament.

## Selected Economic Indicators on External Debt (FY 2010-2011)

	excluding BPC	including short-term
<b>Total External Debt to GDP ratio</b>	<b>20.0%</b>	<b>21.53%</b>
<b>Total External Debt to revenue ratio</b>	<b>170.42</b>	<b>182.62</b>
<b>DSL as % of exports of goods and services (XGS)</b>	<b>2.62%</b>	<b>5.2%</b>
<b>Interest as % of XGS</b>	<b>0.54%</b>	<b>0.60%</b>
<b>Interest as % of revenue</b>	<b>1.49%</b>	<b>1.66%</b>
<b>External Debt as % of XGS</b>	<b>61.38%</b>	<b>65.77%</b>
<b>External Debt Per Capita (US\$)</b>	<b>150.49</b>	
<b>Year-end Exchange Rate per US\$</b>	<b>74.00</b>	
<b>Foreign Exchange Reserves (US\$)</b>	<b>10.75 billion</b>	
<b>Net transfer (excluding BPC) US\$</b>	<b>1053 million</b>	

*BPC = Bangladesh Petroleum Corporation, borrow short term for purchasing crude oil.  
Not regular debt.*

# Current Debt Situation


- To manage the overall fiscal deficits, finance from domestic resources is increased.
- Government is borrowing domestic loans through banks and savings instrument.
- External components have declined from 48 percent in FY94 to about 21.5 percent of GDP at present.
- Domestic debt, on the other hand, rising from about 4 percent of GDP in FY 91 to about 20.5 percent at present
- 20% of revenue budget spend for to pay the interest.

# Government Debt Ratio (FY 2010-2011)

	Domestic Debt	External Debt (MLT)	Total
Total Debt to GDP Ratio	20.5%	20.0%	40.5%
Total debt / revenue (%)	180.16	170.42	350.58
Debt Service as % GDP	4.08%	0.94%	5.02%
Interest as % Revenue	18.35%	1.45%	19.8%

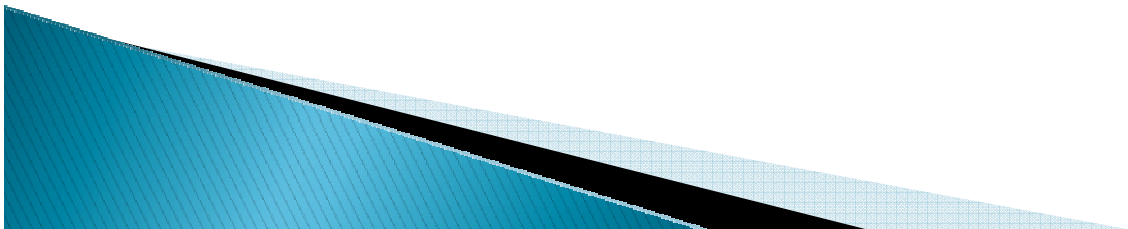
- Domestic debt constitutes 50% of the total government debt,
- Domestic debt service represents around 82% of the total debt service.
- This is mainly because of the short-term nature of domestic borrowing instruments ; and
- Interest rate is comparatively higher than that of external debt.

# Challenges in External Resources Mobilization

- ▶ Government Six Five year Plan identified a significant resource gap;
  - ▶ Soft Loan and grant are not sufficient to fulfill the gap at present;
  - ▶ The financial crisis and global recession will also increase financing needs;
  - ▶ Country needed access to significant additional funding to accelerate growth and the achievement of Millennium Development Goals (MDGs);
  - ▶ Given the increasing scarcity of concessional resources and the country's need for greater resources for sustainable development Bangladesh will certainly be exposed to more non-concessional borrowings;
  - ▶ This major challenge will require a re-evaluation of the existing debt management strategies in Bangladesh.
- 

# Challenges in External Resources Utilization

- ▶ Timely implementation
- ▶ Lower disbursement
- ▶ Delay in project approval
- ▶ Delay in procurement
- ▶ Capacity constraints
- ▶ Aid effectiveness

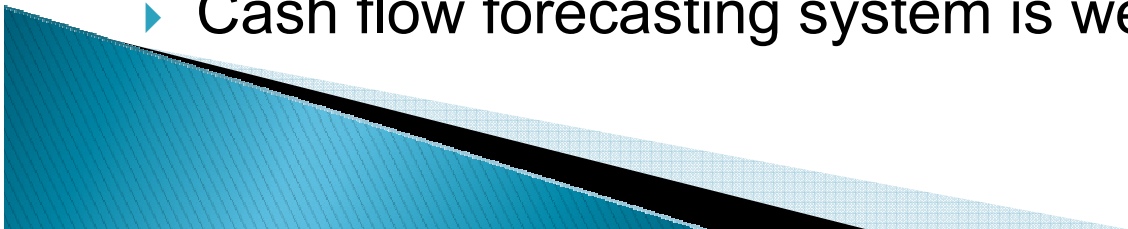


# Implications

- **Slow implementation** → Low disbursement → Time and cost overrun → Wider resource gap
- **Aid Effectiveness** (PD & AAA):
  - Harmonization → Alignment → Ownership
  - Accountability → Managing Results
- **Better utilization** → improved infrastructure and environment → Enhanced investment and trade → higher employment, growth and equity.

# Limitations

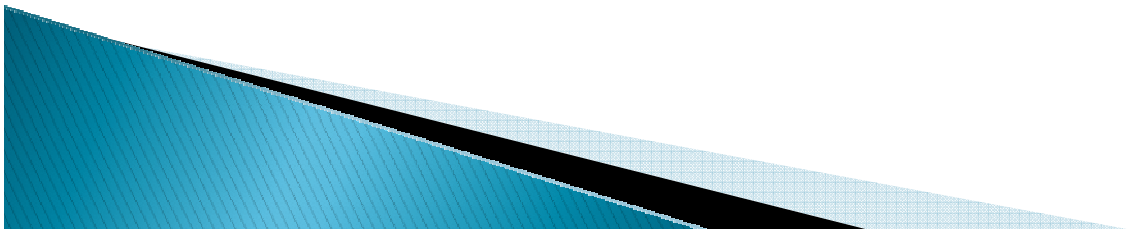
- ▶ Institutional Weakness- Institutions involved in debt management is fragmented,- domestic and external debt dealt with separately;
- ▶ Incomplete Debt Recording System;
- ▶ Weak legal framework;
- ▶ Lack of adequate debt database and information systems;
- ▶ Policies and procedures are not up-dated;
- ▶ Absence in the business continuity planning, and well-articulated responsibilities for staff;
- ▶ Weak operational risk management system;
- ▶ Funding sources are limited;
- ▶ Domestic debt market development is neglected;
- ▶ Weak disaster recovery plan;
- ▶ Cash flow forecasting system is weak.





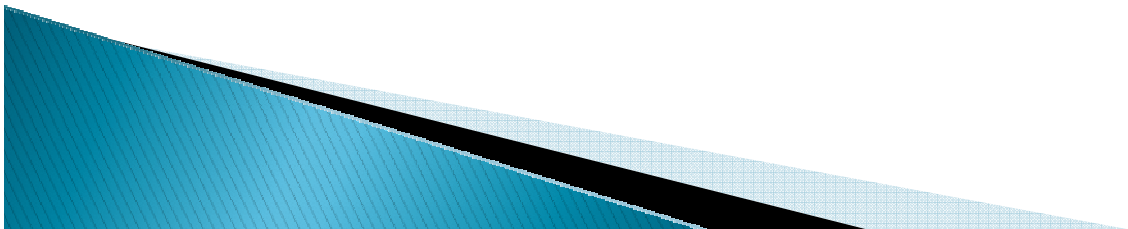
# Capacity Building in Accessing New Sources of Funding

- Bangladesh has been relying heavily on concessional credits from bilateral and multilateral development partners
- ODA is shrinking, additional funding required to achieve higher growth trajectory (especially in infrastructure sector)
- Need to explore the possibility of accessing new sources of funding
- At the same time, have to maintain sustainable limit of debt and consider the possible cost of borrowing
- Capacity building is required for handling these new borrowing options



# Support Needed

- ▶ Capacity building program is needed in following areas:
- ▶ **An adequate Legal framework-** This should clarify the authority to borrow and to issue new debt, invest, and undertake transactions on the government's behalf; need clear debt law;
- ▶ **Development of a well-developed medium-term macroeconomic framework,** with clear and consistent objectives for fiscal and monetary policies;



# Support Needed Cont..

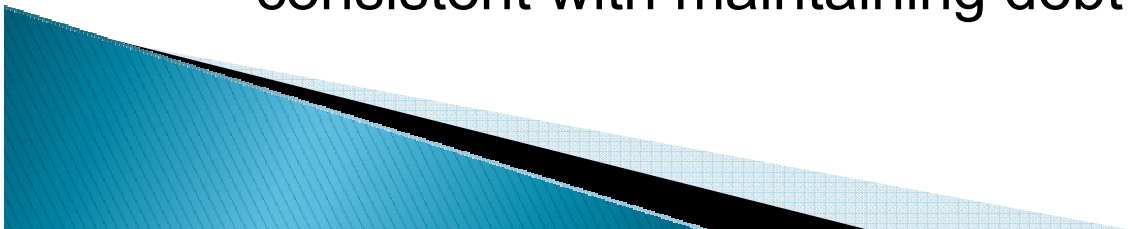
- ▶ **Effective Institutional arrangement** – The supporting governance structure should clearly outline and describe the roles and responsibilities of all relevant institutions involved in debt management activities. It should be clear which agent is responsible for debt management decision;
- ▶ ***Comprehensive and efficient debt recording-***  
*Establishing a complete, consistent, accurate and effective database which covers all types of debt. A precondition for high-quality and comprehensive debt data is efficient debt recording.*
- ▶ Coordination with external partners and other financial institutions will be necessary to effectively scale up these capacity building activities.



# Formulation of MTDS

Before going for commercial or market borrowing it is necessary to formulate an effective MTDS:

- That will defines the amount of debt in terms of external and domestic, currencies, source of financing, and destination in order to control its impact in social and financial aspects;
- It should be in the context of the overall external resource strategy, domestic financial environment and the international financial situation;
- Adequately evaluates the costs and risk of new borrowing, so that we could meet our financing needs at low cost, subject to a prudent degree of risk, and consistent with maintaining debt sustainability.



# Capacity Building in Accessing New Sources of Funding

- ODA is shrinking, additional funding required to achieve higher growth trajectory (especially in infrastructure sector);
- Need to explore the possibility of accessing new sources of funding;
- To examine the vulnerability of non-concessional loan, support on '**Strengthening External Debt Management Capacity for Non Concessional Borrowings** will be required, focus should be on following areas:
  - Develop the capacity of the Government to effectively contract, manage and utilize non-concessional borrowings.
  - With the implementation of macroeconomic modeling it will examine the capacity to service overall non-concessional debt.
  - Evaluate the sustainability of alternative external borrowing program.

## ***Need to Closely Monitor Contingent Liabilities***

- The shortcomings of conventional accounting systems in capturing the full exposure to such liabilities
- Need to measure and monitor them, with a view of enhancing transparency

# Conclusion

- Effective utilization of foreign aid can help in achieving the desired economic goal of the country;
- New aid is playing a vital role to fill the gross financing needs (Budget deficit + amortization) in order to maintain the high economic growth;
- Aid is spending in compliance with “Six Five Year Plan” to achieve the MDG goals;
- Macroeconomic outcomes improved throughout the 2004s with annual real GDP growth averaging more than 6.2 percent in comparison to 4 percent in the 1980s.



# Welcome Comments, Questions.....

Thanks for a patient hearing