



CASE STUDY **Bangladesh:**

Financing the Sustainable Development Goals (SDGs) in Bangladesh

Background Information

During the years of the Millennium Development Goals, Bangladesh experienced a period of sustained growth. This enabled the country to make good progress on related indicators, like the prevalence of underweight children under-five years of age, and the net enrollment in primary school. But challenges remained as the country set to work on the Sustainable Development Goals (SDGs). Bangladesh's leaders would have to figure out how to come up with the financing to make that work possible. Beyond the goals, it showed resilience in the wake of the Great Recession by maintaining solid growth. And in 2015, the country climbed into the World Bank's lower middle-income category.

To prepare for the challenge, Bangladesh's Economic Relations Division (ERD) commissioned an independent Development Finance Assessment (DFA). Released in early 2016, "Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh," mapped Bangladesh's financial flows for development to aid planning for the SDGs. Research for the report was supported by a number of development agencies, including the United Nations Development Programme (UNDP), and the Asia Pacific Development Effectiveness Facility. The comprehensive report was a first for Bangladesh, as it included all financial flows from private to public as well as domestic and foreign sources. It went beyond tracking finances as it also included the assessment of policies and the institutions that support finance, technical systems and tools, and the human resources available to manage all aspects of Bangladesh's financial flows, while also planning the path forward. It also provided recommendations for reforms that could help foster a financing framework that would help Bangladesh deliver on its development priorities, while also doing its part on the SDGs.



	Public	Private
External	ODA Grants and Loans	Foreign Direct Investment
	Public Borrowing from K-Markets	Overseas Remittances
	South-South and Triangular Cooperation	International Non-governmental Organizations (INGOs)
	Climate Change Finance	Private Borrowing from K-Markets
	Vertical Funds (GAVI and GFATM)	
Domestic	Tax and Non-tax Revenues	Private Borrowing
	Public-Private Partnerships	Inclusive Business Finance
	Public Domestic Borrowing	Domestic Philanthropy and Non-governmental Organizations
	Sovereign Wealth Funds	Corporate Social Responsibility Linked to Development
	Climate Change Finance	

Financial flows analyzed in Bangladesh's current DFA¹

Approach, Delivery, & Challenges

Bangladesh utilizes Five Year Plans for its development efforts. The nation launched its current one, the 7th Five Year Plan (7th FYP) in October 2015 to cover the years 2016 to 2020. The 7th FYP targets job creation, poverty reduction, and the commitments made on SDG targets. The plan requires 31.9 trillion Taka (US\$ 409 billion) and private investment is expected to cover seventy-eight per cent of this amount. The plan is ambitious in its scope, particularly in the resources it is looking to harness via the private sector. But the country's recent record of steady growth will help it find the needed financing. With the current plan, Bangladesh's leaders have called for an advance in public-private partnerships (PPP), while also looking to increase remittances. The goal is to raise foreign direct investment (FDI) from one to three per cent of gross domestic product (GDP). They're also aiming to raise public and private savings levels, significantly grow private sector income, and modernize both tax policy and administration to help expand revenues.

Bangladesh's 7th FYP called out two finance imperatives: (1) the need of a significant increase in public investment (primarily domestic), and (2) a similar expansion on the private investment side.

¹ "Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh Findings from an Independent Development Finance Assessment," *Asia-Pacific UNDP*, February 2016, <http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Bangladesh%20DFA%20-%20Strengthening%20Finance%20for%20the%207th%20Five%20Year%20Plan%20and%20SDGs.pdf>.



	FY17-FY20	FY21-FY25	FY26-FY30
Total additional amount from domestic sources (85.11% of total)	107.72	257.49	430.87
Total additional amount from external sources (14.89% of total)	22.07	43.15	67.17
Total additional amount from both domestic and external sources (100%)	129.79	300.65	498.04
Annual average additional amount from domestic sources	26.93	51.50	86.17
Annual average additional amount from external sources	5.52	8.63	13.43
of which FDI	2.73	6.45	10.70
Grants and aid	2.79	2.17	2.74

Source: GED estimates

Summary of financing options (Billions of USD)²

Bangladesh's 7th FYP includes a new element, the National Sustainable Development Strategy to facilitate the mainstreaming of the SDGs. The budget also has the ambition to be more strategic with resource allocation, with the goal of shifting focus to sources of finance that need to be optimized, but that are not under the government's authority, like the private sector. This is expected to lead to an integrated financial framework to mobilize the necessary resources for the SDGs. To get there, Bangladesh is working towards aligning different budget frameworks to achieve the SDGs. These include: (1) the opportunity to coordinate the 7th FYP and Bangladesh's Annual Development Programme (ADP), (2) finding agreement between the ADP and the Medium-Term Budget Framework (MTBF) – a new budgeting approach that plans the ensuing financial year, while also making projections for the next four years, (3) the accelerating needs from both public and private investment, (4) optimizing budget expenditures.

The DFA prescribed three objectives as necessary preconditions to enable the country to achieve the targets in the 7th FYP. The first of those was improving the quality of the budget to optimize the value of public expenditures to line up with the nation's priorities. This suggests finding ways to shrink the recurrent expenditure portion of the budget to unlock development funds, and better allocating funds in accordance with the aims of the 7th FPA. The second objective was the necessity of increased domestic investment seeking economic, social and environmental benefits. To do so, the government is striving for strengthening the tax collection system, while ensuring equity of taxation. The third looked to leverage resources from the private sector to help boost Bangladesh's development work. This would have the Board of Investment working to attract and aligning Foreign Direct Investment (FDI) with the priority areas of the 7th FYP, while also fostering positive social and environmental impacts. The DFA report further recommended that the three objectives become the immediate focus of an Integrated Financial Strategy to be implemented alongside the 7th FYP, and that while those objectives were necessary, they would not be sufficient to achieve the 7th FYP objectives.

The 7th FPA proposes short-term steps, such as focusing on Official Development Assistance (ODA), climate finance, and South-South Cooperation (SSC). ERD is expected to collaborate with development partners and key government agencies on this work. This will require additional data, case studies, analysis, and dialogue among relevant stakeholders.

The DFA recommended a high-level collaboration to assess the report's proposals and look for implementation opportunities. This will help facilitate the finance flows needed for the SDGs. To this end, Bangladesh's government is maintaining close collaboration with all relevant agencies, as well as organizations and individuals outside of government.

² General Economics Division, "SDGs Financing Strategy: Bangladesh Perspective," *Government of the People's Republic of Bangladesh*, June 2017, http://www.plancomm.gov.bd/wp-content/uploads/2017/11/SDGs%20Financing%20Strategy_Final.pdf.



Benefits & Lessons Learned

An important conclusion from Bangladesh's DFA was the need to mobilize funding from a wider array of sources. As M.A. Manna, State Minister for the Ministry of Finance put it, "In order for supplementing its regular budget for the SDGs implementation, the Government plans to explore innovative ways of financing through intense bilateral and multilateral engagements and putting additional focus on resource mobilization." Some of these sources demand institutional reforms to enable their access, and policy needs to properly reflect and encourage these opportunities. The complexity of this task requires coordination between ministries whose mandates cover different pieces of the puzzle. To this end, the country has developed a comprehensive plan and the necessary costing estimate with detailed targets for the relevant sources of funding.

The DFA reported on key learnings from its analysis in each of the three primary objectives. Key findings related to those were: (1) working to strengthen the budget is expected to improve resource allocation, (2) State-Owned Enterprises were found to be drains on public resources, (3) the country's recurrent expenditures consume around seventy-five per cent of the annual budget, whereas other high growth countries typically have an additional twenty per cent of their budget available for other priorities, and (4) the efficiency of within sector allocations needs to be improved, and (5) the needs of the social security system are not being met by current budget allocation of two per cent.

Digging into the second objective, public finance, yielded the following insights: (1) falling short of tax collection goals limited the ability to increase spending on health, education, rural development, and social protection, (2) revenue shortfalls led to increased short-term borrowing, (3) along with strengthening tax collection, the government also wants to increase the equity of tax collection, (4) the country is working to create incentives for development that is compatible with its climate-related goals, (5) the proportion of informal sector work, National Bank of Revenue capabilities, and ongoing computerization efforts of the tax system all constrain the ability to tax accurately and fairly. This area also includes the need to optimize tax incentives, uncover tax evasion, and the need to stem illicit outflows.

Findings related to the third objective include: (1) the tendency of private finance to not be aligned with the priorities of the 7th FYP, (2) the lack of an enabling regulatory environment to encourage socially and environmentally responsible private sector investment, (3) the current limit on foreign borrowing, (4) the need of better coordination between the groups working on the private sector strategy, (5) the opportunity to make the business sector more welcoming to investment, and (6) the need of achieving the transportation and energy goals in the 7th FYP.

Opportunities & Next Steps

Going forward, Bangladesh's finance-related efforts will primarily focus on meeting the three key preconditions set forth in the DFA. Improving the quality of their budgets, increasing domestic investment, and increasing FDI are all necessary steps towards unlocking the possibility of meeting the country's SDG targets. Satisfying the preconditions would enable meaningful development progress within the 7th FYP, and, once they're met, the remaining direct work on the goals can begin. Lenders will want to see evidence of institutional reforms if they're to provide the development finance that's needed. This will require close collaboration between the Ministry of Finance, the Planning Commission, and the Economic Relations Division (ERD). The DFA oversight team was recommended as the potential base for the core group to lead that work. Beyond that, the country's leaders should display the political will to enable such reform. As Dr. Shamsul Alam, Senior Secretary of the General Economics Division (GED) noted in Bangladesh's Financing Strategy, "I hope, if we work together collectively, we will be able to beat all odds and challenges on the path of implementation of the SDGs. As we performed well in the MDGs, this will be an inspiration for us to be a star performer in SDGs as well."



There are a number of challenges that Bangladesh will have to overcome to finance its SDG aspirations. Gaining better access to reliable data on non-public finance flows is one key. Doing so will not be easy as some of the flows actively undermine SDG efforts, which makes such information all the more important. It also must improve data collection in general. The country also has to develop its capabilities around data collection and analysis, while actively promoting the benefits of open data. To do so, there are multiple challenges that have to be met, including: (1) key data is often held within a single ministry and not shared, or not collected, (2) knowledge is often treated similarly, as it is produced but then often not shared beyond the group that created it. Bangladesh's ministries have a duty to provide access to information while working together to utilize the knowledge that's produced to greater effect.

A range of financial flows have been identified as potential enablers of the three preconditions. These include ODA, FDI, Public-Private Partnerships (PPPs), SSC, climate change finance, and remittances. The ERD will work to help align ODA, SSC and climate change finance with these strategic priorities.

Securing the influx of FDI that Bangladesh seeks – from one to three per cent of its GDP – is one of the great challenges of the country's SDG commitments. To get there, Bangladesh must simultaneously reform internally, while selling the expected gains from such reforms. The task will become easier as the shape of the reforms come into view. And somewhat paradoxically, financing may need to be redirected to reform efforts to unlock additional financing for the efforts they're initially taken from.

Bangladesh's ministries, led by the Ministry of Finance, will continue to prioritize their efforts in aiming for optimal progress on the dual fronts of reforms and investments. New systems and tools will be built and accessed to facilitate the comprehensive review of investment opportunities. Related decision-making processes should be updated to fit the growing capabilities and the escalating need of optimal choices. The goal of such updates should be to move toward systemic perspectives that consider the relative merits of options and the follow-on opportunities they enable, while also comparing possibilities between public and private sources of funding. They should also consider making such tools available beyond central actors, so that groups like line ministries and sub-regional governments are better enabled to do their part. Meeting the funding requirements of the goals is an evolutionary process. As Bangladesh's leaders learn from their experiences, they'll necessarily update their plans to improve their chance of success. Much has already been learned in through efforts like the drafting of the DFA. Much more will need to be learned and incorporated if Bangladesh is to meet its SDG targets.

Bangladesh's leaders have laid out an immense task with their SDG funding goals, but they've crafted a comprehensive plan for its achievement. To meet that challenge, they have to fulfil the DFA's three objectives. They'll also have to coordinate between representatives of the public and private spheres, whose interests will not always be aligned. Finding ways to bridge those alignment gaps is a necessary enabling step towards meeting the country's SDG commitments. As Mdd. Abul Kalam Azad, Principal Coordinator (SDG Affairs) of the Prime Minister's Office, noted, "It is evident from the previous experience of the MDGs delineated that in order to ensure proper implementation of global goals, a country must have full political commitment, action plan for implementation, estimation of financing, and robust monitoring and evaluation process." As Bangladesh puts these pieces in place, it increases its chances of success with the goals.

Sources & Verification

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