

# Foreign Grants and Loans in Bangladesh

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**Abstract:** As a middle-income country, Bangladesh is required foreign grants and loans for the betterment of the country. There is no or little study regarding the foreign grants and loans in Bangladesh and its impact on the economic development of Bangladesh that is why the objective of this study was to overcome this gap and to find out the actual scenario of foreign grants and loans in Bangladesh. Bangladesh received foreign grants and loan every year proportionately from IDB, ADB, WB, Japan, UAE, UK, China, Saudi Arabia etc. donor agencies and countries but it varies from year to year. To conduct the study, total 9 indicators from World Bank data base were used and total 5 years numerical data was taken for research purpose. Bangladesh government received about \$56.5 billion foreign grants during 1971-2015 periods from various donor agencies and developed countries to continue development projects of the country and should take proper steps for the proper use of that funds and find out external sources for payment of loans. Though gradually Bangladesh increases its economic conditions but it should give concentrates on the payment of previous loans and being conscious on use of foreign grants and loans.

**Index Terms:** Foreign Grants, Foreign loans, Bangladesh, World Bank.

## Introduction

In developing country, the term foreign grant is widely used which means a financial aid provided by the one country to another country without the intention to get it back. The another popular term for developing country is foreign loan which means a financial support provided by one country to another with the surety of getting return after a specified period. As Bangladesh as a middle-income country, Bangladesh takes foreign grants and loans from foreign donor agencies as well as countries. Researcher described the process of the development of foreign loans and their influence on borrowers, banking sectors and systemic risk creation (Szpunar, 2012). Though Bangladesh receives foreign grants and loan every year proportionately from IDB, ADB, WB, Japan, UAE, UK, China, Saudi Arabia etc. donor agencies and countries but it varies from year to year. Foreign grants and loans play a vital role for economic development of a country. A researcher analyzed the cost effectiveness of using foreign grants and loans by borrowers in Poland (Buszko, 2016).

A series of research was conducted by some researcher who were pioneers in considering the existence of a series of circumstances, specific to each developing country that determine the grants and loans impact on economic development and researchers claimed that developing countries' economic growth depends positively on the quality of their economic policies but not on the amount of grants received from donor agencies (Burnside & Dollar, 2000) (Burnside & Dollar, 2004). Through world-bank provided indicator with monetary amount, the trend of foreign grants and loans can be identified of a country. Foreign grants and loans are not always effective for the welfare of a country but sometimes it becomes burden for a country as loan payment requires external sources of money.

There is no or little study regarding the foreign grants and loans in Bangladesh and its impact on the economic development of Bangladesh that is why the objective of this study is to overcome this gap and to find out the actual scenario of foreign grants and loans in Bangladesh. As a middle-income country, Bangladesh government takes foreign grants and loans from various donor agencies and developed countries to continue some development projects of the country and also take proper steps for the proper use of that funds and find out external sources for payment of loans.

## **Foreign Grants**

The term foreign grants is used to mean the financial aid provided by the one country to another country without the intention to get it back. For maintaining international relations, developed countries provides foreign grants to the developing countries voluntarily for the economic development of developing country. For developing socio economic conditions of a country, grants may be given by individuals, private organizations, or governments to the developing country. Grants are not only given for always humanitarian purpose but also sometime for altruistic purpose is considered to approve foreign grants to developing country.

## **Foreign Loan**

Foreign Loan indicates the total debt amount of a country received from creditors that means foreign countries as well as lending companies. The receiver of the loan is known as debater and in foreign loan the debtors can be the government, corporations or citizens of that country.

Foreign loan includes money owed to foreign commercial institution including International Monetary Fund (IMF), World Bank, ADB and so on. Total foreign loan is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to nonresidents to repay principal, with or without interest, or to pay interest, with or without principal (Carson, 2004).

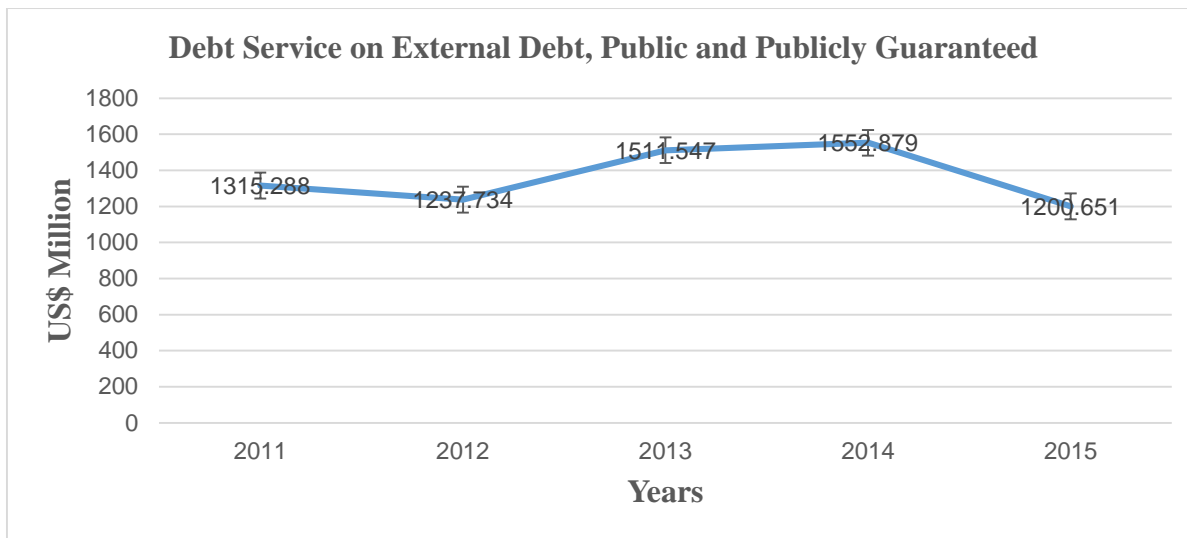
## **Methodology of the Study**

World Bank indicator data related to foreign grants and loans using country code BGD was used for conducting this study. Total 9 indicators were used for this study and the indicators are Debt Service on External Debt, Public And Publicly Guaranteed; Debt Service on External Debt, Long-Term; Debt Service on External Debt, Long-Term; Total Debt Service; Debt Service on External Debt, Total; Net Flows on External Debt, Total; Interest Payments on External Debt, Total; Debt Forgiveness Grants and Net Bilateral Aid Flows From DAC Donors, Total. Total 5 years numerical data were taken for graphical presentation to interpret the result. The trend of the indicators was shown varying year to year and short description of the graphs were given.

## **Results and Discussion**

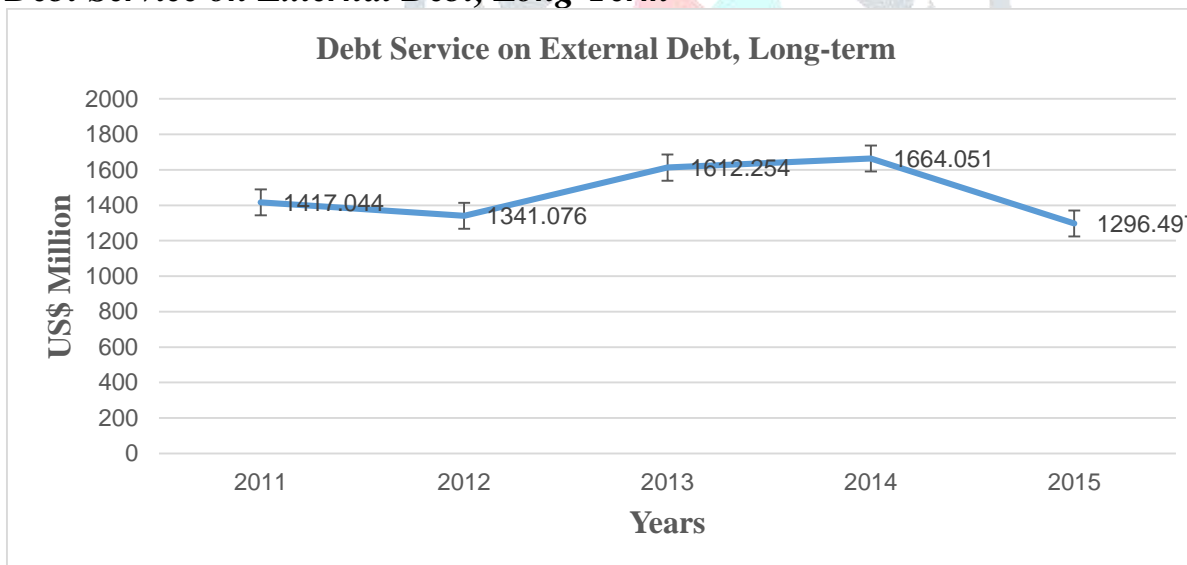
For each indicators, graphical presentation with its description is given to find out actual fluctuations of data regarding foreign grants and loan for Bangladesh during 2011-2015.

### ***Debt Service on External Debt, Public and Publicly Guaranteed***



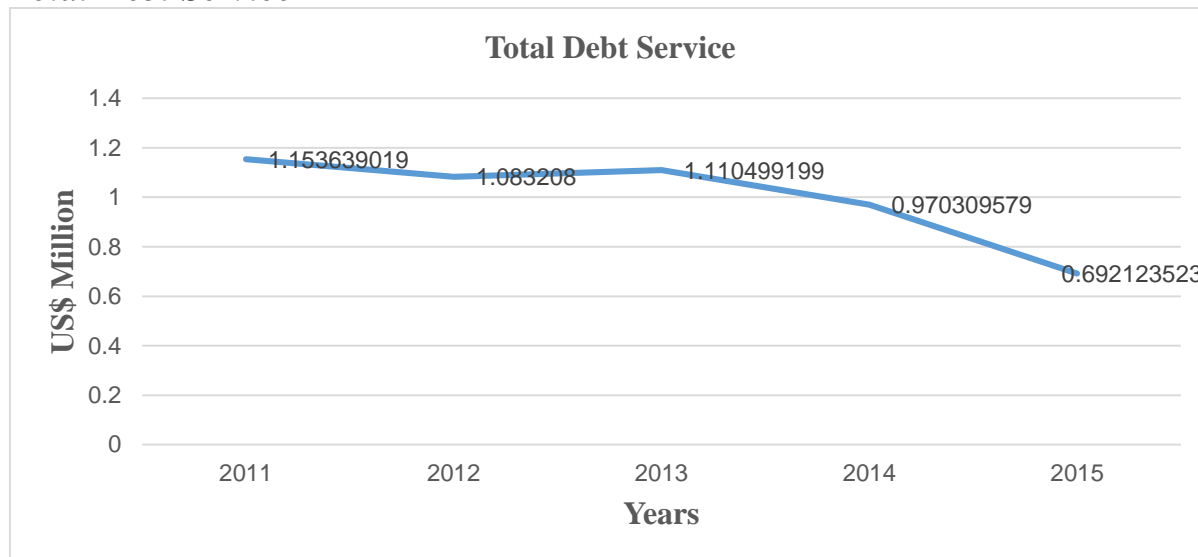
In 2011, Bangladesh pays 1315.288 million debt service on external debt, public and publicly guaranteed which is higher than 2012 where debt service was 1237.734 million. But in 2013 and 2014, debt service taken by government is higher than 2012. This situation indicates that the sum of principle repayments and interest actually paid in currency, goods or service paid by government was higher than previous year in 2015, public debtor and long term private obligations guaranteed by a public entity were able to reduce to take debt service on external debt.

**Debt Service on External Debt, Long-Term**



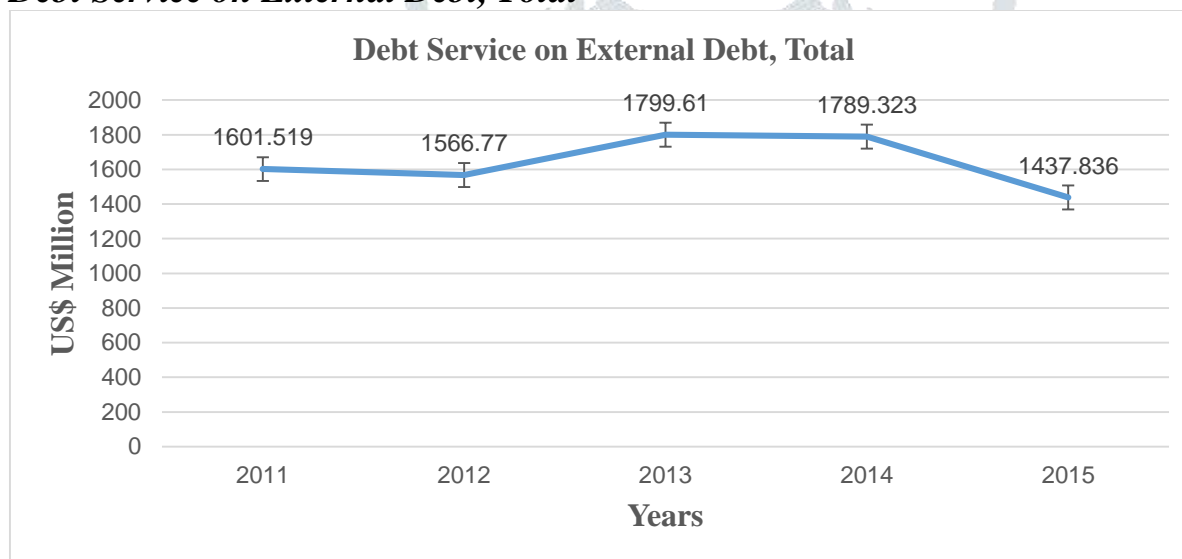
In the graph, Debt service on external debt that is long term conferred by the Bangladesh in 2011 was 1315288000 which exhibits relatively upper amount than 2012. In 2013, the receiving amount of total external debt was higher than 2012. So government’s principle repayments and interest repayments were also high. In 2014 the repayment of debt and interest was comparatively higher than 2013. But in 2015 government’s repayments interest payments was the lowest in the previous years.

**Total Debt Service**



The total debt service which was needed to cover the repayment of principal and interest was high in 2011 and 2013. In 2012 and 2014 the amount of repayment was not as high as 2011 and 2013. It is also seen that the repayment of total principal and interest was very low which was paid in a particular period.

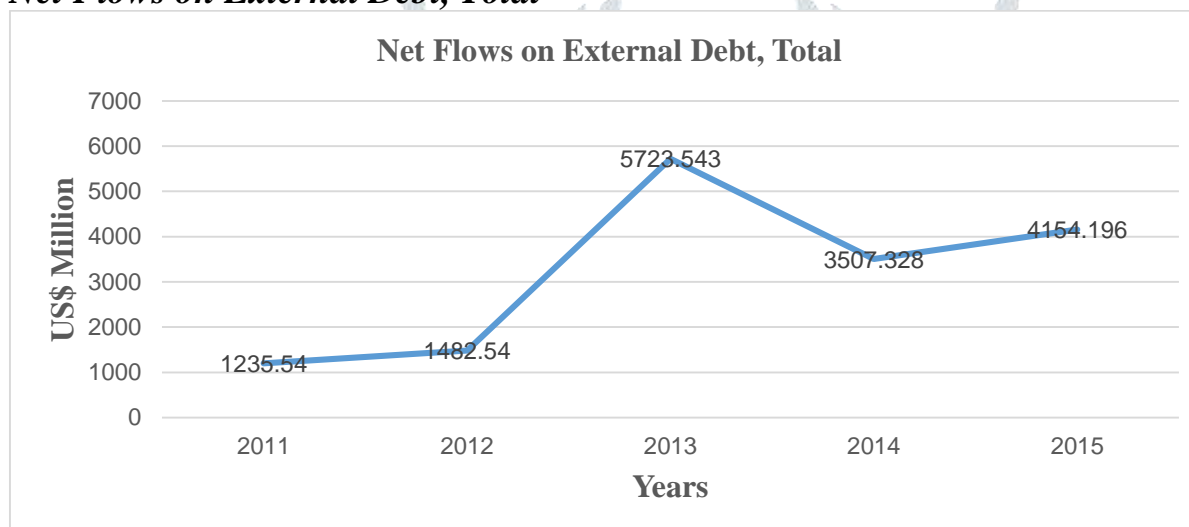
**Debt Service on External Debt, Total**



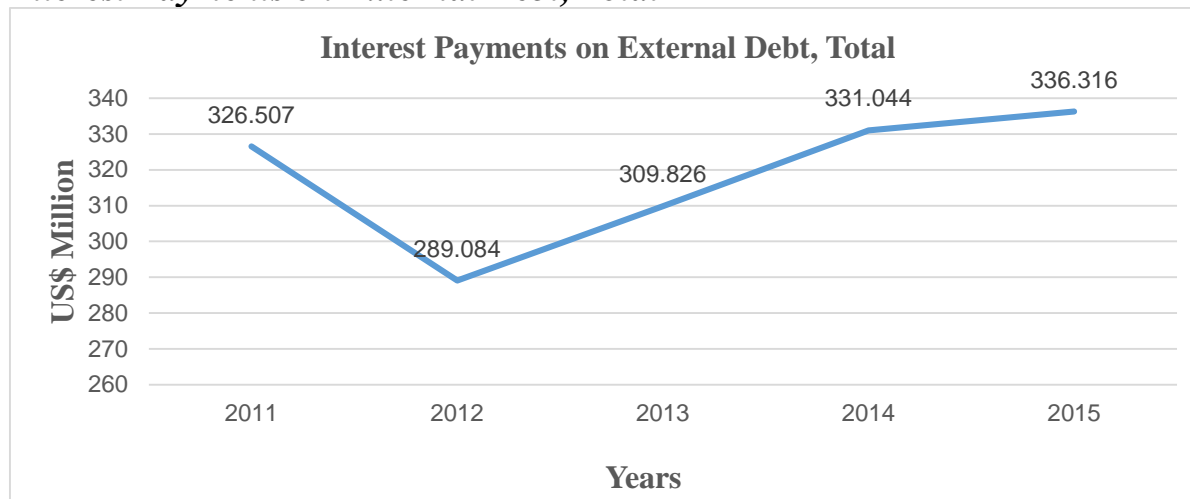
The total repayments of debt service in 2011 was higher than 2012. The principal repayments was paid in currency and interest was paid on short term debt to the IMF. In 2013, the circumstances of principal repayments and interest was more than 2012. Notwithstanding the sum of principal repayments and interest paid to the IMF in 2014 was almost same with the year of 2014, Government contained relatively very lower amount of payment in 2015 than previous year.

***Net Transfers on External Debt, Total***

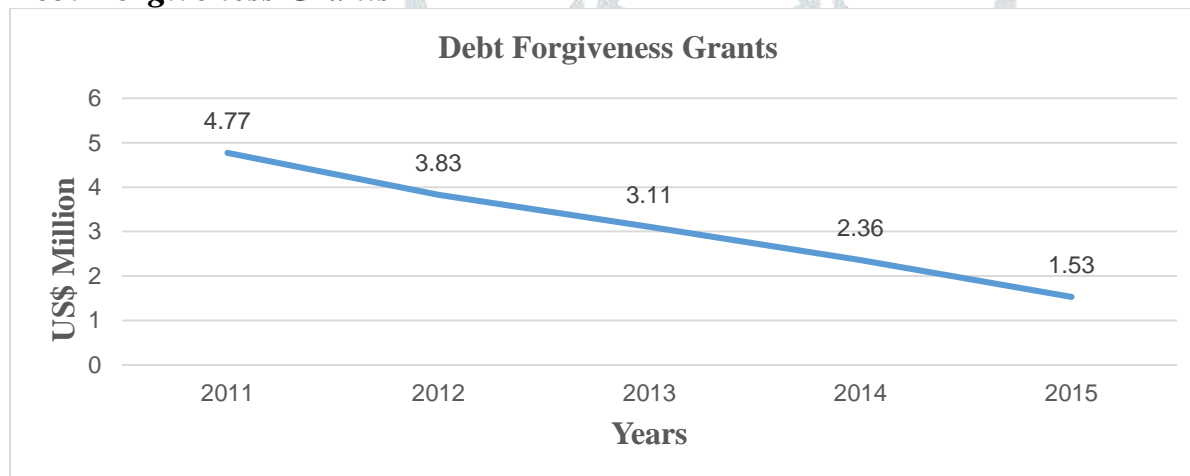
Net transfer on external debt was negative in 2011 that was -916.508 million. But the amount of net transfers on external debt reached a positive space that was 1198.461 million in 2012. In 2013, government had to repay excessive net transfer on external debt which implies comparatively higher amount of net transfer than 2014. However in 2015, government paid 3817.88 million net transfer on external debt which became higher than 2014 where net transfer was 3176.284 million.

***Net Flows on External Debt, Total***

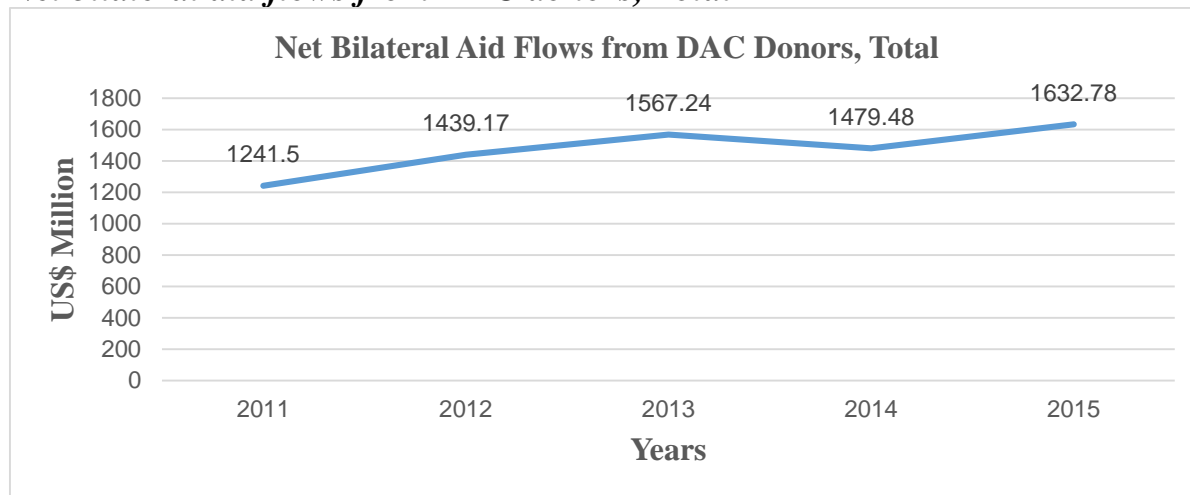
Net flows on external debt was negative in 2011. In 2011 net flows on external debt was positive. But the net flows on external debt was upper in 2013 than 2012. So government had to repay net flows on external debt and interest 5723.543 million. In the graph we see that the net flows on external debt was lower in 2013 than 2014 where government had to repay 3507.328 million net flows although it was higher in 2015 than 2014 where government paid 4154.196 million net flows on external debt.

**Interest Payments on External Debt, Total**

In the year 2011, borrower's actual amount of interest paid was 326.507 millions that was paid in currency, goods or services in the year specified. Here long term debts was owed to non residents by residents in economy. But in 2012, it was reduced to 289.084 million. The next three years line show an increase in interest payment on external debt data sequentially 309.826, 331.044, 336.316 in the years 2013, 14, 15 respectively.

**Debt Forgiveness Grants**

The debt forgiveness grants was decreasing at a decreasing rate. From the year 2011 to 2015 the total amount was decreased significantly which shows that less debt was forgiven by debt providers than the previous years. It is a positive sign as it shows Bangladesh's debt payment capability.

**Net bilateral aid flows from DAC donors, Total**

Net bilateral aid flows from DAC donors was higher in 2012 that was US\$ 1439.17 million than 2011 where Net bilateral aid flows from DAC donors was US\$ 1241.5 million. Net bilateral aid flows from DAC donors in the year 213 was increased and agian it was decreased in 2014. No monetary data was available for year 2015.

**Conclusion**

Foreign grants and loans are indispensable for developing country as well as for lower-middle income country and middle-income country for the economic development as well as infrastructural development of the developing country. As a middle-income country, Bangladesh government takes foreign grants and loans from various donor agencies and developed countries to continue some development projects of the country and should take proper steps for the proper use of that funds and find out external sources for payment of loans. Though gradually Bangladesh increases its economic conditions but it should give concentrates on the payment of previous loans and being conscious on use of foreign grants and loans.

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