Seminar Paper

On

Graduations Impact on External Resources Mobilization in Bangladesh

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Abstract

On the way to be a Developed Country by 2041, Bangladesh achieved two landmarks. One is achieving all the three criterion of United Nations to graduate from Least Developed Countries (LDCs) to Developing Country in 2018 for the first time. The other one is crossing the Gross National Income (GNI) threshold of World Bank to graduate from Lower Income Country (LIC) to Lower Middle Income Country (LMIC) in 2015. However, for the headings towards next stage of development Bangladesh requires huge investments including additional cost to achieve the Sustainable Development Goals (SDGs). But, it is fact that compared to the needs, revenue income is insufficient. So, Bangladesh is mobilizing external resources to bridge the gaps in pursuit of achieving development goal. Most of the external resources are mobilized in the form of Official Development Assistance (ODA) from bilateral countries and multilateral Institutions. The paper critically examines the impact of graduations on external resources mobilization. The study found that, Bangladesh would no longer be entitled for various benefits from United Nations Organizations and other international communities after LDC graduation and on the other hand, the graduation to LMIC will have considerable impact on external resources mobilization. In addition, overall expenditure for interest payment will gradually be higher over period of times as the cost of borrowing & other charges have increased. Considering the implications, several suggestions were made to manage the impact of graduation on external resources mobilization.

Keywords: graduation, impact, least developed country, lower middle income country, official development assistance.

1.Introduction and Literature Review

Despite of the backdrop of gloomy initial conditions at independence, Bangladesh has climbed a long the development ladder (GED 2019). In line with this, Bangladesh has already achieved two important criteria on the way to become a developed country by

2041. One is by fulfilling all three criterion of United Nations to graduate from Least Developed Countries (LDC) in 2018 and other one is crossing the threshold value of Gross National Income (GNI) of World bank and graduated to Lower Middle Income Country (LMIC) from Lower Income country (LIC) in 2015. But for heading to become developed country by the targeted year Bangladesh needs huge investments. On the other hand according to 7th five year plan (7th FYP), GDP growth rate of Bangladesh will increase progressively from 6.5% in FY2016 to 8% in FY2020 which will require 7.4% growth rate over the year. Furthermore to attain investment 34.4% of GDP by the end of FY2020, requires a yearly average increase rate of investment about 5.5% of GDP over the planned period. Also the first year of the 7th FY Plan coincides with the launch of the UN post 2015 Sustainable Development Goals (SDGs), for which, an additional total amount of USD 928 billion (GED-2017) will be required to invest up to 2030 to reach the Sustainable Development Goals(SDG). Out of this additional amount, around USD 133 billion will be required from external resources. An estimation is that, during FY2017- FY2020, yearly average external resources around USD5 billion will be required for achieving both 7th FYP and SDGs during the same period as the revenue income is insufficient for that. So, the external resources mobilization is essential to meet the investment target set by the Government as the domestic resources is not enough.

On the other hand, the external resources mobilization has been working as pivotal role to bridge the gaps for development of Bangladesh since independent. Generally, the external resources are mobilized in the form of Official Development Assistance (ODA) from bilateral and multilateral Source. ODA is mostly concessional in terms of cost as stated by OECD, though the formation and order of the ODA flew into Bangladesh has been changed through the passage of time. In the last four financial years before LMIC graduation (FYs) Economic Relations Division (ERD) achieved a commitment of USD 24 billion & after graduation, in the four FYs this amount is USD 49 billion. The disbursement was around USD 20 billion in the lastfour FYs after LMIC graduation.

Though the commitment increased but the share of grant has been decreasing over the period. The disbursement of grant in the period of FY2016-2019 decreased by 37% compared to the period of FY2012-2015. Contrary, disbursement of loan increased by 114% over the same period compared to the said last four FYs (ERD,2012 to 2018). With compare to FY2014-15 borrowing of non-concessional loans increased by 35%. So, it is evident that the external resources mobilization has been increasing over the time in Bangladesh not only is the share of loans but also in total amount.

Despite the increased mobilization of external assistance , Bangladesh maintains it's position in a comfort zone in terms of meeting debt obligation due to following a prudent borrowing strategy focusing on concessional loan with a blend of grant as much as possible. As a result, considering all the indicators of external debt sustainability, Bangladesh has been enjoying a comfort zone till date. External debt to GDP ratio is only 13.95% against the threshold level of 40%(ERD 2018). However, DPs seldom use the LDC status while allocating ODA (UNCDP 2012) to the countries. Furthermore, the terms & conditions of financial assistance to Bangladesh by most multilateral financial institutions are changing gradually and will continue to do so over the coming years as a result of LMIC graduation and other factors, but not due to LDC graduation(UNCDP 2019). On the other hand, Least Developed Countries report 2016 of UNCTAD revealed that LDCs graduation has some impact on Fund for Climate Change (LDCCF) as the graduating country loses access to some LDC-specific financing source.

During reviewing Bangladesh's case along with others at the 2018 Triennial Review meeting, the three criteria defined by UNDP, were as follows:

- Gross National Income (GNI) per capita of USD 1,230 or above (also referred to as the income threshold)
- Human Assets Index (HAI) of 66 or above. The HAI is a measure of the level of human capital

- Economic Vulnerability Index (EVI) of 32 or below. The EVI is a measure of structural vulnerability to economic and environmental shocks.

A LDC country may be eligible for graduation if has passed thresholds of any 2 of the 3 criteria or, LDC's Income has to be twice the graduation threshold, in 2018, the "income-only" threshold for graduation eligibility was USD 2,460. Bangladesh was found to meet the graduation criteria for the first time at the 2018 Triennial Review (see the figures below). Bangladesh and Myanmar, which also met the graduation criteria for the first time in 2018, are the first countries to meet all three criteria. Bangladesh is the LDC with the lowest (best) performance on the EVI(UNCDP 2019). The thresholds level of the three criteria and Bangladesh's position are presented below:

Table 1: Threshold level of three criteria for LDCs graduation and Bangladesh's position

Criteria	Threshold level			Bangladesh Position		
	2012	2015	2018	2012	2015	2018
Gross National Income (GNI) per capita (In US$) atlas method	$ 1190	$ 1242	$ 1230	$ 637	$ 926	$ 1274
Human Asset Index (HAI) (In Point)	66 or more	66 or more	66 or more	54.7	63.8	73.2
Economic Vulnerability Index (EVI) (In Point)	32 or less	32 or less	32 or less	32.4	25.1	25.2
Source: UNCDP Report 2018						

On the other hand, inclusion into and graduation from LDC category(CDP 2018), as of 2018 since the LDC category was introduced is shown in following table-2:

Table-2:Inclusion into and graduation from the LDC category, as of the 2018 triennial review

2021	***Angola***
2020	***Vanuatu***
2017	**Equatorial Guinea**
2014	**Samoa**
2012	South Sudan
2011	**Maldives**
2007	**Cabo Verde**
2003	Timor-Leste
2000	Senegal
1994	**Botswana** ***Angola***, Eritrea
1991	Cambodia, Democratic Republic of the Congo, Madagascar, Solomon Islands, Zambia
1990	Liberia
1988	Mozambique
1987	Myanmar
1986	Kiribati, Mauritania, Tuvalu
1985	***Vanuatu***
1982	Djibouti, **Equatorial Guinea**, Sao Tome and Principe, Sierra Leone, Togo
1981	Guinea-Bissau
1977	**Cabo Verde,** Comoros
1975	Bangladesh, Central African Republic, Gambia
1971	Afghanistan, Benin, Bhutan, **Botswana**, Burkina Faso, Burundi, Chad, Ethiopia, Guinea, Haiti, Lao People's Democratic Republic, Lesotho, Malawi, **Maldives**, Mali, Nepal, Niger, Rwanda, **Samoa**, Somalia, Sudan, Uganda, United Republic of Tanzania, Yemen

Source: CDP secretariat, based on various reports by the CDP.

Note: Countries in **bold** have already graduated from the list; those in ***bold italics*** are scheduled for graduation. Orange arrows indicate inclusion; blue arrows indicate graduation.

From above figure, it is seen only five countries have graduated to developing countries till now. Botswana was the first country who graduated from LDC in 1994. Then second country was Cape Verde in 2007. Maldives as third country graduated in 2011. After Maldives Samoa graduated in 2014 as fourth country and in 2017 as fifth and last country Equatorial Guinea graduated. Also we came to know from the above table-2 there are two countries which are under consideration for graduation in 2020 & 2021 respectively. Beyond the above list, there are few countries which are under consideration for graduating excepting Bangladesh. Angola, Bhutan and Solomon Islands are also under consideration for graduation. The comparative scenario of the countries for achieving the graduation threshold is presented below:

Table 3:The comparison of the countries for achieving the graduation threshold.

Criteria / Threshold	Angola	Bhutan	Myanmar	Solomon Island	Bangladesh
GNI per Capita (In US Dollars)/ $1230	5186	2385	1255	1805	1274
HAI(in Point)/ 66 or more	[illegible]	[illegible]	68.5	72.8	73.2
EVI(in Point)/ 32 or less	[illegible]	[illegible]	31.7	[illegible]	25.2

Source :UNCDP,2017 and 2018

It is observed that both Bangladesh and Myanmar have achieved all three criteria for considering graduation. Till year 2024, which is expected declaration year, Bangladesh will be enjoying the benefit of LDC as like now. After 2024, Bangladesh will start implementing transition strategies and will submit concise report on transition strategy to the Committee for Development (CDP) annually.

Graduating from the LDC category is not expected has significant affect on Official development Assistance for Bangladesh. As most of the Development partners don't allocate ODA through considering recipient country's LDC status and also the fact is that Development Partner's ODA policies do not link with the LDC status (UNCDP 2012), so there might not be any impact of LDC on access to ODA. Normally, Multilateral assistance are guided by their own policies, priority and other criteria which never consider the status of LDC. However, some privileges in contributing at a lowered rate to the UN budget, UN Peace Keeping Operations CTBTO, FAO, IAEA, ICC, ILO, IOM,UNESCO, UNIDO, WMO, WHO, ISA, ITLOS, OPCW,UNFCCC , ITU, WIPO would go up (UNCDP 2019).

Contrarily, The World Bank classifies the world's economy based on Gross National Income(GNI) into four income groups- Low-income economies; lower middle-income economies; upper middle-income economies & high-income economies. The classification is updated each year on July 1st (WB 2019).This is widely known as International Development Association(IDA)-graduation policy which is as follows:

Table 4 : Country classification according to IDA-graduation policy

Income Category Per Capita	Threshold of GNI
Low Income Country (LIC)	$ 1,025 or less
Lower Middle-Income Country(LMIC)	$ 1,026 to $ 3,995
Upper Middle-Income Country (UMIC)	$ 3, 996 to $ 12,375
Higher-Income Country (HIC)	$12,376 or more

Source: World Bank 2019.

Bangladesh crossed the threshold of GNI per capita [used by World Bank for classifying c to Lower Middle Income Country (LMIC) in 2015]. Majority of the multilateral f institutions including Asian Development Bank (ADB) follow the IDA-graduation threshol also follows the IDA-graduation policy for providing loans. So, the classification is an i taking decisions on lending eligibility from Multilateral Development banks (MDBs). As IDA-graduation has more direct impact on financing volumes and terms. On the othe graduation could have a more significant effect on access to ODA and other concessional fi than the LDC graduation because development partners generally do not uses LDC themselves to allocate resources(IATF 2018). However, eligibility for concessional fi windows is not generally linked to LDC status as such, but rather to GNI per capita - altho

GNI-per capita threshold used for this purpose by the World Bank and the regional develop banks is very close to the LDC graduation threshold. Though access to concessional finar windows is reduced or lost as a result of increasing GNI per capita, access to non-concessi windows is generally maintained, so that the effect is on the cost of multilateral financing r than its availability (UNCTAD 2016).

It is necessary to be cleared that LDC & LMIC differ along many aspects. The LDC is an of UN country classification approved by the United Nations (UN) General Assembly. The Comm for Development Policy (CDP) of the UN Economic and Social Council grants LDC statu countries based on the three graduation criteria discussed above. On the other hand, the W Bank, for its operational lending activities, categories countries into four groups mentioned a based on GNI per capita. Even if a country has high income owing to, for instance, its na resources, it may still be considered an LDC due to weak social progress or vulnerabiliti external shocks. The difference between LDCs and Income-based classification are-

Table-5: Difference between LDCs and Income-based classification

Least Developed Country category	Income-Based Country Category
UN classification	World Bank classification
Three categories (LDC, Developing Countries and Developed Countries)	Four categories (LIC, LMIC, UMIC, HIC)
Purpose: To provide eligible countries with LDC-specific international support measures	Purpose: To make lending decisions
Identification criteria: GNI per capita, HAI and EVI	Identification criteria: GNI per capita
Graduation pathways: Two	Graduation pathway: One
Meet thresholds for two out of three criteria, or GNI per capita is twice the graduation threshold level, for two consecutive years.	Meet the income threshold for that year
Long process of exit; at least six years from meeting the graduation criteria for the first time.	Short process of exit; immediately after the classification is assigned.

Source: gathered from various UN and World Bank documents

The world bank's graduation (LMIC) is the indication of the country's creditworthiness while LDC graduation is the indication of elimination of country's structural deficit. Relatively higher costs of external borrowing are immediately associated with becoming an LMIC as disagreed to the various costs and benefits associated with LDC graduation that have indications beyond financing.

This study found the fact that the development cooperation programmes are determined based on income levels, specific needs and vulnerabilities of countries, cultural and historical ties and other factors. Graduating from the LDC category is not expected, in and of itself, to significantly affect development cooperation prospects for Bangladesh(UNCDP 2019). But the share of loan of total ODA increased compared to the share of grant in the graduated countries. Even where access to concessional financing windows is reduced or lost as a result of graduating to LMIC, access to non-concessional windows is generally maintained, so the effect is on the cost rather than its availability. Therefore, it is apprehended that the external resources mobilization may be in a critical juncture in terms of quantity and quality. Thus, analyzing impact on external resources mobilizing has become crucial for determining future policy intervention.

2. Problem Statement

The move towards least developing countries (LDC) graduation may curtail few privileges enjoyed during LDCs period (GED 2019). Similarly, graduation to lower middle-income country (LMIC) could be lessened access to external resources in the present composition and structure. As External Resources have pivotal role for development of Bangladesh, in this situation, what will be happened for Bangladesh? So, the study on impact of external resources mobilization is to cover-up the scenario due to graduations.

3. Study Objectives

The Objectives of the seminar paper are as follows :

i) To determine the impact on external resources flows into Bangladesh due to graduations;

ii) To identify the realities faced in the changing scenario.

4. Research question :

Do the graduations have any impact on external resources mobilization? What are the realities, Bangladesh facing in the changing scenario?

5. Rational of the Study:

Since Independent, Bangladesh depends on foreign assistance/ Official Development Assistance (ODA) for major part of development works , in the form of grant and loans both . In general it is said that, due LDC graduation, Bangladesh might loss the opportunity being entertained during LDCs tenure and in the similar way , avenue to access the conventional formation of external resources could be reduced for graduating to LMIC. The seminar paper is an effort to analysis the amount of stroke on the external resources mobilization in changed scenario due to the said graduation.

7. Conceptual Analysis

Key concept of the study- To conduct the study , firstly data on mobilized resources will be collected. Secondly, in the context of graduation , collected data will be analyzed,

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finally the extend of impact on external resource mobilization will find out on the basis of analysis in the second step . Flow diagram of the study is shown in the figure-1.

The figure-1, Conceptual Framework

Input Impact Analysis Output

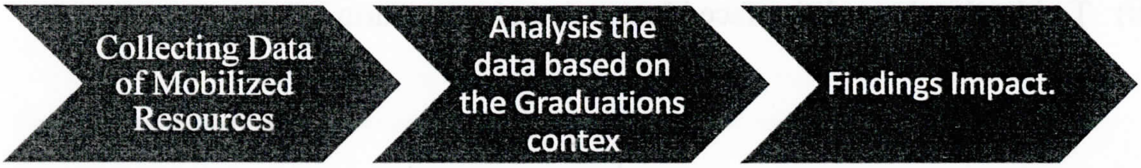


Figure-1 , Resource Mobilization impact analysis flow chart.

Generally the word " Mobilization" is an act of marshaling and organizing and making ready for use or action. It is also same for resource mobilization. Judith B. Seltzer views (2014), **Resource mobilization** is the process of getting resources from resource provider, using different mechanisms, to implement an organization's pre-determined goals. It deals in acquiring the needed resources in a timely, cost-effective manner. Resource mobilization advocates having the right type of resource, at the right time, at right price with making right use of acquired resources thus ensuring optimum utilization of the same. On the other hand Mr. Anis (2018) believed that the term Mobilization suggests that resources are available, but that they somehow are either (a) not collected fully, or (2) not being used for development, due to specific obstacles or a lack of incentives.

According to ICAB (2010) Resource Mobilization is the fundamental prerequisite to achieve a balanced economic growth and accordingly Bangladesh has prioritized resource mobilization and investment as the most pivotal input for development. But the environment under which (FAO 2012) resources are mobilized is increasingly competitive due to the rise of numerous development actors and scarcity of resources.

But, the process of effective fund mobilization activities in a formally coordinated way to produce positive outcome, requires in time and cost effective mobilization of external resources which is very important for development of the country to attain SDGs target by 2030. Contrary, identifying the better source of resource with alternate one, planning and good negotiation skills are also necessary.

Bangladesh has been mobilizing external resources mostly in the form of official Development Assistance (ODA) both from bi-lateral and multilateral development partners(DPs). But due to graduation, the scope of mobilizing of foreign assistance (ODA) in the concessional term will reduce as DPs are changing their terms and conditions of assistance both in financial and in loan maturity but a survey of UNCDP (2012) suggests that DPs hardly use LDC status in allocating ODA. So, it is perceived that mobilizing of foreign assistance might be in critical condition in terms of quality and quantity. In this study all external resources mobilization data will be collected and accordingly impact on external resources mobilization due to the said graduations will be analyzed. Therefore, this is the relevant time, in this way to study the graduation impact on external resources mobilization to fix the future strategy for sustainable development.

8. Methodology:

The study aimed at identifying the realities faced in the changing scenario on external resources mobilization which facilitated the authority to go for appropriate future policy guidelines on external resources mobilization. The study used qualitative data which were collected from both primary and secondary sources. The secondary data were collected from various sources like - report of survey conducted by International organizations on graduated countries, scholarly articles and books, official documents from the government and development partners, study reports from other organizations, journal articles and so on. On the other hand , the primary data were collected by discussion with different relevant officials through Key informant's interview (KII) and observation methods. KII were conducted with seven officials from different wings of

Economic Relations Division(ERD) as it is responsible to deals with external resources and also with two officials from General Economic Division(GED) of Ministry of Planning , as GED is involved in graduation process.

Furthermore, ERD of Ministry of Finance (ERD) & GED of Ministry of Planning were selected, as the study was designed to identify the graduations impact of developing country and LMIC on mobilization of external resources. Views of total number of 09 officials were recorded through direct discussion method & the sampling was done on the relevancy of officials with the responsibilities. The officers from ERD, were selected carefully so that the information of different development partners covered. Moreover, ERD is authorized to deals with External resources and makes all possible liaisons with development partners for mobilizing external resources. Thus, it was expected that the officials of ERD have the updated information about financing policy of the development partners. On the other hand , officials form GED is responsible to conduct study on LDC impact assessment. In line with this, to have all relevant information, an open-ended questionnaire was prepared for conducting the interviews.The questions were not structured and interview were conducted in the form of discussion following a checklist, which is relevant to the study. But, it was not shred with interviewees; it was only to guide the researcher for KII purpose. Preliminary, discussion sessions were recorded electronically and later interpreted into texts.

9. Implications and Recommendations:

Following are the implications of the research work which were obtained from analyzing data gathered from secondary sources and from primary source. Based on the gathered data, particular analysis has been done below.

9.1Development Support

Since independence, Bangladesh has been receiving development assistance in different forms from United Nations and its agencies, multilateral institutions and bilateral countries/agencies. The most common form of supports are as follows:

a. Reduced rate of contribution in UN Budget;

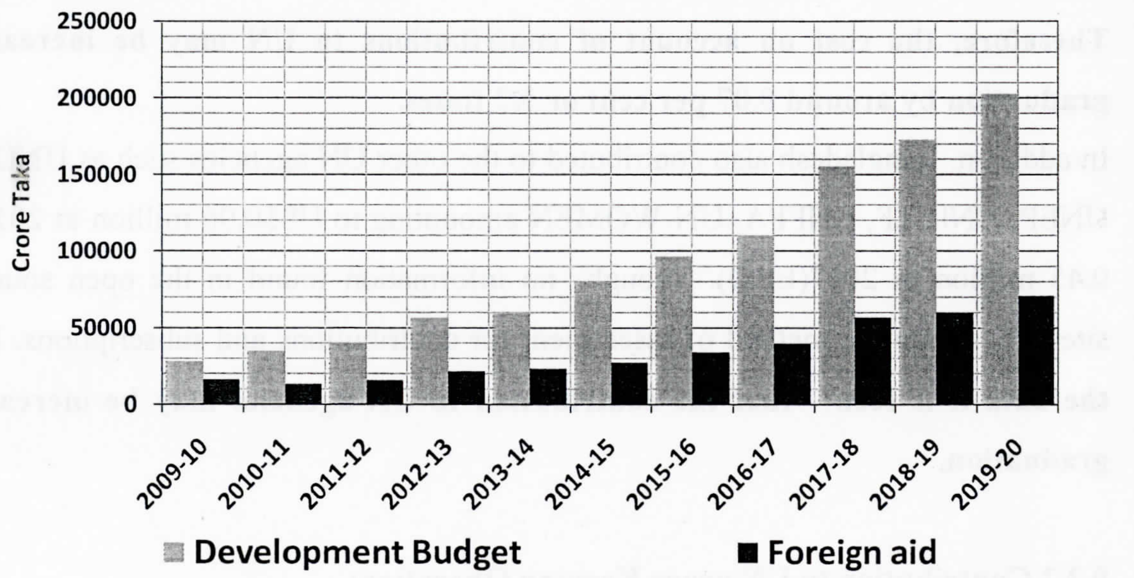
b. Reduced rate of contribution for Peace Keeping Operation under UN;

c. Fringe benefits such as travel cost, fellowship and scholarship;

d. Official Development Assistance including Technical Assistance.

Contrary, one respondent of ERD justified the necessity of foreign development assistance is essential for Bangladesh by mentioning that the country's budget is deficit one, so around 40% of Annual Development Program is financed through development aid. In this connection, gathered the data of development assistance for last several years is presented in figure-01.

Figure-01: Dependency on foreign aid



Around 40% of the development budget is financed through foreign aid.

Source: ERD

9.2 Impact of LDCs Graduation on Development Support

9.2.1 Contribution to UN Budget

Most of the United Nations system budgets are based on the "scale of assessments" (i.e. the percentages of the budget that each country is responsible for) used for the United Nations regular budget. The scale is determined based on capacity to pay, indicators of gross national income, external debt-burden, and per capita income. As a LDC, Bangladesh contributes 0.01 per cent of the UN regular budget (UNSD 2017). However, the assessment of UN is changed periodically. After graduation, the 0.01% cap is no longer applicable. In Bangladesh, if graduation had hypothetically occurred in 2018, the applied rate of contribution for Bangladesh would have been 0.079%, which, based on the 2018 budget, would have meant an increase in contributions of the order of 1.9 million dollars per year(UNCDP 2019).. It is also reflected from the primary data that the rate of subscriptions to UN budget will be increased in the post-graduation period. **Therefore, the cost on account of contributions to UN may be increased after graduation by around 0.07 per cent or 5/7 times.**

In addition, Bangladesh also contributed to the other UN agencies such as UNDP, IFAD, UNEP, UNICEF, UNFPA, UN-WOMEN amounting to US$0.96 million in 2018 & US$ 0.45 million in 2017(ERD). Though no information found in the open sources (web sites) regarding the method of assessment for contributions and subscriptions. **But from the data it is seen that the contribution to UN agencies may be increased after graduation.**

9.2.2 Contribution to UN peace Keeping Operation:

After getting 90 percent discount for LDC status, Bangladesh has to pay 0.001 per cent of the UN peace keeping operations budget. As per applicable rate Bangladesh contributed around US$ 0.8 million in 2016. After graduation the rate of discount will be 80% which results in a payment at the rate of around 0.0138 per cent (as per current assessment)

(UNSD 2017). During the discussion session through KII, official also opined that the cost on account of subscriptions for UN Peace Keeping Operation will be increased.

Applied to the 2017-2018 budget, this would mean an increase in contributions of the order of 990,000 dollars a year (CDP 2011). **Therefore, after graduation from LDC category Bangladesh's assessed contribution to the United Nations peace keeping operation may be increased by around14 times.**

9.2.3 Fringe benefits

9.2.3.1 Free air tickets: Representatives of LDC governments receive travel support to participate in the annual sessions of the General Assembly. After graduation, if requested, travel support can be extended for a period of up to three years. As a reference, the amount disbursed for travel of Bangladesh delegates to the General Assembly in 2018 was USD 23,500(CDP 2019). Other United Nations organizations and Conventions have also established financial mechanisms to fund the participants of LDCs in their processes. Bangladesh would no longer allow to get benefit from this support after graduation. However, respondents opined that Bangladesh might get this type of benefit in case of bilateral trainings and seminars form other countries, even after graduation

9.2.3.2 Fellowships and scholarships: One of the major components of General Support, International Support Measures (ISMs) for LDCs is the financial support in the form of scholarships and travel grants for research related purposes, which are provided to citizens from this group of countries. The organizations offering such opportunities to citizens to LDCs range from specialized agencies like the *United Nations Educational, Scientific and Cultural Organization* (UNESCO) to international organizations like the *Intergovernmental Panel on Climate Change* (IPCC). In addition, academic institutions like the Berkeley Law School and the Leipzig Graduate School of Management also provide scholarships to deserving students. Member states like the Republic of Korea, Japan and Israel have worked with UNESCO to cosponsor fellowships. Offering opportunities of education, research and training has far reaching impacts since they directly benefit a large number of people who can enhance their skills(GED 2019).

Bangladesh government also gets a good number of fellowships and scholarship from International organizations and from different countries as an LDC. However, most of the respondents mentioned that most scholarship and fellowships are from bilateral and other multilateral sources other than UN. Moreover, some of the scholarship has smooth transition procedures. **Therefore, there would be mere impact of LDC graduation of Bangladesh on these.**

9.2.4 Mobilization of ODA including Technical Assistance

Normally, the graduation might have impact on access to ODA, more specifically on concessional financing in the relation where Development Partners (DPs) allocate ODA on the basis of the recipient country's LDC status. But, surveys conducted by UNCDP suggest DPs rarely use LDC status in allocating ODA (CDP, 2012).Furthermore, the survey report of UNCDP and Least Developed Countries report 2016 of UNCTAD pointed out the following views:

(a) Multilateral assistances are guided by the organizations' own policies, priority and criteria which may not necessarily consider LDC status;

(b) Few bilateral DPs may have LDC specific program;

(c) Generally for graduated LDCs, DPs reviews on a case-by-case basis. No established institutional approach for phasing out LDC-specific benefits to graduated LDCs;

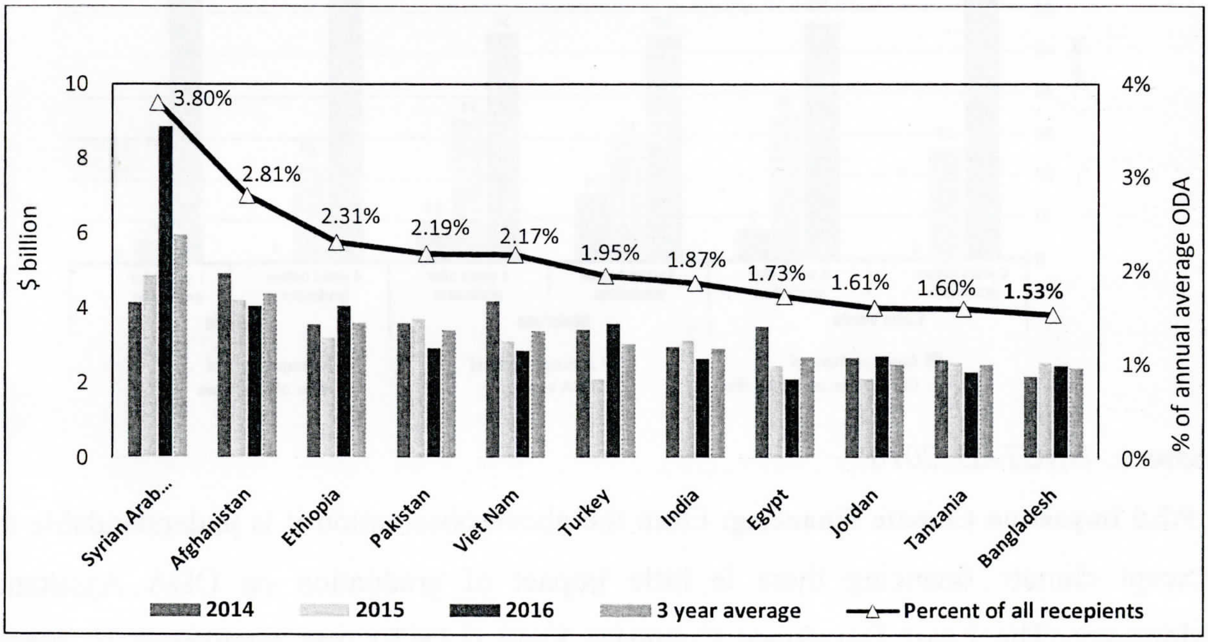
(d) Graduation has some impact on climate financing as the graduating country loses access to some LDC-specific financing source, most notably the LDC Fund [Financial Vehicle- Green Environment Facility (GEF)] for national adaptation program of actions. But, graduated country retains access to other sources of clime financing such as Green Climate Fund (GCF);

(e) Eligibility for concessional financing is not generally linked to LDC status, but rather to GNI per capita.

(f) Graduation does not trigger a new policy stance at the DPs end.

Also, a noteworthy fact about Official Development Aid is that the highest ODA recipients are not always LDCs. Although DAC donors take LDC status in consideration, more important and pressing issues are also considered before disbursing any assistance. Such as war, refugee crisis, natural disaster, potential returns from investment, ability of any government to return loans, political stability of a country are some of the criteria. Figure -02 shows that for all kind of net ODA inflows in 2014, 2015 and 2016, there were only 3 LDCs (Afghanistan, Ethiopia, Tanzania) among the top ten ODA recipients. Bangladesh accounted for only 1.53% of net ODA receipts during these years. Even big developing economies like Turkey and India enjoyed higher share of ODA than Bangladesh. Therefore, Bangladesh should not have too much concern about drastic fall in ODA inflows after LDC graduation (GED 2019).

Figure-02:Top 10 ODA Recipients and Bangladesh [2014 to 2016]; Net ODA Receipts (in $billion), from all DAC Donors



Source: Based on OECD data

Overall, LDC graduation is unlikely to trigger abrupt changes in access to development finance This assessment is broadly supported by the experiences of the three most recent

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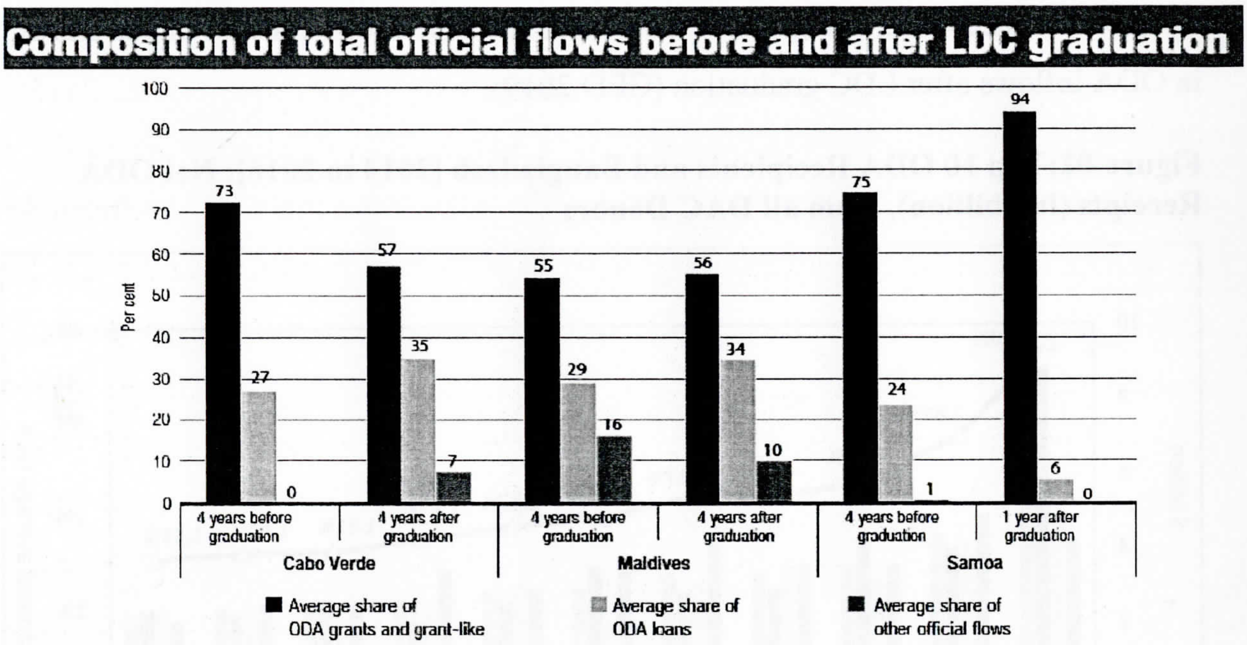
LDC graduates (Cabo Verde, Maldives and Samoa) as shown in figure-03. In both Cabo Verde and Maldives, a greater share of total official flows took the form of loans following LDC graduation, indicating some reduction in the degree of concessionality. (While this was not apparent for Samoa, data are available for only one year after graduation.) It is possible, however, that this pattern partly reflects country-specific issues, such as dependence on a small number of donors and/or limited capacity to negotiate favorable smooth transition terms, as well as the impact of the global financial and economic crisis on bilateral ODA budgets (UNCTAD 2016).

Figure:03: Composition of ODA flows before and after LDC graduation of Cabo Verde, Maldives & Samoa.



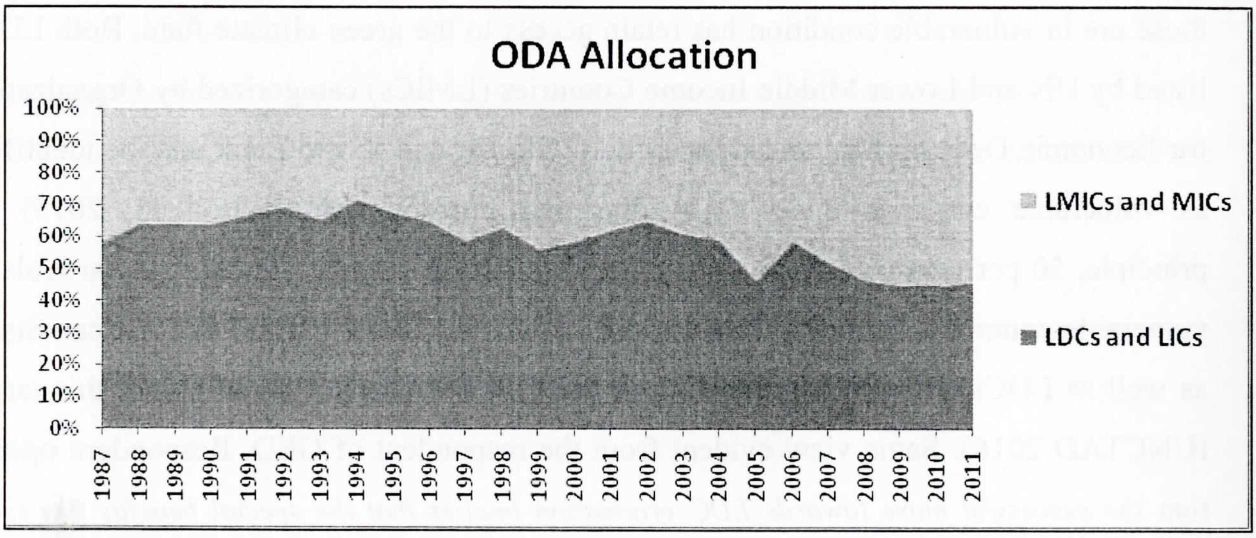
Source: UNCTAD, 2016

9.2.5 Impact on Climate Financing: From the above observation it is understandable that except climate financing there is little impact of graduation on ODA Assistance. Moreover, The Least Developed Countries Fund (LDCF) was established to support LDCs to carry out preparation and implementation of National Development Program of Action (NAPAs). Green Environment Facility (GEF) is the financial management vehicle of this fund. It is found from GEF web site that a total amount of around US$ 160 million grant along with around US$ 1037 million financing from co-financiers such as World Bank (WB), Asian Development Bank (ADB), UNDP, FAO has been committed to Bangladesh till now. Almost all the respondents mentioned that the climate financing from external sources is likely to be in critical juncture due to the LDCs graduation. **As the LDCF or GEF fund is dedicated for the LDCs, Bangladesh could lose the access to the GEF fund and most probably co-financing under the fund after graduation.**

On the Other hand, though, graduated countries lose access to LDC-specific sources but those are in vulnerable condition has retain access to the green climate fund. Both LDCs listed by UN and Lower Middle Income Countries (LMICs) categorized by Organization for Economic Development and Cooperation (OECD) and World Bank may be identified as vulnerable countries under GCF financing modalities (GCF/B.09/08, 2015). In principle, 50 per cent of Green Climate Fund financing is to be allocated to particularly vulnerable countries, including small island developing States (SIDS) and African States as well as LDCs. However, graduating Asian LDCs would not benefit from this target (UNCTAD 2016). Same view evident from the respondent of GED. Respondent opined that *the successful move towards LDC graduation implies that the special benefits like GCF enjoyed by Bangladesh in its financial relations with the global community as an LDC will come to an end after graduation. Some of those LDC benefits have been very helpful for Bangladesh.* **So, after graduation Bangladesh, despite being as one of the most vulnerable countries to climate change, may not explore GCF concessional financing as Asian LDC is not entitled during the period having LDC status.**

9.2.6 Impact on other Development Finances: From a separate study on Lao PDR UNCTAD (UNCTAD, 2017) it is seen that the loan inflow increased after graduation. UNDP concluded a mixed impact on ODA in a study on Bhutan's probable graduation by stating that some would have no material impact such as Japan while some other would have some impact on LDC based consideration in allocating aid such as Switzerland and Netherlands' LDC Infrastructure Fund (UNDP 2013). An economic analyst of UNDESA opined similar impact for probable graduation of Nepal (UNDESA 2017). Even where access to concessional financing windows is reduced or lost as a result of increasing GNI per capita, access to non-concessional windows is generally maintained, so that the effect is on the cost of multilateral financing rather than its availability (UNCTAD 2016). It is seen that the share of ODA allocation to LDCs and Lower Income Country (LIC) has been decreasing compared to shares of LMICs and MICs in graph -03 (OECD, 2013) over a period from 1987 t0 2011.

Figure-03: ODA Allocation



Source :*OECD Cooperation Report, 2013*

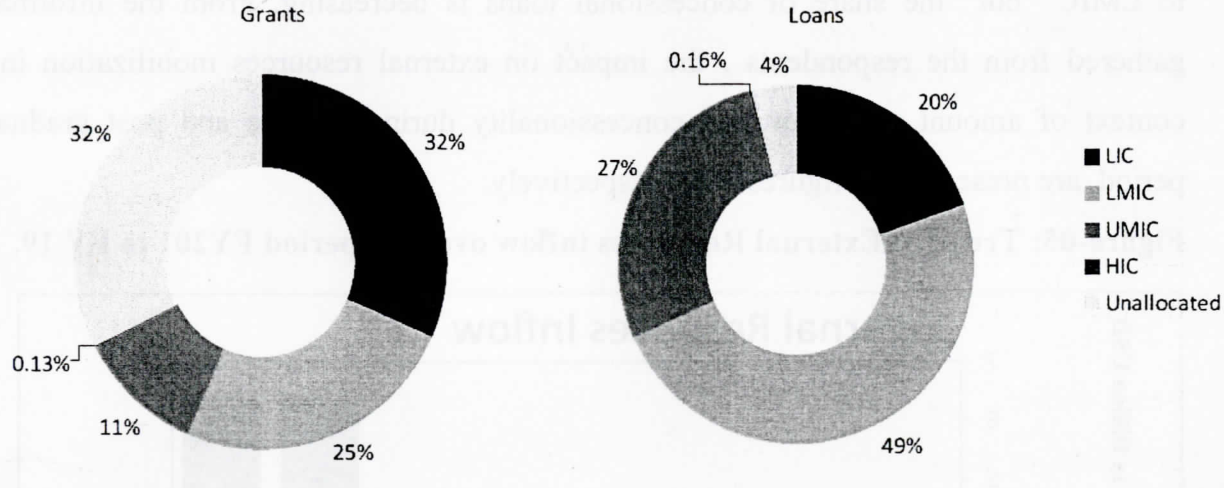
Same scenario, is seen for Bangladesh case, the amount of ODA received has been increased in financial Year 2019 than FY 2018. As per ERD data the disbursement amount for the FY 2018 & FY2019 are USD 6.37 billion & USD 6.4 billion (provisional data) respectively which indicates just after graduation year, received amount of ODA's trend is increasing. **Principally, the expected graduation of Bangladesh from LDCs should have no impact on mobilization of ODA.**

9.3 Implication of graduation to LMIC

9.3.1 Implication of graduation to LMIC

From the ODA allocation data of DAC (OECD 2013), it is seen that around 50% of the total yearly ODA allocated to LICs, 40% to LMICs and rest 10% to MICs in 2011. Strawson (2016) showed in his report that the share of ODA allocation to LIC is gradually decreasing while share of ODA to LIMIC & MIC is increasing. It is seen from that over the period, 30% of total yearly ODA allocated to LDCs in 2012, which is lower than 2011. He pointed out that ODA is provided in a wide range of forms using various methods with changing degrees of concessionality, from grants to loan-based assistance. The largest recipients of grants are LICs by income group. LMICs receive almost 50% of all ODA loans. (*Figure 4*).

Figure-04: Distributions of Grants and Loans among different recipient group.



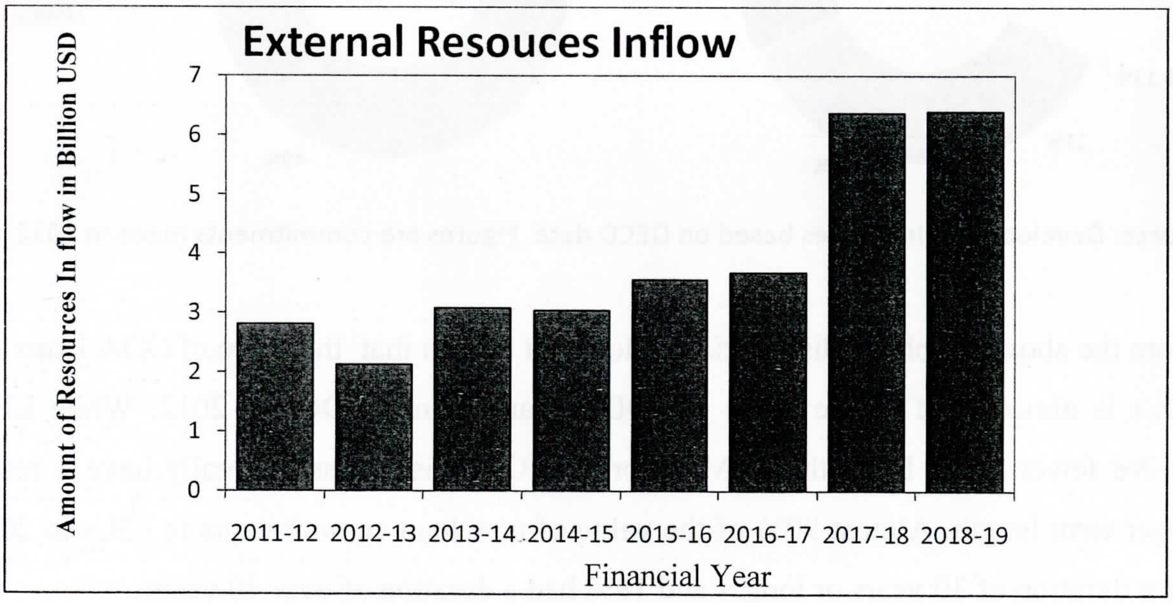
Source: Development Initiatives based on OECD data. Figures are commitments made in 2012.

From the above graph for distribution of loans, it is seen that the share of ODA loans for LDCs is almost half of the share of ODA loans to non-LDCs in 2012. While LICs receive fewer ODA loans than LMICs or UMICs, those loans generally have a much longer term length. Almost 90% of the value of new loan commitments to LICs in 2012 had a duration of 30 years or longer and 18% had a duration of over 40 years.

By contrast, more than two-thirds of new ODA loans to LMICs in 2012 were for loans with a duration of less than 30 years. These stark differences are in part explained by the degree of concessionality: loans to LICs tend to be more concessional than loans to LMICs. Not only the interest rate and other charges but also the length of the repayment period of a loan is a key factor in determining its grant element, which determines the concessionality of a loan. Longer repayment terms contribute to higher grant element percentages as they reduce the discounted present value of the future payments the borrower will make over the maturity period of the loan (UNSEDA 2015).

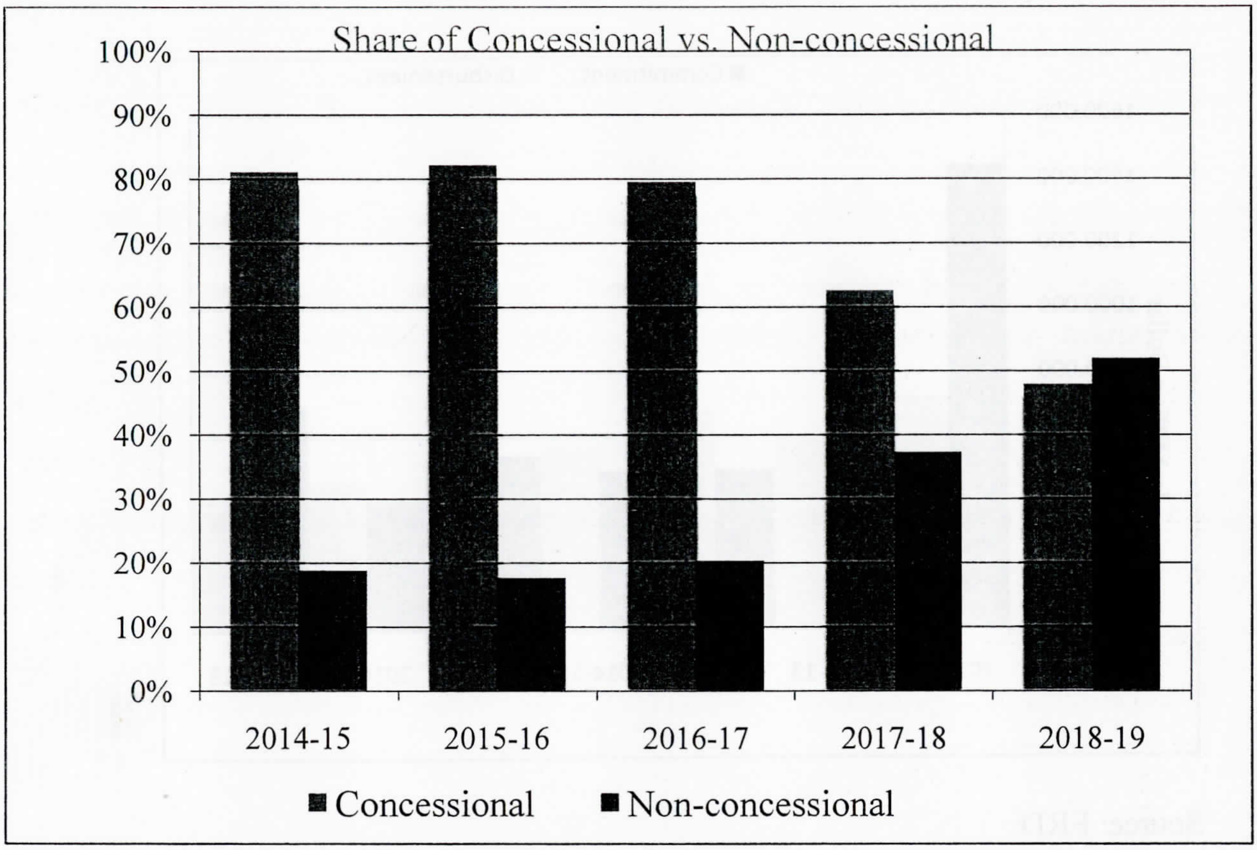
As ODA by definition is concessional and as LMICs received 49% of the ODA it could be sensed that the share of concessional assistance will be decreased over times. Respodents of ERD said that ODA has been increasing over the period after graduating to LMIC but the share of concessional loans is decreasing. From the information gathered from the respondents , the impact on external resources mobilization in the context of amount of inflow and concessionality during the pre and post graduation period are presented in figures-5 &6 respectively.

Figure-05: Trend of External Resources inflow over the period FY201 to FY 19.



Source: ERD

Figure-06: Pattern of External Resources based on concenssionality.



Source: Economic Relations Division (ERD).

9.3.3 Cost of Borrowing: On the other hand, most of the respondents of ERD also pointed out the fact that the graduation to LMIC will have considerable impact on external resources mobilization. However, the access to grant will be reduced over passage of time. The impact will be more on the cost of borrowing rather than the access to the finance as major Development Partners such as World Bank and Japan have already adjusted their financial terms and conditions either by shortening maturity and

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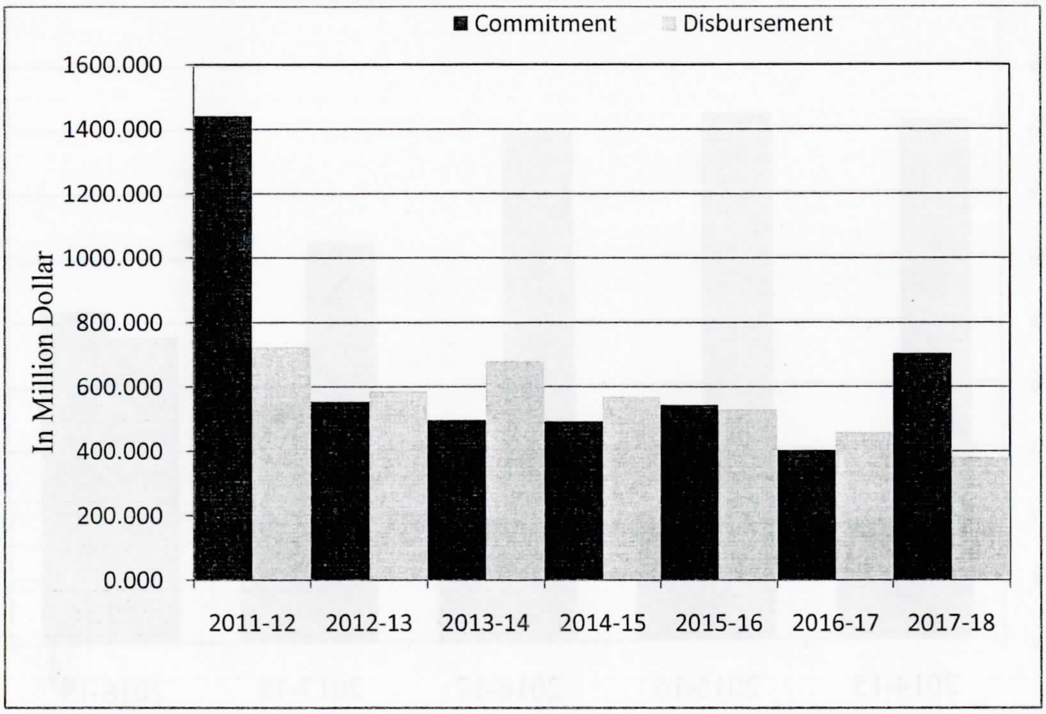
grace period or by increasing interest rates. It is evident from the graphical representation of gathered data for grant flows into Bangladesh in pre and post graduation (Figure-07).

Figure-07 Grant : Commitment And Disbursement



Source: ERD

9.3.3.1 Increase of Interest rate: There are variations and different modalities of a specific financing product depending on maturity, currency and interest type. Just to get an idea about change in interest rates, a simple example avoiding other complexities such as maturity period, currency and interest types is presented below for understanding increase of interest rate for Bangladesh. From the information gathered from respondents of ERD the cost of borrowing during the pre and post graduation period is presented in the table 5.

Table-05: Cost of borrowing in the pre and post IDA-graduation period of different DPs

Development Partners	Interest Rate		Remarks
	During LIC Period	After Graduation to LMIC	
WB	0.75%	(+/-)2%	
ADB	2% or LIBOR plus 50bps	2% or LIBOR plus 60bps	Since 2012 Considering Blend Country
IFAD	0.75%	(+/-)1.25%	
OFID	1%	2.25%	
AIIB	LIBOR plus 75-140 bps	LIBOR plus 75-140 bps	
IDB	0.75%- 2%	0.75%- 2%	
JAPAN	0.1%	1.2%	
INDIA	1%	1.5%	Negotiated to 1%
KOREA	0.01%	0.05%	
CHIN	2%	2-3%	

Source : ERD

From the above, it is seen that there is a sharp increase of interest rate of WB, Japan & China. As WB and JAPAN are the major DP of Bangladesh & also China is important DP, overall expenditure for interest payment will gradually be higher over period of times. Most of the other European bilateral countries such as Russia, France, and Germany from which Bangladesh has started to mobilize assistance are generally floating interest rate based. In this context, the same view was echoed by one of the respondent of ERD by saying, *principal payment will increase in future as cost of borrowing from traditional DPs increases, so, authority should think about specialized independent debt management office. he also pointed out that the graduation to LMIC has increased the credit worthiness as a potential borrower. So, Bangladesh could go for commercial* *borrowing for some big projects which are important for National interest. But during the selection process of Leander other alternative possible sources should be examined. To prioritize the project if policy intervention needed that should be done without delay.*

9.3.3.2 Applicability of other charges: There are many other charges such as management fee, commitment fee, front end fee, maturity premium, etc. Recently some DPs have been imposed such charges for Bangladesh which were exempted or suspended before. It is evident from the information collected respondents that now , Bangladesh has to pay front-end fee and commitment charges to WB (0.25% and 0.50%) and Japan (0.2% and 0.15%) for some selected projects but in coming days will impose for all projects. Generally the other charges will be higher than before. **As a whole the other**

9.3.3.3 Shorter tenure of loan repayment: Already World Bank and Japan shortened the maturity period of concessional loans. The information of the respondents of ERD revealed that World Bank reduced maturity period to 38 years from 40 years and grace period to 6 years from 10 years. Japan also reduced the maturity period to 30 years from 40 years, though the grace period remains same as 10 years.

According to the respondents and the gathered data, the changes in external resources mobilization scenario reflect that the access to foreign assistance will be more winder but share of non concessional amount will increase due to LMIC. On other hand, the cost of borrowing will be higher. To face the challenges the respondents suggested:-

- prudent borrowing strategy focusing on effective mechanism for screening projects or program to be financed by external resources,
- limiting non-concession loans to revenue generating projects, ensuring timely implementation of the projects to avoid costs and time over run, consider alternative sources of financing, and

-strengthening debt management capacity to maintain a comfortable level of debt sustainability.

Considering the opinion of respondents and other findings from gathered data it could be said that policy intervention is required. Following issues need to be look at for future policy intervention:

(a) There should have a guideline for prioritizing sectors, projects or programs which are eligible to access non-concessional loan;

(b) As the commitment charge is applicable for all the credits of most of DPs, the shorter lead time for commencing implementation and completion within planned schedule of the project will be highly important for limiting additional costs.

10. Conclusion

The objectives of the study were To determine the impact on external resources flows into Bangladesh due to graduations. The study reached to the conclusion that there is little impact on access to foreign assistance due to LDC graduation or LMIC graduation. Thus, Bangladesh could mobilize more foreign assistance, if it requires to, in the post LDC graduation and LMIC period. However, access to climate finance dedicated for LDCs such as GEF would be ceased gradually. On the other hand, cost of borrowing will be higher in the post LMIC period than that of Pre-LMIC period. To ensure value for money, utilization aspects of foreign assistance would be more of a serious issue than as it is now to look into. Thus, it is more practical to search for the ways and means to facilitate identifying appropriate projects and programs, financing source and above all, bottlenecks of project implementation in time and its solutions.

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