

Moving Out of Aid Dependency: Reflections on LDC Experience

Presented by

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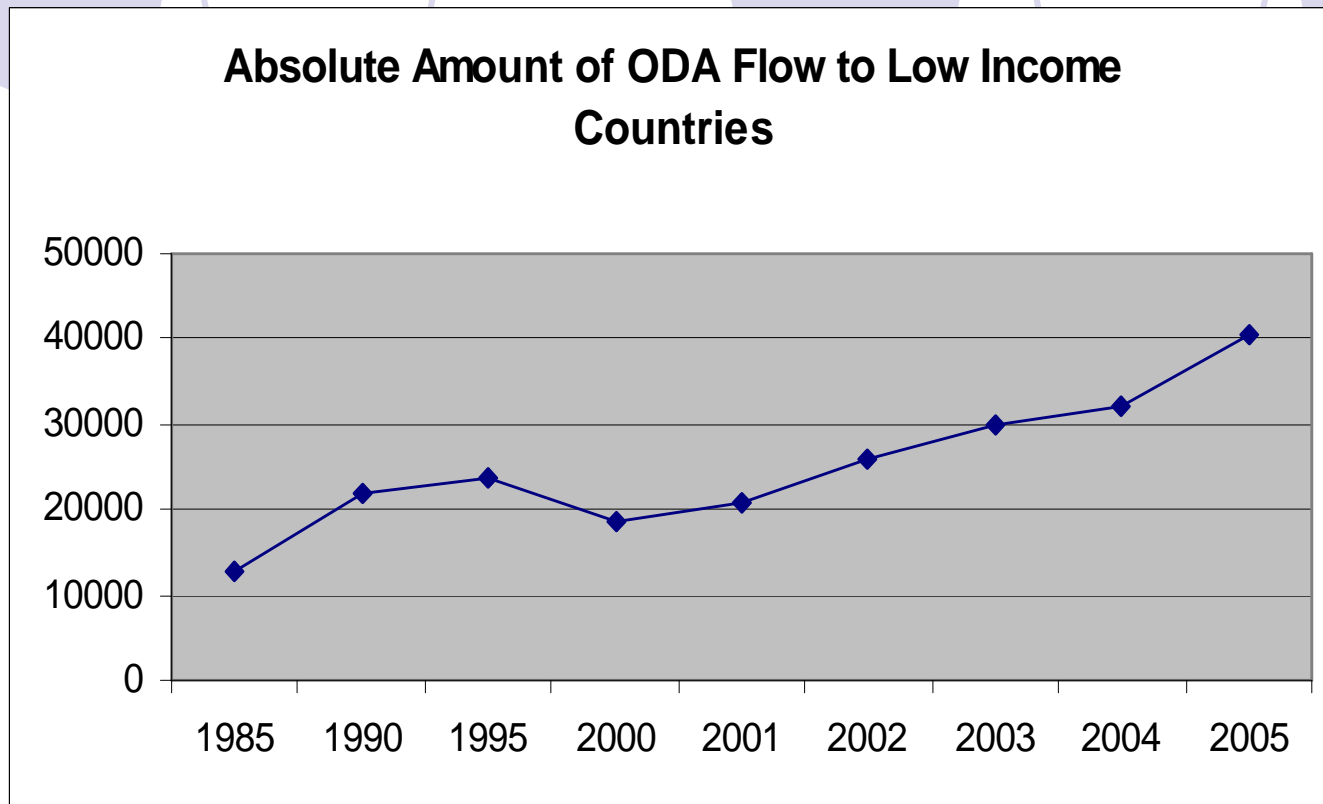
16 November, 2007



Layout of Presentation

1. Trends in Aid Dependency of LDCs
2. Moving Out of Aid Dependency:
The Bangladesh Experience
3. Quality Aid Flow to End Aid Dependency
 - MDG and Role of Foreign Aid
 - Paris Declaration and Aid Effectiveness
 - PRSP and Aid Financing
4. New Sources of Development Finance
5. Concluding Remarks

1. Trends in Aid Dependency of LDCs/LICs

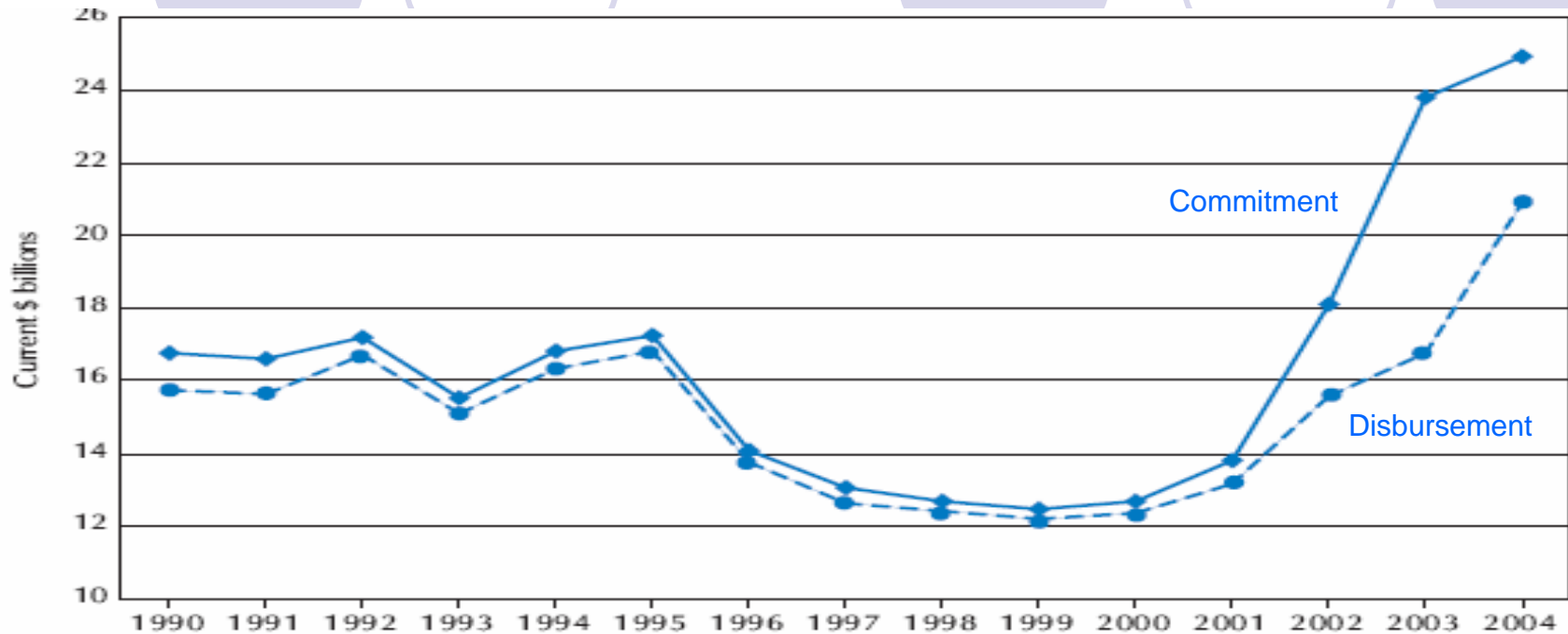


Source: World Development Indicators 2007

- Rising ODA to Low Income Countries since 2000.
- Aid to the group of 50 LDCs increased by 2004 to USD 24.9 billion. 53 LICs received USD 40 billion.
- In real terms, aid to LDCs actually decreased by 4.4 percent between 2003 and 2004.

1. Trends in Aid Dependency

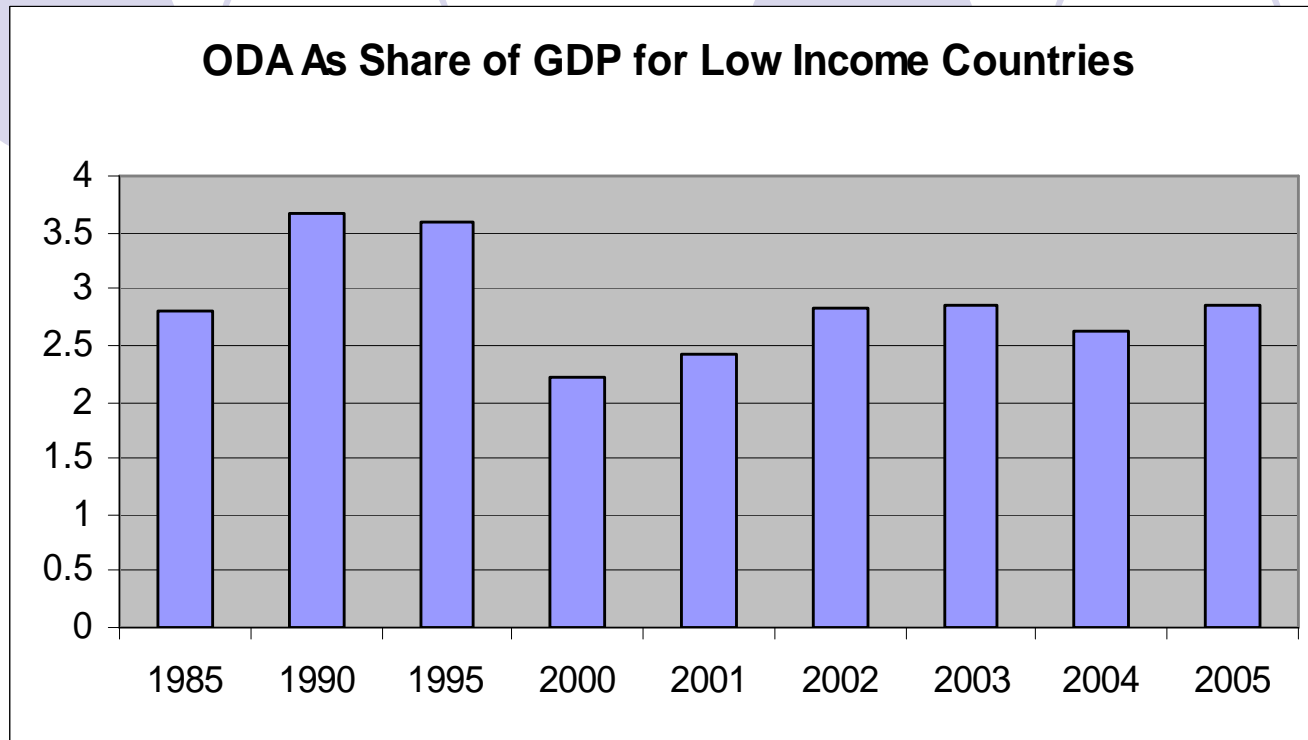
Net Disbursement and Commitment of ODA to LDCs



Source: The Least Developed Country Report 2007

- Steady ODA flow between 1990 and 1995
- Declining trend from 1996 to 2000
- Drastic rise after 2000 and reached a peak in 2004
- This is solely attributed to the rise in emergency assistance and debt forgiveness grants

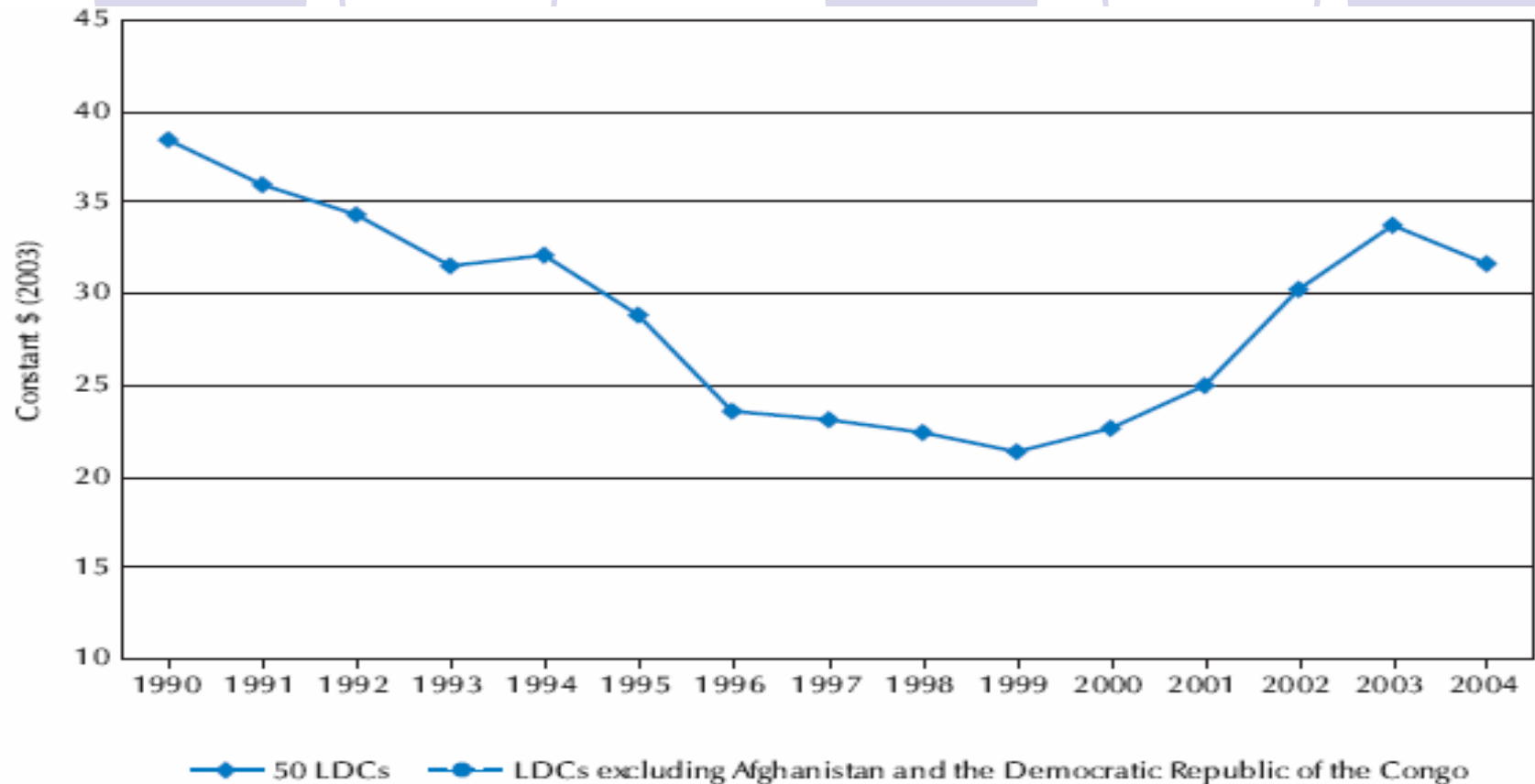
1. Trends in Aid Dependency



Source: World Development Indicators 2007

- ODA as a percentage of GDP of low income countries has declined sharply throughout the 1990s.
- Share of ODA in GDP started to rise since 2000 and remained more or less stable till 2005
- Afghanistan and Congo are the two extreme cases where real growth rate of net ODA during the period between 1999-2004 was 79.2 percent and 93% respectively.

1. Trends in Aid Dependency Per Capita Flow to LDCs



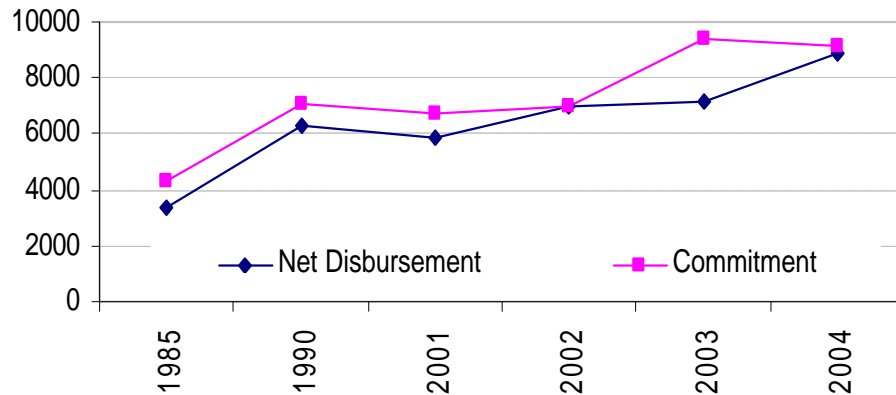
Source: The Least Developed Country Report 2007

- **Per capita ODA flow followed declining trend from 1990 to 1999.**
- **Began to increase from 2000 and continued till 2003.**
- **Real ODA per capita disbursed to LDCs was actually 13.5 percent lower in 2000-2004 than in 1990-1994.**

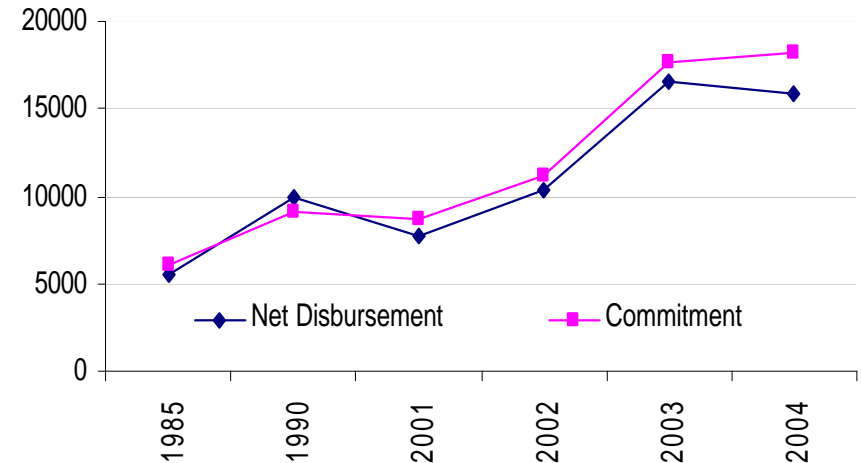
1. Trends in Aid Dependency

Split between Multilateral and Bilateral Flow to LDCs

Net Disbursement and Commitments: Multilateral Donors



Net Disbursement and Commitment: Bilateral

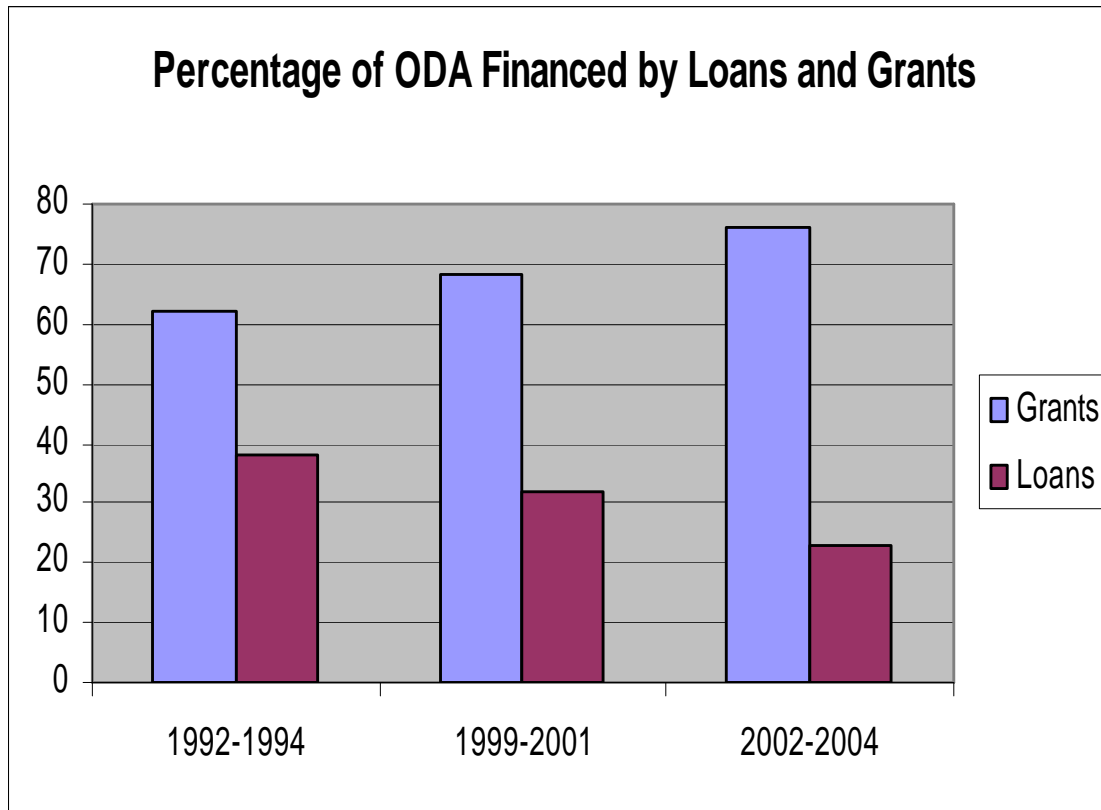


Source: The Least Developed Country Report 2007

- Gap between committed and disbursed ODA from multilateral donors widened in 2003 but converged in 2004.
- The gap increased since 2003 in case of bilateral sources of ODA.
- Absorption problem, conditionality and burgeoning pipeline.

1. Trends in Aid Dependency

Split between Loans and Grants to LDCs

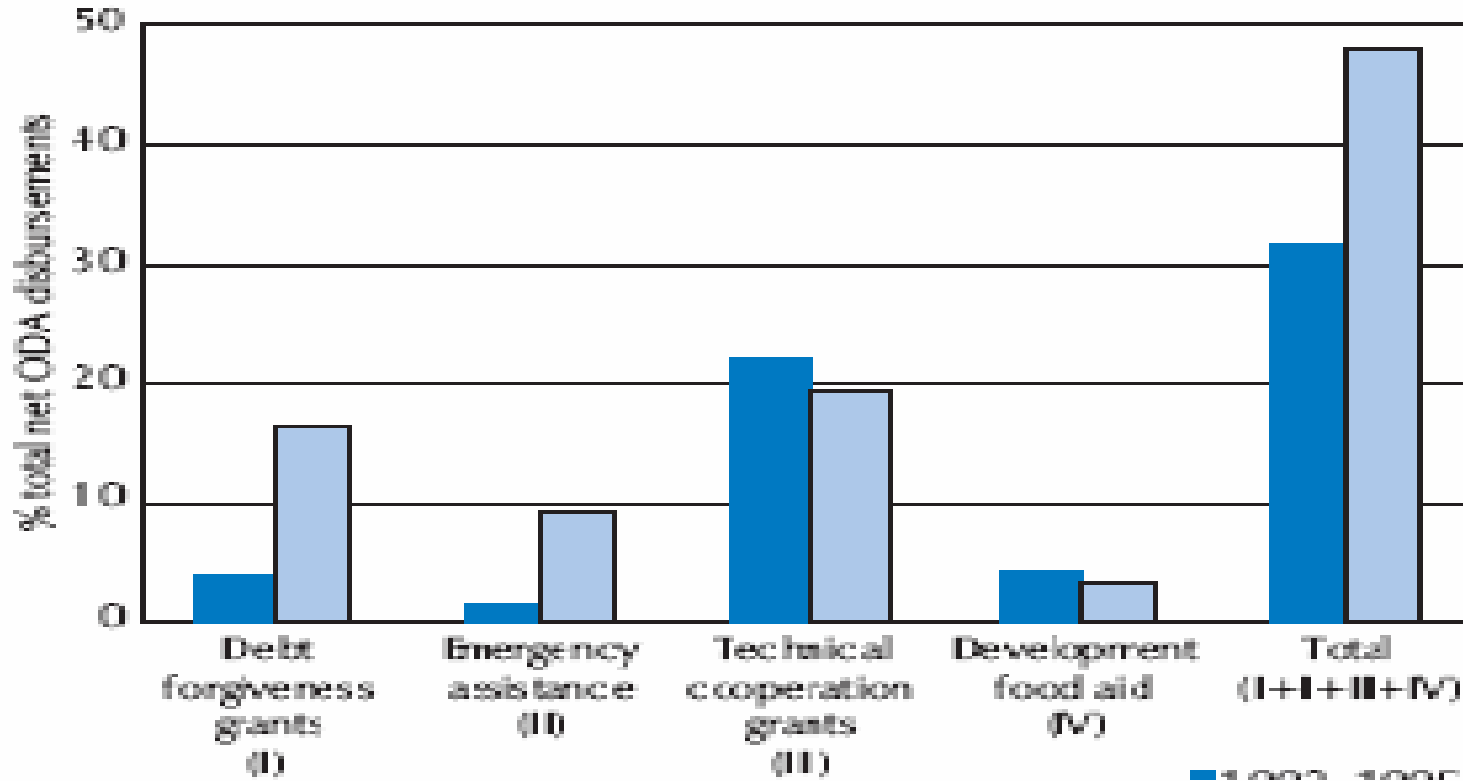


Source: The Least Developed Country Report 2007

- **Share of grants in ODA has been increasing while share of loans followed a declining trend.**
- **72% of the total external financing came in the form of grants between 2002 and 2004.**
- **What about untying of grants?**

1. Trends in Aid Dependency

Composition of ODA during 1992-95 and 2000-2003

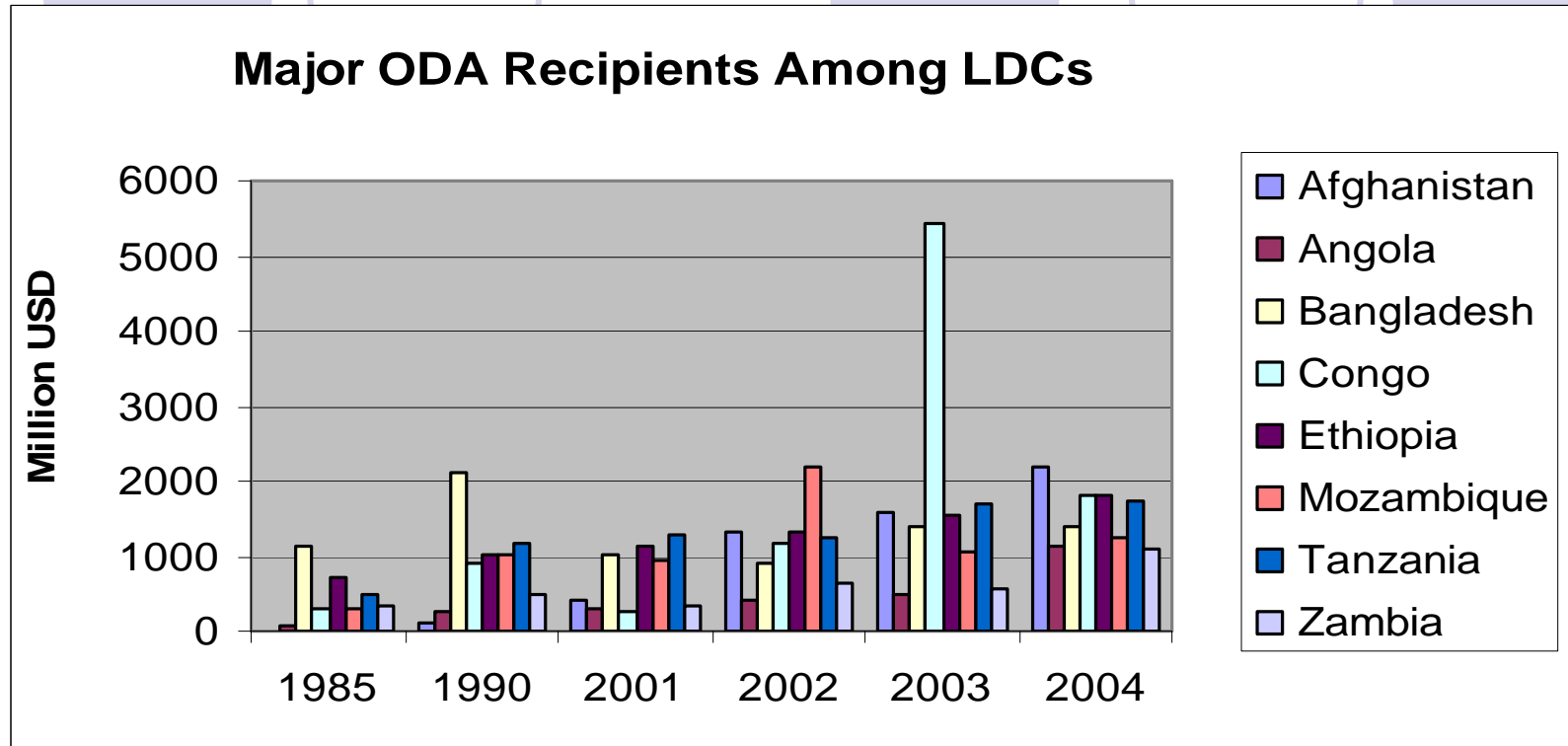


Source: The Least Developed Country Report 2007

- **The recent upsurge is driven by debt forgiveness grants and emergency assistance grants. (22.6 % and 27.9% in real terms between 1999 and 2004)**
- **Share of technical cooperation to the total net ODA to LDCs averaged 22.6 percent in 2004, while net loan disbursements averaged only 17.3 percent.**

1. Trends in Aid Dependency

Growth and Decline in Aid Flow by Country



Source: The Least Developed Country Report 2007

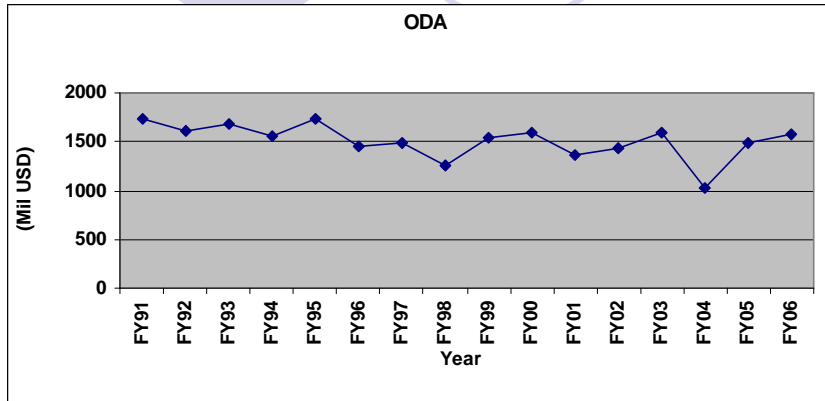
- **Major change in ODA took place in Afghanistan (79%) and Democratic Republic of Congo (93%) between 1999 and 2004**
- **Between 1999 and 2004, ODA inflows increased by 20 percent per annum in six LDCs namely Afghanistan, Burundi, The Democratic Republic of Congo, Lesotho, Sierra Leon and Sudan.**
- **ODA to Comoros, Mauritiana, Myanmar and Bangladesh have been seeing a declining trend**

1. Trends in Aid Dependency of LDCs/LICs

Recap

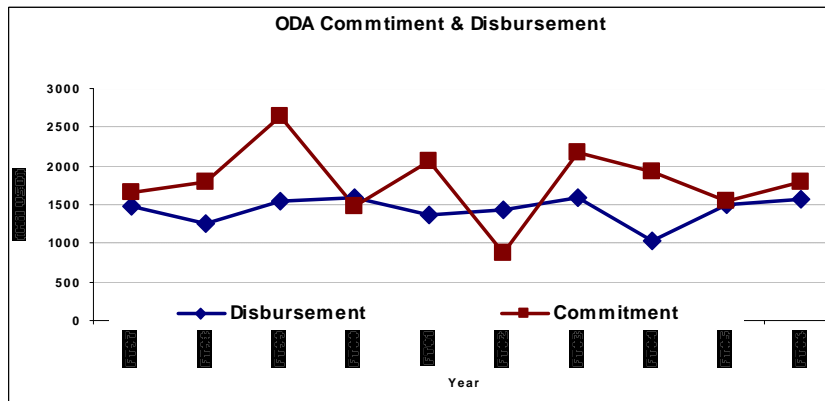
- Increasing trend in ODA flow in nominal term since 2000. Per capita inflow also increased.
- No significant change in ODA flow in real terms
- Incremental inflow underwritten by surge in emergency assistance and debt forgiveness
- Increased grant component, share of multilateral unchanged.
- Skewed distribution of ODA flow favouring the failing economies.
- Uncertain prospect about future flow.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



Source: Economic Review, MoF

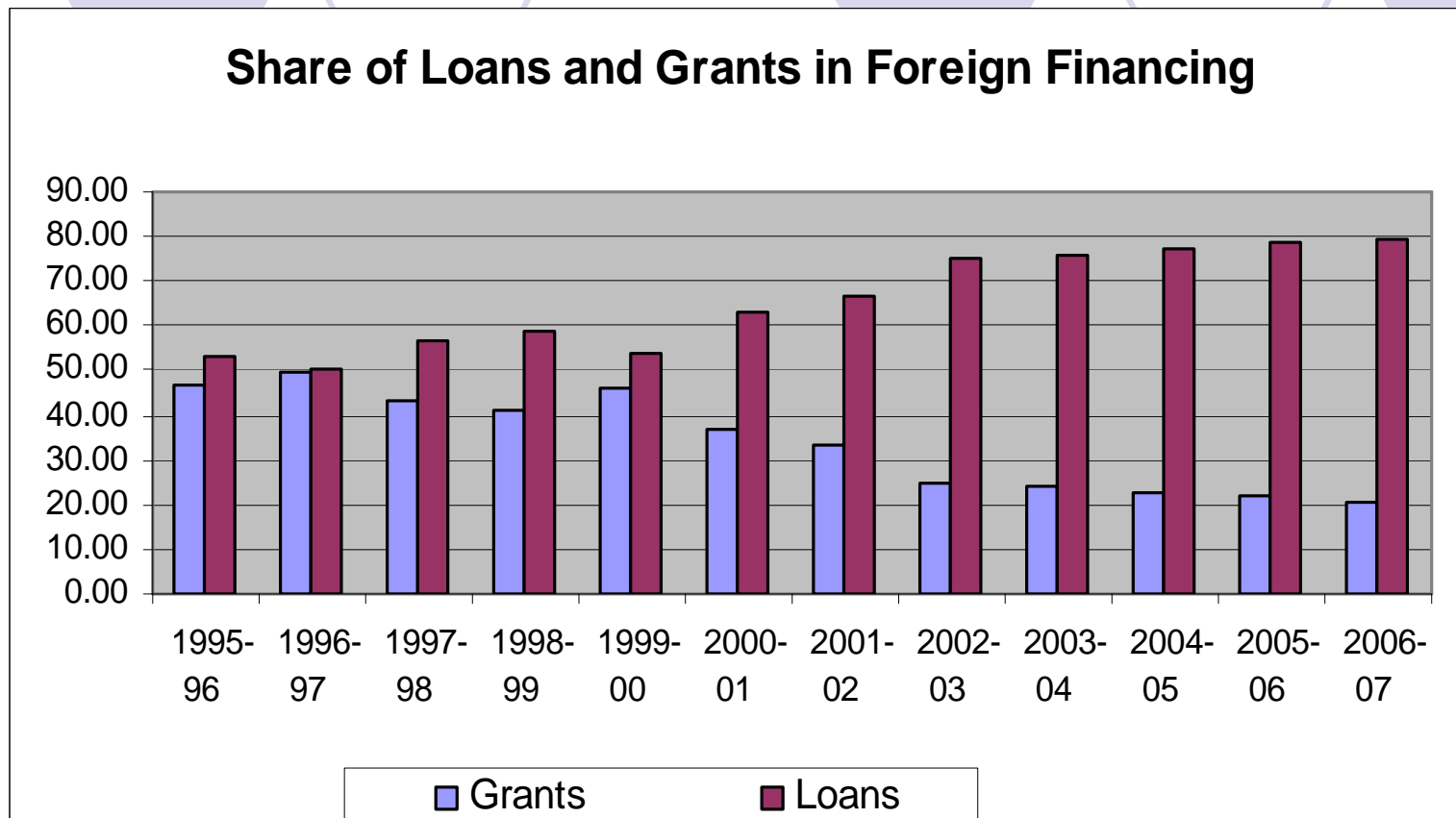
- ODA disbursement trend showed some volatility over the years and remained around \$1.5 billion.



Source: Economic Review, MoF

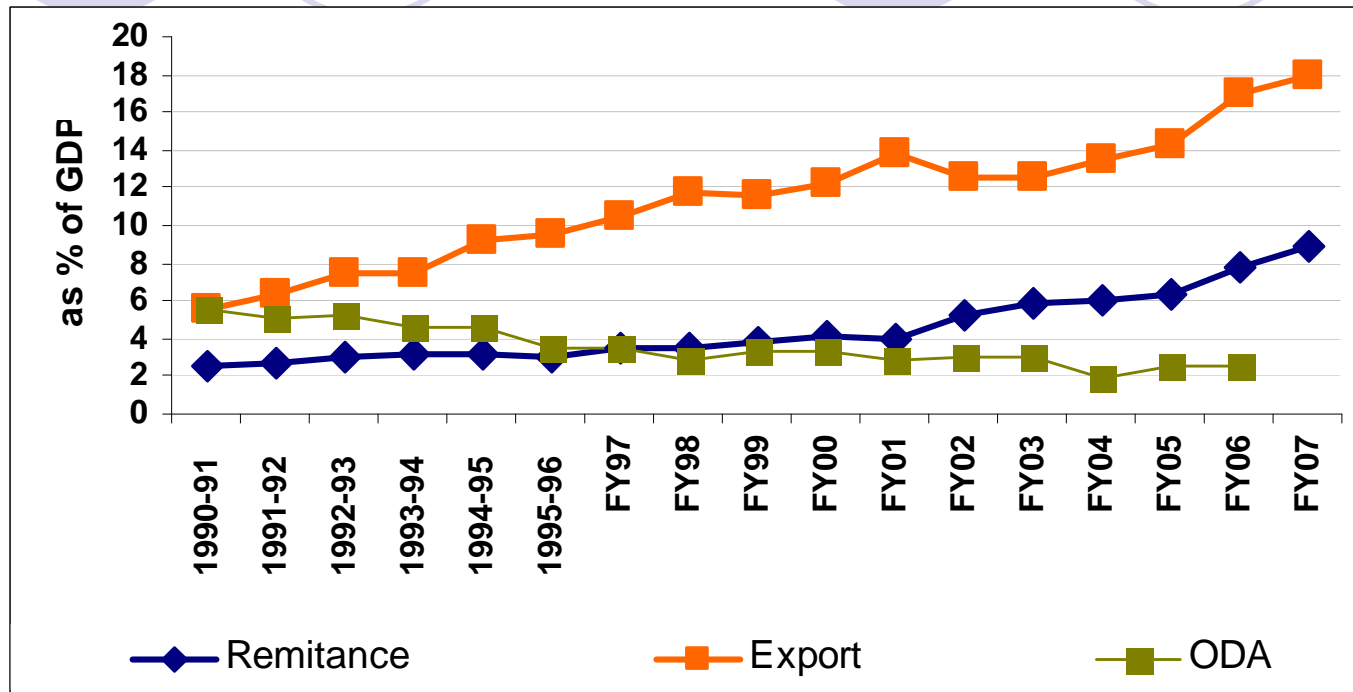
- Divergence between committed and disbursed ODA persists over the years.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



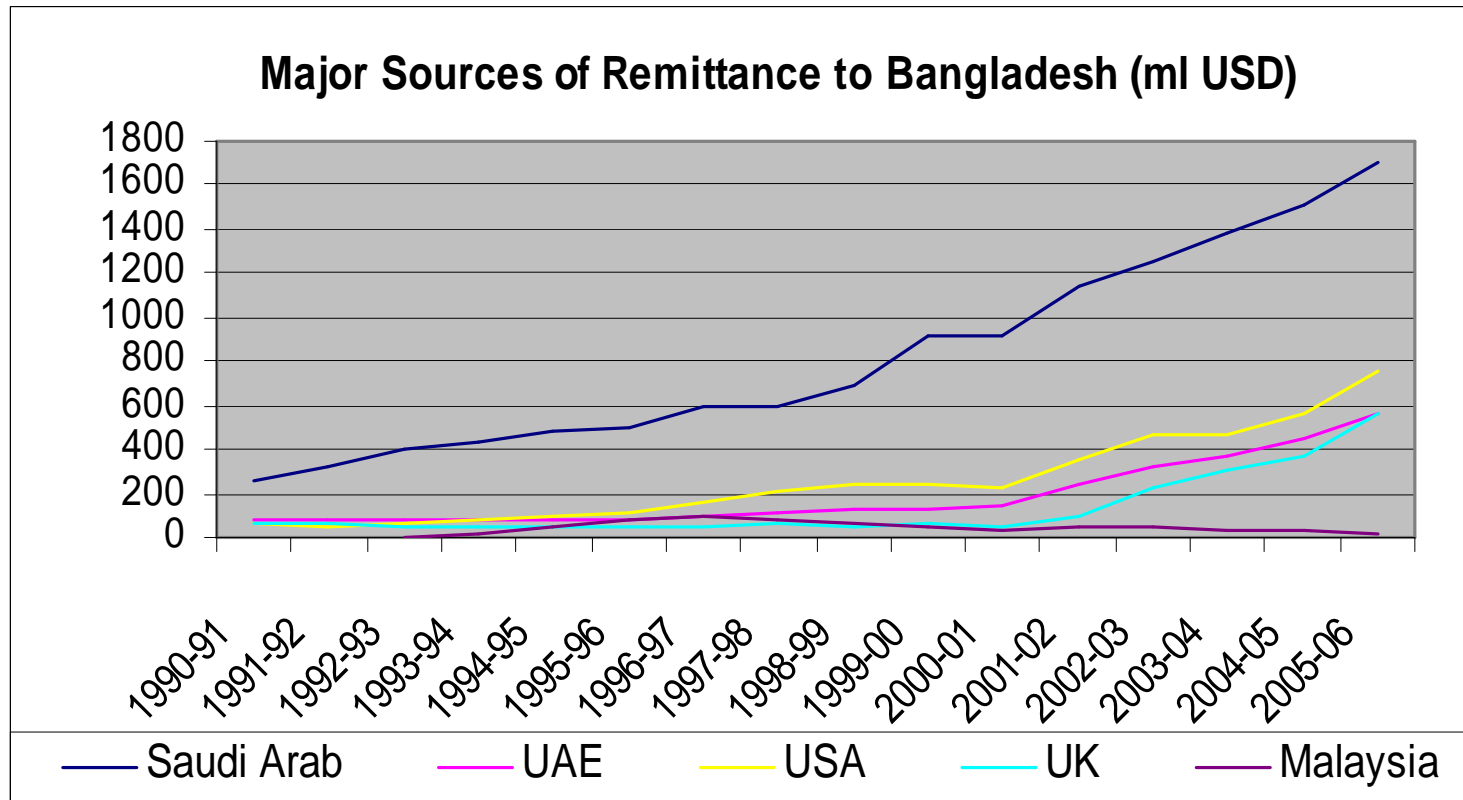
- Share of grants in total foreign financing is declining (from 46.86 in FY96 to 20.69 in FY07).
- Share of loan increased from 53.14% in FY96 to 79.31 in FY07.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



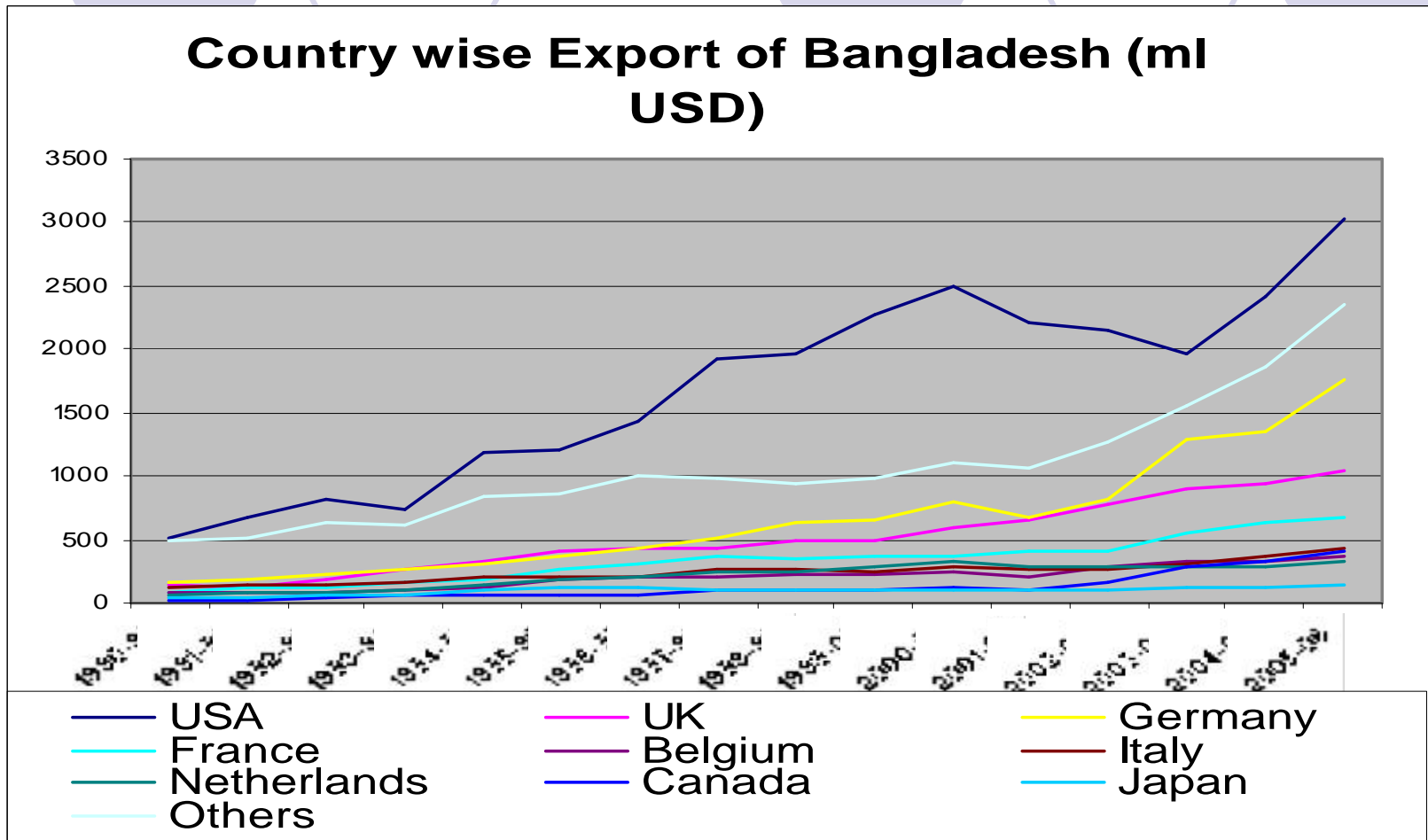
- The declining ODA inflow as percentage of GDP indicates declining aid dependency in Bangladesh.
- Parallel trends of increase in exports and remittance flow.
- However, there are certain critical sectors which still need ODA to implement development programmes.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



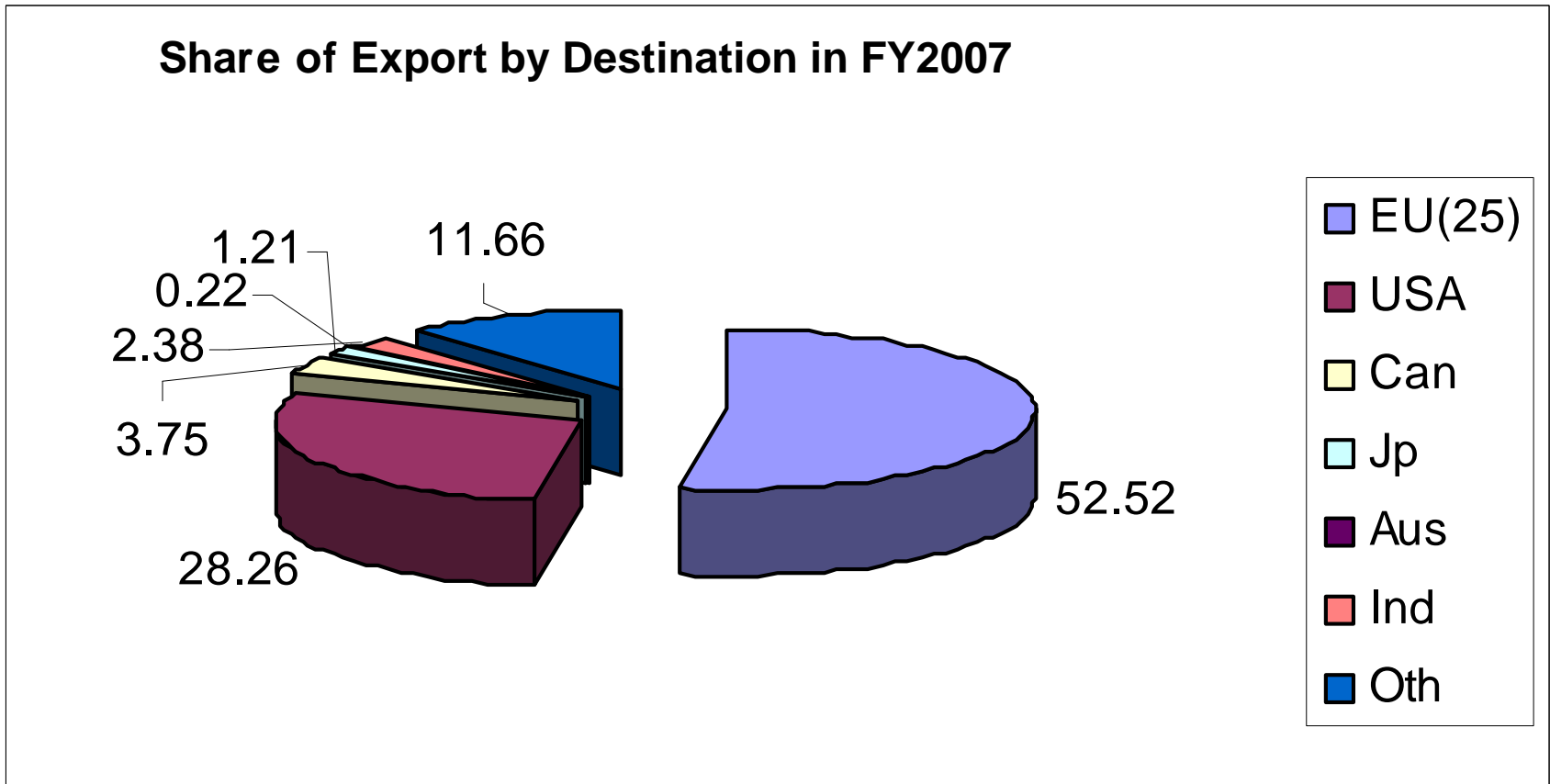
- Highest amount (\$1696.96 in FY06) of remittance earning comes from Saudi Arabia followed by the USA (760.69 in FY06).
- The issues of market diversification and Mode 4 services negotiation.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



- Export is concentrated in the EU (USD 6396.08 ml in FY07) and USA market (\$3441.02 ml in FY 07).
- Export is also heavily dependent on the RMG sector (75%)
- Bangladesh's GSP Utilization rate in EU is 77.90%
- DFQF for LDCs under WTO or AGOA parity for Asian LDCs

2. Moving Out of Aid Dependency: The Bangladesh Scenario



2. Moving Out of Aid Dependency: The Bangladesh Scenario

Bangladesh: From Aid to Trade Dependency

Items (as % of GDP)	FY 1981	FY1991	FY 2001	FY 2005	FY2006	FY 2007
1. Export	3.66	5.55	13.52	14.42	17.42	17.98
2. Import	9.86	11.21	19.52	21.90	24.43	25.34
3. Remittance	1.91	2.47	3.94	6.41	7.96	8.83
4. ODA Disbursed	5.78	5.59	2.86	2.10	2.06	2.40
5. FDI (net)	NA	0.08	1.15	1.29	1.12	1.12
Total (1-5)	21.22	24.89	40.99	46.12	52.98	55.67

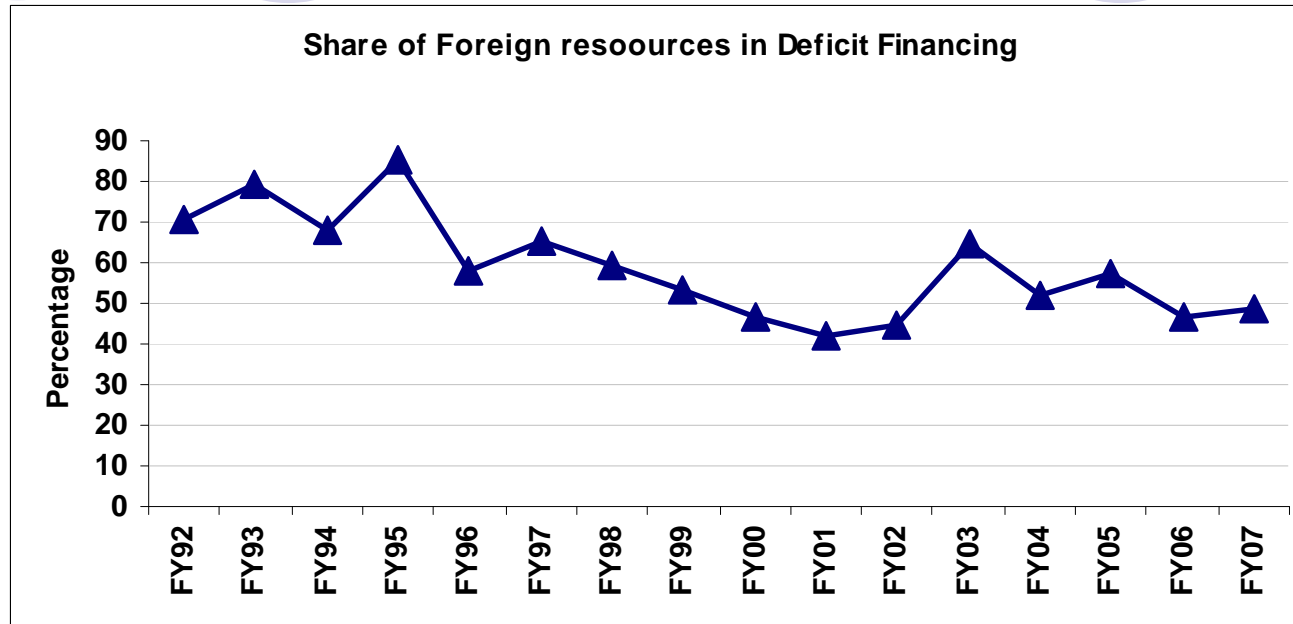
- The relevant indicators suggest that Bangladesh has moved in the 1990s from *Aid Dependency* to *Trade Dependency*. Trade in manufactures and services

2. Moving Out of Aid Dependency: The Bangladesh Scenario

Bangladesh: From Aid to Trade Dependency

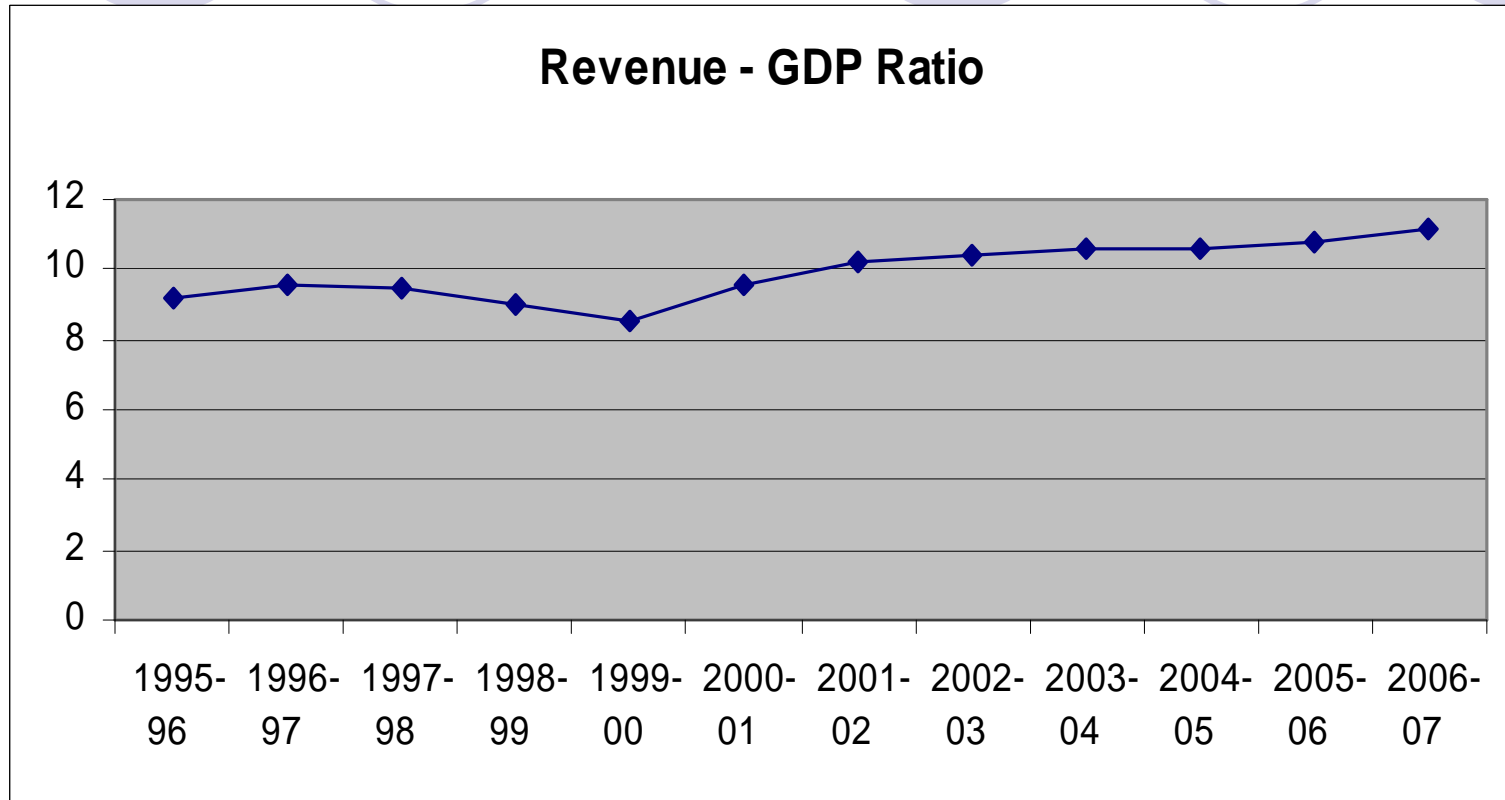
Degree of Openness (X + M as % of GDP)	13.50	16.80	33.00	36.30	41.84	43.32
Extent of Globalisation	21.20	24.90	41.00	46.10	52.98	55.67
<i>X as % of M</i>	37.10	49.50	69.30	65.80	71.29	70.98
<i>(X+R) as % of M</i>	56.50	71.50	89.40	95.10	103.89	105.83
<i>ODA as % of GDP</i>	5.80	5.60	2.90	2.10	2.06	2.40
<i>ODA As % of R</i>	302.37	226.83	72.74	32.71	25.82	27.17

2. Moving Out of Aid Dependency: The Bangladesh Scenario



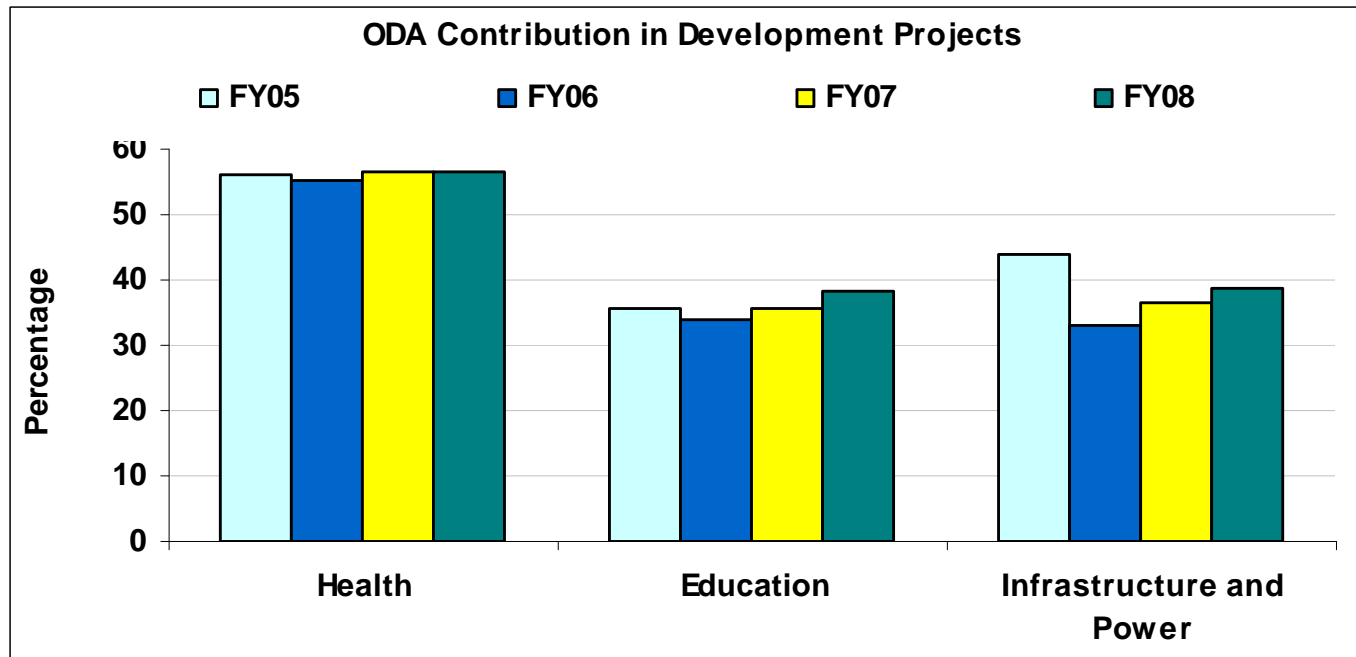
- The importance of foreign resources in deficit financing is declining, but still provides substantial support.
- But the grant component has declined.
- In the recent past Direct Budget Support has emerged as an important component after SWAPs.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



- Stagnating revenue-GDP ratio is not helping the aid dependency.
- Need to broaden tax base to generate resources for financing development budget.
- Between FY1996 and FY2007, this ratio increased from 9.2 percent to 11.2 percent.

2. Moving Out of Aid Dependency: The Bangladesh Scenario



- ODA accounts for about 50% of Annual Development Programme.
- ODA contribution continues remain significant for critical sectors: Health, Education & Physical Infrastructure.
- Between 1991 and 2005, public expenditure on education and health increased both as shares of total government expenditure and GDP.

2. Recap



- Bangladesh is emerging as an LDC which has moved out of “extreme” aid dependency through generation of non-debt creating foreign exchange earnings (e.g. through exports and remittances by temporarily migrant workers). This has addressed the balance of payment problem.
- However, flow of FDI had been subdued. Bangladesh is yet to fully explore new forms of development finance, but private-public partnership is finding place.
- But due to low level of domestic resource generation Bangladesh still needs ODA to underwrite fiscal deficit.
- Bangladesh’s moving out from acute aid dependency has not been rewarded with greater flow of good quality ODA.

3. Quality Aid Flow to End Aid Dependency

MDG (2000) and Role of Foreign Aid

- Goal 8 calls for debt relief and increased bilateral and multilateral development assistance, particularly for LDCs.
- Funding still remains a major concern for MDG implementation.
- Poor progress of development partners in providing 0.7% of their GNI as ODA by 2015.
- Industrialized nations lag behind in meeting their target to double ODA to Africa by 2010.
- ODA is expected to decline further in 2007 as debt relief continues
- Political obstacles in Financing MDG

3. Quality Aid Flow to End Aid Dependency

Paris (2005) Declaration and Aid Effectiveness:

- The progress in Paris Declaration will be measured by a survey in 2008.
- The targets set in Paris declaration for 2010 seems unreachable with the current state of ODA disbursement.
- Harmonization is still not in pursued by the development partners on the ground.
- Recipient country policies and institutions need to be right in order to improve quality of aid.
- More initiative from development partners required in order to achieve full alignment with recipient's policies.

3. Quality Aid Flow to End Aid Dependency

PRSP (2000) and Implications for Foreign Aid

- PRSP resulted from a donor driven process, full ownership could not be ensured.
- Resource envelope: makes it easier for the development partners to plan for aid, but financing PRSP is not showing up.
- Discrepancy in aid flow recording between the recipient and development partners.

3. Quality Aid Flow to End Aid Dependency

Foreign Financing Requirement for Bangladesh PRSP (as % of GDP)

Fiscal Year	PRSP Projection	Actual Disbursement	New Projection
FY 2005		1.8	
FY 2006	2.5	1.5	
FY 2007	2.5	1.6	
FY 2008	2.6		2.0
FY 2009	2.6		1.8
FY 2010			1.7

- ❑ Projected figures for foreign financing have proved to be over-optimistic.
- ❑ Achieving downward revised foreign financing targets will also be challenging.

4. Moving Out of Aid Dependency: New Forms of Development Finance

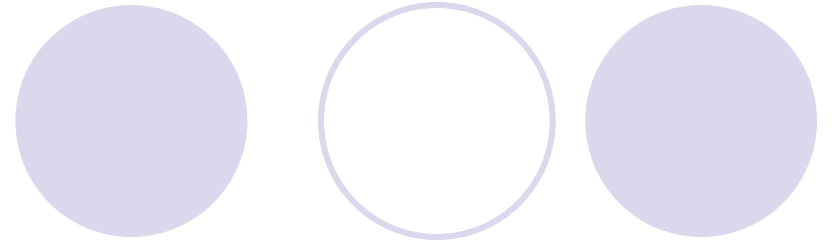
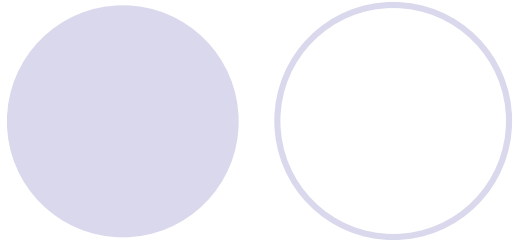
Alternative Traditional Forms

- Better market access for manufactured and commodity exports
- Improved market access for movement of natural persons.
- Higher quality of FDI flow
- Enhanced domestic resource mobilization effort.

4. New Forms of Development Finance

Innovative New Forms

- Development of projects under private-public partnership.
- Borrowing from private banking system without public guarantee generating equity financing from global capital market.
- A system of global pollution taxes could generate a triple dividend: a better global environment, a second dividend as the environmental tax implies no efficiency loss nor a burden on employment and resources for world development.
- Establishment of a Global Lottery in agreement with national lotteries.
- Global Premium Bond (a savings instrument with a lottery ticket), along the lines practiced in Bangladesh, Ireland and the UK.
- Measures to increase private donations for development.



● Thank you for your attention.