Statement by Terrie O'Leary
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**Bangladesh: Country Assistance Strategy**

We welcome the discussion of the Bank's assistance strategy and lending scenarios for Bangladesh which has been and continues to be a high priority development partner for the World Bank Group and many other multilateral and bilateral development agencies. The Strategy presents a very balanced and frank appraisal of Bangladesh's progress to date and potential in addressing poverty issues. While Bangladesh faces unique threats from natural disasters, we agree with the observation in the CAS that insufficient reform in the area of governance have played a significant part in holding back economic growth and reducing the effectiveness of government-led poverty reduction programs.

Bangladesh has the highest poverty rate in South Asia; nearly half of its 130 million people live below the poverty line (and 90 per cent of these are concentrated in rural areas). The country has the third highest number of poor in the world after India and China. However, incomes and social indicators improved in the 1990s, notwithstanding a poor economic record.

We note that progress on reform has in fact, slowed significantly since the 1998 CAS. Also of concern, the performance of Bank projects in the country is considerably poorer than in other borrowing countries. OED has evaluated 19% of projects as unsatisfactory over the last five years. We welcome the agreement with the government on an action plan to improve portfolio management that stresses the need for increased participation of targeted beneficiaries in the decision-making process as well as greater private sector and NGO involvement in project implementation.

We note the Bank's recognition of the need for rigorous tracking of the government's reform program and is proposing a two-tiered monitoring system. The first tier will consist of core macroeconomic and social indicators that will incorporated into the country's PRSP (expected in late 2001). The second tier will consist of the achievement of specified intermediate policy actions in areas of macroeconomic management, governance and sector development. The CAS has identified four main thrusts for Bank operations:
* Support for institution building and good governance;
* Support for consolidating gains in human development and expanding initiatives to address the next generation of development challenges in education, health and nutrition;
* Implementation of an integrated approach to rural development, including support for improving rural infrastructure; and
* Support for the acceleration and broadening of private sector-led growth by helping to establish an environment conducive to private sector investment; by strengthening the financial sector; and by supporting private investments.

The Base case scenario which would be triggered by some progress on reform, restructuring and governance, projects IDA lending of US$1.4 billion over the next three years. Under the Low case scenario which assumes no progress on reform, projected lending would be limited to no more than US$800 million over the FY01-03 period, and would focus on anti-poverty programs. Non-lending services would be targeted to consensus building on governance reforms. If the government were to embark on comprehensive reforms, a high case scenario of US$2 billion in IDA lending could be triggered.

**Specific Comments**

**Reform and the Base Case Scenario:** The CAS notes that reform and restructuring efforts have been undermined by weak commitment by the government and the influence of strong vested interests. We appreciate the staff's frank assessment of the economic and political problems that pose risks to the CAS. The government's willingness to tackle reforms will depend on the results of the election expected in mid-2001. We appreciate that the Base case will keep commitments low in the first year of the CAS period and would increase following the election. The Base Case, however, assumes the new government will move on reform; we would appreciate an update from staff following the election on actions taken by the new government. This would permit an assessment of whether continuing the Base Case lending scenario remains appropriate. We note that IDA will assist the government to prepare a Poverty Reduction Strategy Paper and sector strategies (Annex 9, p.7). We encourage the government of Bangladesh to avail itself of this assistance; to take full ownership of the supporting process; and to consult widely with civil society groups, many of whom are already very active in development program, in preparing a sound PRSP. The resulting strategy and agreed priorities will, we believe, be very helpful in mobilizing and focusing more effectively future development funds to meet its poverty reduction objectives by the target date of 2010.

**The CDF and Portfolio Management:** We were pleased by the CAS' analysis (in paras 44 and 45), based on the Bank's Institutional and Governance Review, of the types of Bank projects that work best and work least. It is not surprising that the projects that have been most successful are consistent with the CDF principles of bottom-up programming; have been developed on the basis of comprehensive consultations; and are characterized by financial discipline, transparency and accountability.

We also welcome the CAS' strong emphasis on private sector development that is consistent with the strategy's focus on improving governance. The CAS notes, in particular, a decline in the
quality of the civil service as a major element of endemic corruption and a major factor that
deters private sector investment. Specifically, the CAS states (in para 45) that despite attention in
the last CAS, "little tangible progress has marked public sector reforms." In this connection,
what specific actions is staff planning to foster improved governance in the civil service in
the forthcoming CAS period?

Decentralization and Improved Service Delivery: The CAS advocates decentralization as an
important means of strengthening governance and improving the quality of social services. We
note in particular that the Health and Population Sector Program (HPSP) has been grappling
with decentralization for several years. We consider that the HPSP, perhaps in concert with the Local Government Support Project, could be a useful vehicle to test new decentralization
methodologies. The recently completed mid-term review of the HPSP highlights some of the
frustrations of decentralizing to the local level. In this regard, we would encourage staff and the
government to incorporate lessons from this review into other decentralization projects. We
would appreciate staff views on whether an evaluation of the overall progress on decentralization
might be facilitated by more a comprehensive list of specific indicators in the CAS Performance Matrix (Annex 9, page 2)?

The CAS refers to the role of NGOs in delivering IDA funded programs. We fully agree that
working with members of the NGO community can bring benefits, however, experience suggests
that the situation in Bangladesh poses challenges. Numerous donors have come to rely heavily
on NGOs as a means to overcome corruption, bureaucratic obstacles and capacity constraints.
Consequently, there has been a proliferation of NGOs (numbering over 20,000) in Bangladesh
often resulting in costly duplication of effort. While all donors need to exercise care in this
regard, the long term solution is we believe, to strengthen the delivery capacity at the district and
"thanga" (sub-district) levels. At the programming level, we believe that the mechanisms to implement new decentralized approaches as well as to integrate lessons learned and generate performance benchmarks to evaluate progress need greater attention. We would appreciate staff's views on these concerns.

Aid Coordination: Bangladesh enjoys considerable benefits from a strong donor commitment
which is strengthened by active and efficient donor coordination. Sustainable successful arising
from the shift to country-led development based on CDF principles requires in our view, an
enhanced donor-government dialogue. We note with concern the reference in the CAS that the
government has, to date, had little involvement in the Local Consultative Group (LCG) - the principal vehicle for donor coordination in Bangladesh. In this regard, we agree with the
suggestion that the Government will need to intensify its dialogue with the LCG. However, we
believe that there is a need for a more comprehensive review of donor coordination and donor-
government dialogue. LCG restructuring should result in more substantive roles for the broader
community of multilateral and bilateral donors in Bangladesh. This does not imply a reduced role for the Bank, but will necessitate changes in its working
relationships between the government and donors. If this restructuring succeeds, it will lay the
groundwork for a second initiative: a more substantive and sustained dialogue on the critical
development issues facing the country. The Bank cooperates effectively with numerous donors
at a project level in a variety of sectors. It could build on this success to complement LCG efforts
by enhancing cooperation with donors in sectors where reform has proven more difficult (e.g.,
the financial sector). By way of an example, we believe that the Communication for Reform Initiative (mentioned in para 60) could have been improved through early consultation with other donors.

**Trade and Development:** We and other chairs have spoken of the need to mainstream trade issues into development assistance plans. This appears particularly relevant in the case of Bangladesh. We are concerned that trade infrastructure and capacity building have not been highlighted among the policy priorities identified in the CAS. We believe that this area is particularly important considering the expiry of the Agreement on Trade of Textiles and Clothing in 2005. The CAS notes that garment manufacturing accounts for three-quarters of Bangladeshi export earnings, which has created 1.5 million jobs of which 90% are held by women. We are concerned about Bangladesh's prospects even if domestic policy reform are accelerated. Moreover, the CAS notes that the substantial progress in trade reforms that was achieved in the early 1990s has not been maintained (para 20) and that the lack of complementary reforms in infrastructure, telecommunications and financial services have reduced benefits from greater trade openness. **Could staff provide its assessment of the potential economic shock, to the economy, and rise in unemployment following the expiry of international clothing export agreements?** We would urge the government of Bangladesh to incorporate the trade and employment issues into their deliberations and consultations on the PRSP. We note that support to export diversification is one proposed strategies described in the CAS Performance Matrix (Annex 9. p7), however we would ask what other strategies and measures could the Bank operations support in this area?

**Environment:** The Bank is committed to mainstreaming environmental issues in all country assistance strategies. We note that in the case of Bangladesh, IDA is a leading player in the local consultative group on environmental issues. Specifically, the CAS states that "IDA will put forward an overall framework for environmental management that will guide donor involvement in Bangladesh". We would appreciate additional information on the scope and timing for completion of this framework?

We welcome the Bank's cooperation with the UNDP in executing the Sustainable Environmental Management Program (SEMP), which will be an important instrument for public disclosure of environment-related information, and would appreciate more information on what ministry/agency represents the government of Bangladesh and whether concerned segments of civil society have been consulted.