

Moving Out of Aid Dependency: Reflections on LDC Experience

Presented by

Dr. Debapriya Bhattacharya

Ambassador & Permanent Representative
of Bangladesh to the WTO and UN Offices in Geneva

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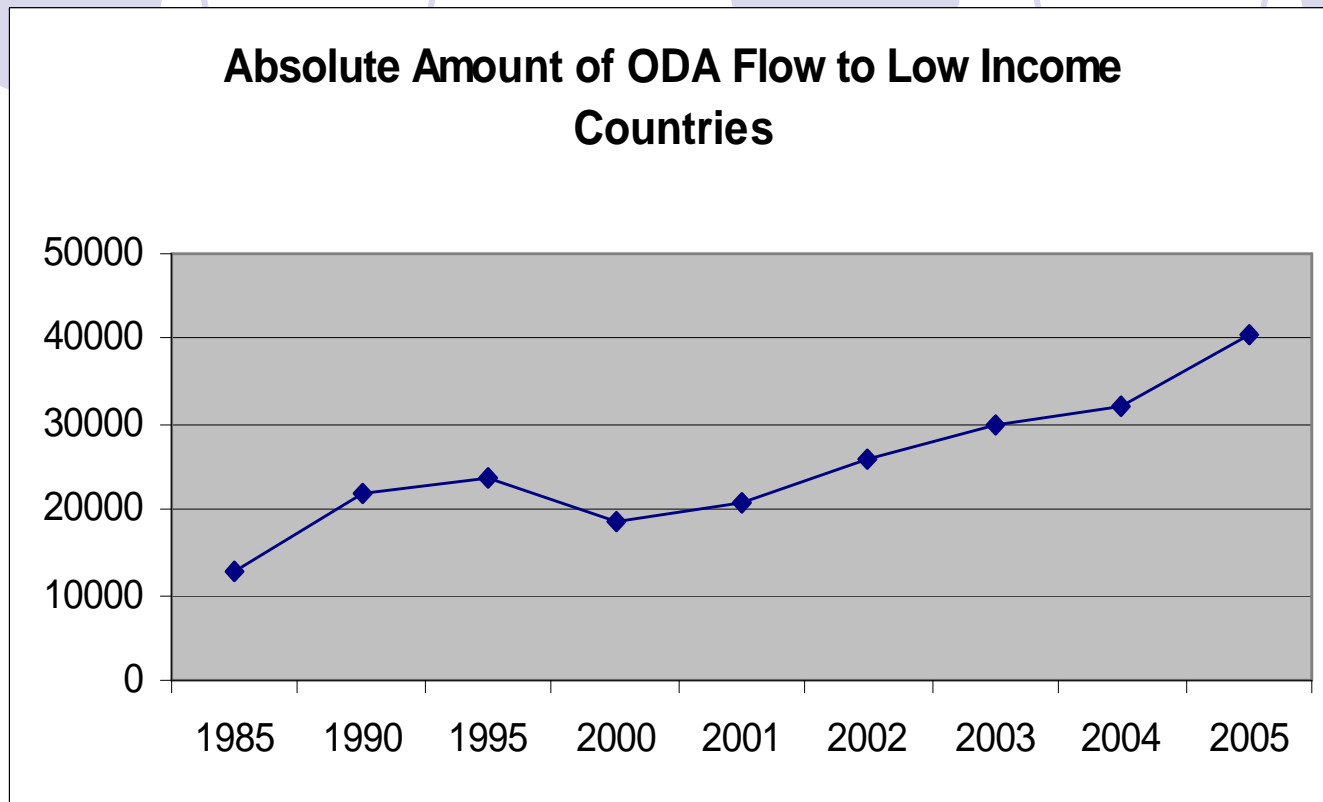
16 November, 2007



Layout of Presentation

1. Trends in Aid Dependency of LDCs
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3. Quality Aid Flow to End Aid Dependency
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4. New Sources of Development Finance
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1. Trends in Aid Dependency of LDCs/LICs

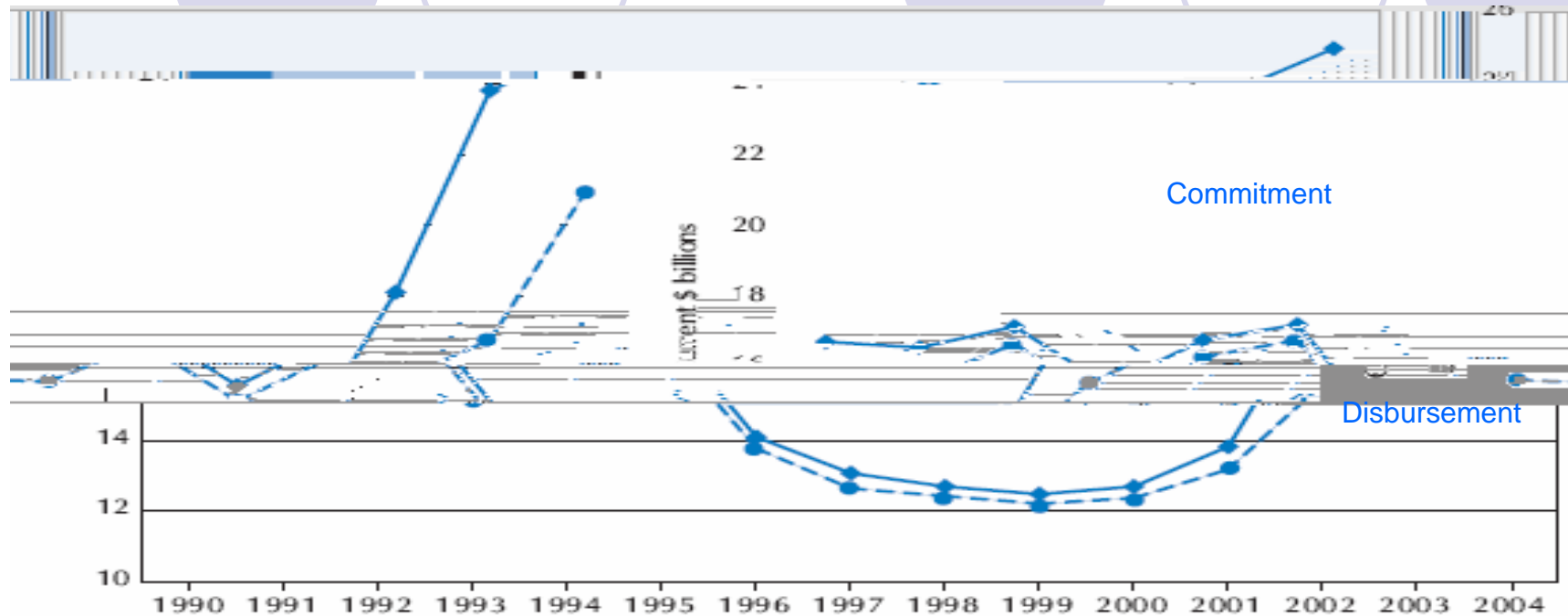


Source: World Development Indicators 2007

- 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

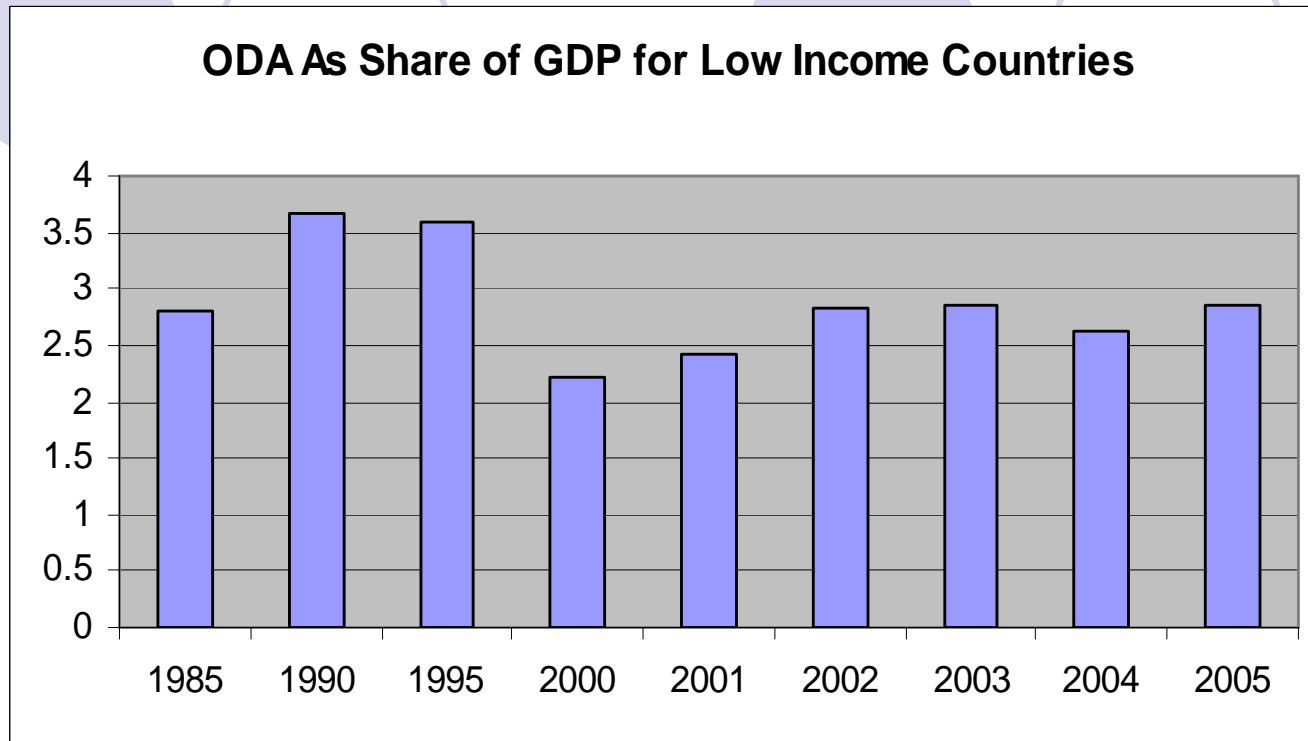
Net Disbursement and Commitment of ODA to LDCs



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

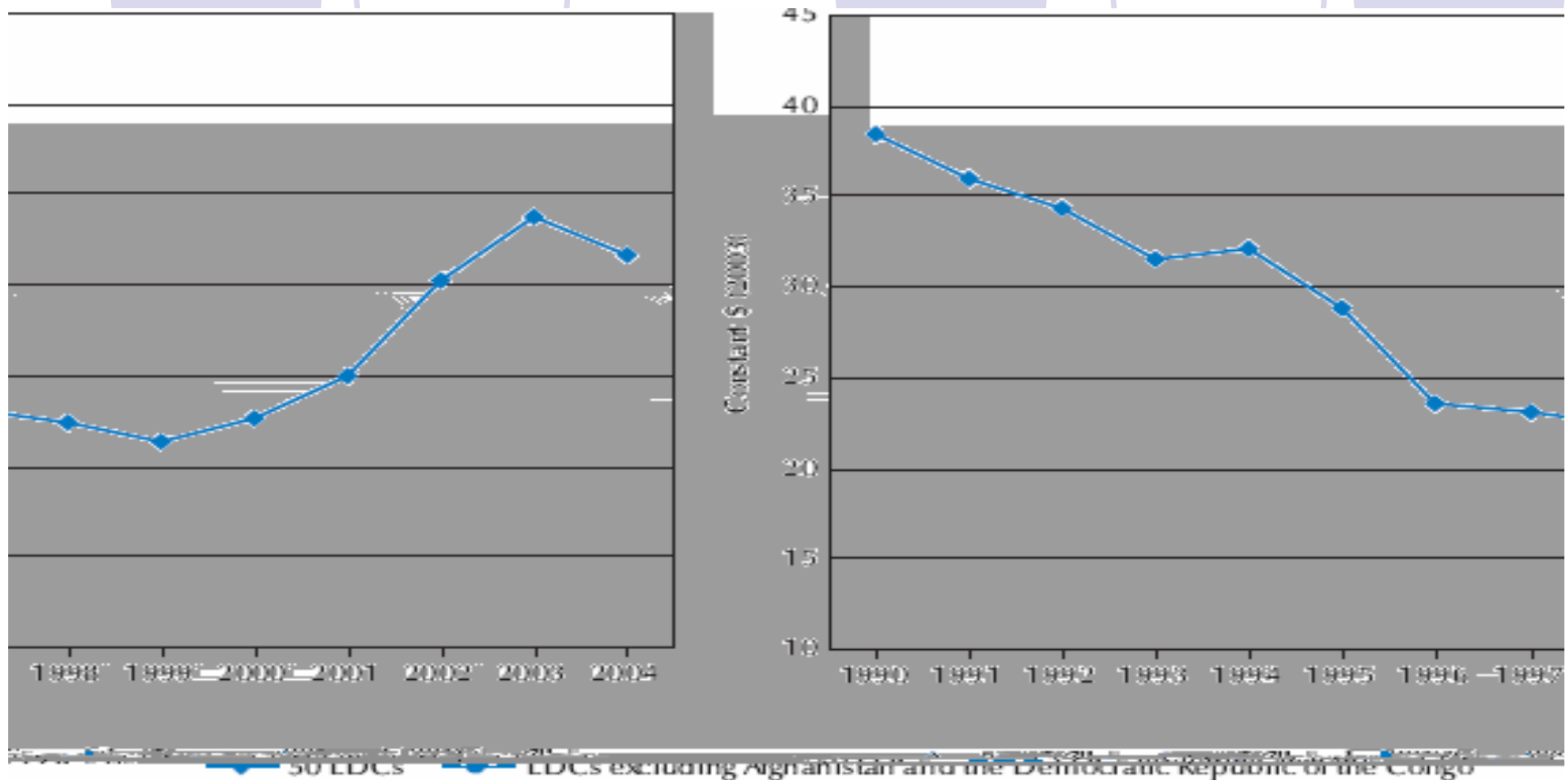
1. Trends in Aid Dependency



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



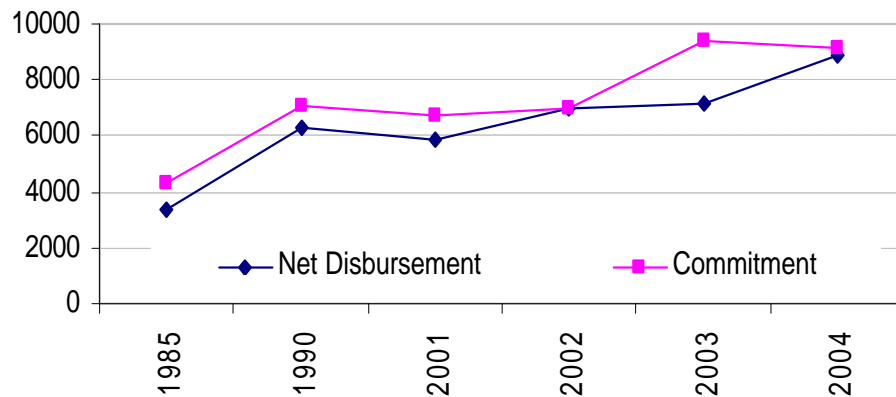
Source: The Least Developed Country Report 2007

- 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.

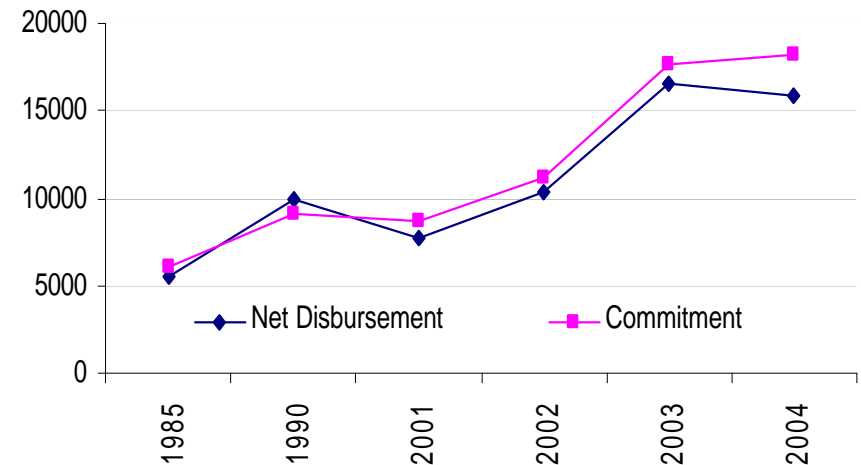
1. Trends in Aid Dependency

Split between Multilateral and Bilateral Flow to LDCs

Net Disbursement and Commitments: Multilateral Donors



Net Disbursement and Commitment: Bilateral

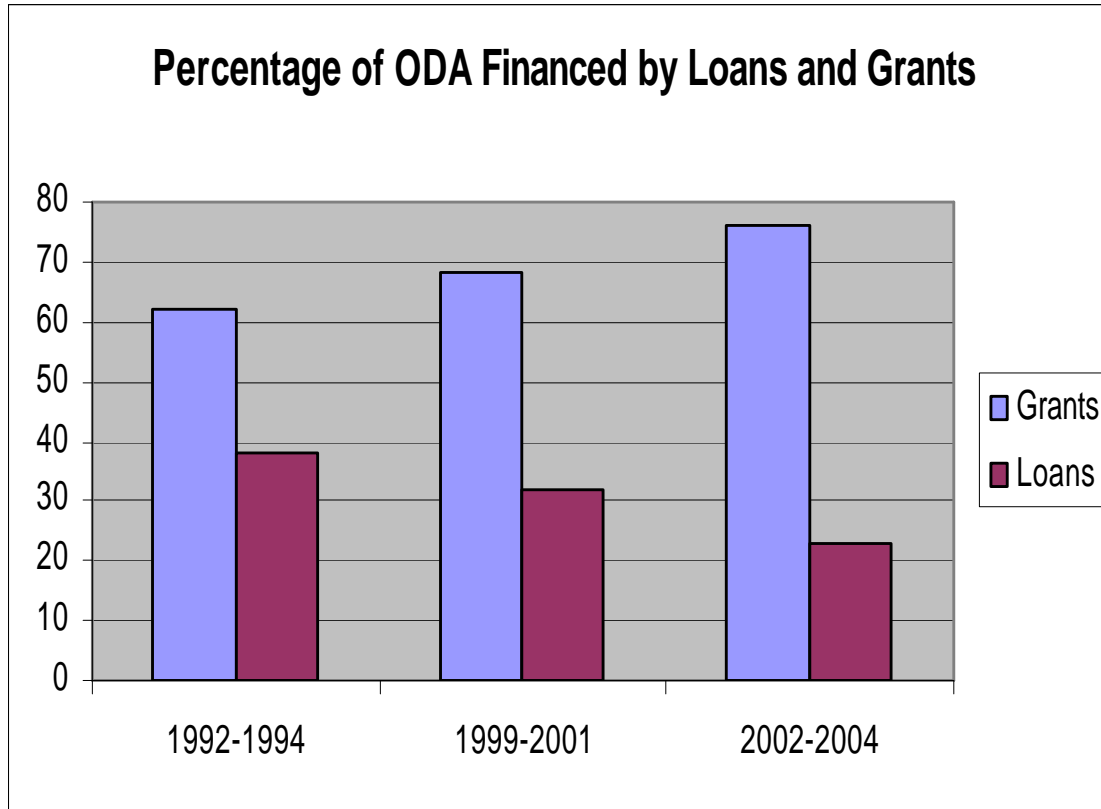


Source: The Least Developed Country Report 2007

- 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

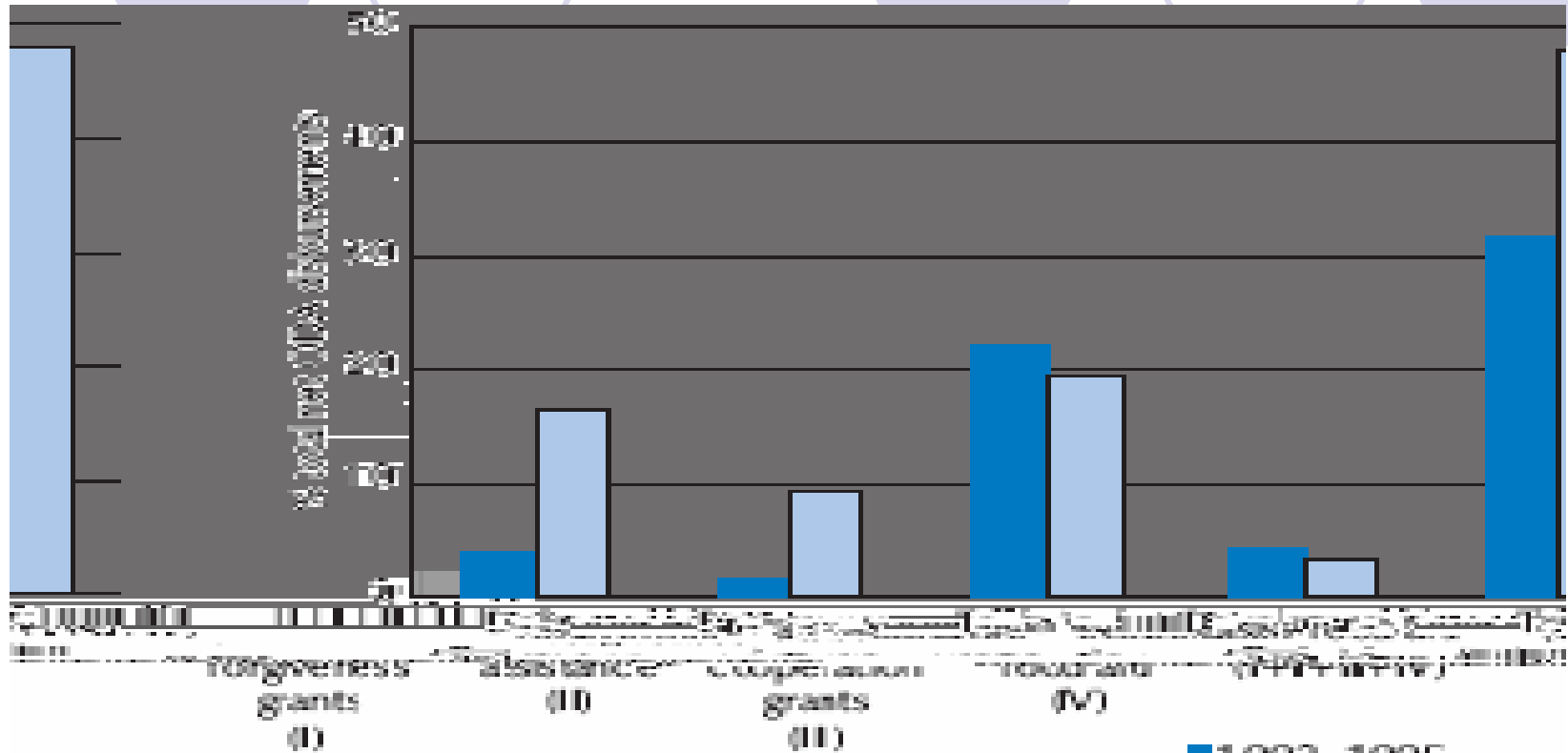


Source: The Least Developed Country Report 2007

- 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



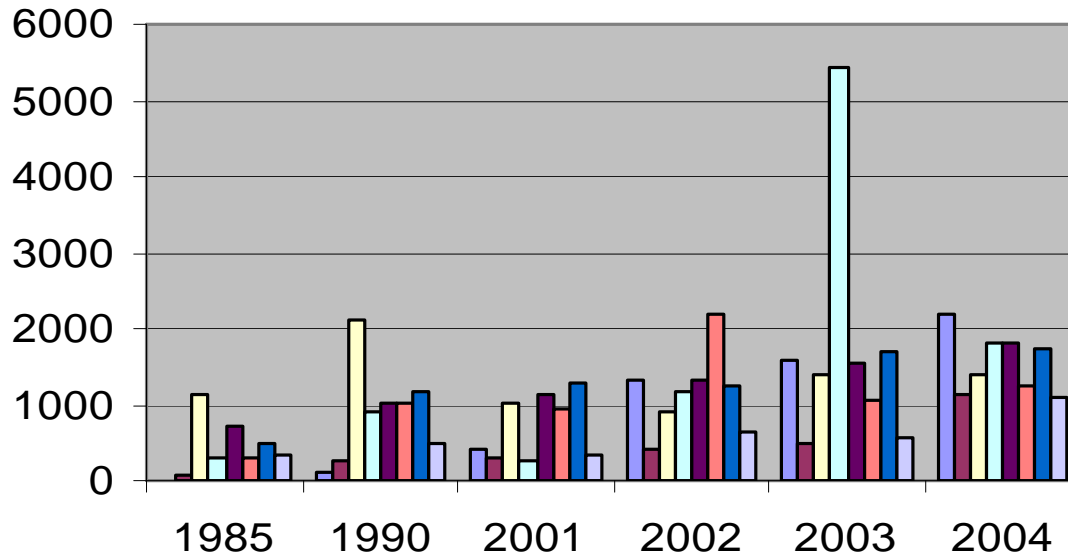
Source: The Least Developed Country Report 2007

- 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

Major ODA Recipients Among LDCs



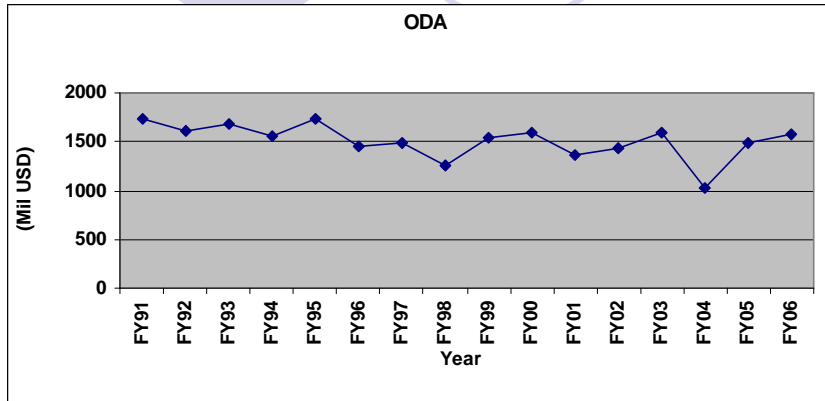
1. Trends in Aid Dependency of LDCs/LICs

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 multil.Terms.

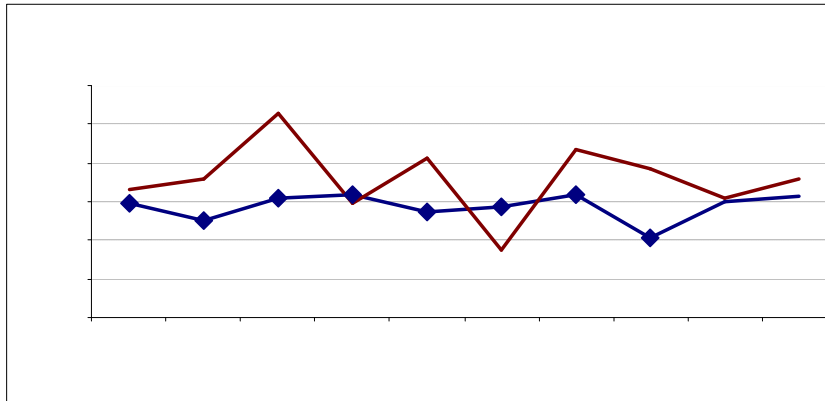
No significant change in ODA flow in real terms since 2000. Per capita inflow also increased.

2. Moving Out of Aid Dependency: The Bangladesh Scenario

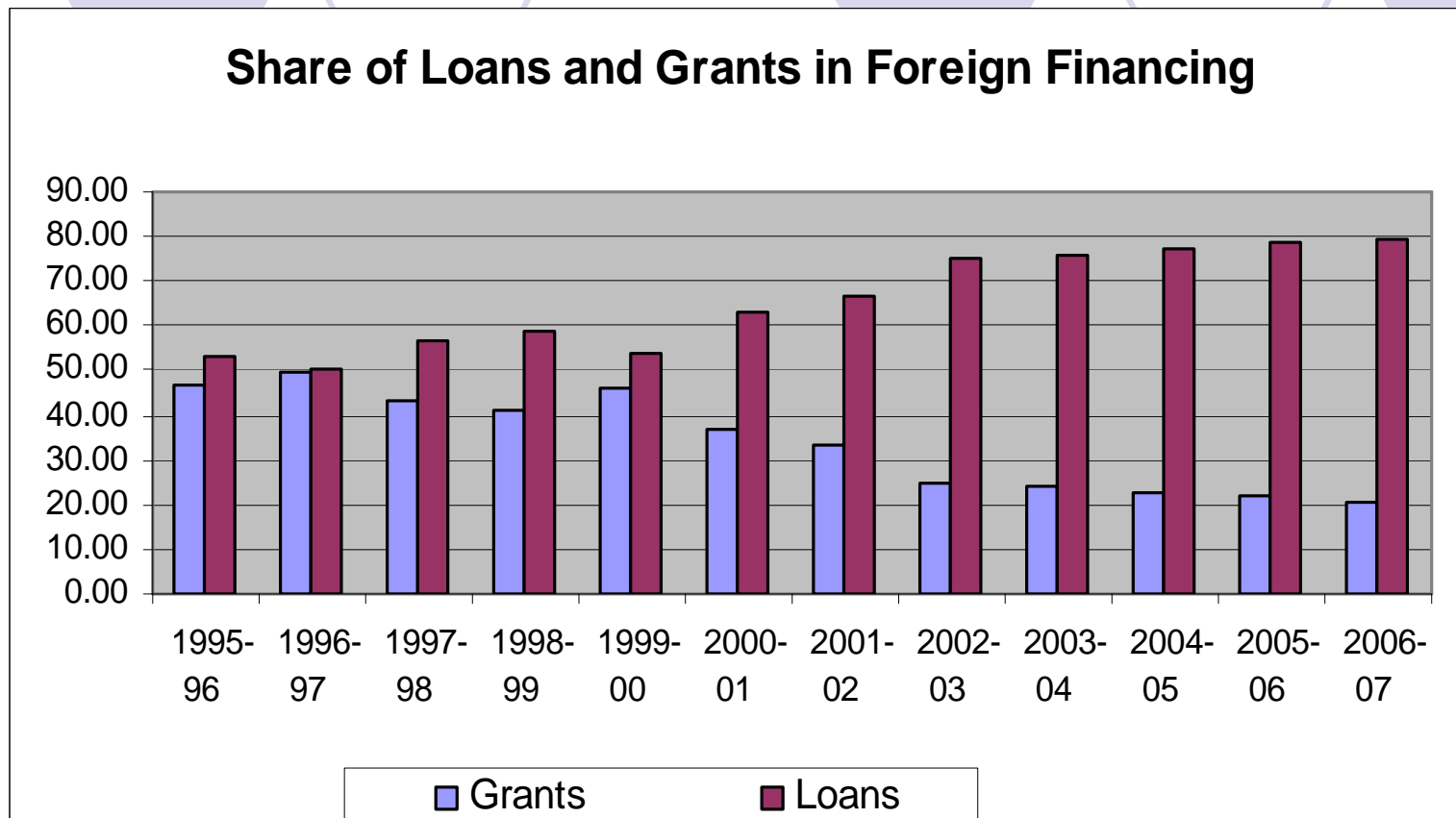


Source: Economic Review, MoF

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



2. Moving Out of Aid Dependency: The Bangladesh Scenario

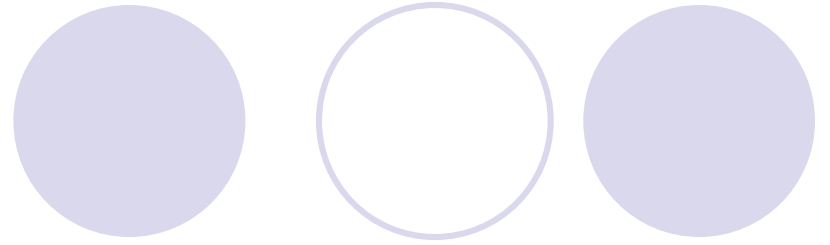
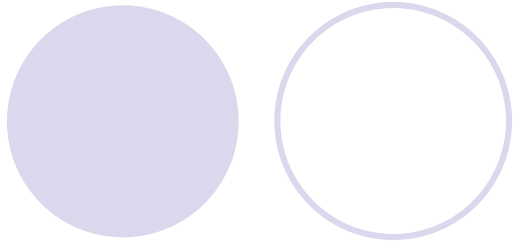


- Share of grants in total foreign financing is declining (from 46.86 in FY96 to 20.69 in FY07).
- Share of loan increased from 53.14% in FY96 to 79.31 in FY07.

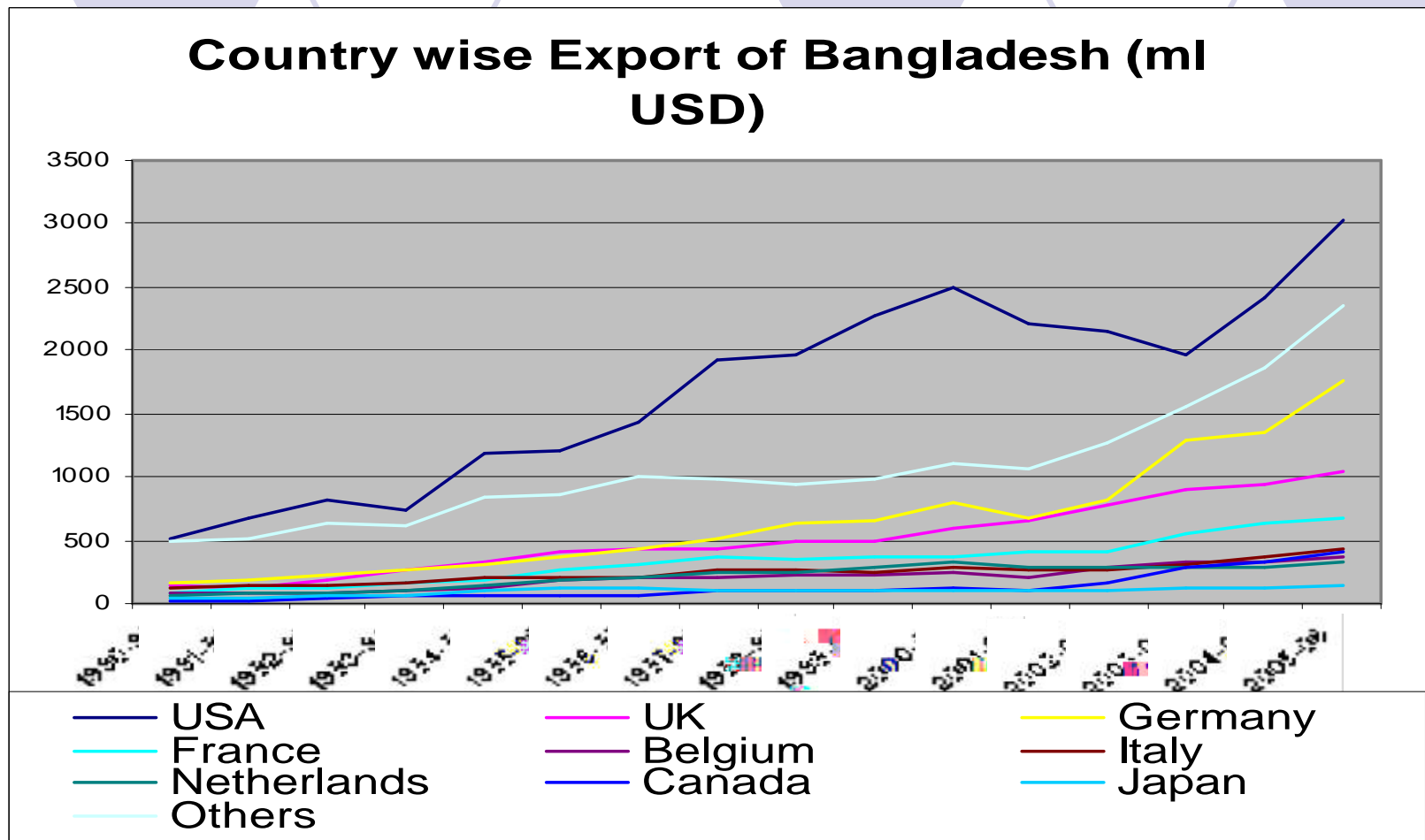
2. Moving Out of Aid Dependency: The Bangladesh Scenario



- The declining ODA inflow as percentage of GDP indicates declining aid dependency in Bangladesh.
- Parallel trends of increase in exports and remittance flow.
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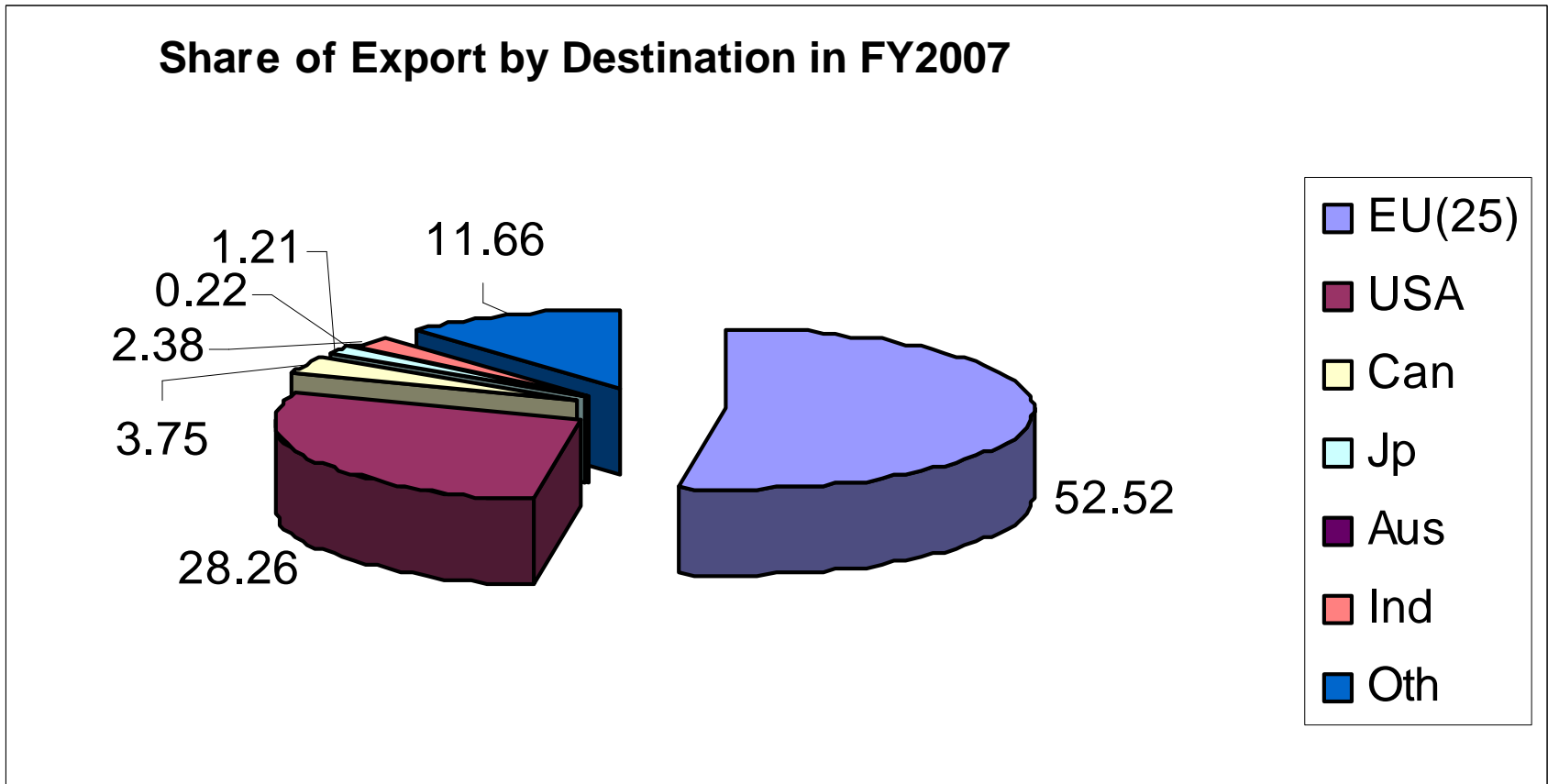


2. Moving Out of Aid Dependency: The Bangladesh Scenario



- | 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

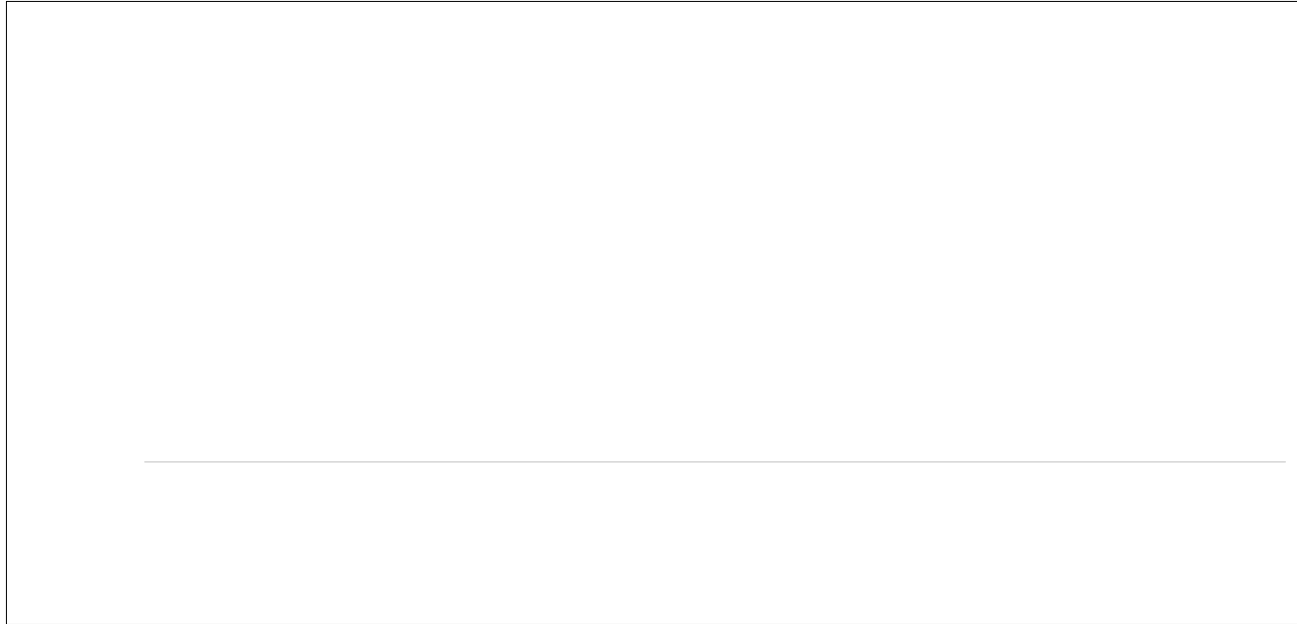


2. Moving Out of Aid Dependency: The Bangladesh Scenario

Bangladesh: From Aid to Trade Dependency

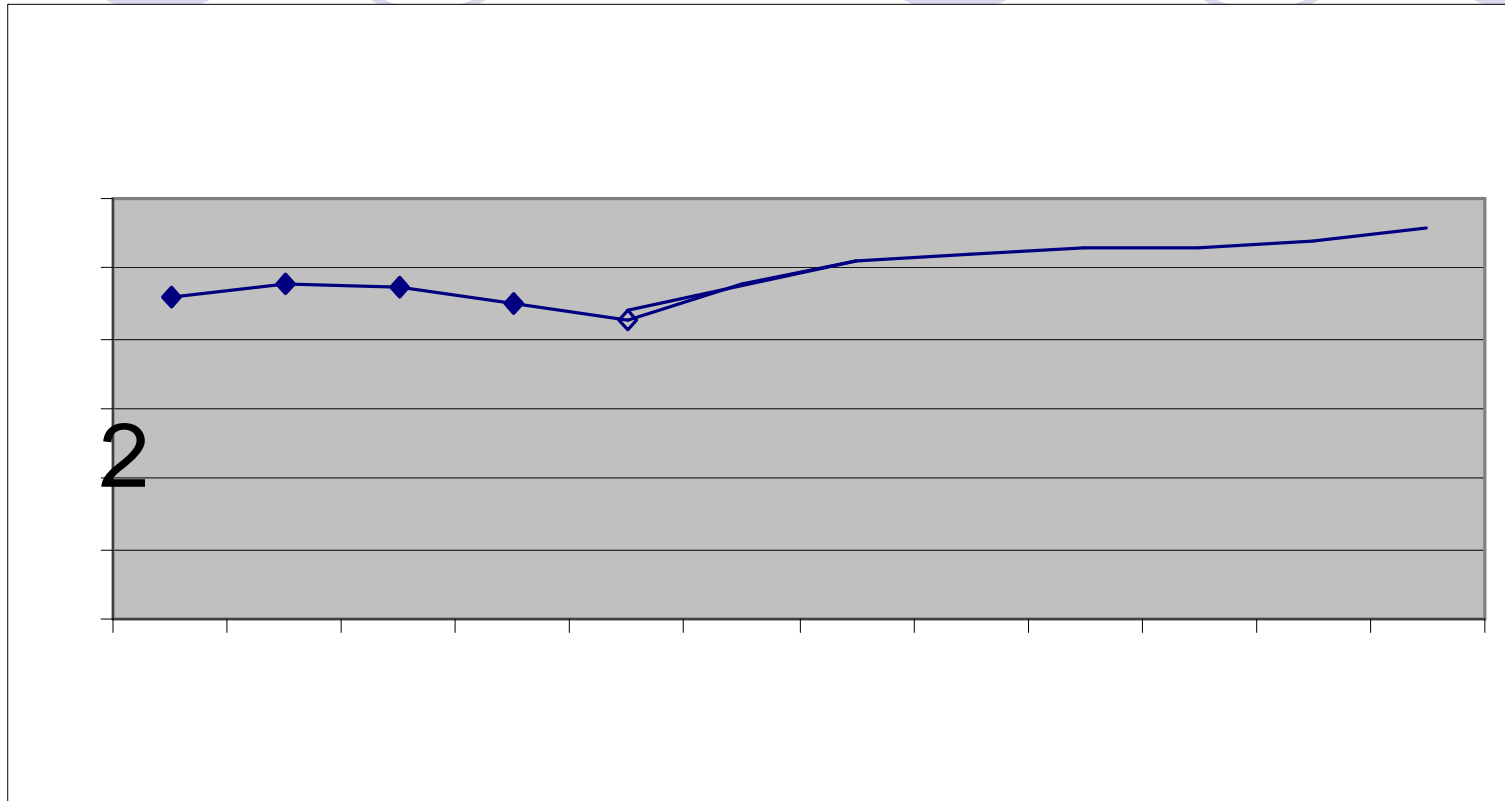
Degree of Openness (X + M as % of GDP)	13.50	16.80	33.00	36.30	41.84	43.32
Extent of Globalisation	21.20	24.90	41.00	46.10	52.98	55.67
<i>X as % of M</i>	37.10	49.50	69.30	65.80	71.29	70.98
<i>(X+R) as % of M</i>	56.50	71.50	89.40	95.10	103.89	105.83
<i>ODA as % of GDP</i>	5.80	5.60	2.90	2.10	2.06	2.40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



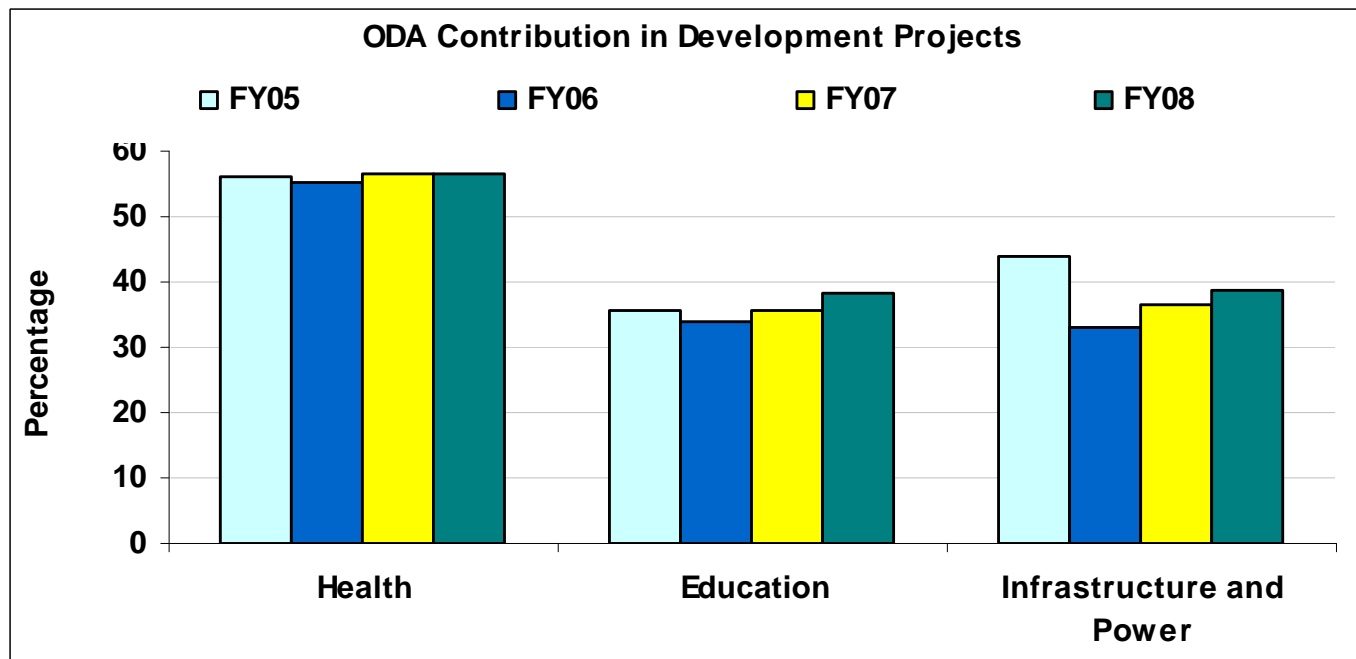
- The importance of foreign resources in deficit financing is declining, but still provides substantial support.
- But the grant component has declined.
- In the recent past Direct Budget Support has emerged as an important component after SWAPs.

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

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

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

- q Projected figures for foreign financing have proved to be over-optimistic.
- q 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.