



External finance for rural development

Country case study: Bangladesh

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Key messages

- Rural and agricultural development is a priority for the Government of Bangladesh as a way to reduce poverty and inequality and improve food security.
- Bangladesh spends a large share of public funding on agriculture development – a share that is expected to increase.
- Official development finance for agriculture and rural development has shifted from grants to concessional loans. While demand for external development assistance is expected to rise, any increase is likely to have concessional terms.
- The Government has a 'red line': borrowing at non-concessional and commercial terms. Government officials stressed that non-concessional loans should only be considered on an exceptional basis and, in particular, for large-scale infrastructure projects.
- Government preferences for external development assistance are: alignment to national priorities, no policy conditions, and rapid delivery and project implementation

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional \$267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)¹ to agriculture and rural development rose slightly from \$10.2 billion in 2015 to \$10.9 billion in 2018. This is only a fraction of the total ODF disbursements of \$254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Bangladesh. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Bangladesh over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale up to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details). Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development. We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria (usually defined as other official flows, or OOFs).² We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure, but given the lack of

1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature³ and data analysis,⁴ which also helped us to identify country stakeholders. This was followed by interviews

with key informants, informed by an electronic questionnaire submitted before each interview. For Bangladesh, we held 16 interviews between April and July 2020 and received 19 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Bangladesh: country context

Bangladesh was reclassified as a lower-middle-income country (LMIC) in 2014. As an International Development Association (IDA) country, it can also borrow at International Bank for Reconstruction and Development (IBRD) terms and at blend terms from the Asian Development Bank (ADB). At the time of writing, Bangladesh is expected to graduate from the list of least developed countries (LDCs) in 2024, at which point it will lose its preferential trade access.

Bangladesh is also one of the world's most densely populated countries (seventh most populous in 2018 according to World Bank (2020a) data, but the top six are either small countries or islands), which amplifies the consequences of climate change and other shocks that affect food production. It is also worth stressing that Bangladesh has very dynamic non-governmental organisations (NGOs), particularly in relation to microcredit, being the country where it all started. Microcredit plays a major role in service delivery and project implementation, including in agriculture and rural development.

Bangladesh is characterised by a centralised government system and a centrally planned economy. It is also one of the world's success stories in terms of economic and social development. From having the second-lowest gross domestic product (GDP) per capita worldwide in 1975 (World Bank, 2015), Bangladesh has become one of the fastest-growing economies in Asia. Strong and sustained economic growth has kept annual GDP growth rates above 6% since 2010, reaching 8% in

3 Including government national development plan and sectoral strategies, debt management policies and International Monetary Fund (IMF) Article IV.

4 Spanning IMF, OECD and World Bank sources.

2018 (IMF, 2019). Bangladesh had strong macroeconomic indicators beyond GDP growth rates, with declining inflation and fiscal deficit (ADB, 2016). Growth has been fuelled by the structural transformation away from agriculture and towards the garment industry – which accounted for 82% of total exports between 2011 and 2015 (ADB, 2016) – and by the rise in workers’ remittances.

Bangladesh is a fertile lowland but is very much exposed to the consequences of climate change, including cyclones, typhoons, land erosion and rising water levels. The Notre Dame Global Adaptation Initiative Index classifies Bangladesh as one of the most vulnerable countries, at 146th out of 181 countries (ND-GAIN, 2020), with lower rankings signalling greater vulnerability to the impact of climate change.

The structural economic transformation away from agriculture to manufacturing meant that the agriculture sector has contributed a falling share to the country’s GDP – just 13% of GDP in 2018. However, a vast proportion of the population – 40% – is still employed in the agriculture sector (World Bank, 2020a).

Poverty fell significantly between 2010 and 2016, but the rate of progress has slowed in recent years. While rural areas account for a higher share of poor people, poverty has fallen faster in these areas than in urban areas. Urban poverty rates fell from 21.3% to 18.9% between 2010 and 2016, while rural poverty fell from 35.2% to 26.4% (World Bank, 2017).

It is also worth noting that although the population has been growing, the population living in rural areas fell slightly (by 2% in relative terms) from 2014 to 2018, according to World Bank data for 2020. And between 2010 and 2019, the rate of youth unemployment (for those aged 15–24 years) nearly doubled, rising from 6.4% to 11.9% (World Bank, 2020a).

Government priorities for rural development

Our research, including a literature review and responses from our interviewees, confirms that agriculture and rural development are key priorities for the Government of Bangladesh, particularly as ways to eradicate poverty,

generate employment, reduce income inequality and improve food security. Multiple documents outline the government’s policy priorities on agriculture and rural development: the long-term Perspective Plan (2010–2021); the Seventh Five-Year Plan (2016–2020), with a new one for 2021–2025 being prepared; the Bangladesh Delta Plan 2100; the 2018 National Agriculture Policy and the government’s manifesto for the 2019 elections ‘My Village – My Town’, which aims to extend modern urban facilities to every village.

While agriculture and rural development do not feature in the main goals of the long-term Perspective Plan 2010–2021, they are the first items (particularly in relation to growth in rural wages) on the government’s agenda for growth and poverty reduction (GoB, 2012: 3) and for the achievement of food security.

As one of our interviewees pointed out, ‘the rural economy is the backbone of the country’. One objective of the current government is to create job opportunities in rural areas as a way to reduce migration into the country’s crowded urban centres. As we see in the next section, this priority is reflected in the government budget and is well communicated to development partners.

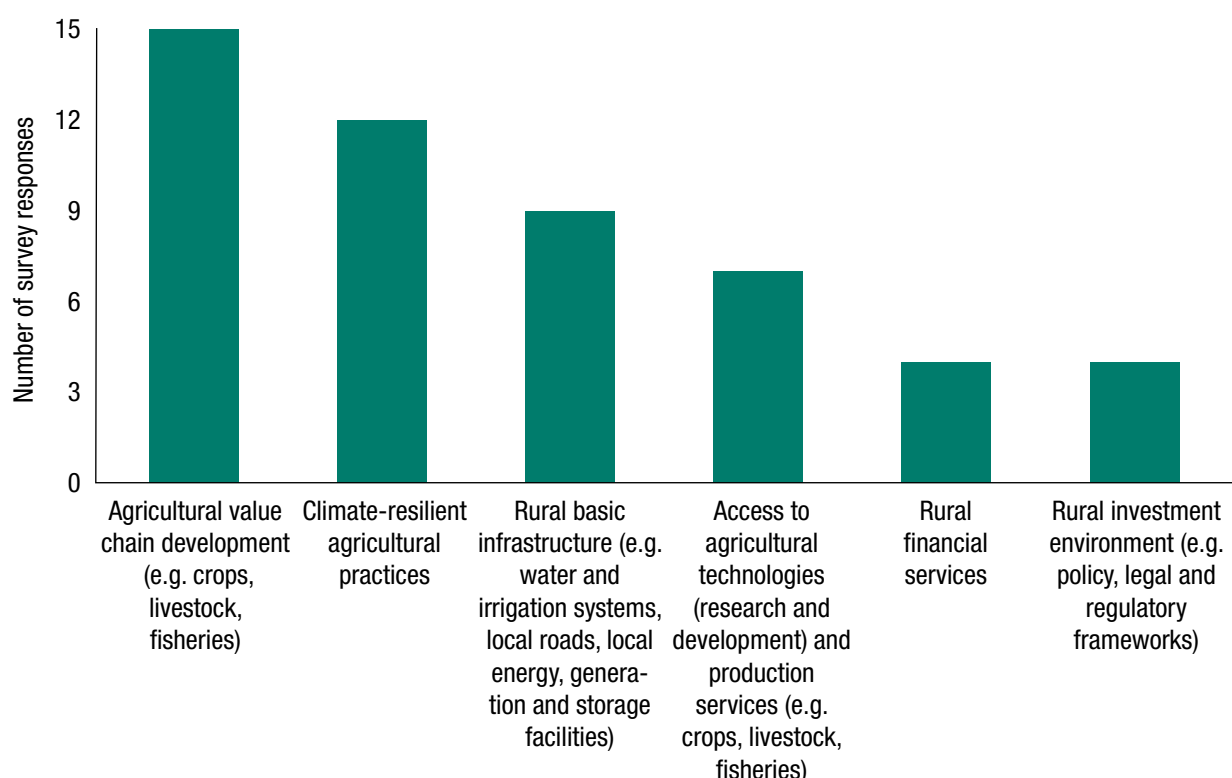
Another key priority for the government is to shift from subsistence to commercial agriculture through greater mechanisation, diversification of crops, the development of agribusiness and greater exports. Several interviewees noted, however, that exports are limited at present by the lack of a regulatory framework and the standards needed to reach international markets.

The Perspective Plan (2010) is very clear on the strategic transition from subsistence to commercial agriculture:

to achieve self-sufficiency in rice production, to diversify crops, to form production and marketing cooperatives, to encourage R&D for increasing productivity, etc. (GoB, 2012).

The Seventh Five-Year Plan is more explicit about the need to diversify agriculture into higher value-added activities and transfer surplus labour from agriculture to non-farm activities in rural and urban areas (GoB, 2015).

Figure 1 Top priorities for agriculture and rural development, according to our respondents



Note: Survey completed by 19 respondents, who were asked to select up to three options.

Source: Own data based on the multiple-choice survey for this project (see Prizzon et al., 2020)

Agriculture value chain development, climate-resilient agriculture practices and rural basic infrastructure are top priorities for agriculture and rural development. These were the three main areas cited by our interviewees and in the responses to our questionnaire (see Figure 1, which reflects replies from 19 respondents). Less than half of our interviewees mentioned agricultural technologies, rural financial services and rural investment environment as priorities for the government.

Three main factors justify the prioritisation of agriculture value chain development, climate-resilient agriculture practices and rural basic infrastructure in government policy. First, the shift from subsistence to commercial agriculture, as mentioned, requires far greater mechanisation, extension services and storage facilities to help farmers get the right price for their crops and products and to generate employment. Second, climate change is at the top of the priority list for the government, given the large proportion of the population living along the coast, which is particularly

vulnerable to flooding and other natural disasters. Third, to boost productivity in agriculture and rural areas, the Seventh Five-Year Plan prioritises the development of rural infrastructure, most notably roads, electricity, irrigation and flood control.

Policies on agriculture and rural development do not have specific target groups. Our analysis of policy documents and responses from our interviews did not find that sectoral government policies have any specific target groups. Women's empowerment, for example, and support for youth are part of the general, rather than sectoral government agenda. The government does target smallholder farmers to boost their skills and inputs so that they can make a progressive shift from subsistence to commercial agriculture. With that exception, the overall target groups are farmers, fishers and landless women, who take part in both the on-farm and off-farm activities of the rural economy.

The crisis prompted by the Covid-19 pandemic has brought agriculture and rural development to the centre of government

policies. Every interviewee raised this issue and it is reflected in the large share of spending for agriculture development in the country's fiscal stimulus package.

Even before the pandemic reached Bangladesh, the government was prioritising infrastructure development in rural areas. This has been seen as crucial in recent years to ensure that products reach markets, to keep supply chains as open as possible and keep food prices as low as possible. As noted, Bangladesh is densely populated and the crisis emphasised the need to ensure food security (as other countries started to close their borders and ban exports) and to 'cultivate every single inch of the soil', as many interviewees pointed out. But there were other considerations, such as the need to boost agriculture production for exports, and to generate enough foreign currency to compensate (at least partly) for the falls in workers' remittances and in garment exports.

Financing rural development

Public finance

Before we explore the data on the country's allocation of public finance to agriculture and rural development, it is worth noting that the weight of public expenditure and investment in the country is relatively small, with low public spending (15% of GDP in 2019) and low tax/government revenues (10% of GDP in 2019 according to IMF (2020) data) compared with South Asia as a whole.

Bangladesh is one of the countries with the largest share of public expenditure going to agriculture development. Bangladesh spent 8.7% of its entire government expenditure on agriculture between 2010 and 2016: the fifth largest share in the world (FAO, 2019). While it may be unclear which budget lines are included (see Prizzon et al., 2020, the synthesis report for this project), the large share of spending and its high position in the international ranking reflects the policy prioritisation of Bangladesh's agriculture development in the country's long- and medium-term development plans.

The Seventh Five-Year Plan notes that rural infrastructure was the area that saw the largest increase in public finance expenditure, which rose from 2% of GDP in 2015 to 3% in 2020. Spending for this sector outstripped other areas that help to reduce income inequality (education, health and social protection).⁵

All of our interviewees agreed that expectations are for an increase in government spending for agriculture and rural development, which will remain the main funding source for these areas. This reflects the prioritisation of these areas in government policies and the response to the crisis prompted by the Covid-19 pandemic. Most respondents (13 out of 19) to our survey expect that government spending will be the largest source of financing for rural development in Bangladesh over the next five to 10 years, with a progressive reduction in external aid for these areas.

External development assistance

Despite the reclassification of Bangladesh as an LMIC in 2014, official development finance (grew by more than 75% from 2014 to 2018, rising from \$3.3 billion to \$5.7 billion (Figure 2). Not only have total flows expanded, but their composition has also changed markedly. This reflects greater reliance on lending from multilateral development banks (MDBs) as well as on bilateral donors that provide concessional loans.

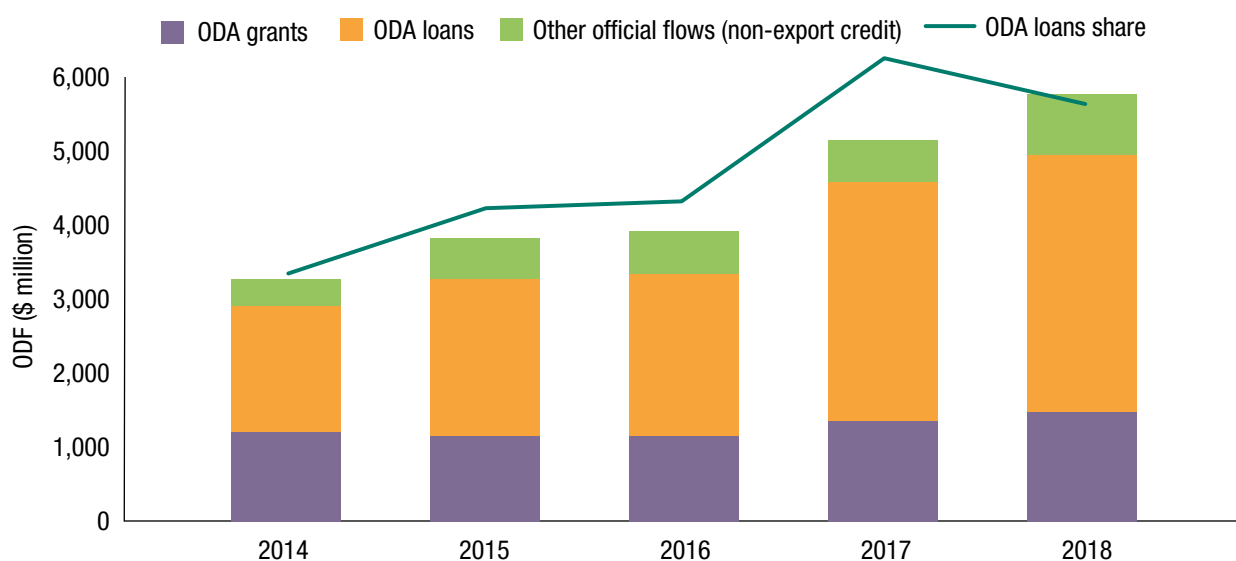
While ODA grants stayed relatively stable (at \$1.2 billion in 2014 and \$1.5 billion in 2018), ODA loans were the main driver of the rise in total ODF, with ODA loans more than doubling between 2014 and 2018 (from \$1.7 billion to \$3.5 billion). Non-concessional ODFs also more than doubled, but from a small base.

The key message here is that an increasing share of ODF is now being provided as loans – especially concessional loans – with a shift away from grant financing. Loans (whether concessional or non-concessional) represented 60% of total ODF in 2018 (and 52% in 2014).

Bangladesh has a low and declining dependency on ODA (but remains one of the

5 See Table 4.4 in the Seventh Five-Year Plan (GoB, 2015: 145).

Figure 2 Official development finance 2014–2018



Note: Constant 2017 prices. ODA, official development assistance.

Source: OECD (2020)

largest ODA recipients). In 2018, the country was the fifth largest ODA recipient and remains a ‘donor darling’, attracting and borrowing assistance from bilateral donors and multilateral development banks. It also receives assistance from emerging donors (such as China) or newly established MDBs (including the Asian Infrastructure Investment Bank), but these do not report to the OECD Development Assistance Committee (DAC) and are not included in our analysis.

As a share of gross national income (GNI), ODA stands at less than 1.5% and is falling as a share of government expenses (from 14.7% in 2014 to 12% in 2016). Many of our interviewees, including government officials, stressed that the financial contribution of external development assistance was important, but that the medium-term strategy is to continue reducing external development support and expanding the share of government contribution to public investment.

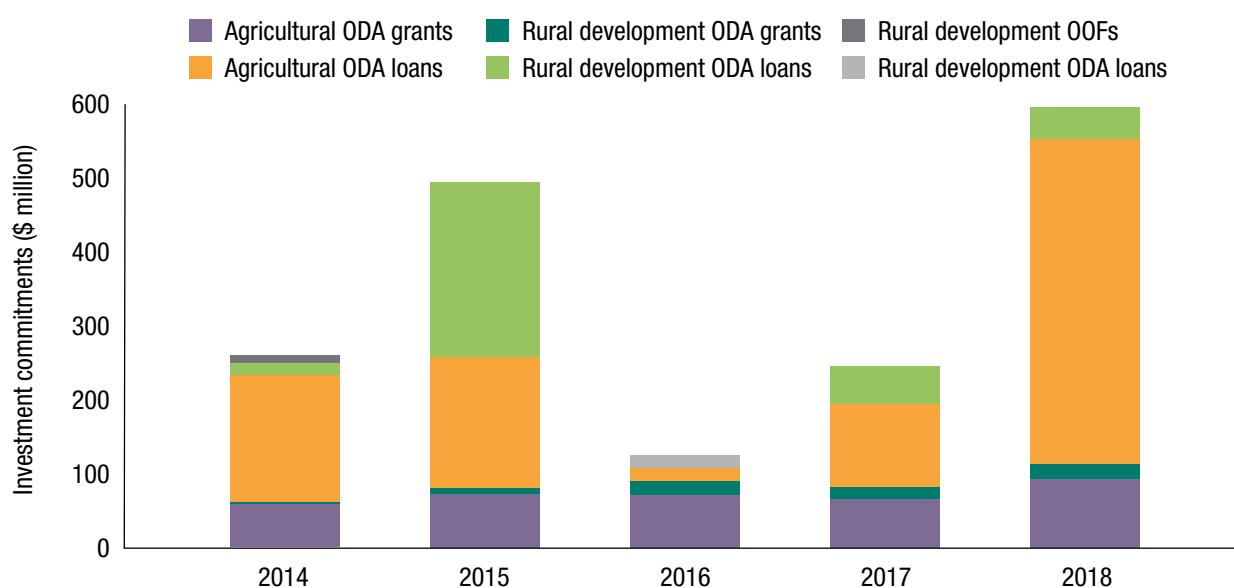
When it comes to rural and agriculture development, we could not identify a specific trend when it comes to volumes – trends for ODF flows to agriculture and rural development differ from those for overall ODF, with falling shares of ODF to these sectors over time, from more than 15% of ODF in 2014 to 7.4% in 2018. While

this is not captured in our data, our interviewees, pointed out that commitments from development partners to the sector remain strong.

As noted, agriculture and rural development are among the main government priorities and this prioritisation is well communicated to development partners (particularly as alignment to national priorities is pivotal for government decisions; see the section below on preferences for rural development). We could not identify government budget data with donor contributions on budget, but several interviewees mentioned that development assistance contributes approximately 20% of total government investment in agriculture and rural development.

It is worth stressing, however, the shifting composition of funding to agriculture and rural development by financing source, with the dominance of concessional loans (Figure 3). First, while ODA grants to agriculture and rural development had been the smallest source of finance to these sectors, they have also been pretty stable over time – a reflection of the small number of providers in the sector whose programmes are financed via grants. Second, the share of projects funded by ODA loans is far greater than across all sectors: accounting for more than 80% of total ODF to agriculture and rural development

Figure 3 Commitments to agriculture and rural development by source



Note: Constant 2017 prices. ODA, official development assistance; OOF, other official flows.
Source: OECD (2020)

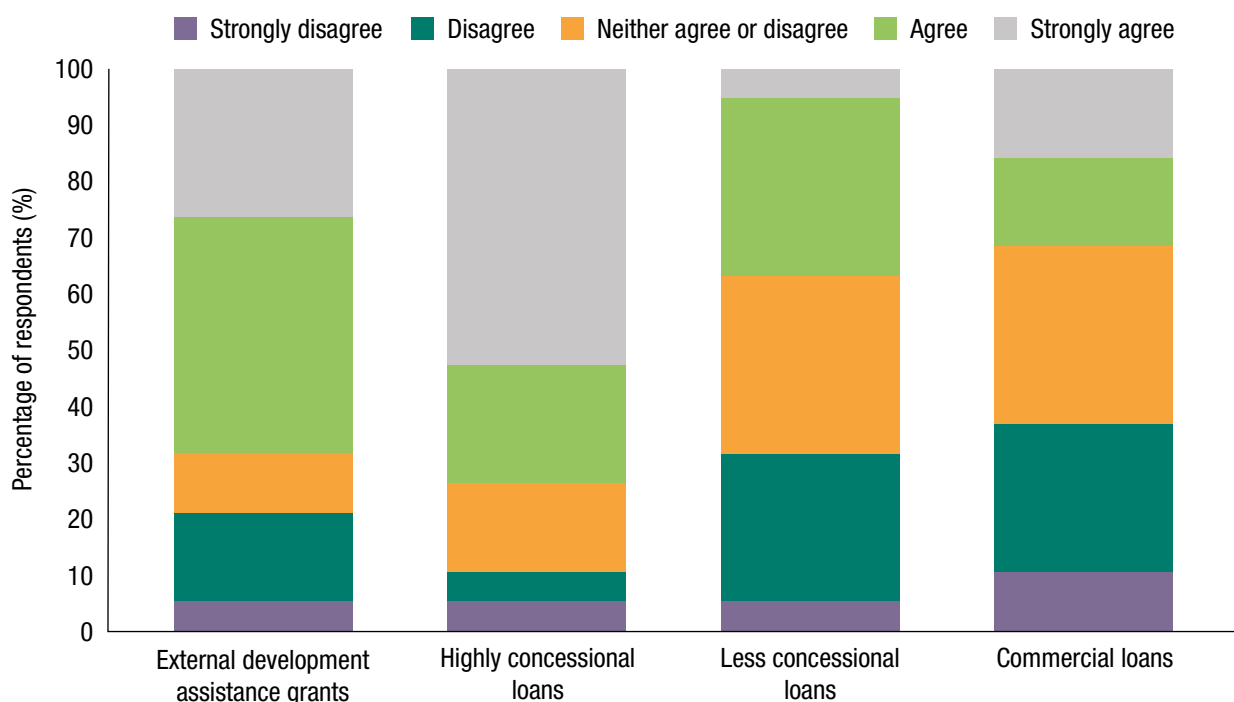
in 2015 and 2018. Third, the volume of OOFs to agriculture and rural development is rather small, and smaller than across all sectors (\$11 million in 2014 and \$18.5 million in 2016). According to our interviewees, the shift from grants to loans is linked not only to the fall in grants and greater access to concessional loan financing as Bangladesh became an LMIC, but also to the evolving demand for commercial agriculture (particularly agriculture value chain development and rural basic infrastructure).

There is an implicit division of labour among development partners. To the best of our knowledge, the Government of Bangladesh does not have a publicly available aid management strategy. However, many development partners and government officials interviewed reported an implicit division of labour among development partners. This entails working with the large MDBs (World Bank and ADB) and China for large-scale infrastructure projects (given the large-scale volume of resources), and with bilateral development partners like Japan and the Netherlands, as well as with the International Fund for Agricultural Development (IFAD) for mid-size projects on agriculture and rural development. Smaller bilateral development partners are usually considered for softer elements of the projects or for financing technical support.

There are expectations that the demand for external assistance to agriculture and rural development will rise, but mainly in concessional terms. Despite the long-term objective of reducing dependency on aid, there was consensus across government and development partners that demand for external development assistance to these sectors will rise over the next five to 10 years because the country still has financing gaps that need to be filled. However, demand is primarily for concessional resources (see the section below on borrowing). This point was stressed both during our interviews and in the responses to our survey. In particular, 70% of respondents agree or strongly agree that demand for highly concessional loans to agriculture and rural development will increase (nearly 50% strongly agreed), followed by 64% for rising demand for grants. These percentages fall to 41% for non-concessional and 35% for the case of commercial loans (Figure 4).

A clear preference for knowledge sharing and new technologies, rather than financial assistance, emerged from our interviews. According to our survey of interviewees, nearly 90% of them identified access to additional financial resources (below market rates) as either important or extremely important, followed by policy advice and peer learning

Figure 4 Expectations of future demand for external finance



Government demand expected to rise in the next 5–10 years for inclusive and sustainable rural development

Note: N = 19.

Source: Authors' survey

(47%) (Figure 5). This result seems to be at odds with our discussions with both government officials and development partners. First, many stressed that all of these elements matter in the relationship. Second, they noted a strong preference for technical assistance – mainly for knowledge management and innovation, rather than financial assistance. Some interviewees stressed that the strong economic performance of the Bangladeshi government in recent years and its robust annual development plan made financial constraints less binding, easing the pressure for access to financial assistance from development partners.

Absorptive capacity is seen as the main challenge for public investment in agriculture and rural development. Most of our interviewees stressed that the main constraint for further expansion of public investment in rural development is the ability of the government to implement projects at a faster pace. The challenges include lengthy bureaucratic processes and the need to strengthen strategies, policies and technical implementation (a view captured only partially in the survey responses).

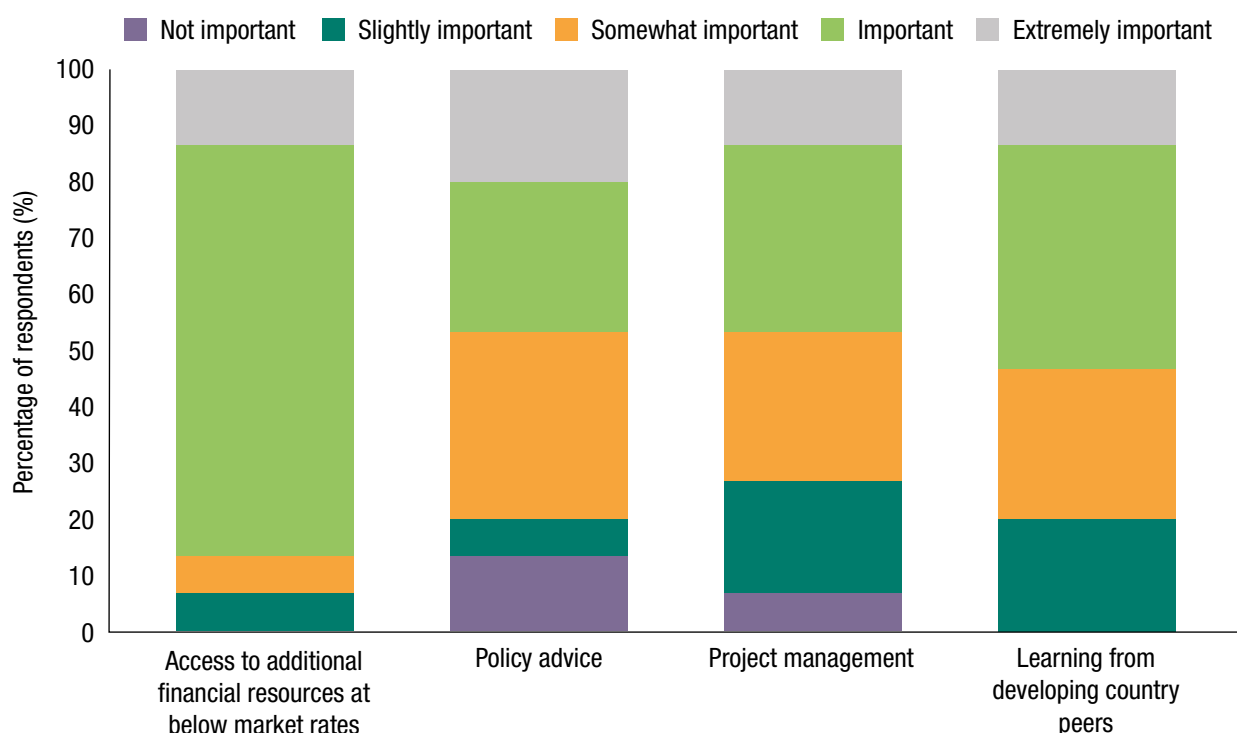
Borrowing for rural development

Debt trends and composition

External debt in Bangladesh and the risk of future debt distress have been quite low: most debt is concessional, and owed to multilateral development banks. The government of Bangladesh has followed a very prudent approach to debt and debt management in recent years. The external debt to GNI ratio has been stable and has not exceeded 18% (the highest value in 2018), and the debt service ratio has also been low and stable (1% in 2018). Most debt is concessional and comes from MDBs (even though the share has declined from 74% of total public and publicly guaranteed debt in 2010 to 53% in 2018 because of rising bilateral concessional and non-concessional loans) (World Bank, 2020b).

Without setting targets, the Seventh Five-Year Plan aimed to diversify sources of financing through a proper mix of domestic and external financing (without defining that precisely). However, at the end of its timeframe, the share of private-sector lending and bonds in the

Figure 5 Opinion about the value added by external development assistance to the sector



Note: N = 17.

Source: Authors' survey

composition of public and publicly guaranteed debt remains relatively low. The combination of these factors meant that there was no expectation of any major risk of external debt distress (before the Covid-19 crisis), given the low debt-to-GDP ratio and the country's projected high medium-term growth (see GoB, 2014; 2015).

Policies and preferences for borrowing and debt management

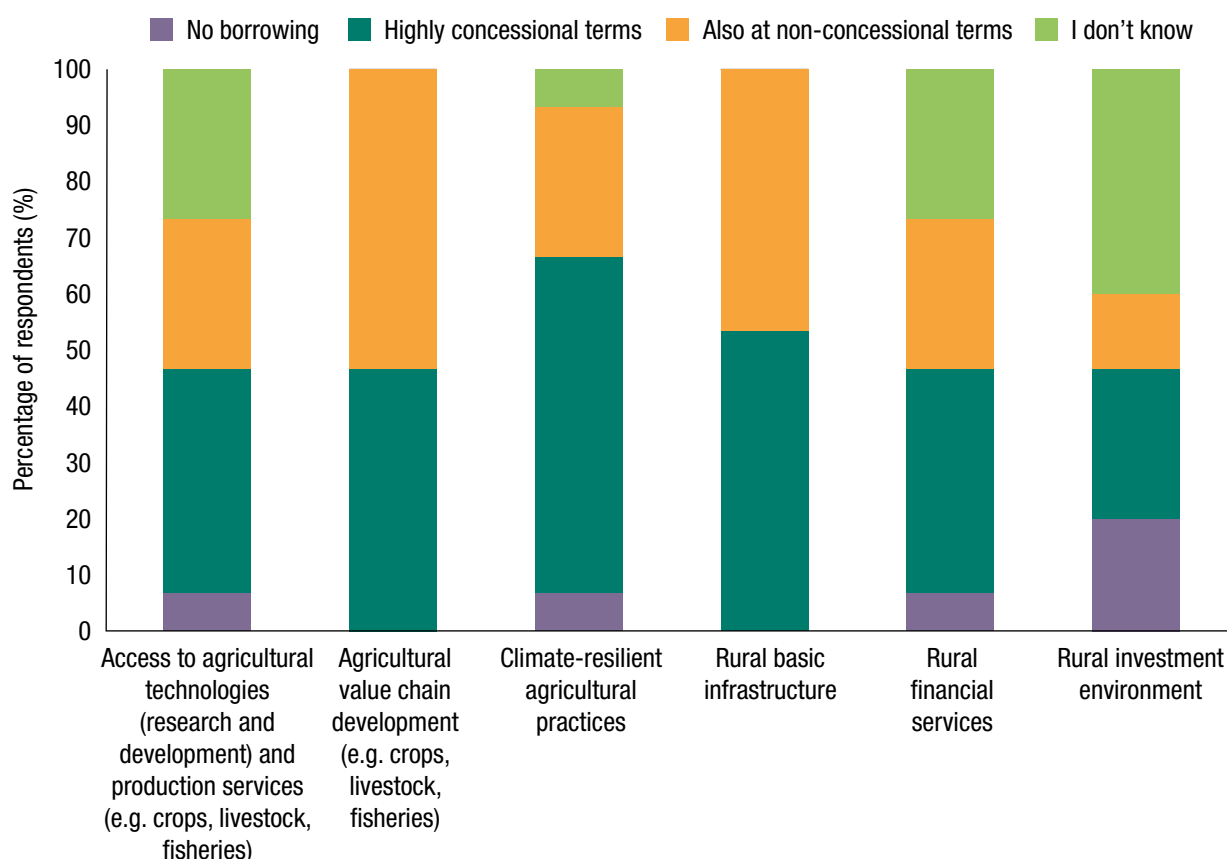
The policy is to maximise concessional loans, especially for infrastructure development, as debt ceilings are not a constraint. The government's debt management strategy is quite clear on this point: 'the access to traditional concessional borrowing from official bilateral and multilateral sources should be increased'. As we mentioned before, however, the same strategy stresses that with increased 'access to concessional finance, its relative importance will decline over time as Bangladesh becomes a lower-middle-income country' (GoB, 2014). In addition to the traditional access to multilateral institutions like the World Bank and ADB, the new Asian Infrastructure Investment Bank (AIIB) is also expected to help

mobilise concessional external financing for infrastructure investment in Bangladesh.

These points emerged strongly across our interviews, with suggestions that the government aimed to frontload loans at concessional terms as much as possible before graduating from the concessional windows of MDBs. Furthermore, and in stark contrast to the other country case studies for this research, the government does not have any debt ceiling (or limit) in place, given strong expectations for the country's economic growth (before the Covid-19 crisis) and its low debt ratios.

There are mixed views on access to non-concessional and commercial loans. In the Seventh Five-Year Plan, the government aimed to establish its relations with the international capital markets by launching its first sovereign bond (which did not happen). Furthermore, with access to concessional official multilateral and bilateral financing likely to fall as a proportion of GDP, the non-concessional windows of both multilateral agencies and international capital markets through the issuance of sovereign bonds may help to make up for the shortfall.

Figure 6 Types of financing by activities



Note: N = 17.

Source: Authors' survey

However, the government's strategy did not translate into a significant change in the composition of debt (as we noted above). Government officials stressed that non-concessional loans should only be considered on an exceptional basis and, in particular, for large-scale infrastructure projects.

There is a preference for the maximisation of concessional assistance to agriculture and rural development. The government has not published specific criteria – beyond the maximisation of concessional finance – but our interviewees stressed that borrowing at concessional terms only is the main preference for the government in the agriculture and rural development sectors. This is because of their risks, uncertain market prices, and the low visibility and returns of projects. Grants should be sought for softer activities (project preparation or technical assistance) as part of pre-loan agreement activities. Even though the lending terms from many donors

are hardening, the preference remains for highly concessional loans. Harder terms would only be acceptable if no other options were available, as a last resort; and generally for those sectors that generate revenue.

Our interviews and the responses to our survey confirmed that the main preference is for borrowing at highly concessional terms across sectors. However, preferences vary across activities for agriculture and rural development (Figure 6) with around 50% of respondents considering the option of non-concessional lending only for areas that have potentially high returns, such as agriculture value chain development and rural basic infrastructure (two of the three main priorities identified earlier).

In the case of climate-resilient agriculture practices, borrowing is preferred at highly concessional terms. Indeed, some interviewees argued that support for climate change-related activities should be funded by grants because mitigation is a collective responsibility and

agriculture research and development is, therefore, a public good.

In line with these preferences, the interest rate is the main element of the financial terms and conditions negotiated by the government, which aims to keep it as low as possible. This is followed by other parts of the terms and conditions that affect the net present value of the loan, notably the maturity and the repayment schedule. Currency denomination is relevant only when it aims to minimise future debt service, according to our interviews with stakeholders.

Preferences and instruments for rural development

Preferences for development assistance for rural development

Bangladesh has always been very active in the development effectiveness agenda and is a member of the Steering Committee of the Global Partnership for Effective Development Cooperation. As noted, the country remains one of the world's largest recipients of ODA, receiving assistance from a variety of bilateral and multilateral development partners.

As we mentioned earlier, the Ministry of Finance's External Resource Department does not have a recent, publicly available aid management strategy. But the Seventh Five-Year Plan, the most recent to be published, spells out the major challenges in the negotiations and programme implementation with development partners, notably:

- (1) continued proliferation of stand-alone projects and heavy aid fragmentation,
- (2) less vibrant coordination in sector-level working groups resulting in less alignment with the sectoral plan
- (3) low harmonization and low use of country systems,
- (4) despite some improvements, low aid predictability,
- (5) weak coordination between government agencies (GoB, 2015).

The constraints and challenges of projects from development partners were well captured in the replies from our interviewees, both in

person and in their responses to our survey. The main preferences are the alignment to national priorities (all donor projects should be part of the national development plan and projects above \$50 million are approved directly by the prime minister); lack of policy conditionality (a point that emerged in nearly every interview); and speed of delivery and project implementation to drive rapid development results.

Figure 7 summarises the responses to our survey, which put more emphasis on the need for long-term and sustainable projects, with more than 90% of respondents stressing that these characteristics are desirable or extremely desirable. Country presence of the untied aid from donors and earmarking did not feature prominently in the survey or the replies from government officials.

Demand for other types of instruments

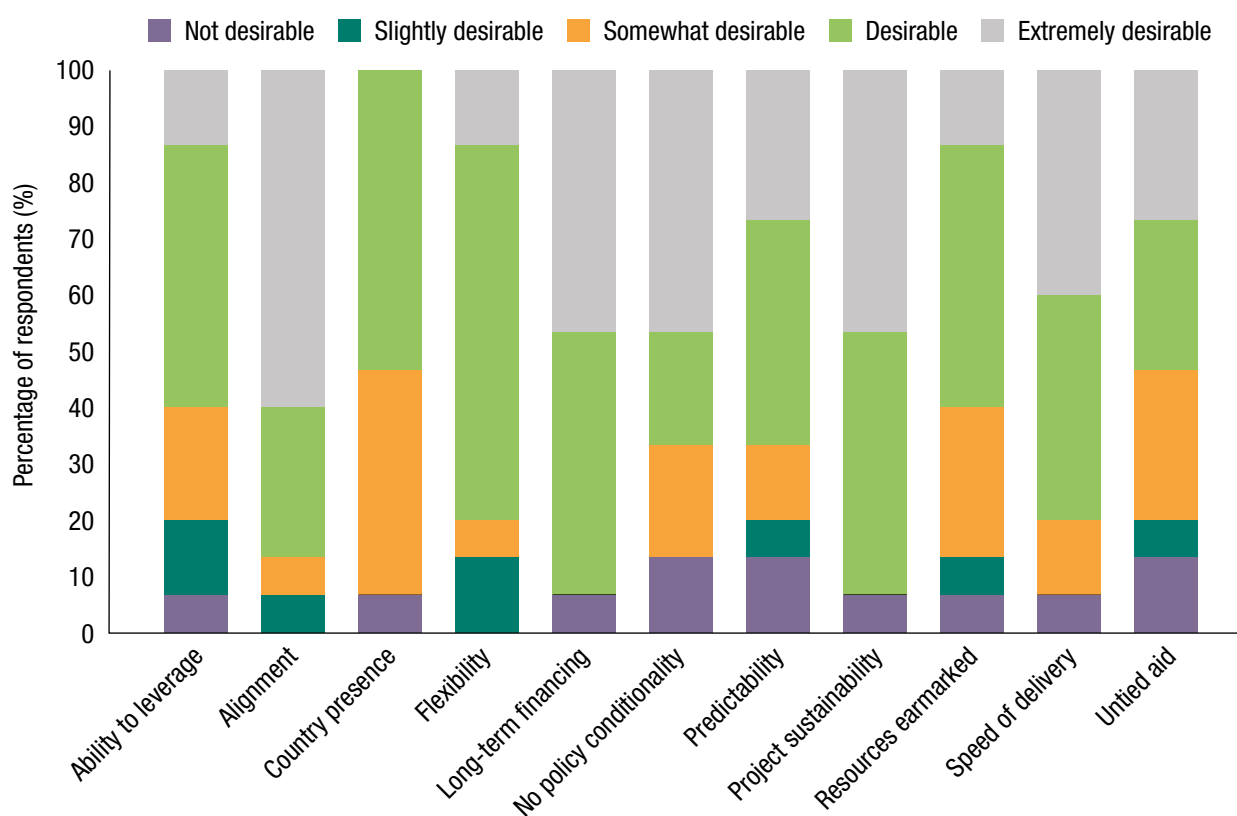
Demand for other types of funding instruments reflected the preferences expressed by our interviewees for the type of aid they would like to receive for agriculture and rural development (Figure 8). Above all, they wanted long-term approaches to ensure project sustainability as in the case of multi-phase lending (especially with the use of country systems). Second, the country's serious vulnerability to climate change prompted many interviewees to demand the scale-up of Catastrophe Deferred Drawdown Option (CAT-DDO), or similar instruments. And third, our interviewees wanted facilities to support project preparation: an area where the government would require additional support and that only a few donors consider in their country strategies.

Conclusions

Our analysis of the experience and perspective of Bangladesh on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows:

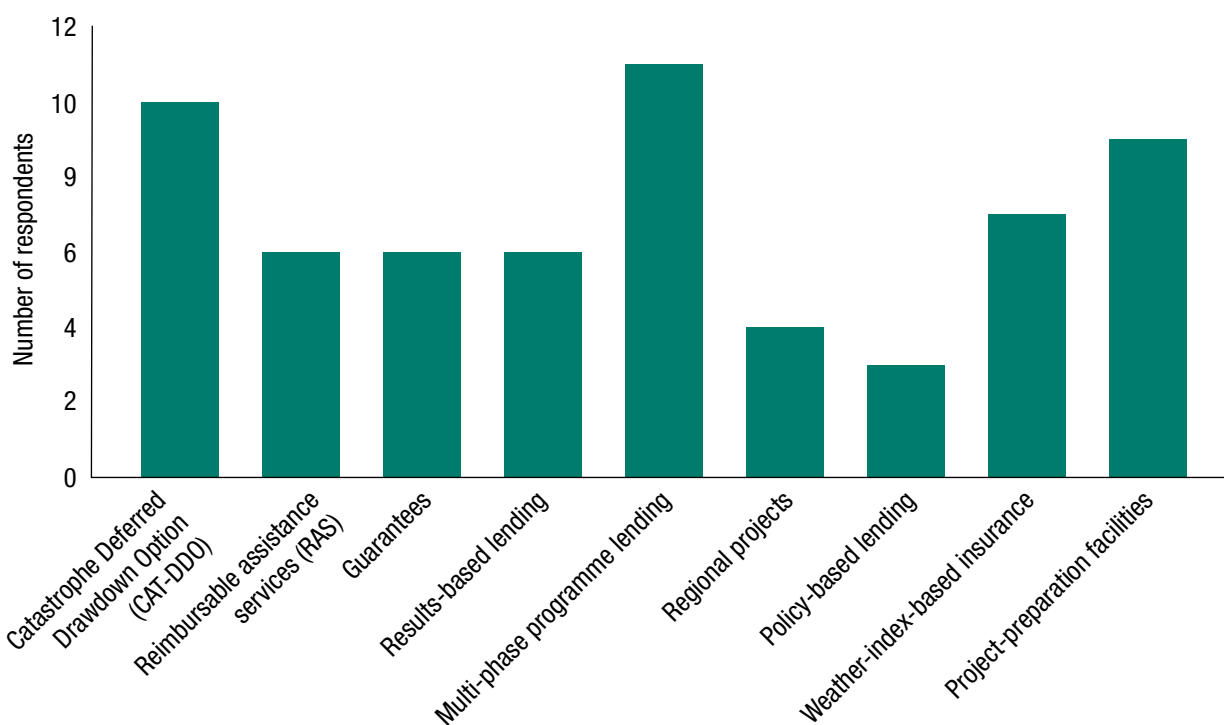
- Rural development and agriculture development are key priorities for the Bangladeshi government, particularly as ways to reduce poverty and inequality and improve food security. Agriculture value chain

Figure 7 Preferences for development assistance



Note: N = 17.
Source: Authors' survey

Figure 8 Demand for instruments that support rural and agriculture development



Note: N = 16.
Source: Authors' survey

development, climate-resilient agriculture practices and rural basic infrastructure are among the top priorities for agriculture and rural development, as they support the shift from subsistence to commercial agriculture, help to boost productivity in rural areas and reduce vulnerability to climate change.

- Bangladesh is among the countries with the largest share of public expenditure going to agriculture development worldwide. Expectations are for government spending towards agriculture and rural development to increase and to remain the main source of support to rural and agriculture development.
- The composition of official development finance to agriculture and rural development by financing source has shifted away from grants and towards concessional loans, reflecting the country's economic progress. Expectations are for the demand for external development assistance to agriculture and rural development to rise, but mainly in concessional terms.
- Concessional assistance is to be maximised and the government has an implicit 'red line' to borrow at non-concessional and commercial terms across sectors. These include agriculture and rural development, which are perceived as sectors that have low returns and visibility. Non-concessional lending is only considered an option for projects in agriculture and rural development in relation to agriculture value chain development (and for basic rural infrastructure only if no concessional finance is available).
- The main government preferences for the way in which development assistance should be delivered to the sector are: alignment to national priorities (all donor projects should be part of the national development plan and those above \$50 million are approved directly by the prime minister); no imposition of policy conditionality; and rapid delivery and project implementation.

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Annex 1 List of interviewees

Name	Institution
Zahir Ahmad (former staff)	Asian Development Bank
Mohammed Asaduzzaman	Bangladesh Institute of Development Studies
Christian Berger	World Bank
Osman Haruni	Embassy of the Kingdom of the Netherlands
Aminul Haque	Bangladesh Water Development Board
Hirata Hitoshi	Japan International Cooperation Agency (JICA)
Ashadul Islam	Financial Institutions Division Ministry of Finance
Anjan Kumer Dev Roy	Economic Relations Division Ministry of Finance
Mads Mayerhofer	Embassy of the Kingdom of Denmark
Abdul Mueyed	Department of Agricultural Extension Ministry of Agriculture
Abdur Rashid Khan	Local Government Engineering Department (LGED)
Abdur Rouf	Ministry of Agriculture
Robert Simpson	Food and Agriculture Organization of the United Nations (FAO)
Poonam Smith-Sreen	United States Agency for International Development (USAID)
Sherina Tabassum	International Fund for Agricultural Development (IFAD)
Omer Zafar	IFAD

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