

## **Bangladesh**

### **Case Study for the MDG Gap Task Force Report**

May 2010

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\* Disclaimer: The views presented in this paper are those of the author and do not necessarily represent the views of UN DESA. Contributors to this draft include Jodie Keane, Jane Kennan, Massimiliano Cali, Isabella Massa and Dirk Willem te Velde.

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# 1. Introduction

The United Nations (UN) compiles the Millennium Development Goal (MDG) Gap Report. The 2010 version of the report will emphasise the 'needs gap', which measures the gap between actual delivery on global commitments and 'estimated needs for support' by developing countries. This is an important gap, because it provides an estimate relating to whether the partnership envisaged under MDG 8 is effectively helping to address the needs of developing countries.

One way to analyse the needs gap and the way MDG 8 commitments could help is through in-depth country case studies of individual countries to review where the gaps are and discuss recent trends with respect to development finance. Four country studies (Bangladesh, Bolivia, Cambodia and Uganda) will focus on the needs gap in official development assistance (ODA), trade and debt relief. They will analyse whether the commitments and delivery in these three essential and interrelated areas are meeting the actual needs of these countries over 2000 until 2009, with attention regarding the impact of the economic crisis on these three areas.

This paper discusses these issues in the case of Bangladesh. It first reviews progress towards reaching the MDGs (Section 2). It then provides evidence on how indicators in the areas of aid, trade and debt have evolved (Section 3). This provides the background to a discussion on how MDG 8 has already been addressing the MDG needs gaps (Section 4). Section 5 concludes.

Bangladesh has grown at around 6% annually since 2005. Several of the MDGs are likely to be met (e.g. halving poverty and improving access to water and education), although some (health related) may not be attained so this is a serious shortcoming. Bangladesh has weathered the storm of the financial crisis relatively well (te Velde et al, 2010). The current account has been positive for some time and this has led to large reserves. On the other hand, there is a large government deficit (some 5% of gross domestic product (GDP) in the past few years). The crisis has had some impact (estimates are around a 2 percentage point less poverty reduction compared to a no-crisis scenario), and this will reinforce the relevance of MDG 8 commitments, but it is unlikely that the crisis has seriously affected progress towards the MDGs.

Specifically we find that:

- Bangladesh is on track to reach MDG 1 (hunger), 2 (net primary enrolment rates) 3 (gender parity in primary and second schools only), 4, 6 and 7, though it may fail to reach MDG 1 (poverty in rural areas), 2 (primary completion rates) and 5 (maternal health). While the national poverty target might just be met (taking into account the crisis effects), the rural poverty target is off track.
- Bangladesh has benefited from debt relief and, while its external debt to gross national income (GNI) ratio has been declining, debt interest payments are a seventh of the budget. The government deficit is continuing to be some 5% of GDP.
- The global financial crisis did not have major effect on Bangladesh (while its exposure has increased it is still relatively low), and estimates suggest it may have increased poverty by at most 2 percentage points.
- Bangladesh is a major recipient of aid, but Aid for Trade (AfT) as a percentage of exports is low; a stable and predictable flow will remain important for the future.
- Bangladesh will be among the main gainers if DFQF (duty-free quota-free) is extended to all least developed countries (LDCs).
- Bangladesh is well behind several of the information and communication technology (ICT) indicators, even though there has been some progress. This remains a major challenge.

## 2. Context

### 2.1 Macroeconomic context

Real GDP in Bangladesh has been growing at around 6% per year since 2004, with a positive current account, growing reserves and persistent government deficits. Investment has grown at a healthy 8% in the past decade. According to a recent International Monetary Fund assessment (IMF, 2010), Bangladesh's economy has held up remarkably well, despite the global recession. Growth decelerated modestly. Strong remittances and resilient exports (which have been growing strongly since 2002) and weak imports caused the current account to record a surplus of 3% of GDP in FY09 (July 2008-June 2009). Gross reserves doubled to over \$10 billion in the year to November 2009, raising reserve coverage to 4.8 months of prospective imports, a 15-year high. However, government revenues are around 10% of GDP while its expenses are around 15% of GDP causing a government deficit of around 5% of GDP each year (slight lower in the beginning of 2000s, higher at the end).

Rahman et al. (2010) suggest that over the past couple of decades Bangladesh has become increasingly integrated into the global economy. The degree of openness of the economy rose from 16.8% to 42.5% and the extent of globalisation increased from 24.9% to 56.3% between 1990/91 and 2008/09.<sup>1</sup> Although increasing global integration has created an opportunity for Bangladesh to take advantage of the global economy, it has also exposed the country to vulnerabilities emanating from global shocks. However, the impacts on Bangladesh's economy through the transmission channels were rather limited, especially initially, but some adverse consequences have become more evident in recent times (since April 2009).

The IMF suggests that Bangladesh is stuck in a low revenue-low capital spending equilibrium but could break into a higher growth trajectory with decisive tax reforms. Bangladesh's tax-to-GDP ratio (stable at around 8.5% for the past several years) is 4 percentage points lower than the average of countries in the region at a similar development stage, constraining the scope for higher spending in key fields. Capacity constraints and governance issues are causing chronic under-implementation of the Annual Development Programme (ADP) (a donor programme). The 56% increase in ADP spending envisaged in the FY2010 budget over the FY2009 outturn looks unrealistic given also that the implementation rate has averaged 73% over the past five years.

### 2.2 Progress on reaching the MDGs in Bangladesh

The MDG 2008 Progress Report (the basis of this section) suggests that Bangladesh is on track to reach MDG in the areas of hunger (Goal 1), net enrolment in primary education (Goal 2), gender parity in primary and secondary education (Goal 3), reducing child mortality and improving immunisation coverage (Goal 4), rolling back malaria and controlling tuberculosis (Goal 6) and improved drinking water supply (Goal 7).

The areas in need of attention are poverty reduction and employment generation (Goal 1), increases in the primary school *completion* rates and adult literacy rates (Goal 2), creation of more wage employment for women (Goal 3), reduction of the maternal mortality ratio and increase in the presence of skilled health professionals at delivery (Goal 5), increases in knowledge of HIV/AIDS (Goal 6), increase in forest coverage (Goal 7) and coverage of ICT (Goal 8).

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<sup>1</sup> Degree of openness is defined as share of export and import as a percentage of GDP. Extent of globalisation is defined as export + import + official development assistance + remittance + foreign direct investment as a percentage of GDP. Bangladesh's fiscal year runs from July to June.

Table 1 suggests that Bangladesh has made some good progress towards achieving the MDGs, although much more needs to be done if all of these goals are to be achieved.

**Table 1: Progress by Bangladesh on the MDGs**

<b>MDGs that will partially be met</b>
MDG 1 Eradicate extreme poverty (national )
MDG 2 Universal primary education (not completion rates)
MDG 6 Combat HIV/AIDS
MDG 7 Promote a sustainable environment
<b>MDGs that will probably be met</b>
MDG 3 Promote gender equality and empower women
<b>MDGs that will be met</b>
MDG 4 Reduce child mortality
<b>MDGs that will not be met</b>
MDG 5 Improving maternal health

Source: MDG progress report

Table 2 presents information on whether Asian countries are on track to reach the MDGs. It shows that Bangladesh is slow to progress compared with many other countries.

Table 2: Asian countries and the MDGs

Goal	1	2	3	4	5	6	7
	\$ 1.25/day poverty Underweight children	Primary enrolment Reaching last grade Primary completion	Gender primary Gender secondary Gender tertiary	Under-5 mortality Infant mortality	Antenatal care, at least once Births by skilled professionals	HIV prevalence TB incidence TB prevalence	Forest cover Protected area CO2 emissions ODP substance consumption Water, total Sanitation, total
<b>East and North-East Asia</b>							
China	● ●	● ●	● ● ●	■ ■	■ ●	● ● ●	● ● ● ● ●
China, Hong Kong SAR		●	● ● ●			● ● ●	● ● ● ● ●
China, Macao SAR		●	● ● ●			● ● ●	● ● ● ● ●
Korea, Democratic People's Republic of	●	● ●	● ● ●	■ ■	■	● ● ●	● ● ● ● ●
Korea, Republic of		● ●	● ● ●	■ ■		● ● ●	● ● ● ● ●
Mongolia	■ ●	● ●	● ● ●	■ ■	●	● ● ●	● ● ● ● ●
<b>South-East Asia</b>							
Brunei Darussalam		● ● ●	● ● ●	■ ■	■ ●	● ● ●	● ● ● ● ●
Cambodia	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Indonesia	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Lao People's Democratic Republic	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Malaysia	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Myanmar	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Philippines	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Singapore		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Thailand	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Timor-Leste	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Viet Nam	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
<b>South and South West Asia</b>							
Afghanistan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Bangladesh	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Bhutan		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
India	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Iran (Islamic Republic of)	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Maldives	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Nepal	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Pakistan	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Sri Lanka	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Turkey	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
<b>North and Central Asia</b>							
Armenia	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Azerbaijan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Georgia	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Kazakhstan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Kyrgyzstan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Russian Federation	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Tajikistan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Turkmenistan	● ●	● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Uzbekistan	■ ■	■ ■ ●	■ ■ ●	■ ■	■ ■	● ● ●	● ● ● ● ●
<b>Pacific</b>							
American Samoa		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Cook Islands		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Fiji		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
French Polynesia		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Guam		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Kiribati		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Marshall Islands		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Micronesia, Federated States of		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Nauru		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
New Caledonia		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Niue		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Northern Mariana Islands		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Palau		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Papua New Guinea		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Samoa		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Solomon Islands		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Tonga		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Tuvalu		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●
Vanuatu		● ● ●	● ● ●	■ ■	■ ■	● ● ●	● ● ● ● ●

● Early achiever    ▲ On track    ■ Slow    ▼ Regressing/No progress

Source: UNESCAP (2009).

A few studies have also estimated Bangladesh's progress towards achieving the MDGs over time. An example reported in the Country Strategy Paper developed by the European Commission (EC) is summarised in Table 3.<sup>2</sup>

**Table 3: Bangladesh's progress towards achieving the MDGs**

Goals	Targets	Indicators	Base Year <sup>14</sup>	Current Year <sup>15</sup>	2015 <sup>16</sup>	MDG Target <sup>17</sup>	Comment <sup>18</sup>
Goal 1	Target 1	Proportion of population below \$1 per day	58.8%	49.6%	< 30%	29.4%	On target
	Target 2	Prevalence of underweight children (< 5 years old)	67%	51%	< 34%	34%	On target
Goal 2	Target 3	Net enrolment rate in primary education	73.7%	82.7	≈100%	100%	Close to target
		Proportion of students starting at Class I reaching Class 5	42.5%	80.6%	-	100%	-
		Adult (15+ years) literacy rate	36.9%	38.8%	-	-	Probably not on target
Goal 3	Target 4	Ratio of girls to boys in primary, secondary and tertiary education	55:45 34:66 25:75	48:52 52:48 36:64	> 1.00	48:52 50:50 50:50	Target exceeded
		Ratio of literate females to males (of 20-24 years)	42:65	55:71	-	100:100	-
		Share of women in wage employment in the non-agricultural sector	-	22%	-	-	-
		Proportion of seats held by women in national parliament	-	2%	-	-	-
Goal 4	Target 5	Under-five mortality rate (deaths/1000 live births)	151	82	≈ 70	50	Not on target
		Infant mortality rate (deaths/1000 live births)	94	56	≈ 20	-	Close to assumed target
		Proportion of 1-year-old children immunized	54%	69%	-	100%	-
Goal 5	Target 6	Maternal mortality ratio (deaths/100,000 live births)	570	320	≈ 80	143	On target
		Proportion of births attended by skilled personnel	5%	12%	-	50%	(by 2010)
		Total Fertility Rate	3.3	3.3	-	2.2	(by 2010)
		Proportion of mothers who are malnourished	-	45%	-	< 20%	-
		Legally stipulated age of girl's first marriage	-	18 years	-	20 years	-
		Proportion maternal deaths caused by violence	-	14%	-	0%	-

Goals	Targets	Indicators	Base Year <sup>14</sup>	Current Year <sup>15</sup>	2015 <sup>16</sup>	MDG Target <sup>17</sup>	Comment <sup>18</sup>
Goal 6	Target 7	Condom use rate among female sex workers, rickshaw pullers and truck drivers (in %)	-	2-4, 2 and 25	-	-	-
		HIV positivity among IDUs, female sex workers and men who have sex with men (in %)	-	4, 0.2-0.7, 0.2	-	-	-
		Needle sharing among IDUs	-	25-75%	-	-	-
	Target 8	Malaria deaths per 100,000	1.2%	1%	N/A	0.05%	More data is needed
TB deaths per 100,000		21,900	70,000	N/A	-	More data is needed	
Goal 7	Target 9	Proportion of TB cases under directly observed treatment short course: detected & cured (in %)	-	34 & 84	-	70 & 85	(by 2005)
		Proportion of land area covered by forest	9%	10.2%	≈ 11.9	20%	Not on target
		Energy use (kg oil equivalent) per \$1000 GDP (PPP)	123.18	92.36	-	-	-
	Target 10	Carbon dioxide emissions	0.141	0.189	-	-	-
		Proportion of the population with sustainable access to an improved water source: urban & rural (in %)	-	82 & 72	-	100 & 96.5	More data is needed for useful projection
	Target 11	Proportion of population with access to improved sanitation: urban & rural (in %)	-	56 & 29	-	85.5 & 55.5	Urban: not on target Rural: on target
		Proportion of (urban poor) households: owning dwelling & owning land	-	26% 18%	-	-	-
Goal 8	Target 12	ODA (billion US\$)	-	1.02	-	-	-
	Target 13	ODA to LDCs (% of OECD/DAC donors' GNI)	-	0.05%	-	-	-
	Target 14	Proportion of bilateral ODA - united OECD/DAC donors	-	79.1%	-	-	-
	Target 15	Bangladeshi exports to developed countries (b US\$)	-	58.31	-	-	-
		Average tariffs imposed by developed countries on textiles and clothing from Bangladesh	-	12%	-	-	-
		Debt service to exports of goods and services (in %)	-	7.29	-	-	-
	Target 16	Unemployment rate of 15-24 years-old	-	8%	-	-	-
	Target 17	Proportion of people with access to essential drugs	-	80%	-	-	-
	Target 18	Telephone lines and cellular subscribers/100 people	-	1.32	-	-	-
		Personal computers in use per 100 people	-	0.34	-	-	-
		Internet users per 100 people	-	0.15	-	-	-

Notes: <sup>14</sup> The base year varies depending on availability and acceptability of data. The range is between 1990 and 1995. <sup>15</sup> The current status is the latest year for which acceptable data were available. The years range between 2000 and 2002. <sup>16</sup> The linear projections to year 2015 are extracted from Strategic Review

<sup>2</sup> Please see also Government of Bangladesh and UNDP (2008).

and Programming Mission – Bangladesh.<sup>17</sup> The MDG targets cited are for Bangladesh.<sup>18</sup> The comments are offered by the consultants of Strategic Review and Programming Mission – Bangladesh on the basis of the assumption that recent data are reliable. However, if the data are correct, reaching the MDG target on schedule for some of the indicators is less likely.

*Source:* European Commission (2007).

### **MDG 1: Extreme poverty and hunger**

MDG 1 might be partially met. Challenges remain the rising inequality (Gini from 0.45 in 2000 to 0.47 in 2005) and low female economic participation rates. Specific targeting is needed in coastal villages and drought-prone villages.

The headcount rate of poverty incidence declined at an annual rate of 3.6% in Bangladesh during 2000 to 2005, suggesting that the MDG target of 29% will be achieved by 2015. However, this projection was before the crisis, and now target might only be just met (as reported below, the crisis will have affected poverty reduction by 2 percentage points which means that the target would just be met at a national level. The poverty rate in 1991 was 56.6% and it declined rapidly to around 40% in 2005. The increase in the labour force, increases in remittances and a decline in family size have contributed to a significant fall in urban poverty.

The incidence of those who consume less than 1805 kcal per day (measure of poverty) is declining. The target will be achieved in rural areas, with 11% below the minimum level of dietary energy consumption in 2015 against the target of 14%.

The rural–urban disparity in the poverty level has been declining and the poverty gap also shows improvements. One-third of the districts, mostly from the central part of Bangladesh, have already achieved the MDG poverty target, while most of the coastal districts and drought-prone areas are still below the poverty line. So there is a challenge to which extent rural poverty targets are reached.

A further target under MDG 1 is to halve the proportion of people suffering from hunger between 1990 and 2015. The prevalence of underweight children was 48% at the national level in 2005. The declining trend of underweight children in urban areas was faster than that of rural areas, but is not fast enough to reach the 2015 target. It is expected that the prevalence of underweight children at the national level will be 36.5% in 2015 which is close to but above the target (33%). The percentage was 66 in 1991 and declined to 47.8 in 2005.

### **MDG 2: Achieve universal primary education**

Whilst the enrolment rates are on track the completion rates are not, despite several supportive government interventions. The net enrolment ratio in 2007 was more than 91.1% with the trend (60.5% on 1991), suggesting that complete coverage in primary enrolment might be achieved before 2015. It is not clear whether attaining the targets of primary education completion rate and the adult literacy rate will be attained. The proportion of Grade 1 pupils staying on at school until Grade 5 increased only from 40.7% in 1991 to 52% now.

### **MDG 3: Promote gender equality and empower women**

Owing to supportive targeted government interventions, Bangladesh has already achieved gender parity in primary and secondary education at the national level, and is on its way for tertiary education (though not by 2015). The representation of girls at primary and secondary education was even higher than boys in 2007 (and this was not yet the case in 1991). There are 65 women parliamentarians in the national assembly (2008), which is 19 percent of the total seats thanks to an increase in 2008 (it was 12.7% in 1991).

## MDG 4: Reduce child mortality

Thanks to strong immunisation rates and supportive programmes, infant mortality rates will be achieved at least nationally (although perhaps not in some locations). The under-five mortality rate, which measures child deaths before the age of five, has declined by three-fifths, from 146 in 1991 to 60 in 2007. Such a steep decline means that the target will be met before 2015. In the western region, 24 districts have already achieved the national target, with an under-five mortality rate of 47 or fewer and 20 districts have already achieved the national target, having an infant mortality rate of 31 or fewer per 100,000 live births.

## MDG 5: Improve maternal health

MDG 5 is not on track. While there was a decline in the maternal mortality ratio (MMR) from 574 in 1990 to 391 in 2002, this decline has not continued more recently. The MMR is one of the highest in Asia, with low antenatal care also.

## MDG 6: Combat HIV/AIDS, malaria and other diseases

Bangladesh is likely to attain these targets. The prevalence of HIV infections among adults is now 0.32 per 100,000 and it is estimated that it will be 1.3 per 100,000 population by 2015. In 2008, the prevalence of malaria was 59 per 100,000 and prevalence of tuberculosis was 225 per 100,000 in 2007.

## MDG 7: Ensure environmental sustainability

There have been environmental effects of deforestation and consumption of wood and fuel. But the proportion of population using an improved drinking water source increased from 89% in 1991 to 97.8% in 2007

## 2.3 Development finance gaps

The Millennium Project (2003) estimated that, in order to meet the MDGs, Bangladesh would need to spend a total of \$66 per capita in 2005, increasing to \$102 by 2015, or a total investment need of \$155 billion between 2005 and 2015 (an average annual per capita need of \$84). Of the \$84, it is estimated that that \$39 will be financed domestically through household and government contributions. ODA commitments to Bangladesh were \$1186.3 million in 2001, or \$8.4 per capita. In comparison, an average external financing need of approximately \$45 per capita between 2005 and 2015 is projected.

**Table 4: Summary of projected financial resources required to meet the MDGs in Bangladesh**

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
<b>Total Cost (Sum of A+B+C below)</b>										
Hunger	319	2.1	869	5.2	1,312	7.2	9,286	644	5.1	0.9%
Education	1,287	8.4	2,093	12.5	4,200	23.2	25,939	2,328	14.1	2.5%
Gender Equality	251	1.6	353	2.1	381	2.1	3,608	338	2.0	0.4%
Health	1,751	11.5	3,473	20.8	4,968	27.4	37,844	3,440	20.8	3.7%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	889	4.4	952	5.7	1,220	6.7	10,528	958.0	5.7	1.0%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	2,039	10.8	2,803	17.0	2,972	16.4	32,428	2,940	17.8	3.1%
Roads	2,913	19.1	3,172	19.0	3,431	18.9	34,893	3,172	19.0	3.4%
<b>Total</b>	<b>10,028</b>	<b>65.7</b>	<b>13,895</b>	<b>83.1</b>	<b>18,544</b>	<b>102.2</b>	<b>154,613</b>	<b>14,056</b>	<b>84.1</b>	<b>15.0%</b>

Source: Millennium Project.

**Table 5: Summary of projected sources of funding in Bangladesh**

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
<b>A. Household Contributions</b>										
Hunger	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Education	03	0.8	280	1.8	746	4.1	3,471	318	1.0	0.3%
Gender Equality	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Health	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	200	1.7	372	2.2	485	2.7	4,120	374.8	2.2	0.4%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	614	4.0	674	4.0	777	4.0	7,364	660	4.0	0.7%
Roads	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
<b>Total</b>	<b>968</b>	<b>6.3</b>	<b>1,296</b>	<b>7.8</b>	<b>1,957</b>	<b>10.8</b>	<b>14,955</b>	<b>1,360</b>	<b>8.1</b>	<b>1.4%</b>
<b>B. Domestically Financed Government Expenditures***</b>										
Hunger	91	0.6	315	2.1	574	3.3	3,449	314	1.9	0.3%
Education	307	2.4	759	4.2	1,800	10.3	9,034	870	5.2	0.9%
Gender Equality	71	0.6	128	0.8	187	0.9	1,373	126	0.7	0.1%
Health	499	3.3	1,260	7.9	2,175	12.0	14,068	1,278	7.8	1.4%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	191	1.3	346	2.1	534	2.9	3,909	355.4	2.1	0.4%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	810	6.3	1,082	6.8	1,301	7.2	12,013	1,006	6.8	1.2%
Roads	831	6.4	1,151	6.9	1,502	8.3	12,960	1,178	7.1	1.3%
<b>Total</b>	<b>2,860</b>	<b>18.7</b>	<b>5,041</b>	<b>30.2</b>	<b>8,120</b>	<b>44.8</b>	<b>57,424</b>	<b>5,220</b>	<b>31.2</b>	<b>5.6%</b>
<b>C. Required Total External Budget Support</b>										
Hunger	228	1.5	554	3.1	738	3.9	5,837	531	3.2	0.6%
Education	827	6.4	1,084	6.5	1,650	9.1	12,834	1,167	7.0	1.2%
Gender Equality	179	1.2	225	1.3	214	1.1	2,324	211	1.3	0.2%
Health	1,252	8.2	2,213	13.2	2,783	15.4	23,708	2,183	12.9	2.3%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	219	1.4	235	1.4	200	1.1	2,498	227	1.4	0.2%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	1,410	9.3	1,227	7.3	844	5.2	13,018	1,184	7.1	1.3%
Roads	2,082	13.6	2,021	12.1	1,020	10.6	21,034	1,004	11.0	2.1%
<b>Total</b>	<b>6,207</b>	<b>40.6</b>	<b>7,558</b>	<b>45.2</b>	<b>8,467</b>	<b>46.7</b>	<b>82,234</b>	<b>7,476</b>	<b>44.7</b>	<b>8.0%</b>

Source: Millennium Project.

Further estimates are in Table 6 below.

**Table 6: MDG investment requirements, \$ per capita, based on needs assessments**

	Bangladesh		Cambodia		Ghana		Nepal		Tanzania		Uganda	
	2006	2015	2006	2015	2006	2015	2005	2015	2006	2015	2006	2015
Hunger, rural development	2	8	4	13	3	12	12.4	22	4	14	3	10
Education	11	25	15	22	17	22	13.9	21.2	11	17	14	17
Gender	2	3	2	3	2	4	0.3	1.2	2	3	2	3
Health	13	30	14	32	18	34	7.4	12.5	24	48	25	44
Water sanitation	4	6	3	8	6	10	5.6	8.5	4	12	2	9
Slums	2	4	3	4	2	3	n/a	n/a	3	4	2	3
Energy	20	20	9	23	13	18	n/a	n/a	14	18	6	19
Roads	12	31	12	31	11	10	5.9	5.3	13	31	13	27
Environment	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other	8	13	8	13	8	13	n/a	n/a	8	13	8	13
<b>Total</b>	<b>74</b>	<b>140</b>	<b>70</b>	<b>149</b>	<b>80</b>	<b>124</b>	<b>45.4</b>	<b>70.7</b>	<b>82</b>	<b>161</b>	<b>75</b>	<b>143</b>

Source: UN Millennium Project (2005).

More recently, in 2009, the Government of Bangladesh jointly with the UN Development Program (UNDP) estimated that \$104 billion is needed to achieve all the MDGs in Bangladesh over the period 2009-2015 (see Table 7). This implies that \$15 billion is needed annually to achieve the MDGs in Bangladesh, at an annual per capita cost of about \$98.

Table 7: Summary of total annual costs of achieving MDGs by 2015 in Bangladesh

	2009	2010	2011	2012	2013	2014	2015	Total	Average 2009-2015
<b>MDG 1 - Agriculture and Rural Development including employment generation</b>									
Sub-total in BDT Billion	243.37	255.01	268.81	281.55	294.89	308.87	323.57	1,976.07	282.30
Sub-total in USD Billion	3.56	3.73	3.93	4.12	4.31	4.52	4.73	28.89	4.13
Per capita in BDT	1,659.74	1,714.90	1,782.62	1,841.14	1,901.54	1,964.02	2,028.87		1,841.83
Per capita in USD	24.27	25.07	26.06	26.92	27.80	28.71	29.66		26.93
<b>MDG 1 - Roads Infrastructure</b>									
Sub-total in BDT Billion	47.09	47.41	47.72	48.03	48.34	48.65	48.96	336.20	48.03
Sub-total in USD Billion	0.69	0.69	0.70	0.70	0.71	0.71	0.72	4.92	0.70
Per capita in BDT	321.17	318.80	316.43	314.06	311.70	309.35	307.00		314.07
Per capita in USD	4.70	4.66	4.63	4.59	4.56	4.52	4.49		4.59
<b>MDG 2 - Education including pre-primary, primary, secondary and non-formal education</b>									
Sub-total in BDT Billion	87.01	102.38	120.89	143.64	172.33	209.78	251.95	1,087.98	155.43
Sub-total in USD Billion	1.27	1.50	1.77	2.10	2.52	3.07	3.68	15.91	2.27
Per capita in BDT	601.14	697.34	811.90	951.18	1,125.19	1,350.51	1,599.31		1,019.51
Per capita in USD	8.79	10.20	11.87	13.91	16.45	19.74	23.38		14.91
<b>MDG 3 - Gender parity</b>									
Sub-total in BDT Billion	24.01	29.19	34.36	39.28	46.16	51.49	56.42	280.90	40.13
Sub-total in USD Billion	0.35	0.43	0.50	0.57	0.67	0.75	0.82	4.11	0.59
Per capita in BDT	188.81	225.60	261.36	296.49	345.70	382.67	416.04		302.38
Per capita in USD	2.76	3.30	3.82	4.33	5.05	5.59	6.08		4.42
<b>MDG 4, 5 and 6 - Health Systems including health infrastructure and HR common for MDG 4,5 and 6</b>									
Sub-total in BDT Billion	68.08	80.84	101.26	120.00	133.17	131.27	143.95	778.57	111.22
Sub-total in USD Billion	1.00	1.18	1.48	1.75	1.95	1.92	2.10	11.38	1.63
Per capita in BDT	465.12	540.36	670.32	786.6	855	834.48	902.88		722.11
Per capita in USD	6.8	7.9	9.8	11.5	12.5	12.2	13.2		10.56
<b>MDG 4 - Child Health excluding health systems</b>									
Sub-total in BDT Billion	27.39	38.55	43.71	47.93	52.25	54.59	58.22	322.64	46.09
Sub-total in USD Billion	0.40	0.56	0.64	0.70	0.76	0.80	0.85	4.72	0.67
Per capita in BDT	186.80	259.20	289.80	313.40	337.10	347.00	365.30		299.80
Per capita in USD	2.73	3.79	4.24	4.58	4.93	5.07	5.34		4.38
<b>MDG 5 - Maternal Health excluding health systems</b>									
Sub-total in BDT Billion	11.19	13.29	15.64	17.99	20.68	23.07	24.58	126.45	18.06
Sub-total in USD Billion	0.16	0.19	0.23	0.26	0.30	0.34	0.36	1.85	0.26
Per capita in BDT	76.30	89.40	103.70	117.67	133.43	146.65	154.23		117.34
Per capita in USD	1.12	1.31	1.52	1.72	1.95	2.14	2.25		1.72
<b>MDG 6 - HIV/AIDS, Malaria and TB</b>									
Sub-total in BDT Billion	18.53	23.83	27.08	31.19	36.04	42.66	52.17	231.50	33.07
Sub-total in USD Billion	0.27	0.35	0.40	0.46	0.53	0.62	0.76	3.38	0.48
Per capita in BDT	126.37	160.26	179.6	203.98	232.53	271.21	327.26		214.46
Per capita in USD	1.85	2.34	2.63	2.98	3.40	3.97	4.78		3.14
<b>MDG 7 - Environment</b>									
Sub-total in BDT Billion	14.62	16.07	16.1	18.09	18.47	19.27	19.61	122.23	17.46
Sub-total in USD Billion	0.21	0.23	0.24	0.26	0.27	0.28	0.29	1.79	0.26
Per capita in BDT	99.72	108.05	106.75	118.3	119.1	122.53	122.96		113.92
Per capita in USD	1.46	1.58	1.56	1.73	1.74	1.79	1.80		1.67

Continued..

	2009	2010	2011	2012	2013	2014	2015	Total	Average 2009-2015
<b>MDG 7 - Energy</b>									
Sub-total in BDT Billion	83.93	98.59	111.01	125.07	140.98	158.99	179.40	897.96	128.28
Sub-total in USD Billion	1.23	1.44	1.62	1.83	2.06	2.32	2.62	13.13	1.88
Per capita in BDT	571.51	661.67	734.08	814.84	904.95	1005.53	1117.86		830.06
Per capita in USD	8.36	9.67	10.73	11.91	13.23	14.70	16.34		12.14
<b>MDG 7 - Water Supply and Sanitation</b>									
Sub-total in BDT Billion	120.13	131.48	148.53	131.68	137.93	144.37	151.14	965.26	137.8943
Sub-total in USD Billion	1.76	1.92	2.17	1.93	2.02	2.11	2.21	14.11	2.02
Per capita in BDT	819.27	884.2	984.94	861.13	889.4	918.04	947.71		900.67
Per capita in USD	11.98	12.93	14.40	12.59	13.00	13.42	13.86		13.17
<b>Grand Total for all MDGs</b>									
<b>Total in BDT Billion</b>	745.34	836.63	935.12	1,004.45	1,101.23	1,193.01	1,309.98	7,125.76	1,017.97
<b>Total in USD Billion</b>	10.90	12.23	13.67	14.68	16.10	17.44	19.15	104.18	14.88
<b>Per capita in BDT</b>	5,115.95	5,859.78	6,241.50	6,618.79	7,155.63	7,651.99	8,289.42		6,676.15
<b>Per capita in USD</b>	74.79	82.75	91.25	96.77	104.61	111.87	121.19		97.60

Note: \$1 = 68.4 BDT.

Source: Government of Bangladesh and UNDP (2009).

Another study, conducted by the UN Economic and Social Commission for Asia and the Pacific (UNESCAP, 2008), shows that LDCs in the Asia-Pacific region including Bangladesh would require an additional investment of \$8 billion annually (\$29 per capita) until 2015 in order to achieve the non-income MDGs. The needs are found to be greatest in health (21% of the total), education (20%) and hunger (20%).

**Table 8: Summary of MDG resource gap in LDCs in the Asia Pacific region**

	<i>Resource requirement</i>	<i>Resources available</i>	<i>Resource gap</i>
Total (\$ billion)	66	58	8
Per capita (\$)	241	212	29

Source: UNESCAP (2008).

Looking at the specific MDG goals, Grown et al. (2006) shows that achieving gender equality and women's empowerment in Bangladesh over the period 2006-2015 would require \$57 billion. The cost of gender equality-promoting interventions in all MDG sectors is found to represent 29% of the total requirements for promoting gender equality in the country, which translates into 18% of the total MDG financing gap.

**Table 9: Annual costs for gender equality-promoting interventions (in millions of 2003 US\$)**

Country		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
<b>Bangladesh</b>												
Cost of MDG3 Specific Interventions		228	261	277	307	358	441	583	0	1251	1980	6513
Cost of Mainstreaming Gender Interventions in Other Sectors:		796	894	988	1080	1141	1226	1310	1393	1477	1535	11840
Costs Apportioned to Gender Equality in Other Sectors		2666	2906	3137	3385	3653	3918	4202	4520	4858	5166	38411
	<b>Bangladesh Total</b>	<b>3690</b>	<b>4061</b>	<b>4402</b>	<b>4772</b>	<b>5152</b>	<b>5585</b>	<b>6096</b>	<b>6740</b>	<b>7586</b>	<b>8681</b>	<b>56765</b>
<b>Cambodia</b>												
Cost of MDG3 Specific Interventions		26	30	32	35	40	46	56	73	101	147	587
Cost of Mainstreaming Gender Interventions in Other Sectors:		93	105	117	129	137	148	158	169	179	185	1420
Costs Apportioned to Gender Equality in Other Sectors		345	379	412	448	482	519	556	595	637	673	5045
	<b>Cambodia Total</b>	<b>464</b>	<b>514</b>	<b>561</b>	<b>612</b>	<b>659</b>	<b>713</b>	<b>771</b>	<b>836</b>	<b>916</b>	<b>1005</b>	<b>7052</b>
<b>Ghana</b>												
Cost of MDG3 Specific Interventions		36	41	44	48	53	61	74	94	130	188	768
Cost of Mainstreaming Gender Interventions in Other Sectors:		259	287	317	347	369	402	435	471	511	546	3945
Costs Apportioned to Gender Equality in Other Sectors		937	1013	1155	1204	1286	1385	1482	1588	1710	1869	13624
	<b>Ghana Total</b>	<b>1227</b>	<b>1341</b>	<b>1515</b>	<b>1599</b>	<b>1708</b>	<b>1848</b>	<b>1991</b>	<b>2154</b>	<b>2351</b>	<b>2603</b>	<b>18337</b>
<b>Tanzania</b>												
Cost of MDG3 Specific Interventions		59	68	72	79	91	111	145	207	320	526	1678
Cost of Mainstreaming Gender Interventions in Other Sectors:		448	482	519	558	589	634	684	740	804	864	6321
Costs Apportioned to Gender Equality in Other Sectors		1695	1847	2075	2215	2391	2583	2771	2966	3188	3553	25284
	<b>Tanzania Total</b>	<b>2202</b>	<b>2397</b>	<b>2666</b>	<b>2852</b>	<b>3071</b>	<b>3328</b>	<b>3600</b>	<b>3912</b>	<b>4312</b>	<b>4943</b>	<b>33283</b>
<b>Uganda</b>												
Cost of MDG3 Specific Interventions		45	52	56	61	69	82	102	135	194	295	1090
Cost of Mainstreaming Gender Interventions in Other Sectors:		571	614	659	707	747	803	865	935	1014	1089	8003
Costs Apportioned to Gender Equality in Other Sectors		1858	2049	2265	2499	2744	2997	3262	3545	3848	4182	29248
	<b>Uganda Total</b>	<b>2474</b>	<b>2715</b>	<b>2979</b>	<b>3267</b>	<b>3560</b>	<b>3881</b>	<b>4229</b>	<b>4614</b>	<b>5055</b>	<b>5566</b>	<b>38341</b>

Source: Grown et al. (2006).

## 2.4 The effects of the global financial crisis on Bangladesh and the MDGs

Rahman et al. (2010) discuss the effects of the global financial crisis on Bangladesh. They suggest that, despite some volatility, export performance in Bangladesh showed resilience until March 2009, but the second and third quarters of the year saw a considerable fall in total export earnings. On the other hand, imports (in value terms) have fallen consistently during the crisis phase, in view of falling global commodity prices, resulting in a comfortable balance of payments situation. While outflow of migrant workers has slowed, remittance flows have remained buoyant throughout the year. New ODA opportunities have been created to mitigate the crisis, although these have been constrained, largely by a lack of domestic absorption capacity. Bangladesh's government revenue mobilisation structure is characterised to a large extent by import-related sources; falling imports have therefore meant that government revenue mobilisation has been particularly affected. The slowdown in exports and the lack of opportunities in job markets abroad have had adverse impacts on the domestic labour market.

Rahman et al. (2009) argue that slower growth is likely to have an impact on resource mobilisation, poverty alleviation and employment creation. But the overall poverty effects are likely to be small, given that the growth effects were small and the poverty elasticity is small. Using a growth elasticity of poverty (0.38 used in the second poverty reduction strategy paper – PRSP II), if the IMF projection for Bangladesh materialises (GDP growth of 5.6%), about 0.49 million fewer people will come out of poverty in 2009 compared with the expected level. If the lower projection of the World Bank (4.8%) is considered, the reduction in the number of people in poverty during 2008/09 will be lower by about 0.9 million people. At the same time, a deceleration in GDP growth would mean fewer employment opportunities. Following the International Labour Organization (ILO) methodology (2002), with a 6.5% growth in GDP, the projected level of employment generation during 2008/09 would be about 1.9 million. The PRSP II projects that, during 2009-2011, on average 1.8 million people will be added to the labour force. If GDP growth underperforms, as projected by the IMF, there will be 0.3 million fewer jobs on offer. If GDP growth further slows down to the World Bank's projected level of 4.8%, incremental job opportunities may squeeze by 0.5 million compared with the expected level.

A further analysis suggests that vulnerability on the MDGs in Bangladesh is low compared with other countries, such as Cambodia. Indeed, Bangladesh is far less open than Cambodia, and was affected far less by the global financial crisis than Cambodia. So while both countries score low on MDGs, despite progress Cambodia may see large negative effects of the financial crisis, while the effects in Bangladesh will be more modest.

**Table 10: Are MDGs vulnerable to the effects of the global financial crisis?**

	Bangladesh		Cambodia	
	Vulnerability	Level	Vulnerability	Level
Poverty	Low	High	High	High
Child malnutrition	Low	High	High	High
Under -5 mortality	Low	High	High	High
Primary enrolment rate	Low	Low	High	Low

Note: Vulnerability = exposure – resilience; Asian countries are categorised as either low or high.

Source: UNESCAP (2009).

A recent World Bank publication (2009) also simulated the impact of the crisis and assumed that GDP growth is 0.8 percentage point lower in FY09; and 1.4 percentage point lower in FY10, compared to a scenario without the crisis. The aggregate impact on employment was estimated to be low – the crisis added about 0.2 to 0.5 million to the number of adults (of age 15-64 years) who are not employed. Average household income was likely to have been 0.9 percent lower in FY09 and is projected to be 3 percent lower in FY10, compared to the no-crisis scenario. In 2009, the country's poverty rate (share of population below the upper poverty line) and extreme poverty rate (share below the lower poverty line) are estimated to be 0.5 and 0.4 percentage points higher, respectively, as a result of the crisis. In 2010, poverty and extreme poverty rates are projected to be 1.6 and 1.1 percentage point higher respectively as a result of the crisis.

Bangladesh was on target to cut poverty by nearly 11 percentage points between 2005 and 2010, but because of the crisis this is now likely to be 9 percentage points (an 2.4 million additional poor people in 2010 due to the crisis). The estimated impact is also uneven between different regions of the country, with the more industrialized and integrated regions likely to be affected more by the crisis. The eastern part is likely to be affected more than the west because the east has a much higher concentration of industry and external remittances than the west. If the poverty rate was 40 per cent in 2005, and the expected reduction is 9 percentage points by 2010, then Bangladesh would only need to reduce poverty by a further 2 per cent to reach the MDG 1 target of 29 per cent.

### 3. Trends in relation to trade, debt and aid

#### 3.1 Trade

##### 3.1.1 Trends in trade

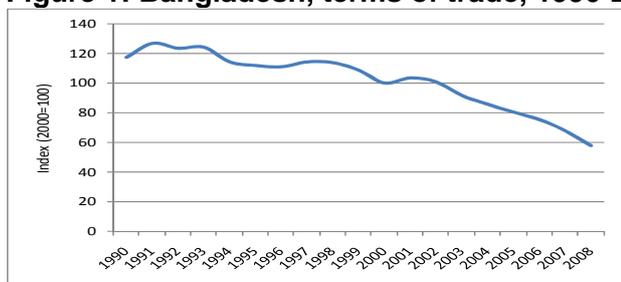
Bangladesh's exports are dominated by textiles and clothing (T&C), which accounted for 70% of total exports in 2007, most of which are destined for the European Union (EU) and US markets (Table A1 in the Annex).<sup>3</sup> Although, generally speaking, Bangladesh is situated at the Cut Make and Trim (CMT) part of the global value chain (GVC), it has fostered backward linkages with the industry: much of the supply of cotton and yarn is produced within country. In recent years, Bangladesh has begun to increase exports of cotton to China – this product category has been the fastest growing in recent years – and exports of yarn to Turkey, India and Pakistan. In general, products exported from Bangladesh have become more diversified over time compared with markets (Figure A4 and Table A3 in the Annex).

Bangladesh has reported export data only up until 2007. However, as reported by Rahman et al. (2010) and te Velde et al. (2010), despite the impacts of the global financial crisis, exports of T&C to the US and EU managed to increase in 2008; however, a slowdown is now becoming apparent, which has resulted in a loss of between 25,000 and 30,000 jobs in addition to wage cuts and reductions in working hours as the full extent of the crisis and loss of consumer confidence begins to work its way through the supply chain (which operates on a seasonal basis).

On the import side, machinery for boilers and nuclear reactors are the largest category and account for most in terms of value; the major suppliers are the EU27, China, Japan and India. Mineral fuels and oils are sourced predominantly from Kuwait, India (which may be transshipment) and the United Arab Emirates (UAE). There are some imports of cotton, mainly from Uzbekistan, India and China, which may be utilised as inputs into the garment industry. The EU, China and the US account for most electrical goods imported. Foodstuffs are also important (Bangladesh is a net food and fuel importer) and these are sourced predominantly from other developing countries such as Indonesia, Argentina, Malaysia and Brazil (see Table A4 in the Annex).

In recent years, contrary to expectations – that terms of trade for manufactured goods will always outperform commodities – Bangladesh's terms of trade have deteriorated (Figure 1). Bangladesh has faced formidable competition from larger suppliers to US and EU markets such as China (further to the end of the Multi Fiber Arrangement (MFA) in 2005).<sup>4</sup> Despite these global shifts, Bangladesh has managed to maintain its level of garment exports even though China's has grown rapidly (Figure A5 in the Annex).

**Figure 1: Bangladesh, terms of trade, 1990-2008**



Note: Calculated based on net barter terms of trade defined as the ratio of the export unit value index to the import unit value index.

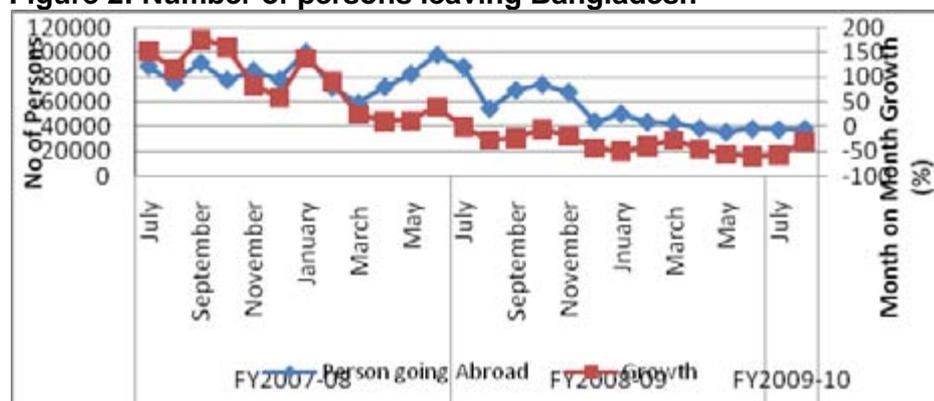
<sup>3</sup> Categories HS 61 and 62.

<sup>4</sup> As argued by Kaplinsky and Morris (2008), the income drivers of trade have in recent years changed.

Source: UNCTAD Handbook of Statistics 2009 online.

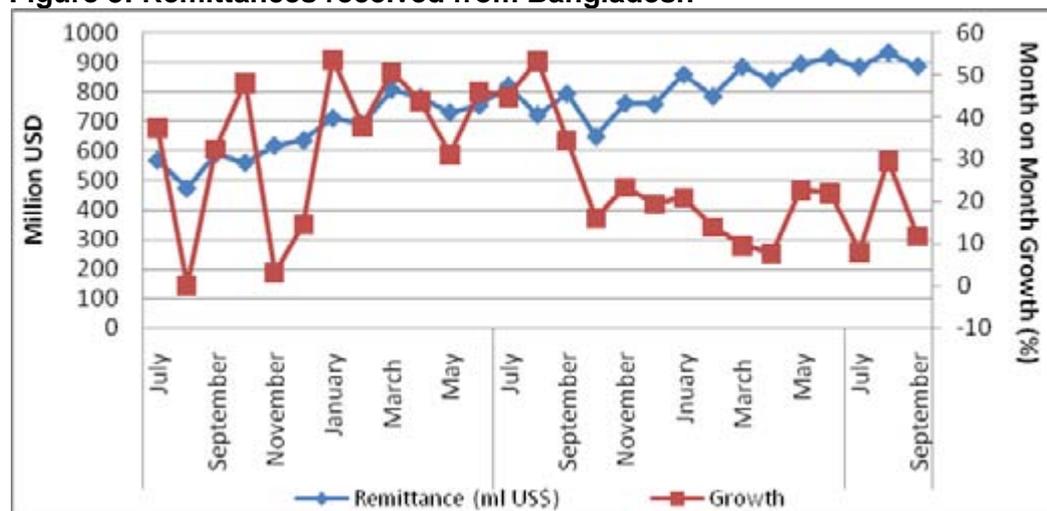
Although the garment industry in Bangladesh accounts for only around 4% of total employment, it employs mostly women who have migrated from rural areas; the industry is therefore an important source of remittances *within* the country. In terms of remittances from *outside* the country, Bangladesh is a net exporter of services such as labour. Most recent data suggest a decline in both the number of individuals leaving Bangladesh (Figure 2) and the amount of money received back in the form of remittances (Figure 3).

**Figure 2: Number of persons leaving Bangladesh**



Source: Rahman et al. (2010)

**Figure 3: Remittances received from Bangladesh**



Source: Rahman et al. (2010)

### 3.1.2 Policy and country context

Preference erosion is a concern for Bangladesh given the phase out of the MFA, which has meant stiffer competition against largest competitors such as China (solely on price),<sup>5</sup> in addition to the to African Growth and Opportunity Act (AGOA), which has increased market access for African producers to a greater extent than that available to other LDCs such as Bangladesh (as well as Cambodia). Bangladesh is a member of the Least Developed Country (LDC) group at the World Trade Organization (WTO), which has been lobbying for duty-free quota-free (DFQF) access for all LDCs, but moreover, and with particular regard to the US market, that all LDCs be treated the same.<sup>6</sup> It is also a member of the G90 group in negotiations for the conclusion of the Doha Development Round (DDR).

<sup>5</sup> Bangladesh is a high volume low value exporter.

<sup>6</sup> This is known as the US Trade Act.

In the EU market, Bangladesh exports under the Everything But Arms (EBA) initiative. Table 11 provides details on the preferential treatment Bangladesh receives in its major markets. Table 12 shows average and trade-weighted tariffs. Clearly, at the current time the most restrictive market for Bangladesh is the US.

**Table 11: Market access for Bangladesh's main exports**

Market	Applicable preferential regime(s)
EU	EBA
USA	LDC, GSP
Canada	GSP for LDCs (LDCT)
China	Asia-Pacific Trade Agreement (APTA)
India	Asia-Pacific Trade Agreement (APTA) South Asian Free Trade Area LDC (SAFTA II) LDC GSTP GSTP
Japan	LDC GSP

**Table 12: Market access in major markets for Bangladesh**

	EU27	USA	Canada	China	India	Japan
Bangladesh share of market's total import value (%)	0.12	0.2	0.12	0.02	0.02	0.03
<b>All products:</b>						
Value of Bangladesh's exports (US\$ mn)	6,725	3,375	455	222	524	160
Share of value for which simple AV tariff known (%) <sup>b</sup>	100	93.2	100	79.8	99.1	99.3
Share in value of non-arms exports (for which simple	100	8.6	100	30.6	82.9	99.9
Simple average tariff (%) <sup>d</sup>	0	9.1	0	8.8	4.3	0.3
Trade-weighted average tariff (%) <sup>d</sup>	0	16.1	0	5.8	1.6	0
<b>Agricultural products:</b>						
Value of Bangladesh's exports (US\$ mn)	85	8	3	2	159	1
Share of value for which simple AV tariff known (%) <sup>b</sup>	100	90.8	100	100	99.7	93.6
Simple average tariff (%) <sup>d</sup>	0	18.5	0	11.3	13.8	0.1
Trade-weighted average tariff (%) <sup>d</sup>	0	155.8	0	10.7	2.7	0
<b>Textile and clothing products:</b>						
Value of Bangladesh's exports (US\$ mn)	5,937	3,057	442	82	247	36
Share of value for which simple AV tariff known (%) <sup>b</sup>	100	94.4	100	99.9	99.6	98.6
Simple average tariff (%) <sup>d</sup>	0	12.7	0	9	6.8	0
Trade-weighted average tariff (%) <sup>d</sup>	0	17.2	0	4.3	1.1	0
<b>Notes:</b>						
(a) i.e. items actually exported by Bangladesh to the market shown in 2007.						
(b) For some markets not all applicable duties are known – either because the tariff schedules are in the 2007 version of the HS whereas the export data are in the 2002 version, or because a specific or compound duty applies (for which <i>ad valorem</i> equivalents have not been calculated). The share of the total value of imports of goods to which simple <i>ad valorem</i> tariffs apply and are known is shown here – and it is only the exports accounting for the total representing this share that have been included in the average tariff calculations in this						
(c) Because the trade data are at the 6-digit level of the HS and tariffs are set at the more disaggregated national tariff line level, in many cases a range of tariffs applies to different items within an HS 6-digit sub-heading. In calculating this share the <i>maximum</i> rate applicable to any item within the 6-digit sub-heading has been used. The proportion of trade eligible for duty-free entry shown here may, therefore, be understated.						
(d) Again, <i>maximum</i> applicable tariff rates have been used in these calculations.						
<b>Sources:</b> Calculated from trade data obtained from ITC Trade Map and the latest tariff schedules available in UNCTAD's TRAINS database/Canada Border Services Agency (2008 for EU and China; 2009 for India and USA; 2010 for Canada).						

A recent study undertaken by Bouët et al. (2010) explores a number of scenarios related to Doha outcomes within a general equilibrium framework. Estimates are based on the potential export gains from movement from 97% DFQF access for LDCs to 100% product coverage: what was on the table in the summer of 2008 when the talks collapsed. Results for Bangladesh are summarised in Table 13 below.

**Table 13: Percentage change in key variables in 2020 from OECD implantation of 100% DFQF for LDCs**

DFQF Recipients	Exports	Welfare
Malawi	12.97	2.65
Rest of South East Asia	2.52	0.95
Ethiopia	1.35	0.29
Bangladesh	4.16	0.29
Mozambique	0.39	0.17
Senegal	1.16	0.15
Rest of Africa	0.08	0.03
Madagascar	-0.03	-0.02

Source: Bouët et al. (2010)

In both general and partial equilibrium models, when all Organisation for Economic Co-operation and Development (OECD) and middle-income countries (MICs) offer 100% DFQF Bangladesh can be seen to benefit more than Cambodia. However, Bangladesh gains less than Cambodia in a partial equilibrium modelling when all OECD countries offer 100% DFQF (Table 14).

**Table 14: Percentage variation in exports**

	100% OECD DFQF		100% OECD + MICs <sup>b</sup>	
	General Equilibrium	Partial Equilibrium	General Equilibrium	Partial Equilibrium
Bangladesh	4.16	28.96	4.82	38.55
Cambodia	2.52	31.27	2.55	32.96
<i>Clothing</i>	19.49	n.a	19.51	n.a.

Notes: a Canada, Japan, Norway, Switzerland, United States; the EU is excluded because it provides 100% DFQF to LDCs under the EBA regime. b The CGE model includes South Korea and Mexico in OECD while the partial equilibrium includes them with Brazil, China, and India as middle income countries. c In the CGE model, the results are for the regional aggregate, "rest of South East Asia" which includes Laos and Brunei as well as Cambodia which dominates exports.

Source: Bouët et al. (2010)

As can be seen from Table 15, Bangladesh is estimated to increase export volumes most when OECD countries offer full DFQF to LDCs only. It experiences preference erosion if market access is extended further to other low-income countries (LICs) or other small countries.

**Table 15: Percentage change in export volume in 2020 in scenarios where OECD grants 100% DFQF**

	OECD for LDCs	OECD for LDCs plus small LICs	OECD for LDCs plus all LICs	LDCs plus other small poor
Bangladesh	4.16	4.07	3.38	3.46

Source: Bouët et al. (2010)

Despite their classification as least developed beneficiary countries, Bangladesh faces trade-weighted tariffs averaging 15% and 17% in the US market; it has been estimated that, as a result of these high tariff rates, the US collected more duties on imports from Bangladesh (\$563 million) and Cambodia (\$318 million) in 2009 (Baughman, 2010).

It is important to point out that general and, to a lesser extent, partial equilibrium models rely on a number of assumptions as to how economies work. Moreover, estimates are unable to take into account supply-side constraints; they also assume that demand responds positively to increases in

supply. The potential benefits for producers in LDCs from the removal of tariffs also depend on the nature of the value chain within which they trade (see Box 1).

### Box 1: The potential effects of DFQF for all LDCs

- The first and most immediate impact would be the transfer of import taxes, formerly levied by more developed trade partners to respective supply chains. If this accrues to producers and exporters, it will make exports more profitable.
- Second, if part of the revenue transfer accrues to importers, it could induce them to buy more from LDC suppliers, leading to an increase in exports. If it accrues to producers/exporters, it may also enable LDC suppliers to increase their supply of competitive products without substantial new investment.
- Third, by removing tariff barriers, DFQF may make it commercially feasible, for LDC suppliers to export new markets where these exports were previously constrained.
- The fourth effect could be greatest, but is hardest to predict. If DFQF means increased supply from LDCs, there could be increases in foreign exchange earning and knock-on effects for the rest of the economy.

Source: Adapted from Stevens et al. (2008).

In terms of non-tariff barriers, this is not a documented issue for Bangladesh, although rules of origin (ROO) must be met in EU and US markets. The former includes a double transformation requirement which is more stringent than the US market. Certification is also easier to carry out in U.S. agreements, at least in principle, than in EU ones (Cadot and de Melo, 2007).

### 3.1.3 Aid for Trade

Most AfT is destined for the productive sectors 'agriculture, forestry, fishing' and 'industry, mining and construction'. However, the proportions destined for 'trade policies and regulations' as well as 'trade policy and administration management' have increased in recent years (see Table 16). In terms of AfT as a proportion of reported trade flows, the level has remained fairly stable in recent years (Table 17).

**Table 16: AfT commitments pledged to Bangladesh (constant 2008 US\$ millions)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
33110: Trade policy and admin. management	0.63	1.45	1.33	12.83	26.97	18.88	25.36	18.53	72.57
33120: Trade facilitation	0.00	0.00	0.01	0.01	0.00	0.48	0.01	0.00	0.00
33130: Regional trade agreements	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00	0.00
33140: Multilateral trade negotiations	0.00	0.58	0.00	0.00	0.00	0.00	0.11	0.00	0.00
33150: Trade-related adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
33181: Trade education/training	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.00
33210: Tourism policy and admin. management	0.00	0.00	0.00	0.00	0.01	0.00	0.09	2.16	0.07
<b>200: II. ECONOMIC INFRASTRUCTURE AND SERVICES</b>	<b>572.16</b>	<b>429.26</b>	<b>560.08</b>	<b>1,060.86</b>	<b>790.22</b>	<b>487.95</b>	<b>414.40</b>	<b>891.62</b>	<b>846.34</b>
<b>300: III. PRODUCTION SECTORS</b>	<b>226.70</b>	<b>76.50</b>	<b>41.10</b>	<b>256.86</b>	<b>159.65</b>	<b>80.47</b>	<b>177.11</b>	<b>120.38</b>	<b>393.47</b>
310: III.1. Agriculture, Forestry, Fishing	223.55	51.00	12.62	168.73	51.86	38.20	144.02	69.98	135.61
320: III.2. Industry, Mining, Construction	2.51	23.46	27.15	75.23	80.81	22.89	7.52	29.71	185.21
331: III.3.a. Trade Policies & Regulations	0.63	2.03	1.33	12.91	26.97	19.39	25.48	18.53	72.58
332: III.3.b. Tourism	0.00	0.00	0.00	0.00	0.01	0.00	0.09	2.16	0.07

Source: OECD.

**Table 17: AfT and total exports (US\$ '000s)**

	2002	2003	2004	2005	2006	2007
Total AfT Disbursements	643.6	1587.5	1136.5	668.3	794.2	1153.1
Total exports (USD'000)	5417.0	6403.0	8267.0	9332.0	11697.0	13143.0
AfT as a % of total exports	11.9	24.8	13.7	7.2	6.8	8.8

We next analyse the extent to which the AfT received by Bangladesh is consistent with its trade-related priorities as emerging from the most recent OECD questionnaire on AfT (2009). In order to make the link we analyse specialisation index of different types of AfT. As described in Section 3.3 below, this measures the extent to which a country is receiving more ODA in that sector (within the broader AfT sector) relative to the other developing countries. In particular, an index greater than 1 indicates a relative specialisation in the specific AfT sector controlling for the overall specialisation in AfT, i.e. a measure of the allocation of AfT across sub-sectors, and vice-versa. We also compute the specialisation index for AfT to measure to what extent AfT has been prioritised in total ODA to the country.

First we note that in line with the stated importance of trade 'as an engine of growth and development' in policy documents like PRSPs, Bangladeshi aid has been disproportionately directed towards trade-related activities (see bottom row of Table 18). Moreover, in line with the questionnaire's suggestion that economic infrastructure be the top trade-related priority of the country, aid to infrastructure has consistently been the most important AfT area of support both in absolute as well as in relative terms. The only exception has been 2008, when support grew particularly for aid to productive sectors (especially industry and trade policy and regulations) and to trade policy and management. While this is somewhat at odds with Bangladeshi stated priorities, this increased prioritisation of productive sectors is in line with the importance of competitiveness concerns expressed in the questionnaire. On the other hand, there has been surprisingly poor support for trade facilitation despite that should be in the top three priorities.

**Table 18: AfT specialisation index in Bangladesh (based on 2008 US\$ constant commitments)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
33110: Trade policy and management	0.1	0.2	0.1	0.4	1.8	1.4	1.3	1.2	3.3
33120: Trade facilitation	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
33130: RTAs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
33140: Multilateral trade negotiations		0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0
33150: Trade-related adj.								0.0	0.0
33181: Trade education		0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
33210: Tourism policy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
200: II. Econ Infra	1.1	1.3	1.5	1.3	1.2	1.3	1.1	1.3	1.0
300: III. PROD Sectors	0.9	0.4	0.2	0.5	0.5	0.4	0.9	0.4	1.1
310: III.1. Agriculture, Forestry, Fishing	1.2	0.4	0.1	0.6	0.3	0.3	1.2	0.3	0.6
320: III.2. Industry, Mining, Construction	0.0	0.6	0.4	0.6	0.8	0.4	0.2	0.6	2.3
331: III.3.a. Trade Policies & Regulations	0.1	0.1	0.1	0.3	1.0	1.1	0.9	0.6	1.9
332: III.3.b. Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
<b>Total AfT (broad)</b>	<b>1.7</b>	<b>1.0</b>	<b>1.4</b>	<b>2.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.7</b>	<b>1.4</b>

Source: OECD CRS database.

As a matter of fact, according to the response to the questionnaire, there is a need for AfT activities to be more coordinated and aligned with government's priorities, while the monitoring and evaluation phase is already pretty well coordinated. A further AfT issue lamented by Bangladesh in the questionnaire is its lack of predictability, which seems to be part of the problem as far as

general aid to Bangladesh is concerned (as noted in Section 3.3). Finally, the questionnaire notes that ‘capacity development initiatives were often fragmented, project based, overlooking the actual capacity needs, lacked comprehensiveness and a government wide approach ... Very little has been done to enhance institutional capacity’.

## 3.2 Debt sustainability

One of the six targets of Goal 8 is to ‘Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term’.

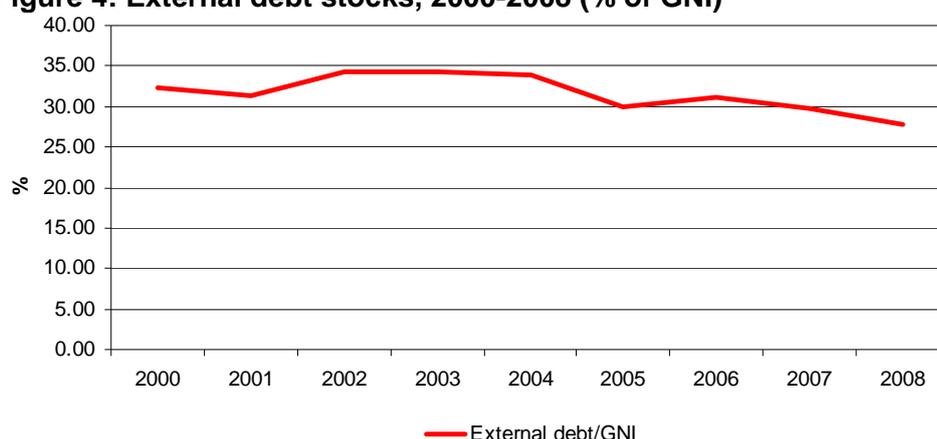
Debt sustainability is key for developing countries as the burden of debt may become a serious threat to achieving the MDGs. Assessment of debt sustainability is a very sensitive issue and it encompasses two main aspects: solvency and liquidity. Solvency can be defined as a country’s ability to discharge its future external debt-servicing obligations without indefinitely accumulating debt. Liquidity is the ability of an economy to fully meet its current debt-servicing obligations.

In what follows, we analyse the trends in the level and composition of debt in Bangladesh over 2000-2009 and then assess the country’s debt sustainability over the same years by looking at a number of standard solvency and liquidity indicators. On the basis of the latest available International Monetary Fund (IMF)/World Bank Debt Sustainability Analysis (DSA), we finally assess the risk of debt distress in Bangladesh by looking at the projected debt and debt service dynamics in the next 20 years under a baseline scenario and in the face of plausible shocks. Additional debt data are provided in the Annex.

### 3.2.1 Debt level and composition

The level of external debt in Bangladesh experienced a downward trend over the period 2000-2008. Indeed, thanks to prudent borrowing and strong economic growth, the external debt to GNI ratio came down to 28% in 2008, from 32% in 2000 (Figure 4).

**Figure 4: External debt stocks, 2000-2008 (% of GNI)**

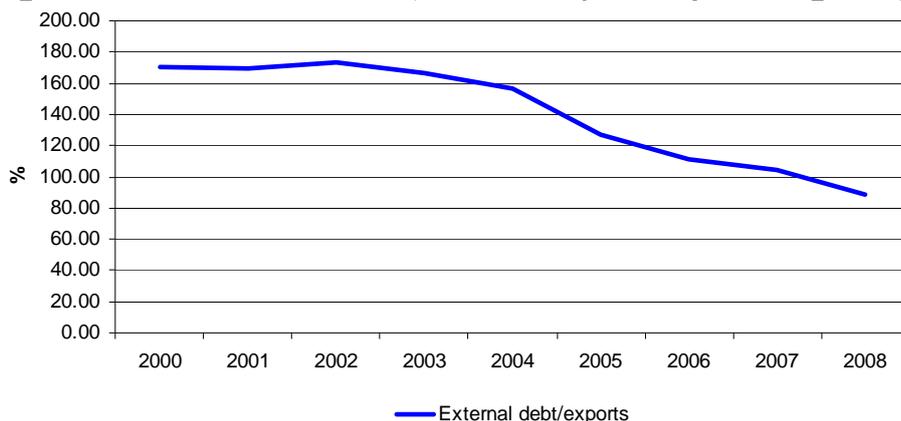


Source: World Bank’s GDF.

Despite the global financial crisis, Bangladesh external debt as a share of GDP declined further at the end of 2009, reaching a value of 24%.

The lessening of the debt burden over the period of analysis is also confirmed by the external debt to exports and income ratio. As shown in Figure 5, external debt as a share of exports of goods, services and income dropped from 170% in 2000 to 89% in 2008.

**Figure 5: External debt stocks, 2000-2008 (% of exports of goods, services and income)**

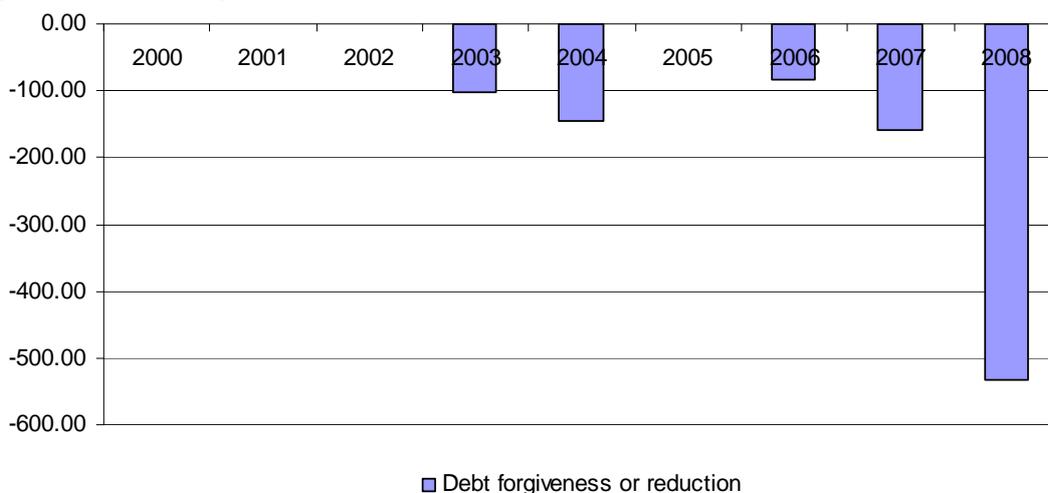


Source: World Bank’s GDF.

It is worth noting that up to 2008 the level of external debt appears not to have been negatively affected by the global financial and economic crises. This is partly because, differently from other developing countries, Bangladesh managed to keep its exports increasing notwithstanding the crisis. Increasing remittances have also played an important role.

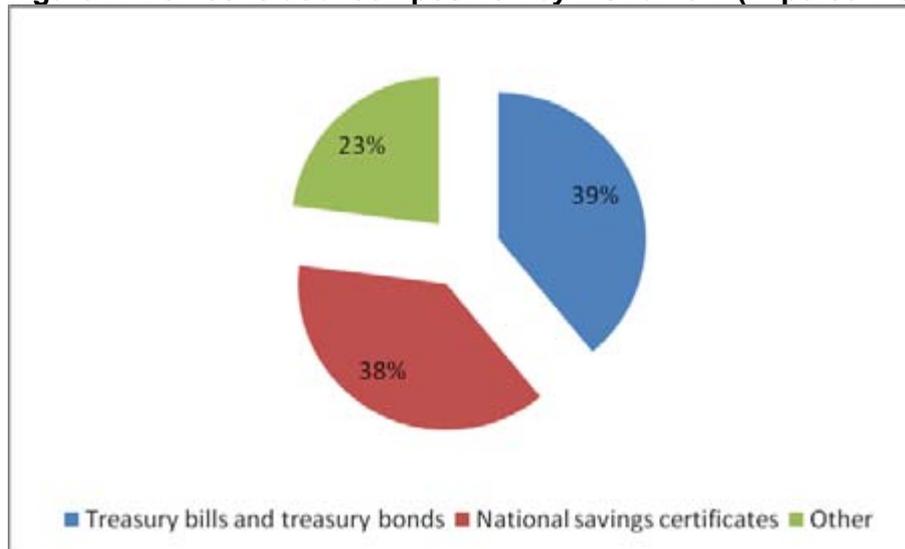
Debt forgiveness and reduction have been concentrated mainly in the late 2000s, experiencing a peak of \$533 million in 2008 (Figure 6).

**Figure 6: Debt forgiveness or reduction, 2000-2008 (US\$ millions)**

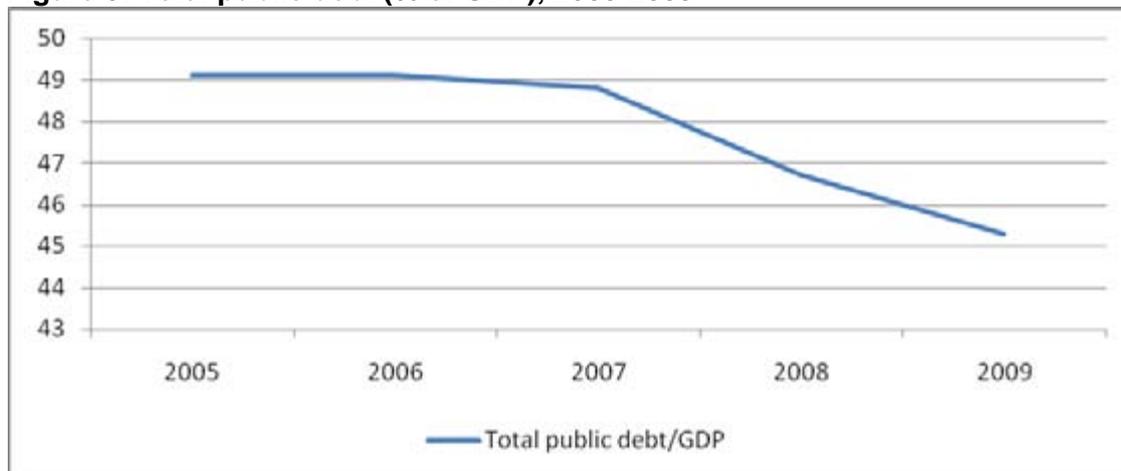


Source: World Bank’s GDF.

Total public debt, which consists mainly of treasury bills and treasury bonds held by domestic commercial banks (Figure 7), declined steadily between 2005 and 2009. Indeed, as shown by Figure 8, the total public debt over GDP ratio dropped by 4 percentage points of GDP, from 49% in 2005 to 45% in 2009.

**Figure 7: Domestic debt composition by instrument (in percent of total), 2009**

Source: IMF's 2009 Article IV Consultation.

**Figure 8: Total public debt (% of GDP), 2005-2009**

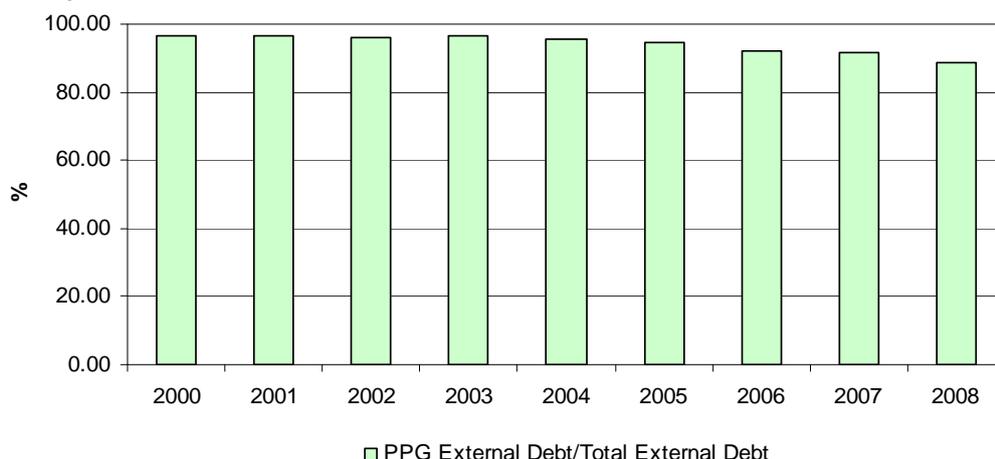
Source: IMF's 2009 Article IV Consultation, and authors' elaborations.

However, domestic public debt has been on the rise over recent years, from 20% of GDP in 2006 and 2007 to 21.2% of GDP in 2009. This is a source of concern for the country and calls for careful management of public debt.

In terms of composition, it is worth looking at 1) the share of public sector debt; 2) concessional debt; 3) foreign debt; and 4) short-term debt. Some of these indicators may also help assess the vulnerability of the economy to solvency and liquidity risk arising from the external debt position

Public sector debt represents the largest share of external debt throughout all the period of analysis. However, it progressively decreases from 97% in 2000 to 89% in 2008 (Figure 9).

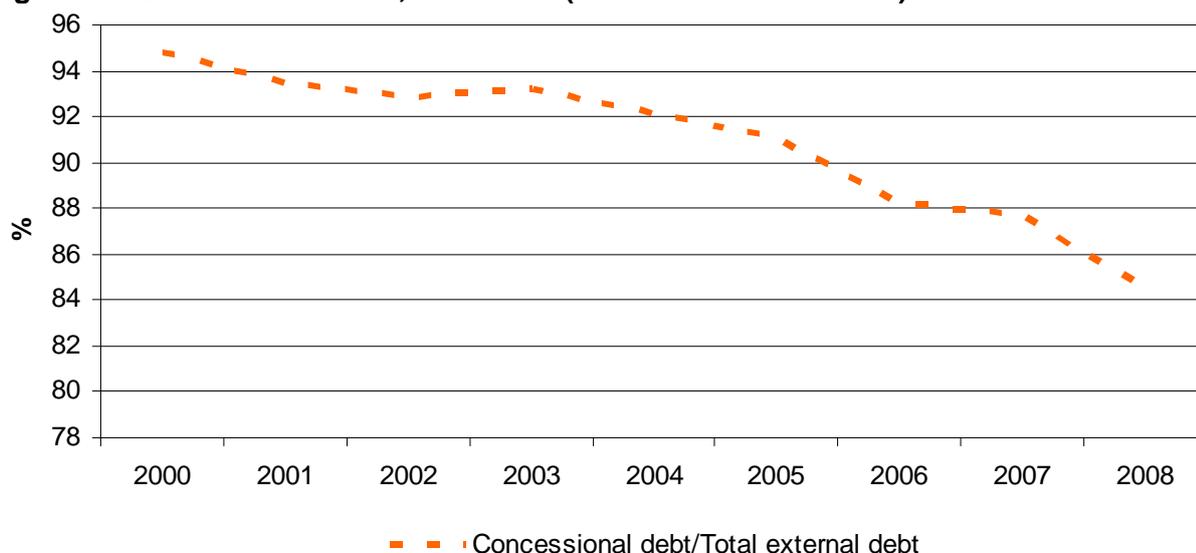
**Figure 9: Public and publicly guaranteed (PPG) external debt (% of total external debt stocks)**



Source: World Bank’s GDF.

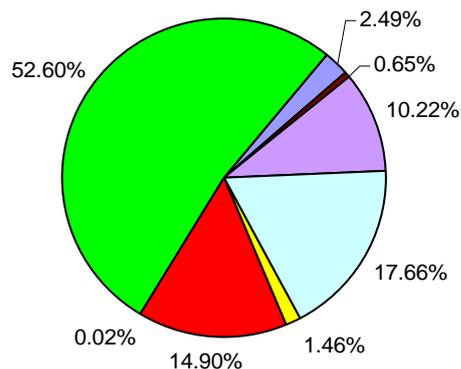
The share of concessional debt in total external debt has experienced a downward trend, coming down to 84.5% in 2008 from 94.8% in 2000 (Figure 10).

**Figure 10: Concessional debt, 2000-2008 (% of total external debt)**



Source: World Bank’s GDF.

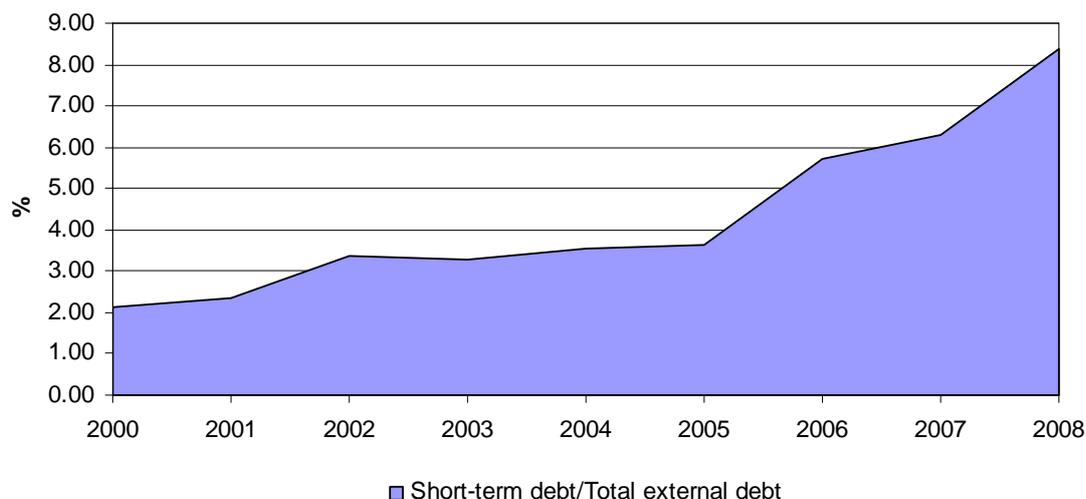
If we look at the currency composition of debt, it appears that foreign debt and in particular debt payable in US dollars prevails. Indeed, as shown in Figure 11, in 2008 a share of 53% of PPG debt was payable in US dollars. Such a high share of foreign debt might represent an important source of vulnerability for the economy in the case of a sudden depreciation of the domestic currency, as happened in 2005, when the exchange rate went from 59.5 taka per US dollar to 64.3 taka.

**Figure 11: Currency composition of PPG debt, 2008 (%)**

■ All other currencies ■ Euro ■ Yen ■ Multiple currencies ■ Pound ■ SDR ■ Swiss Franc ■ US dollar

Source: World Bank's GDF.

The maturity composition of debt shows that in Bangladesh the share of short-term debt is still quite small, even though the country has relied increasingly on short-term financing over the period of analysis. Indeed, the ratio of short-term debt to total external debt increased from 2.1% in 2000 to 8.4% in 2008 (Figure 12). If this trend is going to continue, high levels of short-term debt might make the economy vulnerable to sudden changes in investor sentiment.

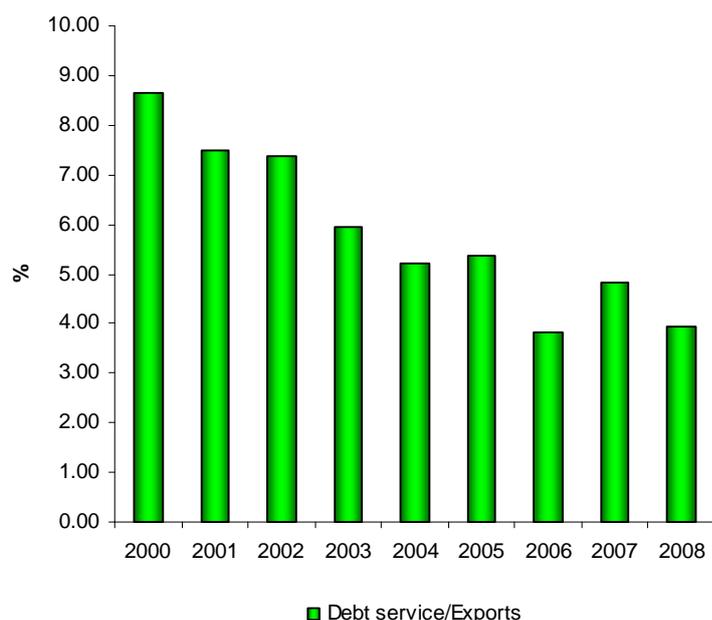
**Figure 12: Short-term debt, 2000-2008 (% total external debt)**

Source: World Bank's GDF.

### 3.2.2 Debt sustainability

In the period 2000-2009, the key solvency indicators for Bangladesh's external debt remained well below the debt burden thresholds identified for those countries (such as Bangladesh) that are classified as 'medium performers' on the basis of the quality of their policies and institutions as measured by the World Bank's Country Policy and Institutional Assessment (CPIA).

The debt service to exports ratio fell by more than a half from 8.6% in 2000 to 3.9% in 2008, thus remaining constantly well below the threshold level of 20% (Figure 13).

**Figure 13: External debt service, 2000-2008 (% of exports of goods, services and income)**

Source: World Bank's GDF.

The IMF's DSA released in December 2009 reports that this downward trend continued in 2009 as well.

Nevertheless, Table 19 reveals that the government is still spending more on external debt service than, for example, health. In 2007, indeed, Bangladesh had to pay 1.36% of GDP to meet external debt obligations; the figure was around 1.14% for health services.

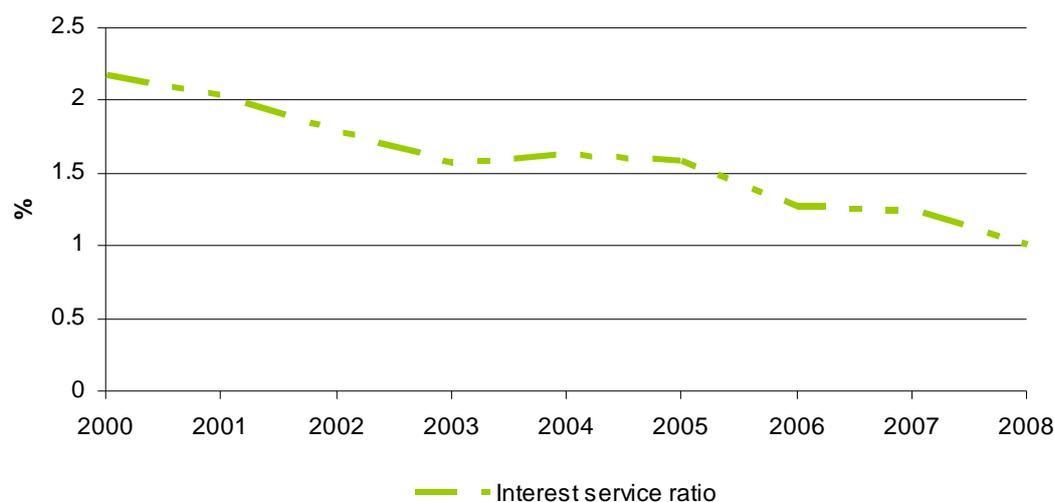
**Table 19: Public expenditure pattern – essential services vs. external debt service**

Year	Health expenditure (% GDP)	Education expenditure (% GDP)	External debt service (% GDP)
2000		2.38	1.45
2001		2.46	1.26
2002		2.32	1.31
2003	1.09	2.38	1.13
2004	1.16	2.25	1.14
2005	1.07		1.28
2006	1.18	2.46	1.04
2007	1.14	2.56	1.36
2008		2.39	1.24

Source: World Bank's World Development Indicators and GDF.

The net present value (NPV) of external debt to exports ratio and the NPV of external debt in percent of GNI experienced declining trends as well. In 2008, the NPV of external debt to exports ratio was equal to 66.5%, well below the 150% indicative threshold level; the NPV of external debt in percent of GNI amounted to 19.5%, compared with a threshold of 40%. In 2009 these indicators remained below their indicative policy-dependent thresholds as well.

An improvement in debt sustainability over time is also highlighted by the trend in the interest service ratio, which decreased from 2.2% in 2000 to 1.0% in 2008 owing to the increasing rate of exports (Figure 14).

**Figure 14: Interest payments on external debt (% of exports of goods, services and income)**

Source: World Bank's GDF.

A different scenario emerges if we look at the public sector debt, which appears to be much less sustainable than external debt. Indeed, in 2009 the NPV of public sector debt to revenue ratio amounted to 389% in 2009, which is significantly above the threshold of 250%. Moreover, the debt service to revenue ratio has deteriorated over recent years, increasing from 26% in 2007 to more than 29% in 2009, which is very close to the 30% threshold.

The liquidity situation in Bangladesh deteriorated in the period 2000-2008. Indeed, the ratio of international reserves to short-term debt, which is the single most important liquidity indicator, declined from 453.83% in 2000 to 291.41% in 2008 (Figure 15). Even though international reserves are still well above the stock of short-term debt, it is clear that the country's reserve adequacy has progressively deteriorated over time.

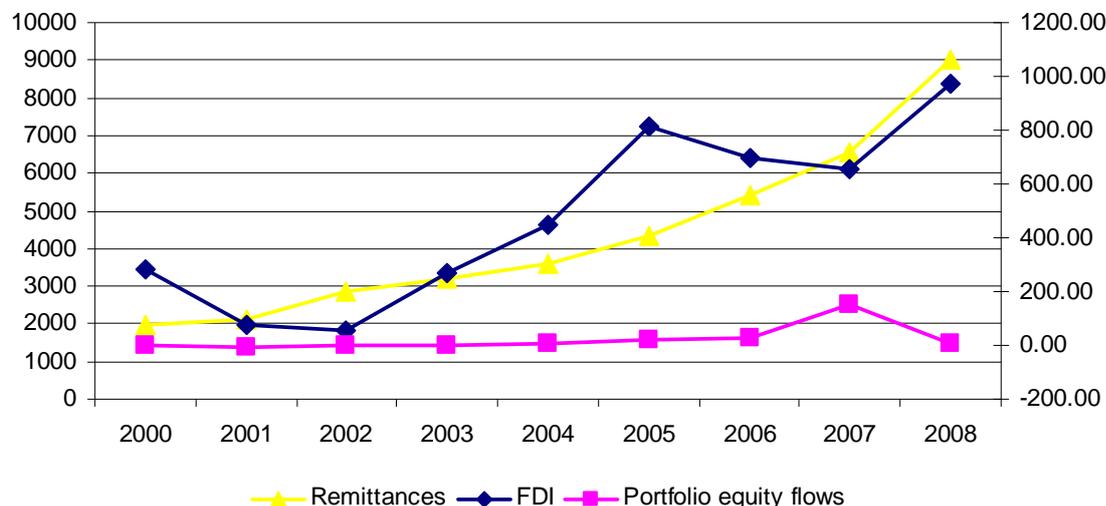
**Figure 15: Ratio of international reserves to short-term debt, 2000-2008 (%)**

Source: World Bank's GDF.

In order to assess the vulnerability of the economy to solvency and liquidity risks arising from the external debt position, it is also worth looking at the trends over time of different balance of payments (BOP) flows. Figure 16 reports the trends of foreign direct investment (FDI), portfolio equity flows and remittances in Bangladesh. Both FDI and remittances experienced a steady

upward trend up to 2008 notwithstanding the global financial crisis, thus contributing to enhancing the country's ability to meet its debt obligations. On the other hand, portfolio equity flows dropped sharply from \$153.4 million in 2007 to \$9.7 million in 2008; this sudden decline may have significant adverse consequences on Bangladesh's ability to service debt.

**Figure 16: BOP flows, 2000-2008 (US\$ millions)**



Note: FDI and portfolio equity flows on secondary axis.

Source: World Bank's GDF.

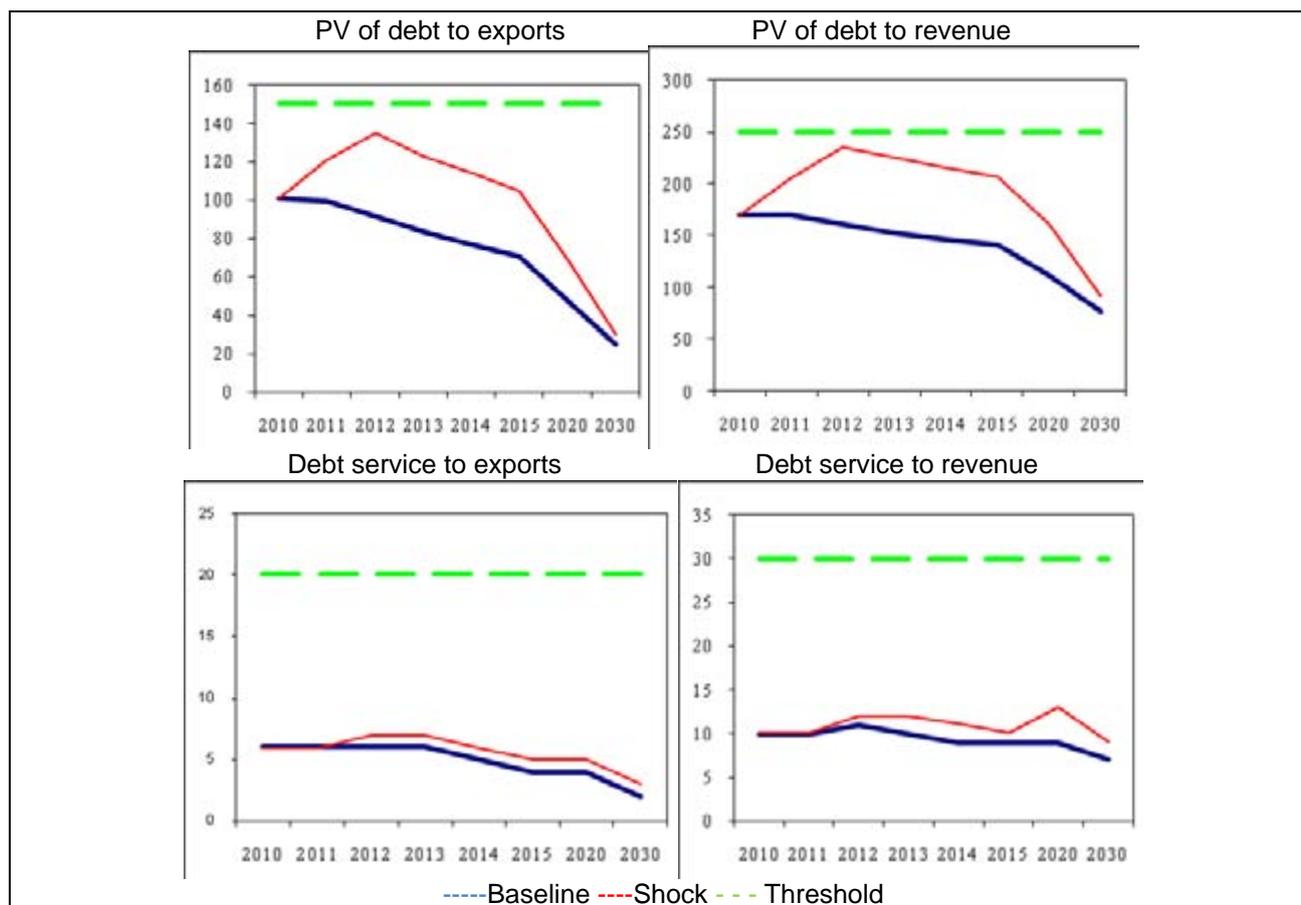
### Box 2: Debt stress tests

In the 2009 DSA, the IMF and World Bank conducted a number of debt stress tests to assess the risk of debt distress in Bangladesh by examining the response of various debt ratios to a series of shocks, such as changes in GDP and export growth, external inflation, changes in remittances and FDI flows and changes in debt concessionality.

The underlying macroeconomic assumptions for the baseline scenario are the following:

- Real GDP growth in the medium term is projected to move above the average of the past 10 years to 6%, and to increase further in the long run.
- Inflation is expected to decelerate.
- The growth of export and imports is expected to remain strong in the medium term (12.5% and 12%, respectively).
- Remittances are expected to increase by 9% per annum.
- The current account (including grants) is projected to continue to show a surplus.
- Net aid inflows are expected to slow down averaging 1.3% of GDP in the medium and long term.
- The grant element of new external borrowing is expected to stabilise at about 30%.
- The primary fiscal deficit (including grants) is projected to reduce below the past 10-year average at 1% of GDP in the medium term.
- Real interest rates are expected to decline gradually.

The figures below report the outputs of the stress tests. Given that Bangladesh has been classified as a medium performer on the basis of the World Bank's CPIA, the thresholds are set to be: 150% for the NPV of the debt to exports ratio, 250% for the NPV of the debt to revenue ratio, 20% for the debt service to exports ratio and 30% for the debt service to revenue ratio.



Note: The shocks used vary among graphs.

Source: IMF-World Bank DSA-BANGLADESH (2009) and authors' elaborations.

In general, Bangladesh appears to have a low risk of external debt distress. Indeed, the standard debt stress tests do not highlight serious risks or vulnerabilities in the near future, although the PV of debt to revenue test (see second figure) almost breaches the threshold. The shock used corresponds to a non-debt flow shock (remittances, FDI, etc.) and hints at the importance that remittances have in Bangladesh. Indeed, remittances increased from 8% of GDP in 2006 to 11% of GDP in 2009, which as a result has improved the country's capacity to repay beyond what is recognised in the DSA framework. Therefore, thanks to these increases, debt vulnerabilities have decreased.

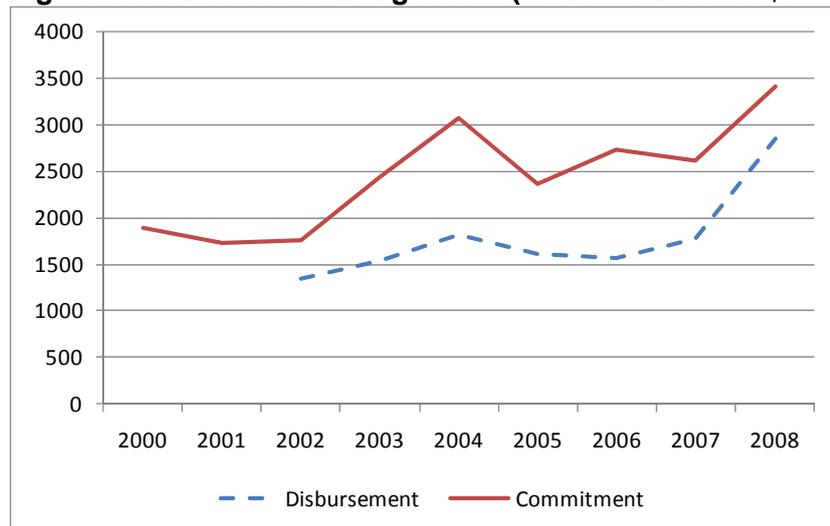
### 3.3 ODA flows and effectiveness

#### Box 3: Commitments vs. disbursements

We mainly use ODA commitments rather than disbursement for the analysis of ODA as the former have better ODA coverage than the latter in the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting Statistic (CRS) dataset, which is our main source of data. This is especially the case for pre-2002 data, where the coverage of disbursements is not sufficient to have reliable data (and this is the reason why OECD CRS data on disbursement are readily available online only from 2002). The use of commitments data should not bias the analysis as commitments are a powerful predictor of disbursements, and this is the case also for our sample of four countries (Bangladesh, Bolivia, Cambodia and Uganda). We do this by running a panel data regression for the four countries over the period 2002-2008 with disbursement as the dependent variable and commitment lagged two years as the regressor (plus country dummies). The coefficient of commitment was not significantly different from one. Moreover, allocation of commitments across sectors and donors in recipient countries mirrors closely that of disbursements. Keeping that in mind, we will also show some of the results using disbursements data as well.

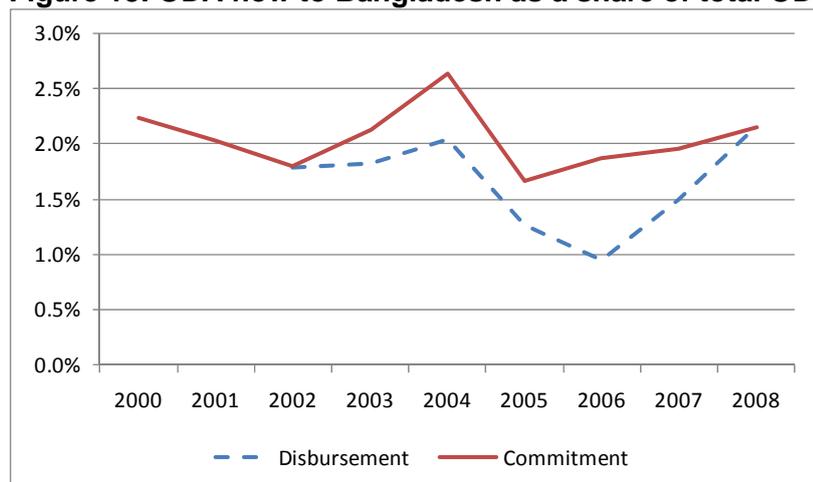
Bangladesh has consistently been receiving the highest level of aid commitments among the four countries analysed (Cambodia, Bolivia, Uganda, Bangladesh) and it has experienced a marked increase in the level of ODA commitments over the period 2000-2008 (Figure 17). The upward trend is also visible for disbursements. ODA finances about one-third of the total fiscal deficit of Bangladesh (the projected share of net foreign financing in the budget for 2009/10 is 29.7%) (Rahman et al., 2010).

**Figure 17: ODA flow to Bangladesh (constant 2008 US\$ million)**

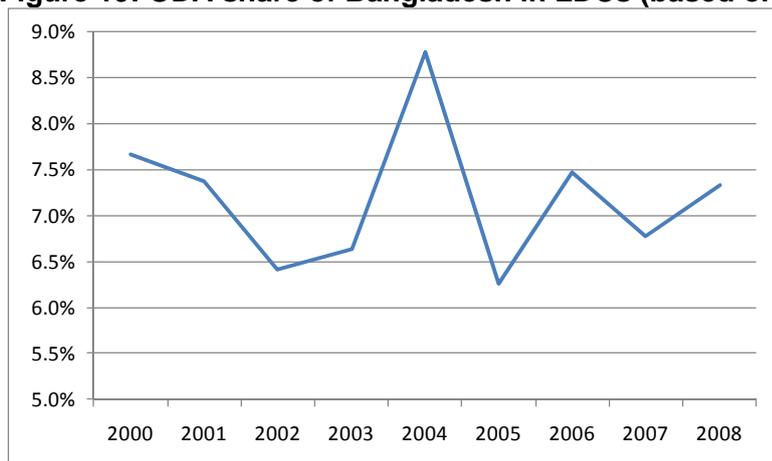


The upward trend of ODA disappears once we consider the share of Bangladesh in total ODA (Figure 18). This is the case especially for both commitments and disbursements, although the latter are more volatile, making it hard to identify a clear trend. ODA to Bangladesh has increased in line with the general increase in aid. Aid has been volatile in Bangladesh. According to the IMF, the larger new inflows in FY 2008 (1.9% of GDP) were in response to the two cyclones that hit Bangladesh that year. FY 2009 is expected to be lower, while FY 2010 will see an increase owing to the ADB's budget support (0.75% of GDP) in response to the global recession.

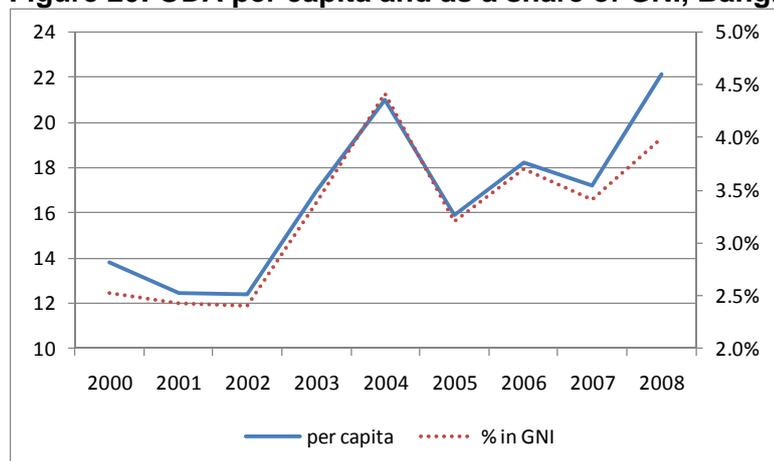
**Figure 18: ODA flow to Bangladesh as a share of total ODA**



A similar picture is obtained by using the share of Bangladesh in total ODA of the relevant income group, i.e. LDC (Figure 19). Despite yearly fluctuations, the share of Bangladesh in LDCs stayed around 7% throughout the period.

**Figure 19: ODA share of Bangladesh in LDCs (based on commitments at 2008 US\$ millions)**

On the other hand, both ODA per capita and ODA as a share of GNI almost doubled during the period (Figure 20), suggesting that Bangladeshi dependence on external assistance somewhat increased between 2000 and 2008.

**Figure 20: ODA per capita and as a share of GNI, Bangladesh**

### 3.3.1 Effects of the crisis on aid and future perspectives<sup>7</sup>

Growing needs arising from the crisis seem to have led to enhanced aid commitments in Bangladesh. Two separate deals with the Asian Development Bank (ADB) are expected to provide \$745 million as budgetary support credit and \$130 million as soft loans to help improve public and environmental health services in large cities. The ADB earlier announced that it was going to increase its annual assistance package to Bangladesh by 33%, to \$800 million annually during 2009/11. The ADB is also considering the government's request for \$500 million in aid from its special fund to tackle the adverse impacts of the global financial crisis. Moreover, the ADB may also provide a further \$76 million to help support small- and medium-sized enterprises (SMEs). Meanwhile, the World Bank has recently approved \$130 million-worth of credit to increase the country's access to electricity through installation of affordable solar home systems in rural areas, and has also decided to increase aid to Bangladesh by 20%, to \$1 billion per annum over the next three years. The overall commitment of the World Bank is estimated to be \$1096.9 million. The government is also negotiating \$4.7 billion of assistance in the form of project aid with the Chinese government, which is expected to be realised over the next few years if an agreement is reached. However, the recent dispute with the World Bank and ADB regarding the Public Procurement Regulations (PPR) has generated doubts with regard to the availability of such loans.

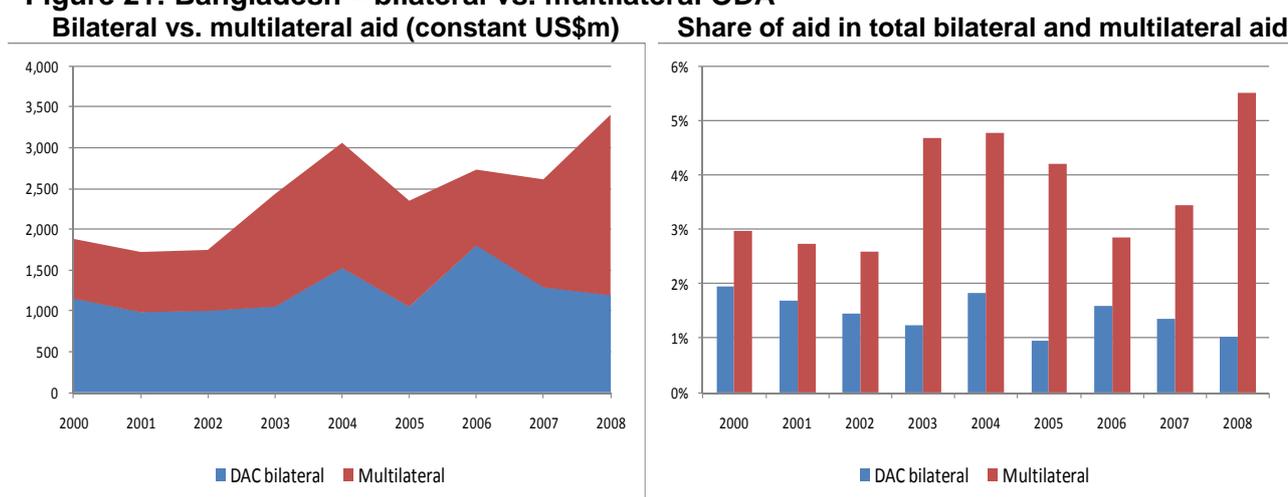
<sup>7</sup> This section is based on Rahman et al. (2010).

On 1 September 2009 Bangladesh received a Special Drawing Rights (SDR) allocation by the IMF in the form of \$735 million from the G20-supported general allocation (total equivalent to \$250 billion to boost global liquidity), which has been made available to all 186 IMF members. This fund has helped Bangladesh boost its foreign exchange reserves.

### 3.3.2 Multilateral vs. bilateral aid

We next explore the allocation of ODA by multilateral and bilateral donors. The left-hand panel of Figure 21 presents the allocation of total ODA commitments by multilateral and bilateral for each country (note that the EU is considered a multilateral donor). Quite unusually, in Bangladesh multilateral donors dominate the ODA allocation throughout the period. Aid is being multilateralised in Bangladesh (right-hand panel of Figure 21), with the World Bank having become by far the largest donor by 2008, whereas traditional important bilateral donors such as Japan and the Netherlands have greatly reduced their direct support (see Table 20). The disproportionate importance of multilateral aid in Bangladesh is further underscored by examining the share of ODA to Bangladesh in total ODA separately for bilateral and multilateral aid (right-hand panel of Figure 21). After a period in the early 2000s when the two shares were similar, after 2002 the share in multilateral aid has been consistently at least twice as large as the bilateral share, with a peak in 2008, when this ratio was over five times.

**Figure 21: Bangladesh – bilateral vs. multilateral ODA**

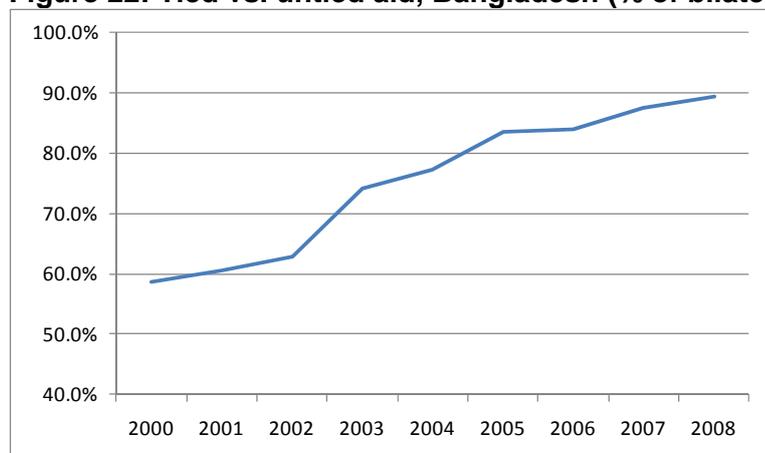


**Table 20: Bangladesh's major donors (constant 2008 US\$ millions)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
<b>DAC bilateral</b>	<b>1,155</b>	<b>986</b>	<b>1,004</b>	<b>1,055</b>	<b>1,528</b>	<b>1,054</b>	<b>1,804</b>	<b>1,292</b>	<b>1,194</b>	<b>11,073</b>
UK	252	92	256	93	558	235	494	370	385	<b>2,735</b>
Japan	142	335	175	221	329	194	551	418	117	<b>2,481</b>
Netherlands	119	161	190	133	178	63	206	48	92	<b>1,191</b>
US	79	180	126	115	97	85	77	90	174	<b>1,023</b>
Denmark	322	24	22	10	66	139	116	12	7	<b>718</b>
<b>Multilateral</b>	<b>731</b>	<b>742</b>	<b>749</b>	<b>1,384</b>	<b>1,539</b>	<b>1,302</b>	<b>933</b>	<b>1,326</b>	<b>2,217</b>	<b>10,924</b>
IDA	291	364	478	723	986	580	343	569	1,506	<b>5,838</b>
ADB	328	138	189	372	408	367	370	484	499	<b>3,155</b>
EU	94	177	50	214	56	288	130	131	114	<b>1,254</b>

Bilateral aid to Bangladesh was increasingly untied over 2000-2008, reaching a 90% of share of untied aid in total in 2008 (Figure 22).

**Figure 22: Tied vs. untied aid, Bangladesh (% of bilateral aid)**



### 3.3.3 Allocation across sectors

We analyse the ODA allocation across sectors in two ways. First, we simply examine the sectoral composition of ODA, focusing on the macro sectors (i.e. 2-digit OECD CRS sectors) and on some 3-digit level sectors that should be particularly relevant to reach some of the MDGs (e.g. education and health spending); second, we compute a simple index of relative specialisation for those sectors. The index is the ratio of the share of country  $i$  in total ODA for a specific sector  $s$  and the share of country  $i$  in total ODA:

$$S_{is} = \frac{ODA_{is} / \sum_{j=1}^n ODA_{js}}{ODA_i / (\sum_{j=1}^n ODA_j)}$$

where  $ODA_{is}$  and  $ODA_i$  are ODA in sector  $s$  (in US\$) and total ODA (in US\$) for country  $i$  respectively, and  $n$  is the total number of donors. A value of the index greater than one indicates that country  $i$  is receiving more ODA in that sector relative to the other developing countries.

The data suggest that the social sector and economic infrastructure have been the main recipients of ODA to Bangladesh (Table 21). Unfortunately, the high yearly volatility of the sectoral figures does not allow for identification of well-defined sub-sectoral patterns over time, although most sectors experienced a rise over the period.

The specialisation index presented in Table 22 helps in gauging which sectors are over- and under-funded relative to the rest of the developing countries. Despite being the largest aid recipient in Bangladesh, the social sector does not appear to be relatively over-funded. In fact, its specialisation index is below 1 in the last two years of data. On the other hand, education, and particularly basic education (important for MDG 2), receive relatively more aid than the expected level according to the total aid received. Conversely, commodity aid and productive sectors have been relatively under-funded.

**Table 21: Allocation of commitments across sectors, Bangladesh (constant 2008 US\$ millions)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>All</b>	<b>1,887</b>	<b>1,728</b>	<b>1,753</b>	<b>2,440</b>	<b>3,067</b>	<b>2,356</b>	<b>2,737</b>	<b>2,619</b>	<b>3,411</b>
Social infra & services	595	617	600	764	1,568	1,387	1,455	1,056	1,121
Education	96	179	295	363	945	413	327	177	283
Basic Education	67	153	20	340	712	98	69	73	103
Health	211	57	33	52	49	515	347	66	163
Economic infra and services	572	429	560	1,061	790	488	414	892	846
Production sectors	227	76	41	257	160	80	177	120	393
Multisector / cross-cutting	158	76	165	138	31	189	315	320	473
Commodity aid / general prog. Ass.	164	208	67	98	103	92	90	111	58
General budget support	0	13	0	0	..	..	..	..	..
Action relating to debt	134	201	174	103	282	44	276	12	11

**Table 22: Allocation of commitments across sectors, Bangladesh (specialisation index)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	<b>Avg</b>
Social infra & services	0.87	1.01	0.99	0.91	1.21	1.69	1.40	0.92	0.83	<b>1.09</b>
Education	0.64	1.29	1.97	1.77	3.20	2.86	1.49	0.77	1.13	<b>1.68</b>
Basic Education	1.41	3.38	0.53	5.39	6.51	2.22	0.96	1.53	1.45	<b>2.60</b>
Health	2.18	0.68	0.36	0.45	0.31	4.13	2.09	0.42	0.91	<b>1.28</b>
Economic infra and services	1.82	1.34	2.07	3.40	1.53	1.65	1.24	2.19	1.33	<b>1.84</b>
Production sectors	1.47	0.47	0.26	1.39	0.67	0.53	0.99	0.62	1.55	<b>0.88</b>
Multisector / cross-cutting	1.00	0.55	1.19	0.75	0.16	1.39	1.83	1.74	1.94	<b>1.17</b>
Commodity aid / general programme assistance	0.89	1.60	0.57	0.60	0.71	0.91	0.75	0.98	0.26	<b>0.81</b>
General budget support	0.00	0.19	0.00	0.00						<b>0.05</b>
Action relating to debt	1.12	1.58	0.92	0.24	1.12	0.09	0.56	0.06	0.05	<b>0.64</b>

### 3.3.4 Aid volatility

#### Box 4: Measuring aid volatility

Alternative methodologies are available to measure the volatility of aid. We use the most popular measure in the literature (see e.g. Bulir and Hamann (2003), Pallage and Robe (2001), Chauvet and Guillaumont (2009)), which is based on the Hodrick-Prescott filter (Hodrick and Prescott, 1997). The application of this filter allows extracting the trend and cycle components of any flow variable, ODA in this case. The H-P filter decomposes a series,  $x_t$  (where  $x_t$  is the logarithm of the observed series  $X_t$ ) in a cycle  $x_t^c$  and in a trend  $x_t^g$  by minimising the following function:

$$\sum_t (x_t - x_t^g)^2 + \lambda \sum_t [(x_{t+1}^g - x_t^g) - (x_t^g - x_{t-1}^g)]^2$$

With the cycle component being defined as  $x_t^c = x_t - x_t^g$ . We then define volatility as the share of the cycle

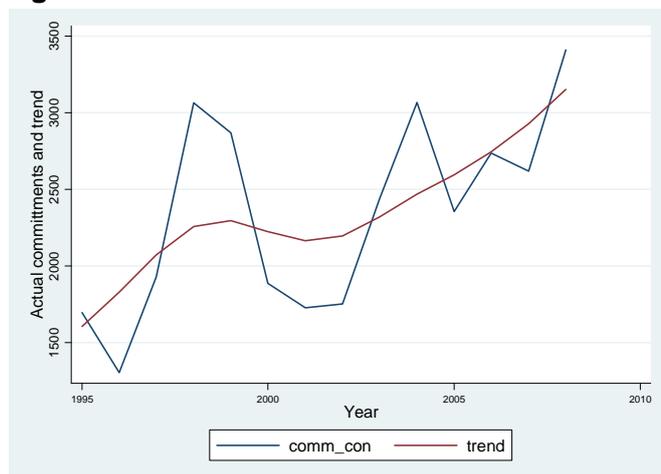
component in total observable commitment over the period, i.e.  $\sigma = \frac{\sum_t x_t^c}{\sum_t x_t}$  and also in each period

$\sigma_t = x_t^c / x_t$ . A higher indicator is associated with higher volatility of aid. The indicators based on

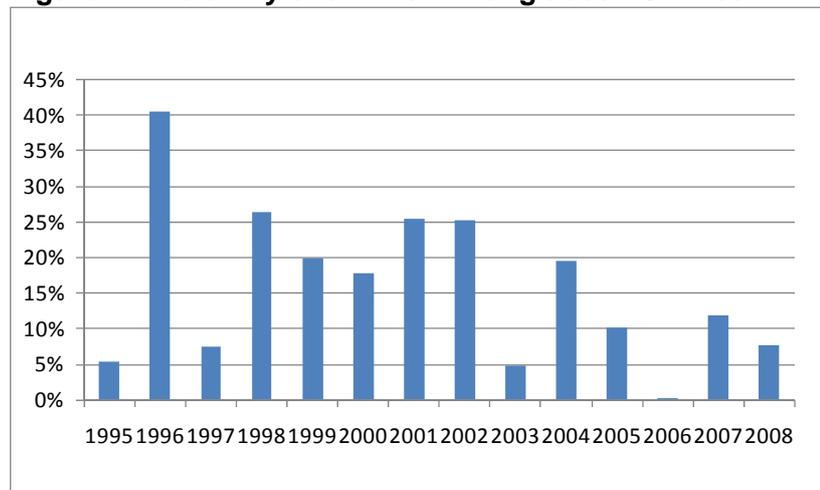
commitments are likely to be more accurate than those based on disbursement data as the former is based on a longer time period (1995-2008 vs. 2002-2008) and on wider coverage of the data.

Figure 23 presents the evolution of actual ODA commitments vis-à-vis its trend (calculated according to the method explained in Box 4) for the period 1995-2008. The volatility seems to be reducing over time as the trend line is closer to the observed commitments. This is confirmed Figure in Figure 24, which plots the evolution of  $\sigma_t$  over the period.

**Figure 23: How volatile is aid? Actual commitment vs. trend in Bangladesh**



**Figure 24: Volatility over time in Bangladesh ODA commitments**



## **4. Partnerships (MDG 8)**

MDG 8 is to establish a global partnership for development. It commits countries and development partners to go beyond aid-related commitments in the Paris and Accra Declarations to cover access to markets, tackling debt sustainability and improving access to affordable drugs and new technologies.

### **4.1 Market access**

In relation to international trade and market access, this includes the terms under which LDCs are able to access more developed country markets. It calls for the development of an open, rule-based, predictable and non-discriminatory trading and financial system. Target 8.B specifically addresses the special needs of LDCs and includes the call for DFQF access for exports from LDCs. The objectives of the MDGs recognise that international trade can serve as a driver of economic growth and therefore contribute to other goals, such as poverty reduction. However, it is also recognised that serious barriers exist for LDCs in being able to harness trade-induced growth so as to achieve a sustainable and dynamic trajectory and route out of poverty. This includes in terms of market access but also relates to supply-side constraints, such as limited levels of education and productive capabilities.

The international community has responded to some of these concerns and demands. At the WTO Ministerial Conference in Hong Kong (2005), a commitment to provide AfT was made. DFQF is provided to LDCs by most major developed countries. However, concerns remain in relation to agricultural subsidies as well as other non-tariff barriers, such as standards (related to the private governance of trade). Talks on further liberalisation at the multilateral level – the DDR – have stalled. Moreover, the global financial crisis, which erupted in 2008 and has subsequently affected the real economy across the globe, is threatening to raise the level of protectionism.

Bangladesh is one of the few LDCs that would benefit a great deal from DFQF, as it would provide better market access for its garments, especially in the US. Some would estimate that (when ROO are reformed as well), DFQF provided by the OECD to LDCs would provide large benefits to Bangladesh of more than 4% of exports and 0.3% in welfare. Bangladesh would also gain from better access for its labour, e.g. through trade negotiations on temporary migration.

### **4.2 Debt sustainability**

One of the six targets of MDG 8 is to 'Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term'. The level of external debt in Bangladesh is not very low but not excessively high. On the other hand, deficit levels were high before and during the crisis. So this raises some questions about debt sustainability and interest payments.

World Bank (2009) argues that domestic debt has been increasing, although total public debt as percent of GDP has been declining since reaching a peak in FY94. Interest payment is the second largest item in the current budget (13.9 percent of total expenditure). The composition of foreign financing is shifting towards shorter maturity and higher interest loans, which may lead to challenges for the future. Losses incurred by state-owned enterprises continue.

According to the IMF (2010), gross reserves doubled to over \$10 billion in the year to November 2009, raising reserve coverage to 4.8 months of prospective imports, a 15-year high.

### 4.3 Aid

Generally, net aid by OECD Development Assistance Committee (DAC) donors rose 0.7% in 2009 (to \$120 billion). It rose in Belgium, Denmark, Finland, France, Luxemburg, Sweden and the UK. It fell in Austria, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Spain. ODA was expected to be \$108 billion in 2010 (2004 prices), \$18 billion below the 2005 Gleneagles plans. ODA is expected to rise by about 36% in real terms between 2004 and 2010. ODA will continue to rise in 2009 and 2010, unlike other financial flows to developing countries, which have fallen sharply since the onset of the global financial crisis. Bangladesh is a large receiver of aid (it is identified as within the top 10 received of aid by the MDG8 gap task force report) and it is important that this support is maintained – however what is also very important is to ensure a sufficient level of absorptive capacity of aid.

There were new opportunities and announcements of ODA in order to mitigate the crisis. However, they have been largely constrained by a lack of domestic absorption capacity. Rahman et al. (2010) argue that a major share of the aid flow to Bangladesh comes as project aid to finance various development projects under the country's ADP. As a result, aid disbursement is related directly to the implementation status of ADP projects. Future actual disbursement will depend more on Bangladesh's capacity to absorb the aid rather than on the availability of aid itself. For example, during the first three months of 2009/10, only 9% of project aid allocations had been utilised. Slow implementation of donor-funded ADP projects in the current fiscal year has yet again resulted in lower aid disbursement thus far this year. In view of the need to generate more local demand through enhanced economic activities, it is important that both quality and quantity of aid disbursement and ADP implementation be significantly improved.

According to Quibria and Ahmad (2007), annual portfolio performance reviews and country evaluation reports carried out by donor agencies highlight important absorptive capacity constraints in Bangladesh. For example, the World Bank, the ADB and the Government of Japan report that human resource constraints and the lack of political will for reforms are major causes for delays in implementing programmes and achieving sufficient development impact in Bangladesh. Weak institutional capacity, governance problems (e.g. slow internal approval process and coordination mechanisms) and, again, the government's failure to implement reforms are identified as crucial absorptive capacity issues by the EC (2007). The Centre for Policy Dialogue (2003) in Bangladesh argues that multiple controls, *ad hoc* procedures, the divergence between development and revenue budgets and the unclear delimitation of ministerial jurisdiction are the key factors behind the weak implementation of aid financed development programmes.

### 4.4 Information and communication technology

Bangladesh has progressed somewhat over the period since 2000. Table 23 suggests that its ICT indicators are growing but from a very low base (telephone lines, mobile phone and internet users are indicators for MDG8 (8.14-8.16)) and it remains below the averages of regions. The ICT services exports increased from negligible of total services exports in 2001 to 9% in 2008 (World Bank, 2009).

**Table 23: ICT indicators in Bangladesh from an international perspective**

	Bangladesh		Lower-income group	South Asia
	2000	2008	2008	2008
<b>Access</b>				
Telephone lines (per 100 people)	0.3	0.8	4.6	3.1
Mobile cellular subscriptions (per 100 people)	0.2	27.9	28.5	32.6
Fixed Internet subscribers (per 100 people)	0.0	0.1	1.0	1.3
Personal computers (per 100 people)	0.1	2.3	1.7	3.3
<b>Usage</b>				
Internet users (per 100 people)	0.1	0.3	4.6	4.7
<b>Quality</b>				
Population covered by mobile network (%)	40	90	56	61
Fixed broadband subscribers (% of total Internet subscribers)	0.0	0.0	7.2	33.1
International Internet bandwidth (bits/second/person)	0	4	24	31
<b>Affordability</b>				
Residential fixed line tariff (US\$/month)	—	1.3	9.0	3.5
Mobile cellular prepaid tariff (US\$/month)	—	1.3	10.0	1.9
Fixed broadband Internet access tariff (US\$/month)	—	53.9	102.4	21.0

Source: World Bank (2009)

Indeed, in many instances Bangladesh is lagging behind. This needs urgent attention.

#### 4.5 Summary on development finance flows

Table 24 is an overview table on changes in development finance (flows which finance the balance of payments) over 2008 to 2009. Not all the relevant data are available, but some conclusions emerge on the basis of estimates so far.

Development finance flows improved in Bangladesh owing to the considerable increase in remittances from 2008 to 2009 (by more than 10% of the annual MDG gap estimate). The IMF estimates that the increase in external debt changing inflows is worth 1.3% of GDP. An extension of DFQF would help Bangladesh gain around \$375 million in export revenues, but a decrease in OECD tariffs and subsidies on an MFN basis would harm Bangladesh by around \$220 million in export revenues. Public debt and external debt declined as a percent of GDP from 2008-2009.

**Table 24: Bangladesh – development finance and other flows over 2008-2009**

	Source	Level in 2008 US\$ millions (unless otherwise stated)	Absolute change 2008-2009 (or closest annualised number), US\$ millions (unless otherwise stated)
Foreign direct investment	Bank of Bangladesh, BoP Dec 08-Dec 09	623	-159
Portfolio flows (balance of payments, portfolio investment)	Bank of Bangladesh, BoP Dec 08-Dec 09	7380	283
International bank lending	BIS Sept 2008-Dec 2009	2775	-102

Trade balance (goods)	ITC trade map using US, EU and BRIC countries	5319	348
Official development assistance	ODA (Rahman et al., 2010), FY2007/08 and FY 2008/09	1476	-390
Remittances	Forecast (World Bank)	8995	1743
<i>Sum above</i>			1723
<i>Sum above (excluding remittances)</i>			-20
<b>Memorandum items</b>			
MDG GAP	UNDP 1998 study Annual needs (2009-2015)		\$15 billion
Benefits of DFQF to LDCs by OECD	Bouet et al. (2010)		4.2% increase in exports (around \$375 million)
Preference erosion of a possible Doha round outcome	ODI (2006), Appendix Table 1, upper bound		222.4
Public external debt as % of GDP	IMF's DSA (data as a share of GDP) 2008 data and 2009 forecasts	26.4%	24.1%
Public as % of GDP	IMF's DSA (data as a share of GDP), central government gross debt, 2008 data and 2009 forecasts	46.8%	45.3%
Net debt creating flows (negative is an inflow)	IMF's DSA (data as a share of GDP) 2008 data and 2009 forecasts	-5.5%	-6.8%

## 5. Conclusions

This paper has discussed progress towards MDGs in Bangladesh and how the crisis may have affected this and provided background for discussions on MDG 8 relating to debt, aid and trade partnerships. Bangladesh has grown at around 6% a year since 2005. Several of the MDGs are likely to be met (e.g. halving poverty at the national level and improving access to water and education), although some (health related, school completion rates, rural poverty) may not be attained. Bangladesh has weathered the storm of the financial crisis relatively well (Rahman et al., 2010; te Velde et al., 2010). The current account has been positive for some time and this has led to large reserves. On the other hand, there is a large government deficit (some 5% of GDP in the past few years). The crisis has had some impact (estimates are around a 2 percentage point less poverty reduction compared to a no-crisis scenario, and will reinforce the relevance of MDG 8 commitments, but it is unlikely that the crisis has seriously affected progress towards the MDGs.

The specific points include:

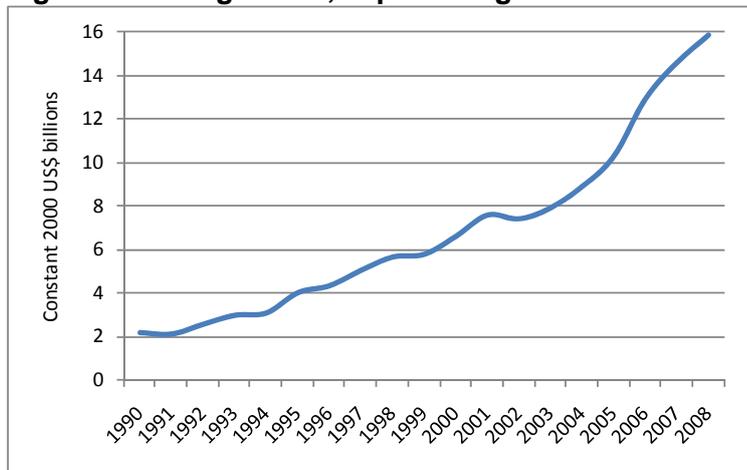
- Bangladesh is on track to reach MDG 1 (hunger), 2 (net primary enrolment rates) 3 (gender parity in primary and second schools only), 4, 6 and 7, though it may fail to reach MDG 1 (poverty in rural areas), 2 (primary completion rates) and 5 (maternal health). While the national poverty target might just be met (taking into account the crisis effects), the rural poverty target is off track.
- Bangladesh has benefited from debt relief and, while its external debt to GNI ratio has been declining, debt interest payments are a seventh of the budget. The government deficit is continuing to be some 5% of GDP.
- The global financial crisis did not have major effect on Bangladesh (while its exposure has increased it is still relatively low), and estimates suggest it may have increased poverty by at most 2 percentage points.
- Bangladesh is a major recipient of aid, but AfT as per cent of exports is low; a stable and predictable flow will remain important for the future.
- Bangladesh will be among the main gainers if DFQF is extended to all LDCs.
- Bangladesh is well behind several of the ICT indicators even though there has been some progress. This remains a major challenge.

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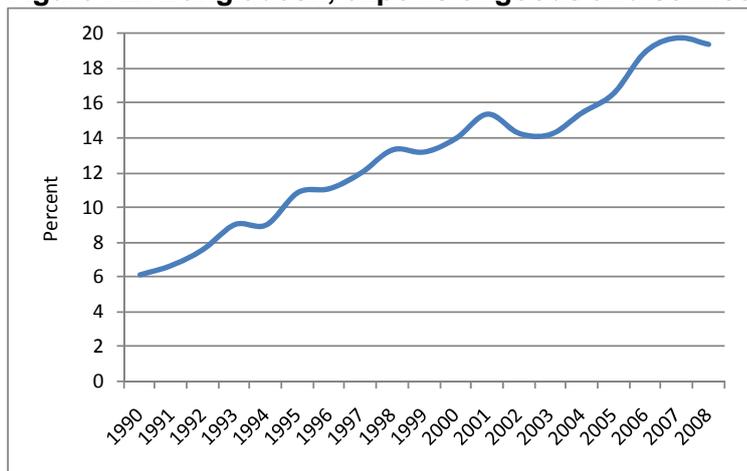
## Annex

**Figure A1: Bangladesh, exports of goods and services, 1990-2008**



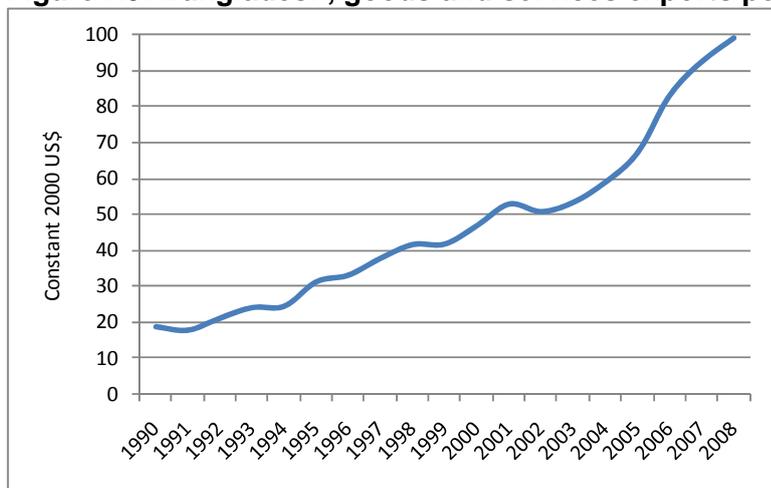
Source: World Development Indicators online.

**Figure A2: Bangladesh, exports of goods and services as proportion of GDP, 1990-2008**



Source: World Development Indicators online.

**Figure A3: Bangladesh, goods and services exports per capita, 1990-2008**



Source: Calculated from World Development Indicators online.

**Table A1: Main exports from Bangladesh**

HS code	Description	Export value (US\$ million)							Avg. ann. change
		Avg. 2005-7	2002	2003	2004	2005	2006	2007	
	<b>Total export value</b>	<b>11,390</b>	<b>5,417</b>	<b>6,403</b>	<b>8,267</b>	<b>9,332</b>	<b>11,697</b>	<b>13,143</b>	<b>19.40%</b>
62	Articles of apparel, accessories, not knit or crochet	4,089	2,614	2,917	3,224	3,499	4,180	4,589	11.90%
61	Articles of apparel, accessories, knit or crochet	4,051	1,443	2,124	3,007	3,347	4,072	4,735	26.80%
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	547	330	325	410	408	538	695	16.10%
53	Vegetable textile fibres nes, paper yarn, woven fabric	392	211	175	263	322	379	475	17.60%
52	Cotton	340	10	14	39	56	739	226	86.10%
	<b>Total these product groups</b>	<b>9,419</b>	<b>4,608</b>	<b>5,555</b>	<b>6,943</b>	<b>7,631</b>	<b>9,909</b>	<b>10,719</b>	<b>18.40%</b>
	<b>Share of total export value</b>	<b>82.70%</b>	<b>85.10%</b>	<b>86.80%</b>	<b>84.00%</b>	<b>81.80%</b>	<b>84.70%</b>	<b>81.60%</b>	<b>-0.80%</b>

Notes:

(a) Top five product groups exported, based on 2005–7 average export values.

(b) These are the only years for which direct data (i.e. as reported by Bangladesh) are available.

Source: Calculated from data obtained from ITC Trade Map.

**Table A2: Main Exports and Destination**

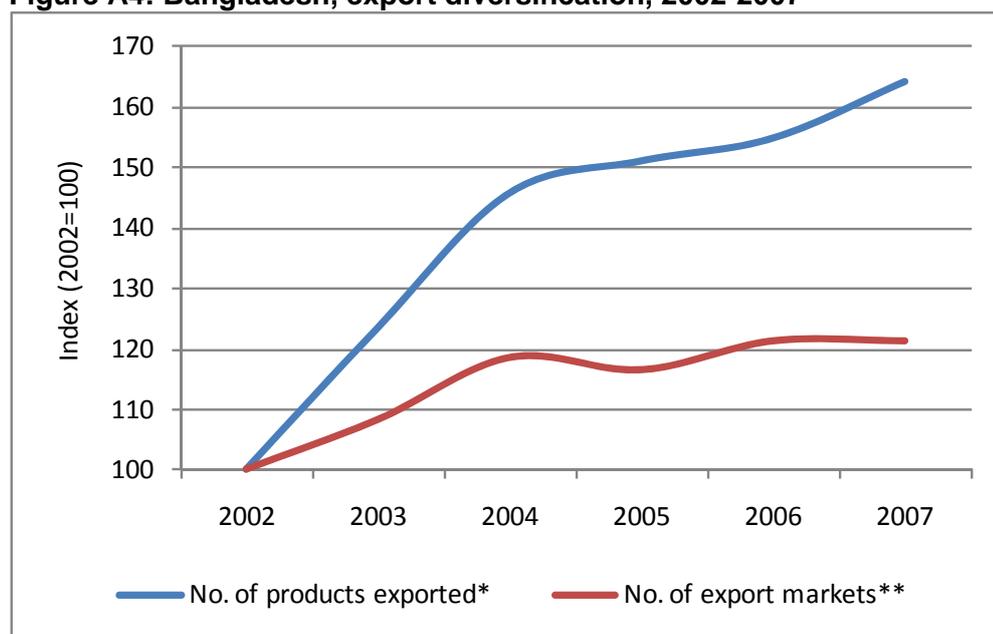
Destination	Share of total export value							Avg. ann. change
	Avg. 2005-7	2002	2003	2004	2005	2006	2007	
<b>HS 62: Articles of apparel, accessories, not knit or crochet</b>								
United States of America	49.00%	52.80%	42.90%	41.70%	49.50%	49.60%	48.10%	-1.90%
EU27	43.50%	42.80%	50.10%	50.70%	43.70%	43.20%	43.40%	0.30%
Canada	4.50%	1.90%	4.40%	5.40%	4.50%	4.50%	4.50%	18.90%
All developed countries	97.90%	99.30%	99.10%	98.70%	98.50%	98.20%	97.20%	-0.40%
BRICs/S. Africa	0.40%	0.10%	0.10%	0.20%	0.10%	0.30%	0.60%	59.10%
<b>HS 61: Articles of apparel, accessories, knit or crochet</b>								
EU27	76.00%	67.90%	75.50%	78.50%	76.00%	75.80%	76.20%	2.30%
United States of America	16.40%	27.30%	18.90%	15.50%	17.00%	16.70%	15.60%	-10.60%
Canada	4.50%	2.40%	3.60%	4.10%	4.70%	4.80%	4.10%	11.80%
All developed countries	97.60%	99.40%	99.30%	99.00%	98.50%	97.70%	96.70%	-0.60%
BRICs/S. Africa	0.30%	0.10%	0.00%	0.10%	0.20%	0.30%	0.50%	49.20%
<b>HS 03: Fish, crustaceans, molluscs, aquatic invertebrates nes</b>								
EU27	51.20%	57.80%	64.70%	46.30%	51.70%	50.30%	51.70%	-2.20%
United States of America	33.20%	28.20%	24.90%	39.00%	33.40%	35.50%	31.20%	2.10%
Japan	3.10%	5.20%	4.40%	4.30%	3.90%	3.30%	2.60%	-13.20%
Russian Federation	2.80%	0.10%	0.20%	0.50%	0.80%	1.90%	4.80%	104.20%
Hong Kong (SARC)	1.90%	2.60%	2.00%	2.20%	2.40%	1.80%	1.70%	-8.10%
India	1.80%	0.10%	0.10%	2.40%	2.60%	2.10%	1.10%	51.70%
Saudi Arabia	1.20%	0.80%	0.70%	1.20%	1.50%	1.40%	0.90%	2.10%
All developed countries	90.60%	94.80%	96.80%	93.00%	92.40%	92.00%	87.50%	-1.60%
BRICs/S. Africa	5.30%	0.70%	0.60%	3.60%	4.10%	4.80%	7.00%	60.80%
<b>HS 53: Vegetable textile fibres nes, paper yarn, woven fabric</b>								
Turkey	15.10%	6.70%	6.30%	9.50%	9.90%	12.70%	9.90%	8.10%
India	14.10%	0.00%	0.00%	5.40%	10.80%	11.00%	9.10%	217.30%
Pakistan	13.30%	7.10%	8.10%	6.50%	10.10%	7.20%	11.00%	9.40%
EU27	12.40%	13.60%	10.90%	10.50%	11.20%	8.10%	8.10%	-9.90%
Iran (Islamic Republic of)	10.90%	12.20%	8.10%	7.60%	9.20%	7.70%	7.00%	-10.40%
China	8.90%	2.70%	2.30%	4.40%	6.20%	6.10%	6.60%	19.40%
Syrian Arab Republic	3.00%	3.20%	1.40%	1.80%	2.80%	2.40%	1.60%	-12.50%
Egypt	3.00%	2.00%	1.10%	2.00%	2.50%	2.40%	1.80%	-2.10%
United States of America	2.70%	2.50%	1.30%	2.70%	2.30%	1.70%	1.80%	-6.40%
Australia	1.70%	2.30%	1.70%	1.60%	1.60%	1.30%	0.90%	-17.50%
Thailand	1.10%	0.10%	1.70%	0.90%	0.40%	0.90%	0.90%	66.80%
Russian Federation	1.10%	0.70%	0.60%	0.70%	0.50%	0.40%	1.20%	11.50%
Japan	1.00%	1.80%	1.40%	1.20%	1.00%	0.70%	0.60%	-18.70%
Republic of Korea	1.00%	0.70%	0.80%	0.60%	0.90%	0.70%	0.60%	-2.90%
All developed countries	19.20%	21.70%	16.80%	17.30%	17.90%	12.50%	12.20%	-10.80%
BRICs/S. Africa	25.20%	4.70%	3.90%	10.90%	18.60%	18.00%	17.70%	30.40%
<b>HS 52: Cotton</b>								
China	68.10%	2.20%	0.80%	0.60%	1.20%	92.70%	4.20%	14.10%
India	15.20%	2.50%	3.00%	3.60%	2.00%	0.20%	67.50%	93.60%
EU27	1.70%	32.30%	17.20%	10.20%	6.90%	0.60%	3.70%	-35.00%
United States of America	1.60%	14.00%	32.90%	24.00%	18.90%	0.80%	0.30%	-55.00%
Hong Kong (SARC)	1.20%	11.90%	6.40%	2.80%	2.30%	0.40%	3.80%	-20.50%
All developed countries <sup>b</sup>	4.70%	66.00%	60.30%	36.40%	28.90%	1.80%	8.30%	-34.00%
BRICs/S. Africa	83.30%	4.70%	3.90%	4.20%	3.20%	92.90%	71.80%	72.70%

Notes:

(a) All markets accounting for 1% or more of average 2005–7 total export value.

(b) IMF list of advanced economies, *World Economic Outlook*, October 2009.

Source: Calculated from data obtained from ITC Trade Map.

**Figure A4: Bangladesh, export diversification, 2002-2007**

Notes: \*number of HS6 subheads exported (out of a possible 5,224 in all years). \*\* EU countries counted separately; various 'unspecified' markets not included.

Source: Calculated from data obtained from ITC Trade Map.

**Table A3: Main markets for Bangladeshi exports**

Destination	Share of total export value							Avg. ann. change
	Avg. 2005-7	2002	2003	2004	2005	2006	2007	
EU27	50.60%	46.60%	55.20%	56.10%	51.40%	49.30%	51.20%	1.90%
United States of America	26.80%	38.00%	29.40%	26.20%	28.50%	26.70%	25.70%	-7.50%
Canada	3.60%	1.70%	3.60%	4.00%	3.80%	3.60%	3.50%	15.10%
China	3.10%	0.40%	0.40%	0.70%	0.70%	6.60%	1.70%	30.80%
India	2.80%	0.50%	0.60%	1.30%	1.90%	2.20%	4.00%	53.40%
Japan	1.20%	1.60%	1.80%	1.50%	1.30%	1.10%	1.20%	-5.80%
Hong Kong (SARC)	1.20%	1.60%	1.30%	1.20%	1.30%	1.10%	1.10%	-6.60%
Turkey	1.10%	0.50%	0.40%	0.80%	0.80%	1.20%	1.30%	19.80%
Singapore	1.00%	0.60%	0.80%	0.60%	1.10%	0.70%	1.10%	15.30%
All developed countries <sup>b</sup>	85.70%	92.00%	93.70%	90.90%	88.50%	83.30%	85.20%	-1.50%
BRICs/South Africa	4.40%	2.80%	3.10%	3.20%	3.60%	3.70%	5.70%	15.40%

Notes:

(a) All markets accounting for 1% or more of average 2005–7 total export value.

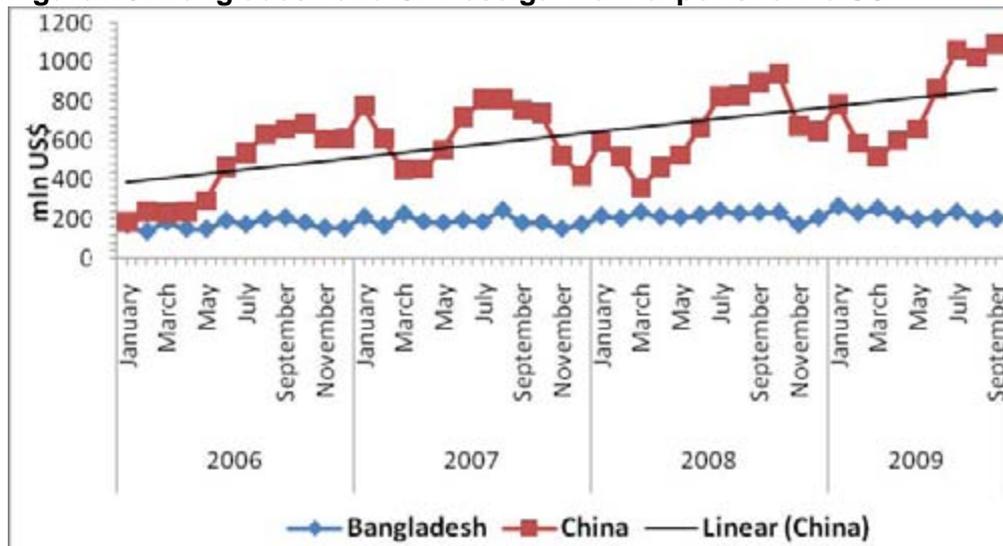
(b) IMF list of advanced economies, *World Economic Outlook*, October 2009.

Source: Calculated from data obtained from ITC Trade Map.

Table A4: Main imports into Bangladesh

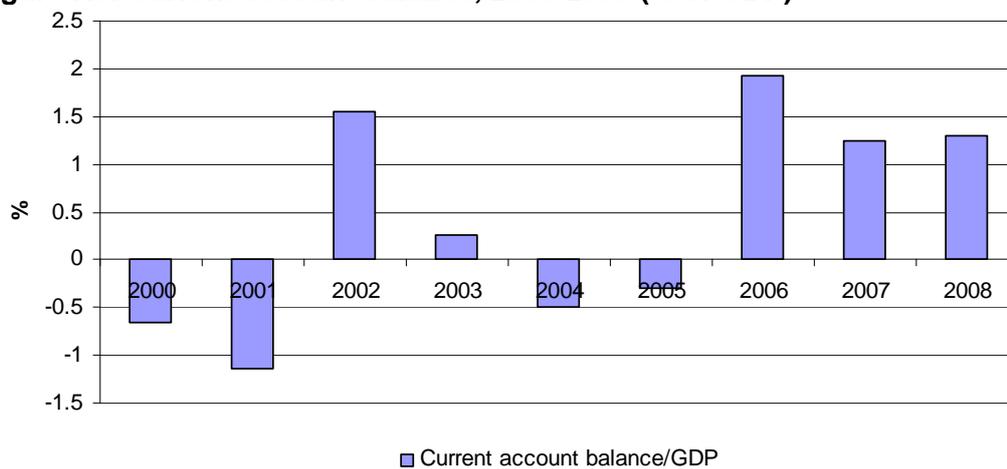
Supplier	Share of total import value							Avg. ann. change
	Avg. 2005-7	2002	2003	2004	2005	2006	2007	
<b>HS 84: Nuclear reactors, boilers, machinery, etc</b>								
EU27	22.80%	22.90%	24.30%	24.30%	22.00%	26.00%	20.10%	-2.60%
China	25.60%	19.10%	19.30%	25.20%	23.10%	22.50%	30.90%	10.20%
Japan	9.70%	9.10%	10.20%	7.80%	10.70%	9.00%	9.40%	0.70%
India	7.50%	10.20%	11.60%	8.70%	8.50%	6.80%	7.40%	-6.20%
Chinese Taipei	6.80%	5.10%	6.20%	5.60%	6.70%	7.50%	6.00%	3.50%
Singapore	5.40%	8.40%	6.90%	5.10%	5.10%	5.30%	5.70%	-7.50%
Republic of Korea	4.30%	5.70%	5.30%	4.70%	4.50%	4.40%	4.00%	-6.80%
United States of America	4.90%	4.40%	3.60%	4.00%	6.00%	5.50%	3.40%	-4.90%
Switzerland	2.60%	2.60%	1.90%	3.70%	2.90%	2.50%	2.50%	-0.90%
Malaysia	2.10%	1.80%	2.00%	2.00%	1.70%	2.10%	2.40%	6.90%
Thailand	2.70%	2.50%	2.40%	2.40%	3.60%	2.40%	2.40%	-0.90%
Turkey	1.00%	0.40%	0.40%	0.40%	0.60%	1.20%	1.20%	24.40%
All developed countries <sup>b</sup>	58.00%	60.10%	60.00%	57.40%	59.40%	62.00%	52.50%	-2.70%
BRICs/S. Africa	33.30%	29.70%	31.10%	34.00%	31.80%	29.50%	38.70%	5.50%
<b>HS 27: Mineral fuels, oils, distillation products, etc</b>								
Kuwait	69.40%	3.40%	11.10%	42.20%	66.30%	72.30%	68.40%	82.20%
India	7.80%	2.30%	3.20%	6.70%	6.10%	6.60%	10.20%	34.70%
United Arab Emirates	6.20%	9.70%	14.70%	10.30%	4.70%	5.60%	7.90%	-3.90%
Saudi Arabia	5.90%	10.80%	5.90%	4.00%	8.20%	5.00%	5.40%	-13.00%
Singapore	7.40%	50.80%	31.80%	26.90%	11.00%	7.40%	4.90%	-37.40%
All developed countries <sup>b</sup>	7.80%	52.20%	37.00%	27.90%	11.70%	7.70%	5.30%	-36.80%
BRICs/S. Africa	8.20%	3.60%	3.80%	7.50%	6.80%	6.90%	10.50%	23.60%
<b>HS 52: Cotton</b>								
Uzbekistan	30.70%	6.70%	19.90%	21.00%	24.30%	36.10%	32.10%	36.80%
India	18.20%	24.50%	13.60%	14.40%	12.10%	20.80%	21.60%	-2.50%
China	14.30%	13.90%	17.00%	20.80%	21.50%	8.60%	12.30%	-2.50%
Pakistan	7.80%	4.10%	6.10%	5.00%	7.20%	8.70%	7.70%	13.70%
Turkmenistan	2.80%	0.40%	0.00%	0.60%	1.00%	2.50%	4.50%	65.90%
United States of America	3.60%	8.20%	5.80%	5.00%	3.40%	3.40%	4.00%	-13.30%
Hong Kong (SAR)	5.10%	14.30%	13.00%	8.90%	9.20%	3.30%	2.80%	-28.00%
Mali	1.30%	0.40%	1.60%	1.80%	1.80%	1.10%	0.90%	19.90%
Sudan	1.20%	0.80%	1.50%	1.20%	1.40%	1.50%	0.90%	3.40%
Republic of Korea	1.00%	2.70%	1.80%	1.90%	1.30%	1.00%	0.90%	-20.10%
All developed countries <sup>b</sup>	11.50%	31.90%	24.60%	18.50%	16.40%	8.80%	9.20%	-22.00%
BRICs/S. Africa	32.90%	44.50%	30.90%	36.30%	34.40%	29.70%	34.00%	-5.30%
<b>HS 85: Electrical, electronic equipment</b>								
EU27	33.50%	24.00%	26.10%	37.00%	34.40%	32.90%	33.60%	6.90%
China	29.60%	24.40%	27.00%	25.50%	28.40%	30.50%	29.70%	4.00%
United States of America	8.20%	8.60%	8.30%	6.90%	8.70%	7.30%	8.80%	0.50%
Hong Kong (SAR)	3.90%	2.70%	0.80%	0.90%	1.90%	4.20%	4.90%	12.70%
Japan	4.20%	3.20%	6.00%	4.70%	3.30%	4.20%	4.70%	8.40%
India	5.00%	12.00%	12.20%	8.90%	6.60%	4.90%	4.00%	-19.90%
Singapore	3.80%	5.20%	4.20%	3.30%	4.50%	4.20%	3.00%	-10.10%
Republic of Korea	3.40%	3.90%	2.10%	3.10%	4.70%	4.00%	2.10%	-11.80%
All developed countries <sup>b</sup>	59.10%	52.60%	53.30%	60.50%	60.10%	58.90%	58.80%	2.20%
BRICs/S. Africa	34.70%	36.70%	39.50%	34.50%	35.00%	35.60%	33.70%	-1.70%
<b>HS 15: Animal, vegetable fats and oils, cleavage products, etc</b>								
Indonesia	39.40%	22.60%	24.40%	32.70%	33.70%	41.40%	40.60%	12.50%
Argentina	23.50%	28.80%	36.70%	18.80%	19.40%	21.20%	26.60%	-1.60%
Malaysia	27.10%	22.30%	27.30%	32.80%	41.40%	32.40%	17.90%	-4.30%
Brazil	7.60%	11.90%	9.80%	14.60%	1.90%	2.40%	13.10%	2.00%
All developed countries <sup>b</sup>	1.10%	12.10%	0.80%	0.40%	2.30%	1.40%	0.50%	-47.70%
BRICs/S. Africa	8.10%	13.40%	10.20%	15.00%	2.50%	2.90%	13.60%	0.40%
Note:								
(a) All suppliers accounting for 1% or more of average 2005–7 total import value.								
(b) IMF list of advanced economies, <i>World Economic Outlook</i> , October 2009.								
Source: Calculated from data obtained from ITC Trade Map.								

**Figure A5: Bangladesh and Chinese garment exports to the US**



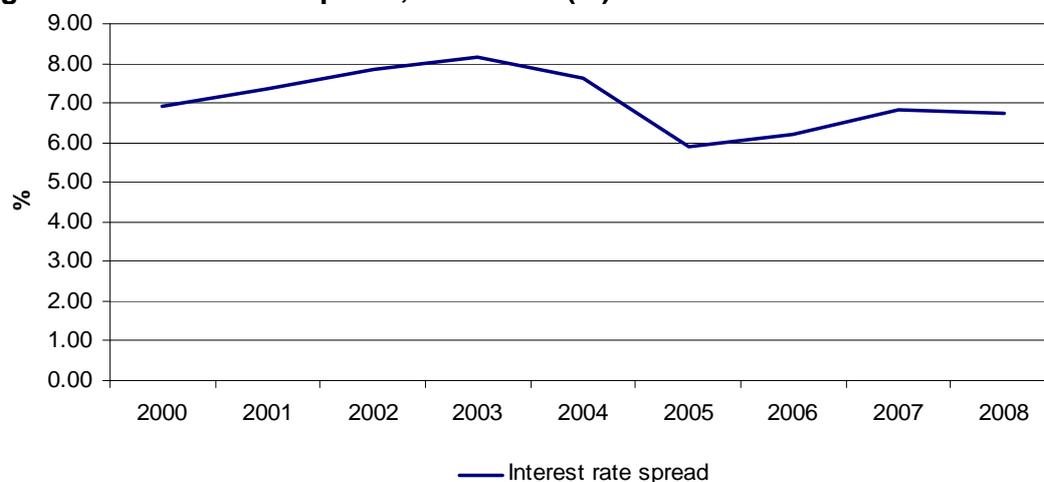
Source: Rahman and Reyes (2010).

**Figure A6: Current account balance, 2000-2008 (% of GDP)**

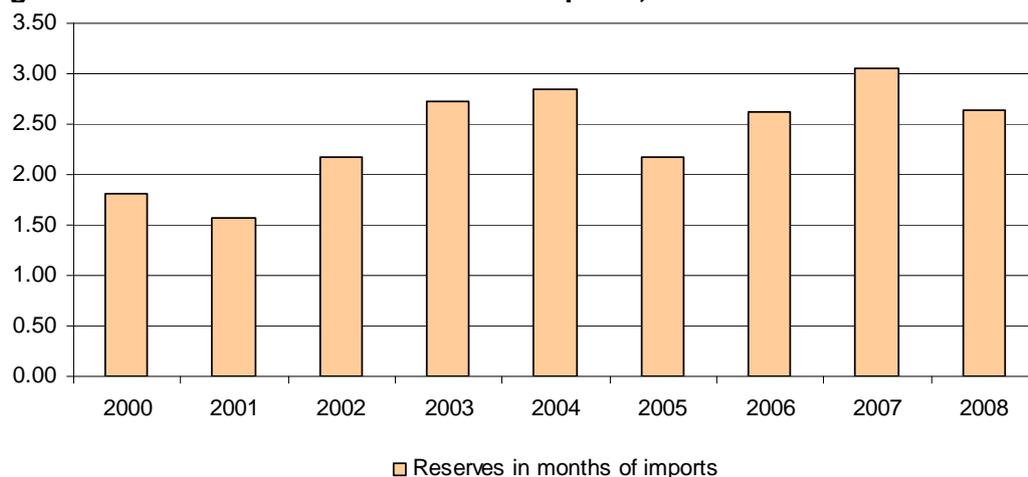


Source: World Development Indicators online.

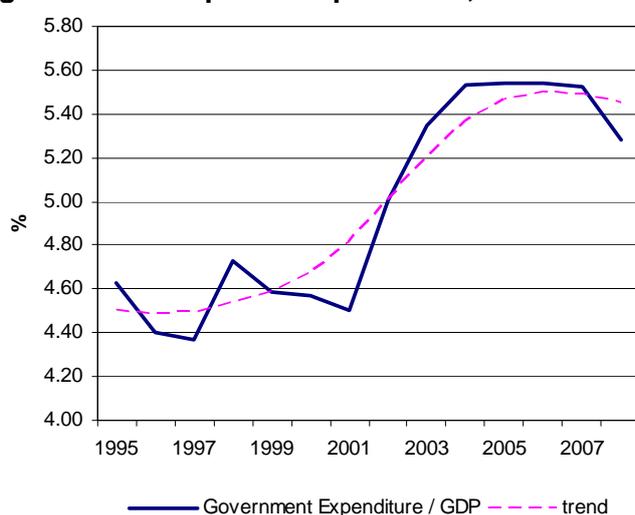
**Figure A7. Interest rate spread, 2000-2008 (%)**



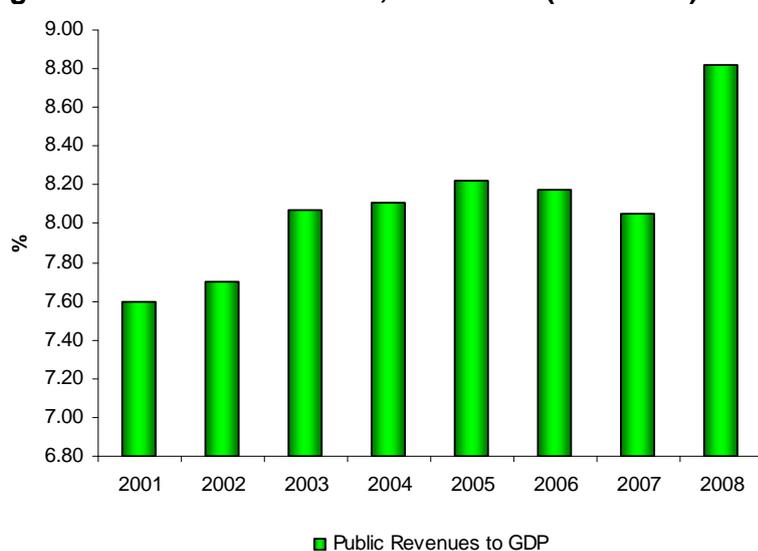
Source: World Development Indicators online.

**Figure A8: Total reserves in months of imports, 2000-2008**

Source: World Development Indicators online.

**Figure A9: Total public expenditure, 2000-2008 (% of GDP)**

Source: World Development Indicators and authors' calculations.

**Figure A10: Public revenues, 2000-2008 (% of GDP)**

Source: World Development Indicators and authors' calculations.