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COUNTRY ASSISTANCE STRATEGY

FOR

THE PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE PERIOD FY06-09

April 12, 2006

**Bangladesh Country Management Unit
South Asia Region**

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US\$1.44 = SDR 1

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
BBS	Bangladesh Bureau of Statistics
BNP	Bangladesh National Party
CAS	Country Assistance Strategy
CDD	Community-Driven Development
CFP	Country Financing Parameter
CGA	Controller General of Accounts
CPIA	Country Policy and Institutional Assessment
DAO	District Accounting Office
DFID	Department for International Development (U.K.)
DSA	Debt Sustainability Analysis
DSC	Development Support Credit
EMTAP	Export Management Technical Assistance Project
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNI	Gross National Income
HIES	Household Income Expenditure Survey
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFA	Multifibre Arrangement
MIGA	Multilateral Investment Guarantee Agency
MMR	Maternal Mortality Ratio
MOF	Ministry of Finance
MRE	Most Recent Estimate
MTBF	Medium Term Budgetary Framework
NBR	National Board of Revenue
NCB	Nationalized Commercial Bank
NGO	Nongovernmental Organization

NLTP	National Land Transport Policy
NPL	Nonperforming Loan
NSAPR	National Strategy for Accelerated Poverty Reduction
O&M	Operations and Maintenance
PAC	Standing Committee on Public Accounts
PER	Public Expenditure Review
PFI	Public Finance Indicators
PFM	Public Financial Management
PPP	Public-Private Partnership
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RMG	Ready-Made Garments
SEDF	South Asia Enterprise Development Facility
SME	Small and Medium-Size Enterprise
SWAp	Sectorwide Approach
UAO	Upazila Accounting Office
VAT	Value Added Tax
WBI	World Bank Institute

The World Bank

Vice President

Mr. Praful C. Patel

Country Director

Ms. Christine Wallich

Task Team Leader

Ms. Alma Kanani

The International Finance Corporation

Acting Vice President, (Operations)

Mr. Declan J. Duff

Director, South Asia Department

Mr. Iyad M. Malas

Task Manager

Ms. Anastasia Gekis

The World Bank Group greatly appreciates the close collaboration of the Government of the People's Republic of Bangladesh in the preparation of this Country Assistance Strategy.

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THE PEOPLE’S REPUBLIC OF BANGLADESH
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Map of Bangladesh : IBRD 24206R1

**COUNTRY ASSISTANCE STRATEGY FOR
THE PEOPLE'S REPUBLIC OF BANGLADESH**

EXECUTIVE SUMMARY

i. Bangladesh has recorded impressive economic and social gains since the 1990s. The country has doubled per capita growth and taken large strides toward reaching some Millennium Development Goals (MDGs). Values on key social indicators are much better than would be predicted for a country at its income level. These gains have occurred despite widely held perceptions of poor governance. Bangladesh scores low on most global governance indicators, and investors rank corruption among their most serious concerns.

ii. How has Bangladesh done so well despite such poor governance? Explaining this conundrum requires unbundling governance, recognizing both successes and failures. Bangladesh has seen slow but steady gains in public accountability, with successive free elections, an increasingly assertive Supreme Court, a rapidly growing and active civil society, and a relatively free media. The state has encouraged the emergence of a vigorous private sector through sound macroeconomic management and trade liberalization. Financial sector governance is improving, and successive governments have allocated public resources wisely, emphasizing pro-poor expenditures. Governments have made room for and forged strong partnerships with NGOs, which have contributed to the impressive development gains. On the other side are the governance failures. The increasingly unhealthy competition and lack of trust between the two major political parties sours the political climate and is a major governance weakness. The high cost of elections feeds public corruption. An overly centralized state reduces public accountability in the delivery of services. An inadequate revenue effort and weak public financial management undermine the effectiveness of pro-poor spending policies and foster corruption. A weak civil service and justice sector compromise the delivery of essential services, including law and order.

THE GOVERNMENT'S PRSP AND DEVELOPMENT CHALLENGES

iii. The Government's recently completed Poverty Reduction Strategy Paper (PRSP), "Unlocking the Potential," recognizes that despite past gains, a large unfinished agenda remains. Some 63 million people live in deprivation, two-thirds of these in extreme poverty. Inequality is rising. Adult illiteracy is persistent. Malnutrition levels and maternal mortality ratios are among the highest in the world. Attaining the MDGs calls for accelerating economic growth to 6-7 percent a year. This will not be easy. Garment exports, three-quarters of all exports, are vulnerable to competition from low-cost producers now that the Multifibre Arrangement (MFA) has come to an end. The availability of cultivable land is declining. Accelerating growth will require higher investment levels—to aid diversification into areas of comparative advantage and to finance infrastructure—and higher productivity. This in turn calls for a substantial improvement in the investment climate, harmed by perceived high levels of corruption and lack of transparency. Attaining the social development goals will require accountable and responsive social service delivery systems that reach the poor. Raising productivity and reaching the more difficult goals for maternal mortality and malnutrition will require improving the quality of education and health services. And this will require improving institutional accountability and incentive structures, still very weak as a result of a poorly functioning and overly centralized bureaucracy operating within one of the most centralized countries in the world. These gains in quality will also depend on improvements in the quality of local governance. Improvements in the investment climate and service delivery also require stronger core governance. The modest revenue effort needs to be enhanced, and public financial management, including procurement, strengthened to reduce leakages. And greater public access to information will be needed if civil society and the public are

to hold government accountable for service delivery. As the PRSP puts it, “a major thrust of the PRS has to be on ensuring good governance”.¹

THE WORLD BANK GROUP’S ASSISTANCE STRATEGY

iv. This assistance strategy is aligned with the Government’s Poverty Reduction Strategy, with governance as the core focus across that strategy’s two pillars: *improving the investment climate* and *empowering the poor*. The Bank Group’s program will address sector governance issues in both pillars, as well as core governance issues. This mainstreaming of governance implies that all Bank Group interventions will be as much about governance as they will be about improving sector performance. While the focus on governance will be broad, the Bank will selectively support meaningful reforms in key high-priority areas, highlighted below, where progress is both important and possible.

Pillar 1: Improving the Investment Climate. The Government’s strategy as laid out in the PRSP has two primary aims: First, to ensure a stable macroeconomy and enabling business environment by improving trade policies, enhancing the legal and regulatory environment for the private sector, developing an effective competition policy, establishing policies friendly to foreign direct investment, and deepening financial sector reforms. Second, to strengthen sectors critical to pro-poor growth, including agriculture, infrastructure, water resource management, and information and communication technology. The Bank Group will build on Bangladesh’s strengths by continuing to help maintain macroeconomic stability and accelerate its progress toward an open, market-based economy. At the same time it will help the Government address weaknesses in the investment climate by removing the significant policy and institutional constraints to infrastructure provision and improving its weak regulatory quality. The principal focus will be to improve *governance and efficiency in infrastructure by reducing opportunities for corruption and nontransparent procurement practices*. The Bank Group will help improve the policy environment for energy development by strengthening the institutional framework, addressing distorted pricing, and encouraging accountable and transparent processes that reduce political interference in investment decisions. The Bank Group will also help address governance and institutional constraints facing the transport sector while it helps remove bottlenecks in the primary road network and supports improvements in the main transport corridor.

Pillar 2: Empowering the Poor. The PRSP calls for improving the quality of services while seeking to attain and improve on the MDGs. The World Bank will build on Bangladesh’s impressive social gains by helping the Government meet the MDGs while also enhancing the quality and efficiency of social service provision to the poor by strengthening sector governance and accountability and enhancing voice and participation. A principal new thrust of the Bank’s strategy will be in *local governance*. The World Bank, working with its development partners, will attempt to enhance accountability by helping citizens participate in decisionmaking and hold service providers to account. It will help clarify the assignment of roles, responsibilities, and resources to local governments to allow them to respond to community priorities, strengthen the capacity of communities to hold their governments to account, and support capacity development in core functions aimed at strengthening accountability and transparency. It will also enhance voice and participation through additional community-driven development (CDD) operations.

v. **Core Governance.** The principal focus in core governance will be to increase transparency and accountability and reduce opportunities for corruption. Priority will be given to *improving public financial management and procurement*. The Bank will support a strategic development plan aimed at modernizing and reengineering the National Board of Revenue to reduce corruption and improve tax collection. The Bank is also working with the Government to develop and implement a comprehensive, time-bound public financial management plan, including a deepening of the

¹ Government of the People’s Republic of Bangladesh, *Unlocking the Potential, A National Strategy for Accelerated Poverty Reduction*, October 2005, page 5, para 1.21.

promising initial reforms of public procurement. The Bank and its development partners will support the strengthening of key institutions of accountability, helping to create a transparent, fair, and independent process for selecting the leadership and senior management of these agencies, ensuring their independence, and ensuring adequate compensation commensurate with their responsibilities and special status. Active engagement with civil society and strategic partnerships are planned to help strengthen this focus on improving accountability.

vi. The Bank's interventions in core governance reflect its comparative advantage and mandate. But the roots of the governance crisis in Bangladesh lie mainly in its political institutions. Thus addressing this crisis requires reforming election finance, strengthening political parties (including through intraparty democracy), improving the quality of political competition, and increasing the effectiveness of Parliament as a key institution. The Bank Group intends to rely on its bilateral development partners to help Bangladesh address these issues.

vii. **Longer-Term Strategic Issues.** The potential fallow period as Bangladesh enters its election cycle creates an opportunity to take an integrated view of longer-term development challenges, including environmental issues, spatial development, urbanization, institution building, and regional integration in Asia. The Bank will work with think tanks, civil society, and its development partners on these issues to help shape policy priorities in the next PRSP.

DELIVERING THE WORLD BANK GROUP PROGRAM

viii. This Country Assistance Strategy (CAS) has been prepared following extensive internal reviews and external consultations. Drawing on the lessons learned, the Bank Group will do many things differently in Bangladesh. It will pay more attention to results. It will make governance the central focus of its work and its guide in allocating resources. It will systematically involve beneficiaries and affected communities in its operations. It will build strong partnerships with donors, academia, and civil society in support of its development agenda. It will operate in an open and transparent way and try to be a reliable long-term development partner of Bangladesh. And it will strengthen fiduciary safeguards and proactively manage its portfolio.

ix. **World Bank Lending Instruments.** Bangladesh's allocation of International Development Association (IDA) resources for FY06 is \$750 million, based on its Country Policy and Institutional Assessment (CPIA) rating, its portfolio performance, and the adjustment for the "governance factor" integral to the performance-based allocation formula under the 14th replenishment of IDA resources (IDA14). Similar lending levels are assumed for future years. This level of resources will allow the Bank to follow a strategy of strong engagement, including through annual development policy loans. The Bank's lending program will be substantially influenced by the enhanced focus on governance. Development Support Credits will emphasize improvements in sector and core governance, and access to these credits will be conditioned on governance-related benchmarks. Investment projects in a particular sector will focus on the key governance constraints in that sector, while others will support improvements in local governance, financial management, and procurement. In addition, the Bank will increasingly rely on CDD operations that directly empower the poor. The Bank's program of analytical and advisory activities (AAA) will also be managed more strategically to support governance reforms.

x. **IFC and MIGA Programs.** The International Finance Corporation (IFC), with a current portfolio of \$132.5 million in nine projects, expects to continue to provide direct support to the private sector, with a special emphasis on infrastructure, energy, and manufacturing sector projects. IFC will also support the development of local capital markets and a competitive banking sector. The South Asia Enterprise Development Facility (SEDF) will continue to provide technical assistance to financial intermediaries, small and medium-size enterprises (SMEs), and professional service firms that support SMEs. The Multilateral Investment Guarantee Agency (MIGA), with an exposure of \$112 million in five contracts, plans to support foreign investors in telecommunications,

infrastructure, and natural resources and provide technical assistance to the Board of Investment and support to the Export Processing Zones Authority.

xi. **Managing the Bank's Fiduciary Risk.** The Bank will implement a rolling Operational Risk Mitigation Plan now being developed for implementation. The plan will comprise several key building blocks: carrying out, through AAA and in project preparation, a systematic analysis of corruption risk in sectors of potential engagement; designing smart projects that reduce corruption risks; strengthening supervision efforts, including through a systematic annual review of projects assessed to be at high fiduciary risk; more rigorously pursuing the remedies open to the Bank when corruption is found; and enhancing the disclosure of information that would facilitate oversight of project implementation by civil society and beneficiaries.

xii. **Partnerships, Aid Coordination, and Harmonization.** The Bank Group has prepared this CAS jointly with three of Bangladesh's largest development partners, the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DFID), and Japan. This joint CAS reflects agreement on the country context, the outcomes the four partners would collectively like to support, and the strategies needed to attain these, and ensures that the partners' separate business plans complement rather than compete with one another. This partnership is supportive of current efforts to harmonize donor activities around a Government-led development strategy and government systems. The Poverty Reduction Strategy Implementation Forum of November 2005 was chaired by the Government and is now part of an annual process to monitor implementation of the PRSP. The Government will also undertake periodic progress reviews with the Local Consultative Group. The Bank will develop strong partnerships with civil society, academic institutions, and the private sector, working with them to help forge consensus on difficult issues relating to governance or other contentious policy matters and encouraging them to contribute to the Bank's AAA and lending activities as appropriate.

xiii. **Implementing the CAS.** Doing business differently will require changes in staffing, institutional processes, and culture. Staffing adjustments will start with strengthening the governance focus and credentials of core members of the country team. To manage fiduciary and implementation risks, the operations adviser in Dhaka will chair an Operations Risk Mitigation Team that will help implement the Operational Risk Mitigation Plan. Cultural change will prove the most difficult. Implementing the CAS effectively will require cross-sectoral work, stronger country team alignment on acceptable risks, and a common understanding of expectations relating to governance within projects and AAA. The process of change will require persistence and continuous effort, as well as management attention to the incentives facing country team members.

RISKS AND MITIGATION

xiv. Meeting the CAS objectives involves significant risks that the Bank Group will need to address. The most severe is the risk of a significant worsening in the political climate and in the law-and-order situation as the country enters its election cycle. The Bank Group will proactively monitor the situation and use the midterm review of the CAS to adjust the assistance strategy. Moreover, there may be little political appetite to address the reforms in governance that are central to the success of this strategy. The Bank Group will need to work with its partners to engage key reformers on both sides of the political divide to mitigate this risk. Other risks include weak implementation capacity, a deceleration of Bangladesh's exports of ready-made garments in a post-MFA world, and natural disasters. The assistance strategy is directed at addressing these risks. Finally, for the Bank Group itself, the most serious risks are fiduciary and reputational risks from the corrupt environment in which the Bank's operations must be implemented. As discussed, the Bank has prepared a strong strategy to address this risk, which will require careful and dedicated implementation.

ISSUES FOR BOARD DISCUSSION

- xv. **The following issues are suggested for Board discussion:**
- a. Does the proposed program adequately support Bangladesh's strategy for poverty reduction and achievement of MDGs?
 - b. Is the proposed approach of putting governance at center stage an appropriate and adequate Bank response to the situation Bangladesh faces?
 - c. Does the Board endorse the proposed approach of dealing with corruption, including the enhanced emphasis on the Bank's own fiduciary controls?
 - d. Is the mix of instruments and activities consistent with the focus of the strategy?

COUNTRY ASSISTANCE STRATEGY FOR THE PEOPLE'S REPUBLIC OF BANGLADESH

1. The last Country Assistance Strategy (CAS) for Bangladesh was discussed by the World Bank's Board of Executive Directors on December 12, 2000, almost ten months before national elections and in a CAS Progress Report in June 2003, after the new government completed the country's interim Poverty Reduction Strategy Paper (I-PRSP). The new government, which came to power in October 2001 after the third successive and largely peaceful elections since Bangladesh reemerged as a democracy, successfully restarted reforms on critical fronts while ensuring sound macroeconomic and fiscal management. This good performance enabled Bangladesh to move from the CAS's low case to the base-case lending scenario in FY03, and the Bank Group initiated a strategic shift, reengaging in critical sectors and providing programmatic development policy lending to support implementation of the reform program. Accordingly, the first Development Support Credit (DSC) was approved in June 2003. The three DSCs approved thus far have complemented a four-year Poverty Reduction and Growth Facility (PRGF) arrangement by the International Monetary Fund (IMF), also approved in June 2003.

2. Deepening this strategic shift, the FY06-09 CAS aims to align World Bank Group assistance with the recently completed PRSP (discussed by the Board in January 2006 along with the Joint Staff Advisory Note). The PRSP reflects the country's vision for "unlocking the development potential" of Bangladesh, a potential amply demonstrated by the remarkable socioeconomic progress made in the past two decades despite serious governance challenges. To accelerate poverty reduction, the PRSP is strategically built on a policy triangle of pro-poor growth, human development, and governance. In line with the goals and priorities of the PRSP, this CAS aims to help Bangladesh improve its investment climate and empower the poor while placing governance at center stage, simultaneously addressing key sector governance issues in both CAS pillars and cross-cutting core governance issues and institutions.

3. To promote the coordination and harmonization of aid and increase development effectiveness, the World Bank Group has prepared this CAS jointly with the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DFID), and Japan. The joint effort has been framed by a common understanding of the PRSP and by agreement on both a common set of broad outcomes and the strategies needed to help Bangladesh achieve these outcomes. Because of institutional requirements, each partner has developed its own assistance strategy document, including complementary country programs for analytical and advisory services, technical assistance, and lending.

4. This CAS puts a greater emphasis on results, and a common results framework has been developed as part of the joint effort, including indicators and milestones for outcomes consistent with the PRSP. Implementation of the PRSP faces several challenges, and the "joint results matrix" recognizes these. Given the difficult political environment in Bangladesh, the Government has had to pursue reforms opportunistically. The CAS takes into account the national elections expected to take place in early 2007, recognizing that as this date approaches, implementation of the reform agenda, and of development programs and projects, will become increasingly difficult, with a new window for intensified reform emerging only after a new government takes office.

I. THE COUNTRY CONTEXT

A. RECENT POLITICAL DEVELOPMENTS

5. **The period since the last Country Assistance Strategy has been an eventful one.** A four-party alliance led by the Bangladesh National Party (BNP) has been in office since October 2001. After elections considered by international observers to be free and fair, the BNP-led alliance replaced the incumbent government, coming to power with a two-thirds majority in a 300-seat

Parliament. BNP had a popular mandate to tackle corruption, improve law and order, and reenergize the reform agenda. Its term in office, however, has been characterized by a further worsening in its relations with the main opposition party, the Awami League, leading to prolonged opposition boycotts of Parliament, frequent *hartals* (work stoppages), and, more recently, political violence. All this has contributed to the increased turbulence of politics in this young democracy. Moreover, in recent months a number of ominous terrorist incidents have occurred, purportedly inspired by a banned organization in support of the imposition of *shariah* (Islamic law) in secular Bangladesh.

6. The political environment may become more difficult as the country approaches its fourth consecutive democratic elections, which should take place in early 2007. The current government completes its term in office in October 2006 and, as required by the Constitution, a caretaker government should be appointed within 15 days of the dissolution of Parliament. The caretaker government, headed by a chief adviser with all the powers of the prime minister,² should, together with the Election Commission, ensure that the elections are free and fair.

B. ECONOMIC AND SOCIAL PROGRESS

7. **In the context of such turbulent politics, along with poor initial conditions and vulnerability to natural disasters, Bangladesh's achievements in economic and social development have been remarkable.** The country has achieved steady economic growth of 4-5 percent annually, relatively low inflation, and fairly stable domestic debt, interest, and exchange rates. This growth performance, coupled with an impressive decline in the population growth rate from 2.5 percent in the 1980s to 1.7 percent in 1990-2004, has led to a doubling of annual per capita GDP growth, from 1.6 percent in the 1980s to 3.3 percent in 1990-2004 (table 1). In per capita GDP growth Bangladesh outperformed both IDA-only countries (1.8 percent) and low-income countries (3.0 percent) in the later period. This growth record was accompanied by lower volatility due in part to the diminishing severity of the impact of natural disasters.³

Table 1. Development Performance and Outcomes for Bangladesh and Selected Comparators, 1990-2004

Indicator	Bangladesh	India	Pakistan	Sri Lanka	Low-income countries	IDA-only countries
<i>Growth and structural change</i>						
GDP per capita growth, annual (% , period avg.)	3.3	4.4	1.1	3.4	3.0	1.8
Trade (exports and imports) as share of GDP (% , end of period)	30.8	25.7	37.1	79.9	38.8	64.3
Foreign direct investment, annual net inflows (% of GDP, period avg.)	0.2	0.6	0.9	1.3	1.3	2.7
Workers' remittances (% of GDP, period avg.)	4.1	2.4	2.9	6.4	..	..
Net aid flows (% of GNI, end of period)	2.5	0.2	1.3	3.7	3.0	..
Monetization of economy (M2 as % of GDP, end of period)	31.3	49.7	42.1	35.2	40.5	25.8
Agricultural value added (% of GDP, end of period)	24.7	26.4	25.4	21.2	28.1	31.0
<i>Macroeconomic management</i>						
Overall budget deficit, including grants (% of GDP, end of period)	3.2	7.4	1.8	8.2	..	..
Current revenues, including grants (% of GDP, end of period)	10.1	19.5	14.9	15.3	..	..
Total expenditures (% of GDP, end of period)	13.3	26.9	16.7	23.5	..	..
Inflation, annual (% , period average)	4.9	7.7	7.9	10.4	..	..
Current account deficit (% of GDP, MRE)	0.3	1.1	-0.8	-0.7	..	..
Total reserves (months of imports, end of period, MRE)	3.0	13.7	5.2	2.7	11.7	5.0
<i>Poverty and social development</i>						
Poverty headcount ratio at PPP\$1 a day (% , MRE)	36.0	35.3	17.0	5.6	..	..
Mortality rate, under five (per 1,000, MRE)	69.0	87.0	98.0	15.0	122.0	151.6
Ratio of girls to boys in primary and secondary education (% , MRE)	106.8	88.5	71.1	102.8	87.2	88.5
Primary completion rate, total (% of relevant age group, MRE)	73.3	80.9	..	98.2	71.5	68.3
Improved water source (% of population with access, MRE)	75.0	86.0	90.0	78.0	75.1	61.3
Fertility rate (births per woman, MRE)	2.9	2.9	4.5	2.0	3.6	4.4

.. Not available.

Note: These indicators are part of the IDA14 reporting requirements. MRE is Most Recent Estimate.

Source: World Bank, World Development Indicators database.

² This unique caretaker government system was instituted following passage of the 13th Constitutional Amendment on March 26, 1996. Under this system the president, who is elected by Parliament, remains the supreme commander of the armed forces.

³ Bangladesh's growth volatility over 1981-00 is the lowest in a sample of 151 countries for which at least 15 annual observations were available. See World Bank, "Bangladesh: Development Policy Review, Impressive Achievements but Continuing Challenges" (Report 26154-BD, Washington, D.C., December 14, 2003), pp. 7-8 and box 1.1.

8. **More important, Bangladesh has taken large strides toward achieving the Millennium Development Goals (MDGs).** The country has outperformed most low-income countries on a range of social indicators. It increased gross primary enrollment from 72 percent in 1980 to 98 percent in 2001 and has already attained the MDG of eliminating gender disparity in primary and secondary enrollment. With the sharp decline in infant mortality from 145 per 1,000 live births in 1970 to 46 in 2003, and in child mortality from 239 per 1,000 to 69, Bangladesh is set to achieve the targeted two-thirds reduction from 1990 levels by 2015. Food security has improved markedly, even for the very poor. There have also been steady gains in income poverty; the share of the population in poverty declined from 59 percent in 1990 to 50 percent in 2000, with the rural sector accounting for nearly four-fifths of this decline. Bangladesh's actual values for fertility, infant and child mortality, contraceptive prevalence, and crude birth and death rates are much better than would be predicted for a country at its income level (table 2).

Table 2. Actual Values for Social Indicators for Bangladesh and Predicted Values at Current Per Capita Income

Indicator	Actual value	Predicted value
Population growth, annual (%)	1.74	1.84
Fertility rate, total (births per woman)	2.9	4.2
Contraceptive prevalence (% of women ages 15-49)	54	35
Birth rate, crude (per 1,000 people)	28	32
Death rate, crude (per 1,000 people)	8	12
Mortality rate, infant (per 1,000 live births)	46	70
Life expectancy at birth, female (years)	63	59
Life expectancy at birth, male (years)	62	56
Primary completion rate, total (% of relevant age group)	73	72
Maternal mortality ratio (national estimate, per 100,000 live births)	380	384

Note: Predicted values based on available data for 153 developing countries.

Source: World Bank, *World Development Indicators 2005* (Washington, D.C., 2005).

C. GOVERNANCE CONUNDRUM

9. **Bangladesh's remarkable economic and social gains have taken place despite widely held perceptions of weak governance.** Perceptions-based governance indicators prepared by staff at the World Bank Institute, which aggregate data from a number of survey-based indices, reveal low ratings for Bangladesh on six key indicators, with particularly poor ratings on *control of corruption*, *regulatory quality*, and *rule of law* (box 1). In addition, a recent investment climate survey of 1,001 manufacturing firms operating in Bangladesh showed that next to infrastructure, corruption was seen as the next most serious constraint by nearly three of every five companies. Two other governance-related issues (tax administration and customs) ranked among the top six constraints.

10. **How has Bangladesh done so well despite such poor governance?** Recent analysis suggests that understanding this conundrum requires unbundling the broad concept of governance, recognizing that Bangladesh has had both successes and failures.⁴

11. **Bangladesh has seen some impressive successes in governance since the 1980s:**

- *The state has increased its accountability to citizens.* The conduct of three successive, relatively peaceful elections with high turnouts and with the incumbents losing power twice in succession is evidence of the growing maturity of the electorate. The rapid growth of civil society and of an increasingly mature and critical media has amplified the voices of the poor and of citizens more

⁴ See World Bank, "Bangladesh: Development Policy Review, Impressive Achievements but Continuing Challenges" (Report 26154-BD, Washington, D.C., December 14, 2003); and Binayak Sen, "Operationalizing Pro-Poor Growth: A Country Case Study of Bangladesh" (Bangladesh Institute of Development Studies, Dhaka, October 2004). The entire set of country case studies can be found on the World Bank Web site (www.worldbank.org).

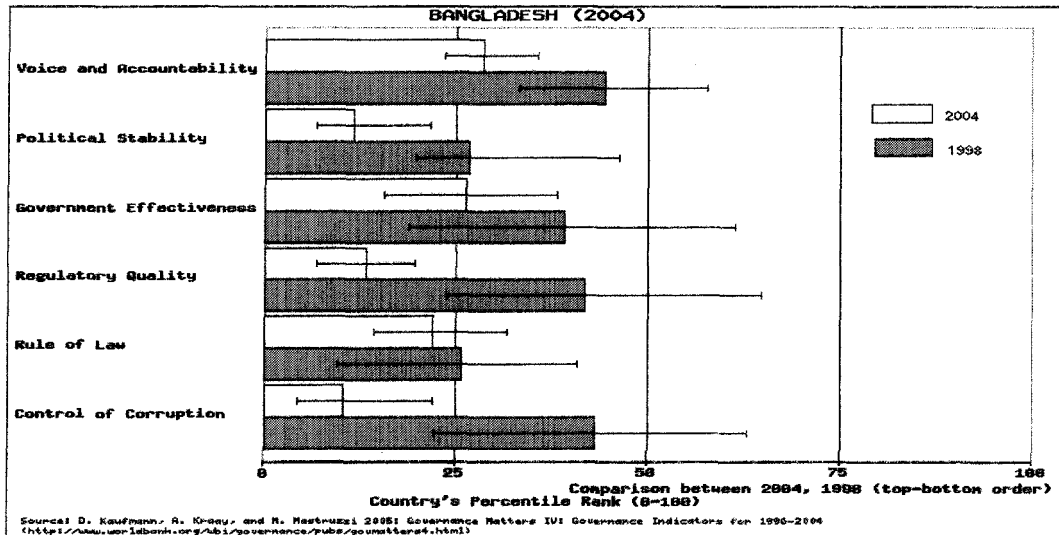
generally. The Supreme Court has asserted its independence from the Government and held successive governments to account through key verdicts in a series of public interest litigations.

Box 1. A Mixed Record of Governance

Governance in a country refers broadly to the exercise of power through the country's economic, social, and political institutions. These include the processes by which governments are selected, held accountable, monitored, and replaced; the capacity of the governments to formulate and implement policies and manage resources efficiently; and the respect of citizens for the institutions that govern social and economic interactions among them. Good governance is underpinned by a system of checks and balances embedded in an accountability framework that is based in the rule of law and in transparent transactions and exchanges of information.

The World Bank Institute has developed a set of indicators aimed at capturing these broad dimensions of governance. These perceptions-based indicators, which cover some 209 countries, have been used since 1998 to measure performance in six main dimensions of governance: *voice and accountability*, *political stability*, *government effectiveness*, *regulatory quality*, *rule of law*, and *control of corruption*.

Bangladesh scored poorly on all six indicators for 2004. For *control of corruption* Bangladesh's percentile ranking was 10.3; for *political stability*, 11.7; for *regulatory quality*, 13.3; and for *rule of law*, 22.2 (see figure). Bangladesh did somewhat better on *government effectiveness* (26.4) and *voice and accountability* (28.6). Bangladesh's performance compares poorly with that of other low-income countries on *political stability*, *regulatory quality*, and *control of corruption*, while it outperforms other low-income countries on *voice and accountability* and *rule of law*.



A comparison of the point estimates for these indicators over time suggests that Bangladesh's performance worsened on all six indicators between 1998 and 2004. But because of large (though declining) margins of error, there is not enough evidence to conclude that Bangladesh's governance improved or worsened except in the case of *regulatory quality*—where it is possible to say, at a 90 percent confidence interval, that there was a perceived decline—and *control of corruption*—where it is possible to conclude that there was no improvement and probably a deterioration. But it is also clear that on three of the six indicators (*political stability*, *regulatory quality*, and *control of corruption*) Bangladesh ranks in the bottom quartile of all countries, even allowing for margins of error.

- *The state has increasingly created space for the development of the private sector, through strong macroeconomic management⁵ and progress on trade liberalization. Trade in goods nearly doubled as a share of GDP between 1990 and 2004, to 30.8 percent, reflecting both a rapid expansion in garment exports and a significant liberalization of imports.⁶ More recently, the Government has privatized or shut down some 55 state-owned manufacturing enterprises (from a total of around 121 in FY01) and reduced employment levels in these enterprises, visibly improving their finances. The Government has also relied on the private sector to deliver essential public services such as secondary education.*
- *Sound macroeconomic policies and greater openness combined with the migration of Bangladeshi labor abroad have led to a surge in overseas remittances, which reached about 5 percent of GDP by the end of the 1990s. Such remittances, together with the earnings from peacekeeping operations, amount to \$5-6 billion a year. These funds directly benefit rural families, including the poor, by helping to finance land purchases, agricultural inputs, and business start-ups as well as improvements in education and health. Much of Bangladesh's growth has come from a booming private rural economy and private-enterprise-led industrial and export growth.*
- *Recent efforts to improve governance in the financial sector have had a noticeable impact in improving the sector's performance. Measures to enhance the capacity of the Bangladesh Bank (the central bank), one of the key institutions of accountability in the country, and changes in the regulatory framework have led to improvements in the performance of private commercial banks. These banks have met the Basle capital adequacy ratios, seen a sharp decline in nonperforming loans (from 16 percent in 1998 to 3 percent in 2004 on a net basis), and begun to strengthen their corporate governance. Although the performance of nationalized commercial banks (NCBs) remains problematic, their nonperforming loans have also been reduced, from 27 percent in 1998 to 18 percent in 2004. New lending by NCBs has been capped, a ban on new loans to defaulters has been strictly enforced, some 100 bank branches have been closed, and the NCBs' share of loans has fallen from 70 percent in 2000 to 40 percent today. One of the NCBs, the Rupali Bank, is being brought to the point of sale, and management of the others is being strengthened prior to their possible sale.*
- *Sustained allocations of public resources for pro-poor activities have played a crucial role in ensuring wise allocation of public expenditures and thus in contributing to the strong poverty-reducing outcomes, such as by:*
 - *Containing military spending at 1.1 percent of GDP, much less than half the average for the region, leaving fiscal space for pro-poor spending.*
 - *Financing rural infrastructure, particularly roads connecting about 1,400 of 2,100 growth centers and markets, and thus contributing to the significant increase in nonfarm activity, employment, and income.*
 - *Providing a sustained injection of public funds for health and education combined with progressive policies to ensure participation, inclusion, and empowerment and strong partnerships with the private sector and NGOs, all of which have contributed to Bangladesh's strong progress in social outcomes.*
- *The state has made space for and forged partnerships with NGOs to deliver public services. Unlike in many developing countries, where civil society is either crowded out or co-opted by the state, in Bangladesh successive governments have recognized the state's inability to meet the*

⁵ The fiscal deficit, contained at less than 5 percent of GDP, was steadily reduced to around 4 percent in FY05 despite large flood-related expenditures. Inflation averaged around 5 percent in 1990-2003.

⁶ The unweighted mean tariff was reduced from 106.5 percent in 1989 to 16.6 percent in 2004, and many non-tariff barriers have been removed.

high public expectations for service delivery and chosen to carve out strategic partnerships with NGOs to deliver such services as microfinance, health, education, drinking water, and sanitation. Microfinance reaches around 65 percent of the country's poor people. And NGOs account for 9 percent of health care expenditures and 8 percent of primary enrollment. While the state continues to play the predominant role in health and education, these figures show that NGOs provide a growing share. The leading Bangladeshi NGOs have evolved into social enterprises with considerable capacity for nationwide service delivery, creating a sound foundation for future social development and poverty reduction.

- *The state has greatly improved its capacity for managing natural disasters.* The macroeconomic and social impact of natural disasters has been greatly reduced, and the resilience of the poor has increased. The factors contributing to this improvement include greater nonfarm incomes, policies that have reduced leakages in food distribution and allowed private sector imports, the highly effective and well-targeted Voluntary Group Feeding system, the construction of cyclone shelters, and the establishment of early warning systems.⁷ The response capability of civil administrations has markedly improved, and government campaigns to educate households on food and water safety precautions during floods and cyclones have proved effective. NGOs play a major role in disaster prevention, recovery, and relief, and vigorous domestic opposition and a free press have motivated governments to respond promptly to disasters.

12. These successes are partially offset by some marked failures in governance:

- *The state of political competition is unhealthy.* Political power is concentrated in two major parties, led by rival families that have dominated Bangladesh's politics since its independence. This has discouraged the emergence of intraparty democracy. A first-past-the-post system of elections results in large stable majorities for governments, reducing the effectiveness of Parliament by lessening the importance of the opposition. The lack of competition is accentuated by a highly centralized state. In the absence of elected regional governments that exercise real political power, a change in power at the center leaves virtually nothing for the losers. The patron-client nature of politics feeds the bitter relations and lack of trust between the two dominant political parties. Parliament has been ineffective in its role as a check on the executive, and opposition parties of different hues prefer to mobilize public support for their cause on the streets and through *hartals*. The dependence of political parties on muscle power leads to the criminalization of politics and increasing political violence. More recently, extremist religious movements have taken advantage of the discord in the secular political leadership through a series of violent incidents. Fractious politics are not unique to Bangladesh; there are many similar examples elsewhere in both the developing and the industrial world. But the fractiousness is proving costly by contributing to political uncertainty and the poor investment climate.
- *The formal legal mechanisms that regulate campaign financing activities are ineffective.* As in many other democracies, developing and industrial alike, elections in Bangladesh cost far more to contest than candidates are allowed to spend. Each candidate for Parliament is permitted to spend up to Tk 500,000 in contesting constituencies that represent around 250,000 voters. While this amount is not particularly low in relative terms (16 US cents on a PPP basis per voter), it is only a fraction of the true cost of fighting an election. The need to finance campaigns is reportedly a major source of the high levels of corruption in Bangladesh and elsewhere in the region. Moreover, the illegality of such funds reduces transparency and blurs the line between a parliamentarian's public and private funds. In the absence of efforts to reduce the cost of contesting elections, curb campaign spending, or properly enforce rules relating to the declaration of a candidate's assets and liabilities and make such declarations public, the risks of state capture by those who bankroll candidates become significant.

⁷ Binayak Sen, "Operationalizing Pro-Poor Growth: A Country Case Study of Bangladesh" (BIDS, Dhaka, October 2004), p. 38. Sen points out that although the 1998 flood was far more severe than that of 1988, GDP growth only decelerated to 3 percent in 1998/99, while GDP actually shrank in 1988/89.

- *Revenue mobilization is handicapped by poor governance.* Bangladesh's budgetary revenue effort has been abysmally low: tax revenue amounts to less than 10 percent of GDP and comes from a very small share of the population. This situation reflects the serious governance challenges facing the National Board of Revenue (see paras. 103-05). The small tax base in turn creates huge incentives for corruption as well as opportunities for rent seeking by forcing the Government to pay abysmally low salaries to civil servants, reduce operations and maintenance expenditures, and force a rationing of essential public services.
- *Despite recent progress, public financial management needs further strengthening to become an effective policymaking and accountability instrument for the Government.* While public expenditure policy has many positive aspects (see para. 11), financial management systems remain weak, undermining the effectiveness of the policy. The budget planning process lacks a medium-term strategic orientation, allowing discretionary behavior in budget planning and implementation. While efforts to introduce information technology in budget accounting and reporting are under way, manual systems are still used for all budgetary transactions, reducing the effectiveness and transparency of expenditure management. Public financial accountability systems inside and outside the executive are at a nascent stage, and consolidating these systems will require long, sustained efforts. Until recently procurement has been a major source of corruption. A modern and effective legal framework for procurement has been developed and now needs to be implemented and its outcomes monitored.
- *Budgetary constraints and failure to create transparent and accountable processes for private sector participation in infrastructure have contributed to the sector's low levels of investment.* Inadequate revenues and weak financial management contribute to the Government's inability to fund infrastructure from the budget, while private provision has lacked transparency. There has been progress in some areas, such as telecommunications, where cellular operators have quickly overtaken landlines. But power shortages are cited by business enterprises as their most important constraint, and port facilities are inefficient, corrupt, and failing to keep up with demand, raising shipping costs and reducing competitiveness. Failure to create transparent and accountable processes for private participation in infrastructure and to address pricing issues has been a major constraint on investment in electricity, and powerful interests tend to resist reforms in Chittagong port, the country's largest.
- *As in many developing countries, politicization, low salaries, and poor human resource management have contributed to a steady deterioration in the quality of the civil service* as well as other government services, such as the police and the judiciary. The civil service today, with some important exceptions, is increasingly poorly trained, highly hierarchical and secretive, and open to political pressures. Moreover, the civil service sees itself as accountable to its higher-level masters rather than to Bangladeshi citizens, whom it is supposed to serve. This situation has eroded the quality of public service delivery and regulation while undermining accountability and increasing the fiduciary risks to public funds. While the wise decision to develop strategic partnerships with the private sector and NGOs has mitigated the costs to the country, civil service management and performance issues cloud prospects for the country's future.
- *The justice sector is dysfunctional.* Despite an activist and vigilant Supreme Court, the justice sector faces serious challenges of inefficiency and corruption. Law and order is weak, and crime is underreported and poorly investigated. The police, the citizens' first point of contact with the formal justice system, are held in little confidence. Bangladesh has the lowest ratio of police to citizens on the subcontinent. About 70 percent of its police officers (around 80,000) are constables, poorly trained and equipped and with limited authority, education, and skills. And only 1.2 percent of the police force is female. The focus of the criminal justice system appears to be on maintaining public order and protecting the wealthy and powerful rather than preventing, detecting, and investigating crime. The lower courts are particularly inefficient and corrupt. As

the PRSP notes, “*an inherited colonial system of criminal and civil justice which ensures ‘certainty of expense but uncertainty of results’ poses major barriers to the poor in terms of accessibility and affordability.*”⁸ Moreover, enforcing a contract through a court costs three times as much in Bangladesh as it does in China and requires half as many days on average. Similarly, banks find it nearly impossible to collect collateral on defaulting loans. This situation is a major impediment to attracting foreign direct investment. A credible justice system that enforces clear laws in a just, transparent, and efficient manner is essential to create the stable, predictable, and secure environment necessary for investment and to ensure the human security that is integral to sustainable development and poverty reduction.

13. **How has Bangladesh’s relatively strong economic and social performance coexisted with poor governance?** Two factors need to be recognized. First, judgments about the quality of governance in Bangladesh need to take a sufficiently nuanced view. The analysis above shows that governments of differing political persuasions have pursued fairly sound economic policy stances with respect to a commitment to macroeconomic stability and economic openness, adopted a private-sector-led development strategy, created space for NGOs to operate and complement government efforts, and allocated public resources sensibly, particularly in terms of pro-poor spending.

14. Second, policymakers creating space for the private sector and NGOs would not be remarkable in itself but for the fact that the private sector and NGOs have taken advantage of this space to deliver growth and services. By creating a duty-free environment through bonded warehouses, for example, the Government enabled the ready-made garment sector to get around the constraints of a corrupt tax administration. Similarly, by encouraging provision of social services by the private sector and NGOs, the Government compensated for weak governance and poor public service delivery and allowed itself to concentrate on its proper role as a regulator and provider of public health services.

15. These steady but largely untrumpeted and insufficiently recognized gains are often overshadowed by the much noisier failures of the country’s political governance and the corrupt elements in its elite. It is these failures that tend to be captured in the perceptions-based data on governance, which have not yet been extended to broader dimensions of governance. Analysts outside the country therefore seem to often overlook its strong economic and social outcomes and the good policy governance that underpins these outcomes. The above and other reforms (attachment 10) taken by various governments have been instrumental in delivering the good social and economic outcomes Bangladesh registers at present.

16. But the price that Bangladesh pays for poor governance may be rising to the point where it begins to seriously undermine the effectiveness of the country’s development efforts. The increasingly fractious politics and the political uncertainty they breed are a major factor in the poor investment climate, particularly for foreign direct investment, offsetting the Government’s pro-private-sector stance. Foreign investors that might have been attracted by the Government’s ‘open economy’ policies are put off by poor infrastructure, the inability of the justice sector to enforce contracts, the deteriorating law and order, and the high level of corruption in regulatory agencies. Moreover, while government policies have been sound, implementation has always been weak and is steadily deteriorating, reflecting the failure to address institutional weaknesses and reform the civil service. The failure to control corruption and the deteriorating law and order are symptoms of a larger failure of governance, reflecting the perverse incentives arising from the high cost of contesting elections, the politicization of the civil service, and the steady, long-term erosion in its quality and in the quality of law enforcement. In addition, government responses to weaknesses in implementation, often compelled by pressure from the public due to the relatively free media and active civil society, have tended to be ad hoc. Experience in other countries shows that such responses typically fail to systematically address institutional weaknesses. Innovations and

⁸ Government of the People’s Republic of Bangladesh, “Unlocking the Potential: National Strategy for Accelerated Poverty Reduction”, page 169, para 5.448, (Dhaka, October 2005).

improvements often have proved unsustainable and rarely survive the departure of inspired leaders—and may even become problems themselves, as with the excesses committed by the Rapid Action Battalion.⁹

17. Nor can the sustainability of past social achievements be taken for granted. The early gains took up the slack in the system. Further progress toward the ambitious MDGs will prove difficult if the Government fails to address underlying institutional weaknesses. Giving priority to pro-poor resource allocations will not be enough. Doctors and other health care providers must reach mothers needing pre- and postnatal care. And teachers need to attend schools. Similarly, a pro-private-sector stance will not be enough to address the massive underinvestment in infrastructure—particularly the underinvestment in energy, which accounts for the current energy crisis in Bangladesh. The solution also requires tackling the growing lack of transparency in deals relating to private provision of infrastructure.

II. UNLOCKING BANGLADESH'S POTENTIAL—A STRATEGY FOR ACCELERATED POVERTY REDUCTION

A. BANGLADESH'S DEVELOPMENT VISION AND THE POVERTY REDUCTION STRATEGY

18. Recognizing these challenges, the Government has outlined its vision in the full PRSP, “Unlocking the Potential,” released in October 2005. The PRSP appropriately stresses the links between investment, growth, job creation, and poverty reduction. It identifies key areas where reforms are needed, public investments are required, and public policies merit improvement. It does not shy away from tackling difficult issues, according a prominent place to combating corruption, restoring rule of law, and making governance work for the poor. It builds on past achievements, aims to prevent slippages in areas where progress has been made, and addresses weaknesses in implementation, emphasizes the centrality of employment creation, and strengthens the focus on women's empowerment.

19. As the Joint Staff Advisory Note (JSAN)¹⁰ observes the PRSP vision appropriately builds on the policy triangle of growth, human development, and governance and argues for special attention to goals and outcomes in the following areas:

- Employment generation.
- Nutrition.
- Maternal health.
- Quality of education.
- Sanitation and safe water.
- Criminal justice system.
- Local governance.

20. The PRSP emphasizes that progress toward these goals requires creating an open, competitive environment conducive to private investment, with particular importance given to exports and the rural sector, where 85 percent of Bangladesh's poor people live.¹¹ Improving the ability of poor people to participate more fully in the growth process, through access to better-quality education, health, water, and nutrition; and, most important, ensuring that the Government addresses both sector governance concerns and core governance issues, such as by improving government capacity, promoting local governance, tackling corruption, enhancing access to justice for the poor,

⁹ This would be the case, for example, in the appointment of unusually effective individuals to head key institutions, such as the Bangladesh Bank, or the creation of the Rapid Action Battalion to bolster a weak police force.

¹⁰ The World Bank, Bangladesh: Joint IDA-IMF Staff Advisory Note on the Poverty Reduction Strategy Paper, December 29, 2005.

¹¹ The rural sector is home to 80 percent of the overall population of 140 million.

and improving security and public order. As the PRSP puts it, “a major thrust of the PRS has to be on ensuring good governance”.¹²

21. The JSAN, however, notes that the PRSP lacks a well-thought-out process of growth acceleration to justify the high growth projections, and that despite the focus on a private-sector-driven growth agenda, there is too much reliance on public rather than private investments. Moreover, a more comprehensive review should have been done of the trade policy regime, which impinges on growth. The omission of a strategic vision for the development of the financial sector also weakens the pro-poor growth agenda presented in the PRSP. While the PRSP recognizes infrastructure as an important impediment to growth and poverty reduction, it needs a greater focus on improving governance in these sectors, especially power. The lack of specificity on sectoral governance reforms, despite the very welcome strong focus on overall governance, suggests a need to broaden the ownership of governance reforms within the Government. Finally, to be a credible instrument, the PRSP requires a clear plan for implementation and monitoring—mainstreamed in the Government’s processes for policy formulation, implementation, and monitoring—that would facilitate prioritization and achievement of its goals.

B. DEVELOPMENT CHALLENGES

1. The Poverty Challenge

22. **The PRSP recognizes that Bangladesh’s progress in social and economic development and the way forward should be seen in relation to the magnitude of the poverty challenge.**¹³

While income poverty in both urban and rural areas declined by one percentage point a year in the 1990s—an impressive 9 percentage points over the decade—the absolute number of people below the poverty line has not changed. Some 63 million people live in deprivation, two-thirds of them caught in extreme poverty. Poverty has fallen unevenly across regions, with most of the gains in the Dhaka division and large pockets of poverty remaining in Rajshahi, Chittagong, and Khulna. Moreover, inequality is rising, making the task of reducing poverty even more difficult. Attaining the key income poverty goals will require accelerating the rate of income poverty reduction substantially beyond the 1.5 percent a year achieved in 1990-2002. Adult illiteracy is persistent and falling only slowly, particularly among women. With malnutrition levels in South Asia still among the highest in the world, Bangladesh’s relatively good performance compared with India’s and Pakistan’s is little solace. More than half the children ages one to three are underweight, and more than 40 percent of women are severely malnourished. Maternal mortality is high as a result of inadequate access to health services during pregnancy and childbirth and the poor nutritional status of pregnant women.

2. Progress and Prospects on the Millennium Development Goals

23. **These challenges are reflected in Bangladesh’s progress and prospects on attaining MDGs, where the picture is mixed.** As noted, the country has made remarkable progress toward several MDGs. Several others are within reach, though attaining them will require special attention and concerted effort. And some will challenge the country for some time (see attachment 2). A mixed picture is thus emerging, as two recent MDG assessments suggest:¹⁴

- Bangladesh has already attained the MDGs relating to *gender parity in schooling opportunities* and *universal primary education*. It is the only country in South Asia other than Sri Lanka to have achieved parity in male and female enrollment at not just the primary but also the

¹² Government of the People’s Republic of Bangladesh, *Unlocking the Potential, A National Strategy for Accelerated Poverty Reduction*, October 2005, page 5, para 1.21.

¹³ In per capita income the country ranks 174th of 201 countries; India ranks 154th.

¹⁴ Government of the People’s Republic of Bangladesh and United Nations, *Millennium Development Goals: Bangladesh Progress Report* (Dhaka, 2005); and World Bank, *Attaining the MDGs in Bangladesh* (Washington, D.C., 2005).

secondary level. Attaining two other MDGs—reduction of *consumption poverty* and *under-five mortality*—is also feasible, through a mix of sector-specific interventions (such as expanding immunization coverage and reducing pupil-teacher ratios), economic growth, improved coverage of infrastructure, and social safety net programs. Attaining the MDG relating to *child malnutrition* and those in education relating to *universal net primary enrollment* and *primary completion* remains challenging but within reach. For child malnutrition, the projections suggest that Bangladesh could come very close—within 5 percentage points—to the MDG of having no more than 34 percent of its children underweight by 2015. Whether Bangladesh is likely to achieve net primary enrollment and primary completion rates exceeding 83-86 percent by 2015 remains unclear.

- Attaining the *maternal mortality* goal will be challenging for Bangladesh. The country has the lowest maternal mortality ratio in South Asia, but the region's indicators are among the worst in the world. In 2001 Bangladesh's ratio was in the range of 320-400 maternal deaths per 100,000 live births. To meet the target Bangladesh must reduce this figure to 143 per 100,000 live births, which will require inducing major behavioral changes in mothers, vastly expanding access to quality reproductive health services, and broadly improving the socioeconomic situation.
- Bangladesh had nearly achieved the *safe water* goal, with 97 percent of its population having access to pathogen-free water. But arsenic contamination posed a new round of challenges, and the population share with access to pathogen- and arsenic-free water is now roughly 80 percent in urban areas and 70 percent in rural areas. The Government's "total *sanitation*" program has been a real success in rural areas, achieving broad coverage. But new challenges to attaining the MDG for sanitation are emerging, driven in part by urbanization: only 14 percent of slum dwellers in urban areas have access to sealed latrines, and the urban population is projected to nearly double—to 50 million people—by 2015.
- Reversing the trend of deforestation and increasing energy efficiency weigh heavily on the MDG agenda of ensuring *environmental sustainability*. The financial and institutional resources needed to accomplish these objectives pose significant challenges to attainment of this MDG.

3. Macroeconomic Performance and Prospects

24. **In the face of these challenges, achieving the PRSP's poverty reduction objectives and related MDGs will require that Bangladesh not only maintain its current achievements in good, stable growth—but, more important, move to a higher and more equitable growth path of 6-7 percent a year** (see attachment). The country's GDP growth performance has been good for almost two decades, averaging 5.4 percent a year in FY01-05, the highest five-year average since independence. This growth was underpinned by a resurgence of domestic private investment, which grew at an average annual rate of 10 percent, increasing its share in GDP from 16 percent in FY01 to 18.5 percent in FY05.¹⁵ While benefiting from continued strong export growth (about 8 percent a year), with garment exports the mainstay, growth has also been relatively broad based. Construction and services sectors have seen particularly strong growth, fueled by large inflows of remittances.

25. Strong growth in exports and remittances has also benefited the external sector. Exports increased by 40 percent and remittances doubled in FY00-05, while imports rose by 50 percent. The current account recorded small surpluses in FY02-04 before slipping into a deficit equaling 0.9 percent of GDP in FY05. The sharply rising cost of oil and other commodity imports added to the current account deficit in the latest year. Benefiting from a pick-up in concessional and other long-term capital inflows, foreign exchange reserves increased from their precarious level of \$1 billion (one month of import cover) at the end of 2001 to a more comfortable \$3 billion by the end of FY05.

¹⁵ Meanwhile, the share of public investment fell from 7 percent of GDP to 6 percent.

26. **The Government's medium-term macroeconomic framework in the PRSP commits to accelerating GDP growth from 5.4 percent in FY05 to 6.0 percent in FY06 and 6.5 percent in FY08.** Such an acceleration of growth would require a *substantial increase in investment and productivity levels*. Productivity growth in turn will depend on improvements in infrastructure provision and labor quality, which as the JSAN notes will take time to bring about. Two major sources of growth are highly vulnerable, however, pointing to the need for diversification of the economy. Garment exports, three-quarters of the country's total exports of goods, face greater competition from low-cost producers such as China with the dismantling of the Agreement on Textiles and Clothing since January 2005. The availability of cultivable land, an important source of past agricultural growth, has been declining, in part because of urbanization and infrastructure development. While these potential threats call for efforts to enhance the competitiveness of exports and productivity of agriculture, there is also little alternative to policies encouraging the diversification of the economy beyond these sectors. Key to meeting the higher growth target will be attracting foreign investment – a priority whose urgency, the JSAN argues, is not sufficiently reflected in the PRSP. Attracting such investments will require substantially improving the investment climate. This in turn will require addressing the main constraints confronting private investors, such as infrastructure shortages (particularly power and ports), poor law and order, high levels of corruption, and the weak regulatory environment. And removing the infrastructure constraints will require better governance and more transparent private provision of infrastructure.

27. **Accelerated growth and continued fiscal prudence are expected to improve prospects for fiscal and debt sustainability, although, as the JSAN emphasizes, poor revenue efforts and growing liabilities of State Owned Enterprises (SOEs) remain a concern.** The Government lowered the fiscal deficit from around 5 percent of GDP in FY01 to 3.5 percent in FY05 and adopted more prudent financing patterns, with greater emphasis on concessional external financing. As a result, public sector debt has been contained at less than 50 percent of GDP and appears to be on a sustainable path. Over the medium term *the Government's program in the PRSP commits to maintaining fiscal deficits* at or below 4 percent of GDP and limiting domestic financing to about 2 percent of GDP. This reflects an expected improvement in total revenue collection, projected to reach 12 percent of GDP by FY09 as a result of modernizing the National Board of Revenue and containing expenditures at 15.5 percent of GDP. Fiscal sustainability will also depend, however, on the Government's ability to contain the growing liabilities of the Bangladesh Petroleum Corporation stemming from the recent increases in global oil prices, which have not yet been fully passed through to consumers—leading to losses equal to 0.7 percent of GDP in FY05.¹⁶ Continued monetary prudence will be necessary to contain inflation at the targeted rates of 7 percent in FY06 and less than 5 percent by FY08. Although *external debt is relatively low*, at about 33 percent of GDP and mostly on concessional terms, the country faces some medium-term liquidity risks because of modest export levels (14 percent of GDP in FY05).¹⁷ The JSAN, therefore, encourages the authorities to further improve the working of the foreign exchange market and to allow the exchange rate to operate flexibly in response to changes in economic fundamentals.

4. Service Delivery

28. **Further gains in human development will be difficult to achieve and sustain without service delivery systems that are more accountable, more responsive, and able to reach the very poor.** Improvements are needed in the quality of education, including higher education, to provide skilled labor—and in health services, including maternal health and nutrition. With

¹⁶ Sensitivity analysis by Bank and IMF staff suggest that Bangladesh's debt-to-GDP ratio is more vulnerable to a shock to reform-contingent liabilities of state-owned enterprises and a potential large real depreciation of the exchange rate as compared to other factors, including lower long-run GDP growth, would have an impact of up to 2 percentage points on the debt dynamics.

¹⁷ The ratio of the net present value of future debt service obligations to goods and nonfactor services exports stands at about 150 percent.

government highly centralized, the poor find it difficult to hold public service providers accountable for delivering services and responding to their needs. Recent efforts to enhance local democracy and make more resources available to local governments provide an opportunity to strengthen local governance and increase the voice of the poor in identifying, designing, and implementing programs for rural infrastructure and social services.

5. Core Governance Institutions

29. **Improvements in service delivery will also require improvements in core governance institutions.** The JSAN welcomes the strong focus on governance in the PRSP but also commends the emphasis on a prioritized, selective approach. A key priority will be public financial management. The rather modest revenue effort will need to be enhanced, and public financial management, including public procurement, will need to be strengthened to ensure that scarce public funds reach their intended beneficiaries. This in turn calls for improvements in civil service management. Access of the poor to justice will be a high priority, as will broader improvements in the justice sector to ensure the rule of law and reduce investor uncertainty about enforcement of contracts. Public access to information will be key to such improvements in governance and to the ability of civil society to intermediate public oversight of the Government's budget and development programs.

III. THE WORLD BANK GROUP'S ASSISTANCE STRATEGY

A. THE STRATEGIC FOCUS—GOVERNANCE AT CENTER STAGE

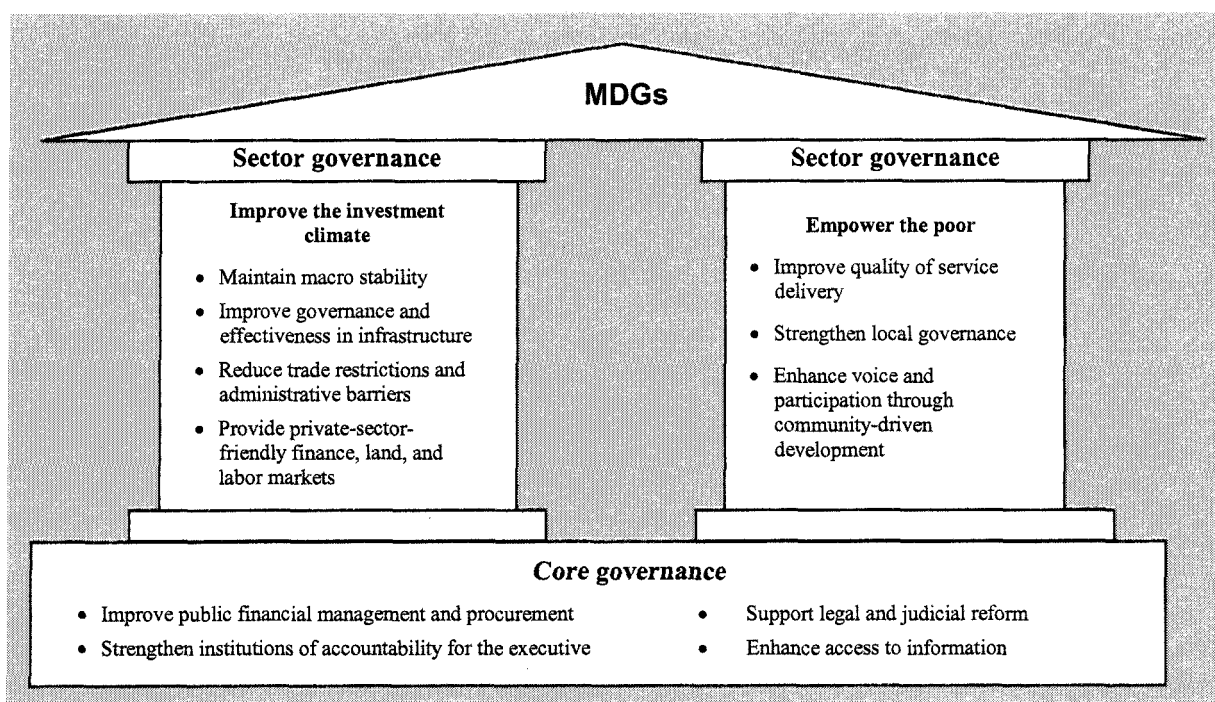
30. **The World Bank Group will align its Country Assistance Strategy with the Government's Poverty Reduction Strategy.** It will make governance the core focus, cutting across the two pillars of the Government's strategy—*improving the investment climate* and *empowering the poor*—while also addressing the core governance issues common to these two pillars (figure 1). Under pillar 1, *improving the investment climate*, the Bank Group will build on Bangladesh's strengths by continuing to help maintain macroeconomic stability and accelerate its progress toward an open, market-based economy. At the same time it will help the Government address weaknesses in the investment climate by removing policy and institutional constraints to infrastructure provision and improving its weak regulatory quality. Under pillar 2, *empowering the poor*, the Bank Group will attempt to build on Bangladesh's impressive social gains by helping the Government meet the MDGs relating to human development while also enhancing the quality and efficiency of service provision to the poor by strengthening sector governance and accountability and enhancing voice and participation. The Bank Group will also respond to the policy opening in local governance by launching its first direct efforts to strengthen service delivery by local governments and enhance their accountability to local communities.

31. Progress under both pillars will depend on successful reforms in Bangladesh's core governance. The Bank Group will therefore assist in strengthening public financial management to help increase budgetary revenues and ensure better use of public funds, and in revitalizing institutions that enhance public accountability. The Bank Group will also join its partners in helping to strengthen civil society and provide access to information, both critical if citizens are to hold their government to account.

32. This approach of mainstreaming governance in the Bank Group's program will mean that its operations, whether in infrastructure, health, education, financial services, or any other sector, will be as much about improving governance as they are about improving sector performance and service delivery. A special focus on involving communities in program delivery and monitoring, through support for local governance and community-driven development (CDD) approaches, aims to ensure that the onus of enforcing accountability for results and management of resources increasingly shifts from the Bank Group and its development partners to beneficiaries, improving chances for success and sustainability.

33. Recognizing the interdependence of the governance challenges facing Bangladesh, the Bank Group strategy covers a broad spectrum of issues. However, heeding the sensible advice in the Government's PRSP to avoid dissipating donor resources for governance across too wide a front, the Bank Group will pragmatically focus its energies and resources on four key areas that are sufficiently important to use its political capital with the Government to pursue results and where it is believed that results can be achieved: improving governance and efficiency in infrastructure, especially power; supporting local governance and community-driven development initiatives that empower the poor by bringing governments closer to the people or involve beneficiaries in the design and implementation of programs; improving the Government's public financial management, including making procurement more competitive and transparent; and strengthening the Government's tax and revenue effort. These areas will be important avenues for delivering results in the Bank Group's program (see attachment 1). At the same time the Bank Group will maintain a modest level of policy dialogue and lending engagement across a broader front, enabling it to respond quickly to opportunities for reform that may arise in other areas and to support the work of its development partners. The following sections outline the proposed program in more detail.

Figure 1. The CAS Framework



B. PILLAR 1: IMPROVING THE INVESTMENT CLIMATE

34. A healthy investment climate is essential to generate the higher levels of investment and productivity needed to sustain higher growth and absorb the new entrants to Bangladesh's growing labor force. It is especially needed to attract foreign direct investment (FDI), with its technology transfer and other productivity-enhancing spillover effects. Although Bangladesh has, on paper, the most liberal FDI regime in South Asia, FDI remains low (estimated at 1 percent of GDP in FY05). Investors clearly are deterred by perceptions of high political risk and by weaknesses in the implementation of the liberal FDI regime, including nontransparent tendering and contracting processes for private infrastructure investors, severe infrastructure shortages, high levels of corruption that raise the cost of doing business, and other investment climate problems identified in the 2003 Investment Climate Assessment. While the recent investor interest in natural-resource-based projects is promising, these projects have not yet materialized, and the investment climate

remains problematic for large and small investors alike. Moreover, the investment climate in rural areas—where most of Bangladesh’s poor live—undermines the development of agribusiness activities that could be the main driver of broad-based employment.

35. The Government’s strategy as laid out in the PRSP has two primary aims: First, to ensure a stable macroeconomy and enabling business environment by improving trade policies, improving the legal and regulatory environment for the private sector, developing an effective competition policy, establishing FDI-friendly policies, and deepening financial sector reforms. Second, to strengthen sectors critical to pro-poor growth, including agriculture, infrastructure, water resource management, and information and communication technology (ICT).

36. The Bank Group together with several development partners will focus on *four investment climate priorities*: maintaining macroeconomic stability; improving governance and efficiency in infrastructure, especially power and ports; reducing trade restrictions and administrative barriers; and providing private-sector-friendly finance, land, and labor markets (table 3). Weak governance remains the main challenge in each of these areas. As an integral part of its strategy the Bank Group will therefore seek to address the underlying institutional incentives that create opportunities for poor governance and corrupt behavior, undermining sector performance and better development outcomes. To support private sector growth and boost the competitiveness of industry, the International Finance Corporation (IFC) will focus on technical assistance and investments in financial institutions to support the development of small and medium-size enterprises (SMEs); investments to support financial market development and growth of the telecommunications and manufacturing sectors; and energy sector and infrastructure investments, subject to progress on governance and sector reforms and appropriate environmental and social safeguards. IFC will focus in particular on supporting competitive manufacturing and services. Special emphasis will be given to encouraging FDI and regional integration through IFC investments and technical assistance from the South Asia Enterprise Development Facility (SEDF) and Foreign Investment Advisory Service (FIAS). The Multilateral Investment Guarantee Agency (MIGA) will provide support to foreign investors through political risk insurance, and support to the wider efforts to improve the investment climate through technical assistance to build the capacity of key government agencies focusing on private sector development. In addition, IFC’s SEDF will continue to partner with FIAS on a program to reduce administrative barriers, promote special economic zones, and build government capacity to promote private investment.

Table 3. Targeted Results in the Investment Climate

Strategic longer-term country outcomes	Indicators of Bangladesh’s success that the CAS aims to affect
<i>Maintain macroeconomic stability</i>	<ul style="list-style-type: none"> • Reduce state-owned enterprise losses and public utility arrears.
<i>Improve governance and efficiency in infrastructure services</i>	<ul style="list-style-type: none"> • Align domestic energy prices with international prices and adjust power prices to reflect changes in underlying costs, and develop a policy framework for developing energy resources. • Make progress towards corporatization of public utility agencies to become fully commercialized, and widely publicize service delivery standards and performance targets in power, telecommunications, and water. • Conclude at least two deals for new privately financed base-load power plants following competitive and transparent procurement and applying the generation financing strategy
<i>Reduce trade restrictions and administrative barriers</i>	<ul style="list-style-type: none"> • Reduce nominal average trade protection rate and phase out paratariffs on nonluxury items. • Streamline business regulations and enact an appropriate competition law. • Increase efficiency of customs and port administration by streamlining procedures, improving efficiency of bonded warehouses and duty drawback systems, and strengthening information technology capacities. • Streamline and make transparent the approval process in the Board of Investment, Bangladesh Export Processing Zones Authority, and Registrar of Joint Stock Companies.
<i>Provide private-sector-friendly finance, land, and labor markets</i>	<ul style="list-style-type: none"> • Progress toward divestment of remaining nationalized commercial banks and improved debt recovery. • Strengthen regulatory and supervisory framework for capital and insurance markets, • Reduce, rationalize, and selectively eliminate agricultural input subsidies. • Develop and implement a strategy to modernize land administration procedures and records.

1. Maintain Macroeconomic Stability

37. Bangladesh has a good record of maintaining macroeconomic stability. But recent changes in the external environment have revealed possible fiscal and balance of payment vulnerabilities (see attachment 3). The budget has recently come under pressure because of stagnating revenues, growing losses of the state-owned energy enterprises (totaling about 0.8 percent of GDP in FY05), public sector wage increases, and higher explicit and implicit budgetary subsidies. Meanwhile, the capacity to absorb concessional external financing remains weak as a result of weak implementation capacity. *Improving fiscal sustainability is therefore essential, with the priority being to reduce the losses of state-owned energy enterprises and strengthen revenue administration* (see paras. 103-05).

38. The Bank will continue to support fiscal adjustment through its policy dialogue and development policy lending, including progressive alignment of energy prices to international levels to lower the losses of the Bangladesh Petroleum Corporation, loss reduction programs and rollback of state ownership in remaining state-owned enterprises (where the Bank is supporting voluntary retirement schemes and retrenchment costs for closed or privatized enterprises), and modernization and strengthening of tax administration to improve revenue performance (see paras. 103-05). To help address quasi-fiscal deficits and contingent liabilities, the Bank will support lending caps on the nationalized commercial banks to contain their losses and improve their performance and assist the Government with their restructuring and privatization.

2. Improve Governance and Efficiency in Infrastructure

39. In the infrastructure sector the World Bank Group will focus on improving governance and transparency in large-scale investments and infrastructure asset management; and supporting investments in small-scale, decentralized infrastructure services. It will also try to support the leveraging of information and communication technology for growth and good governance.

Improving governance in infrastructure sectors and expanding infrastructure for growth

40. **Ineffective and poorly managed infrastructure, particularly power and ports, has been reported as the main constraint to businesses and households in Bangladesh.** The main causes of the poor performance are the institutional and governance structures for organizing, managing, and financing infrastructure sectors; a distorted pricing framework; and the excessive political interference in investment decisions. All these limit the much-needed private sector participation in these crucial sectors and consequently the resources available to upgrade them. The World Bank Group and its development partners will focus on improving sector governance and supporting reforms for the efficient provision of infrastructure services in the public and private sectors. Priority will be given to appropriate and transparent processes for identifying, procuring, and managing infrastructure projects, essential to attract private sector participation. Specific areas for World Bank Group support, conditioned on monitorable progress on governance, include providing energy for growth and empowerment and improving national transport and communication systems.

41. *Providing energy for growth and empowerment.* Only a third of households in Bangladesh have access to electricity. In rural areas, where grid-supplied power is largely absent, access is limited to a few households and enterprises. The lack of reliable power supply imposes big costs on businesses—captive power generation, widely used, increases electricity costs by 50 percent compared with grid-supplied power—and load-shedding has major adverse effects on industry and daily life. Power shortages are likely to become an important constraint on growth if not addressed in the near term.

42. In addition, the sector suffers from major inefficiencies, and the losses accumulated by state-owned energy enterprises are a big drain on the budget. Sector performance is characterized by growing load-shedding (up to 800 megawatts a day in 2005), large financial and technical losses,

uncertainties surrounding future natural gas supplies for the sector and development of new generation capacity, and a new and still-weak regulatory agency.

43. Governance issues affecting the development of Bangladesh's power sector demand coordinated action by key donors. The World Bank Group, in collaboration with the ADB,¹⁸ will focus first on expanding power generation capacity in the short run, to address the load-shedding and supply constraints that have become acute as a result of political interference in the procurement of new generation capacity (box 2). Helping the Government address these procurement constraints is a Bank Group priority; the Bank Group will also support rehabilitation of existing generation plants as the most cost-effective means of bringing additional power on line in the short run.

44. **The World Bank Group will focus on improving the policy environment for power development through technical assistance and policy-based lending (DSCs).** It will assist the Government with the development of a least-cost generation plan and a generation financing strategy that would enable mobilization of private sector funds, with the support of IFC, MIGA, the ADB, and others. Investments in peak power capacity expansion and complementary transmission facilities are planned, jointly with the ADB, subject to the Government's committing to a fully open and competitive procurement process. Support for the Government's "small-scale power program" is also envisaged, subject to the same condition. Also planned are investments in urban power distribution systems to strengthen their performance through corporatization, and in rural transmission, distribution, and electrification, following on from the current rural electricity project. Cross-border infrastructure is not yet firmly planned, but the Bank expects to support this as and when it emerges. On the policy side the Bank's main objective in the sector is to improve its governance and commercial viability; satisfactory implementation of an appropriate energy pricing formula, the strengthening of the Energy Regulatory Commission, and completion and implementation of a financial restructuring plan for the power sector will be pursued in parallel.

45. In the *gas sector* further policy and regulatory reform is required for private investment to materialize and meet rapidly growing domestic gas demand from industry and the power sector over the coming years. Petrobangla coordinates oil, gas, and mineral exploration, production, and marketing, and also controls the activities of gas sector entities, although they are nominally independent corporate bodies under the Companies Act. The largest of these, Titas Gas Transmission and Distribution Company, which controls more than 60 percent of the gas market, suffers from very high system losses and poor bill collection. The Bank will support the development of an enabling environment for the domestic gas sector through policy dialogue and policy-based lending. The Bank will consider key gas transport investments (pipelines) for financing, in coordination with the ADB, while IFC will consider direct investments, should suitable opportunities arise. Similarly, the World Bank Group will work toward supporting government and private sector efforts aimed at environmentally and socially sustainable exploration of the large *coal* deposits identified in the country.

¹⁸ The U.S. Agency for International Development is focusing on rural electrification within the common framework above. Until recently the ADB had been the lead donor in the sector.

Box 2. Issues in the Power Sector

In 2005 Bangladesh's power sector generated 160 kilowatt-hours of electricity per capita, among the lowest levels in the world. While installed generating capacity is 5,025 megawatts (MW), secure capacity is only about 3,950 MW. In 2005 load-shedding of up to 800 MW was necessary on 287 days, for a total of 1,433 hours (equivalent to 60 full days). Major industries have responded by sharply expanding captive power generation. But the load-shedding badly affects growth, especially for small and medium-scale industries and others that cannot afford captive generation. With electricity consumption growing an average 8.2 percent a year in 1994-2005, Bangladesh faces an expected shortfall of about 2,500 MW of generating capacity over the next five years. The reasons behind the shortfall are complex, but one is apparent government interference in procuring power generation plants. Contracts are subject to frequent retenderings without bids being awarded, substantially delaying project implementation.

Besides the limits in physical infrastructure, the power sector faces critical financial challenges. Major power sector entities are financially insolvent. The Bangladesh Power Development Board (BPDB) owes the Government Tk 56 billion in debt service liabilities. The power sector has poor accounting practices, resulting in delays in finalizing accounts and completing audits, overvaluation of assets, underestimation of expenses, and inadequate provision for bad debts. Poor governance, reflected in low bill collection rates and high system losses (technical and nontechnical), continue to hamper the sector's development and financial sustainability.

In addition to support for capacity expansion, development partners have been providing support to BPDB and the Dhaka Electric Supply Authority (DESA) to improve their financial management capacity and upgrade their financial management systems. The Asian Development Bank has provided support for corporatizing Ashuganj Power Station, several distribution companies, and ultimately BPDB itself.

46. *Improving national transport and communication systems.* The private sector has taken on a growing role in transport, bringing improvements in sector performance. Today state-owned transport companies carry less than 5 percent of passenger traffic and about 1 percent of freight. The private sector is also engaged in road construction and maintenance. Competition is similarly strong in inland water transport, where services are provided mainly by small private operators. But Bangladesh Railways faces strong competition only from the road sector, not from private rail operators. And in the port sector private participation is limited to cargo services.

47. Despite progress in the sector, several issues remain. There are critical physical and policy barriers to passenger and freight flows, and the continuing low productivity of the remaining state-run activities strains the national budget. The Chittagong port, which handles 85 percent of the country's trade, suffers from labor problems, poor management, and lack of equipment, all of which create opportunities for corruption.¹⁹ Domestic financing of road maintenance is inadequate, and regulatory procedures remain complex. All this limits the ability of the nation's transport system to respond to user needs.

48. The World Bank Group will support the Government's transport sector strategy, aimed at gradually establishing an integrated multimodal transport system and promoting subregional cooperation by developing transit links and cross-border facilities. This strategy requires strengthening policies and institutions that govern road, rail, inland water, and port services to improve efficiency and quality. The ultimate objective is to facilitate private sector participation in financing large infrastructure projects and particularly in securing appropriate financing for maintenance, which has emerged as a serious problem for the future viability of the transport sector. Through policy dialogue and investment projects, the World Bank Group, in cooperation with several development partners, including ADB and Japan Bank for International Cooperation (JBIC), will focus on removing bottlenecks in the primary road network and establishing a sustainable road

¹⁹ The container terminal handles only 100-105 lifts per berth a day, well below the UNCTAD productivity standard of 230. Ship turnaround time is five to nine days (more efficient ports report one-day turnaround). Handling charges are almost three times those of Colombo and twice those of Bangkok.

maintenance funding mechanism; supporting improvements in the main transport corridors, including the Dhaka-Chittagong corridor as a major export corridor and the Padma Bridge; providing support to the rail sector, contingent upon reforms of Bangladesh Railways to increase its financial sustainability and commercial orientation; and supporting regional cooperation in railways and harmonization of policies, technical standards, and operating procedures to encourage international freight and passenger rail traffic.

Supporting investments in community and small-scale infrastructure

49. The Bank, together with Japan and other development partners, will support small-scale infrastructure projects that give the poor in rural areas access to such services as piped water, farm-to-market roads, rural transport, and power. In addition, the Bank will continue to support rural grid electrification through the Rural Electrification Board, focusing also on transforming the rural electrification cooperative sector, with corporatization or consolidation as possibilities. Such projects will provide power for rural development until the national grid reaches these areas. Special attention will be given to improving rural livelihoods through small-scale investments supported by a follow-on project, the second Social Investment Program Project with the Social Development Fund. Small-scale infrastructure projects also will be supported through the program to strengthen local governance (see paras. 85-92).

Leveraging information and communication technology for growth and governance

50. Although Bangladesh has not yet seized the opportunity to use information and communication technology for development and governance, the Government's PRSP recognizes its role in socioeconomic development. With around four phones for every hundred people in Bangladesh, reliable access to telecommunications and the Internet remains limited. Growth in the sector has been driven mainly by private investments in the mobile market. Delays in restructuring the government-owned Bangladesh Telegraph and Telephone Board (BTTB) have continued to hamper sector growth. Attracting further investments in the sector will require a stronger regulator and a predictable and transparent regulatory framework.

51. The World Bank is using technical assistance and policy dialogue to support the Government's reform agenda. Policy-based lending (DSCs) will play a role in the future, most immediately to support the corporatization of the BTTB. A key objective is to improve ICT sector performance by fully separating the policy and operational functions in telecommunications, improving the regulatory environment for telecommunications, and encouraging development of nationwide broadband infrastructure through public-private partnerships. A second aim is to use ICT in government to improve service delivery and governance, including through e-procurement and through e-government initiatives for providing citizen services. IFC has supported the rapid growth of mobile capacity in Bangladesh and will continue to look for opportunities to invest in private telecommunications and other ICT service providers. MIGA will support foreign investors interested in the ICT sector through the provision of political risk insurance.

3. Reduce Trade Restrictions and Administrative Barriers

Removing trade restrictions to enhance competitiveness

52. **Trade regulations, a proliferation of paratariffs, and arbitrary and cumbersome customs procedures create opportunities for corruption, reduce competitiveness, and raise the cost of doing business.** Bangladesh remains the most highly protected economy on the subcontinent, with tariff rates well above the regional average. In addition, many nontariff barriers add to the cost of doing business and lower competitiveness, including revenue administration, tax and customs, and infrastructure-related trade logistics such as ports and other forms of transport. The duty drawback system is inefficient and impedes export diversification because of the complexity of the import duty regime and lengthy administrative procedures.

53. **The World Bank will support enhanced competitiveness through policy dialogue and development policy lending.** Its aim will be to assist the Government in lowering the nominal protection level to the regional average before the end of the CAS period, consistent with the revenue requirements of the macroeconomic program. A particular focus will be reducing and ultimately eliminating paratariffs on nonluxury goods. The policy dialogue will also focus on enhancing the competitiveness of the textile and garment sectors now that the Multifibre Arrangement (MFA) has come to an end. Through investment projects, the World Bank will also support several activities related to trade logistics, especially improvements in the trade transport infrastructure and in revenue administration (see paras. 48 and 103-05). Through SEDF, IFC will continue to focus

Box 3. The South Asia Enterprise Development Facility

In FY02 IFC committed \$5 million and brought in a number of donors to establish a regional SME facility, the South Asia Enterprise Development Facility (SEDF), with a five-year budget of more than \$42 million. Recently donors agreed to extend the facility to 2008. Based in Dhaka, the facility promotes SME development by providing technical assistance to SMEs and to the banks, professional service firms, and institutions that serve them in Bangladesh, Bhutan, Northeast India, and Nepal. SEDF employs more than 60 staff in Bangladesh, focusing on improving access to finance, developing subsectors (ready-made garments, light engineering, agribusiness, information technology), and improving the business environment. SEDF works closely with other IFC and World Bank activities, including value chain analysis of such subsectors as ready-made garments, light engineering, and agribusiness to identify key issues and interventions to promote their growth and development.

In Bangladesh, following on from the Investment Climate Assessment, SEDF is working to improve the company registration process, with good results. SEDF and the Foreign Investment Advisory Service (FIAS) have provided strong support to the Government in designing a major multi-donor-funded private sector development (PSD) project that will bring together World Bank Group and donor programs to improve the investment climate (see para. 54). The project includes forming a PSD task force of key government officials, and consultative groups involving key private sector players. SEDF and FIAS will continue to provide technical assistance to support the implementation of the project.

on increasing the access of SMEs to international markets by facilitating international business-to-business contacts in such sectors as ready-made garments, agribusiness, light engineering, and information technology and promoting the reduction of nontariff barriers to trade between Northeast India and Bangladesh, including through access to trade finance (box 3). In addition, the World Bank Institute will develop a multiyear capacity development program aimed at building negotiation skills for handling bilateral, regional, and multilateral trade agreements and related trade negotiations.

Reducing administrative barriers

54. **While Bangladesh typically requires fewer formal procedures over fewer days to establish a business than other countries in the region, the red tape is more formidable than these legal requirements suggest,** according to the World Bank's Doing Business database. Moreover, once firms are operational, government agencies make frequent visits.²⁰ Not surprisingly, Bangladesh has received low and deteriorating scores on the World Bank Institute's indicator of regulatory quality (see box 1). High regulatory costs are particularly worrying in the post-MFA environment, where Bangladesh's garment manufacturers need to compete with low-cost producers in Cambodia, China, and Vietnam. Adding further to the cost of doing business is the limited availability of industrial and agricultural land combined with the significant government ownership of land.

55. **To spur productivity-enhancing investments and reduce opportunities for rent seeking, the World Bank Group will focus on enhancing entry and competition, supporting**

²⁰ The "Bangladesh Investment Climate Assessment" (World Bank, Washington, D.C., 2003) reports that firms receive about 17 visits a year on average from government agencies, compared with fewer than 7 a year in India (World Bank, "India Investment Climate Assessment," Washington, D.C., 2004).

deregulation and strengthening institutions. In close cooperation with development partners, the Bank Group will pursue a program of interventions to help streamline regulatory processes and establish regulatory policy capacities in the Government; facilitate the provision of land and infrastructure services through an industrial zoning program and other initiatives; build capacity in the Government to diagnose, formulate, and implement private sector development policies and promotional programs (such as in the Board of Investment, Bangladesh Export Processing Zones Authority, Registrar of Joint Stock Companies, and related institutions); and review labor and environmental clearances for starting and operating businesses with a view to strengthening national systems of environmental and social safeguards to meet international norms. Through parallel analytical work, the Bank plans to support the formulation of a national strategy for land administration and records.

4. Provide Private-Sector-Friendly Finance, Land, and Labor Markets

Enhancing financial intermediation

56. Enhancing financial intermediation is essential to support economic growth and the private sector. The financial sector remains shallow, with bank credit to the private sector just 29 percent of GDP and very limited financial market penetration. Deep-rooted institutional weaknesses hamper the intermediary role of the banking sector: weak management, political interference, and directed lending have resulted in a state-owned banking sector with serious performance problems. Recent government measures have significantly strengthened the Bangladesh Bank (the central bank) and reduced the nonperforming loans of the four nationalized commercial banks from 34 percent to 25 percent. A relatively free licensing policy has permitted the emergence of 30 private banks and reduced the NCBs' share of banking assets to 40 percent. And one of the NCBs, Rupali Bank, is being brought to the point of sale. But the financial system is far from meeting the demands of the market. Microfinance institutions serve an estimated 14 million households, with a total asset base of 1.4 percent of GDP. These provide a welcome alternative to moneylenders, providing credit to poor households and the possibility of exit from poverty. For established enterprises, however, the underdeveloped capital market limits the availability of longer-term finance. And between these two groups is the "missing middle," small entrepreneurs, rural and urban, who remain underserved by the formal credit markets.

57. The World Bank Group's strategy will focus on further strengthening governance in banking and financial sectors. Technical assistance will support strengthening of the Bangladesh Bank and restructuring of the remaining nationalized commercial banks, with support from Bank-financed external management teams. Partial or full divestment over the medium term is the goal, and the Bank may play a further role in assisting the restructuring and privatization, in cooperation with the IMF, through investment projects and policy-based lending. The World Bank Institute will support this work by strengthening Bangladesh Bank's capacity for research and policy analysis as well as its capacity for combating money laundering. As the need and opportunity arise, IFC and/or the ADB may play a role as an investor in some of the privatized NCBs. To support trade promotion in Bangladesh, IFC will provide local banks with risk coverage that extends and complements their capacity to deliver trade finance to their clients. In addition, IFC will provide financing and technical assistance to strengthen private banks and nonbank financial institutions, and will continue to work to increase access to finance, particularly for SMEs, through SEDF's technical assistance program, which includes training for partner financial institutions and the Bangladesh Bank. It has been estimated that thanks to the technical assistance provided by SEDF, partner financial institutions have facilitated an additional \$177 million in financing to SMEs over the past three years.

58. The World Bank Group will continue to support improvements in the regulatory framework for microfinance activities through policy dialogue and policy-based lending. Through analytical work and lending (as appropriate), the Bank Group will support access to microfinance for the poorest and to mesofinance for SMEs. A rural finance study will examine gaps

in financial services to farmers and small rural enterprises, and a follow-on rural finance project is being considered. To improve access to long-term finance, an investment promotion and finance facility is being developed to support public-private partnerships. To help deepen capital markets, technical assistance is being provided to the Government in securitizing the revenue streams of key revenue-earning infrastructure projects such as the Jamuna Bridge.

Strengthening policies for rural growth

59. **Strengthening policies for rural growth is key in Bangladesh's land-constrained environment.** With nearly all available agricultural land already under cultivation, future income and employment growth in the rural economy, where 85 percent of Bangladesh's 63 million poor people live, will depend almost entirely on diversification into high-value agriculture and growth in the rural nonfarm sector. Greater backward and forward linkages and a denser rural-urban continuum appear critical for creating more and higher-paid employment; contract farming for high-value agriculture (given land fragmentation and very small farm size), processing of agricultural commodities into semifinished and finished products, and packaging, storage, and transport to urban and export markets would all be part of the picture. With land a scarce commodity and land administration weak, "land grab" by powerful persons and criminal elements is quite common, and it is affecting agricultural and rural growth and land use for other sectors.

60. **The Government has identified agricultural and rural development as a top priority for generating employment and reducing poverty.** The Government's policy framework has four priorities: intensification of major crops, diversification into high-value crops (horticulture), development of noncrop agriculture (fisheries, poultry, and livestock), and promotion of rural nonfarm activities (rural micro, small, and medium-size enterprises). Achieving these priorities will require addressing a number of challenges, in particular, strengthening research and extension systems, improving formal rural institutions, increasing the efficiency of agricultural input and output markets, improving the investment climate, and increasing the availability of and access to rural finance for SMEs. It will also require addressing issues of land management and administration (see above), which are becoming an impediment to urban planning and development as well.

61. **The World Bank Group and its development partners will complement the Government's efforts to achieve strategic goals in agriculture and rural development.** They are providing support to improve agricultural productivity by strengthening capacities for research and technology, improving the functioning of agricultural markets, and promoting diversification into such subsectors as fisheries, an important emerging export sector. Through analytical work, the Bank also plans to support the formulation of a national strategy for land administration, with follow-on support for improving land administration and records. In addition, IFC's SEDF will continue a program of technical assistance to develop market opportunities for agribusiness SMEs.

Upgrading business-related skills and capacity for technology absorption

62. **Every survey of business emphasizes the need to upgrade labor skills and ensure that the education system prepares graduates with skills needed by business.** Also essential is to increase the limited ability of enterprises to absorb technology. These are special challenges for Bangladesh as it attempts to diversify its exports and compete in global markets. The Bank will support the Government in assessing the public vocational education and training system, characterized by outdated modes of delivering learning and ineffective links to industry and the labor market. The Bank also plans to provide support for vocational education and training through a sectorwide program for secondary education. The objective would be to find ways of improving efficiency and developing links between the public system and industry. The Bank will also assess the incentive regimes for absorption of technology by enterprises, with a focus on commercializing pro-poor innovations.

63. **In higher education, recent policies and legislation have set some new directions, but there is a need to develop a clear overall strategy** for the future of the system, which includes both

public and private universities. A strategy for the long-term public and private funding of the sector is also needed. Without these, the rapid growth in the number of private universities is taking place in a policy vacuum.

64. The Bank is providing technical support through its analytical work and policy dialogue for the development of a strategic, long-term plan. In this work it is assisting the Government's recently established Strategic Planning Committee, comprising representatives from key stakeholder groups. The strategic plan would suggest options for resolving policy concerns, such as improving the governance and management of the sector, including revisions to the legal framework if necessary. The Bank also plans to provide support through a higher education project.

C. PILLAR 2: EMPOWERING THE POOR

65. **For all groups in Bangladesh to benefit from higher growth requires empowering poor people, especially women**, through better education, health, and nutrition and through safe water and sanitation and clean living environments. More important, it requires poor people's effective participation in the country's governing process through social inclusion and transparent and accountable government, including at the local level.

66. Despite Bangladesh's progress in delivering basic public services to the poor, often through innovative partnerships with NGOs and local communities, the unfinished agenda is more challenging as the country seeks to improve the *quality* of these services while attaining the ambitious Millennium Development Goals it has set itself. Improving quality requires improving institutional accountability and incentive structures, still very weak in Bangladesh.

67. **A key reason for weak accountability is the country's poorly functioning, overly centralized bureaucracy, operating within a very centralized state structure, which undermines the accountability of service providers to service users.** Bangladesh is regarded as one of the world's most centralized countries in terms of functional and fiscal assignments, political decisionmaking, and the limited discretion granted to lower-level organs of government in service delivery. This centralized structure limits the ability of citizens to participate in decisions on local service priorities, prevents citizens from holding service providers accountable for their performance, and leads to higher operational costs for delivering basic services to communities.

68. **A second reason for weak accountability is that systematic mechanisms to ensure some degree of community voice and participation and bring service users closer to service providers are largely missing.** NGOs and community-based providers, however, have been effective in amplifying the voice of the poor and creating parallel channels of service delivery.

69. Strengthening accountability for better services is made even more difficult by the deteriorating quality of the civil service and the inability of the existing deconcentrated system to formulate policy, follow up on implementation, and monitor outputs and performance.

70. **Further improvements in the quality of service delivery will not be possible without improvements in local governance structures.** The recent move to strengthen lower-level local governments deserves attention as a promising avenue—not only for improving the accountability framework for service delivery but ultimately for a potential diffusion of political power that may build effective checks and balances in Bangladesh's governing process.

71. **Assistance by the World Bank and its development partners will focus on improving relations of accountability for better service delivery and local governance** while also emphasizing issues of human security and risk management. Table 4 summarizes the results that the World Bank aims to influence in this area during the CAS period.

1. Improve Access to Quality Services for the Poor through Better Accountability

Improving service delivery in health

72. **Despite Bangladesh’s progress toward health-related MDGs, challenges in the health sector remain enormous.** In child malnutrition and maternal mortality Bangladesh is a “good performer” compared with India or Pakistan, but the region as a whole ranks among the weakest in the world. While polio has been eradicated in Bangladesh, tuberculosis remains problematic. The gap in health conditions between rich and poor remains large, with children in the poorest households, for example, twice as likely to be moderately malnourished and four times as likely to be severely malnourished as children in the richest households. Finding cost-effective ways of delivering essential health services to the poor is critical.

73. **The Government is only partially prepared to respond to these critical challenges.** Public health service providers depend entirely on a centralized ministry in Dhaka for their career development, and there is no accountability to service users. Absenteeism is rampant (almost 45 percent according to a World Bank study, similar to rates found in India and Pakistan). Facility managers lack professionalism and independence in decision-making. Support services such as drug supply are managed by a centralized bureaucracy that has little interface with service users. And overlapping functions and lack of coordination in the health administration result in the deterioration of services.

74. **The Government’s Health, Nutrition, and Population Strategic Investment Plan (2003-10) confirms its commitment to pro-poor health service provision, including reappraisal of core functions of the public sector.** The PRSP gives special importance to reducing maternal mortality, highlighting it as one of the key objectives relating to the MDGs. The PRSP also emphasizes improving equity by better targeting resources to the neediest; and restructuring service provision to ensure efficiency by guaranteeing free provision of emergency services and expanding health, nutrition, and population services in urban areas.

Table 4. Targeted Results in Empowering the Poor

Strategic longer-term country outcomes	Indicators of Bangladesh’s success that the CAS aims to affect
<i>Improve the quality of health services for the poor</i>	<ul style="list-style-type: none"> • Increase in the utilization rate for the package of essential services from 55 percent to 65 percent among the two lowest quintiles of the population.
<i>Improve the quality and relevance of primary and secondary education</i>	<ul style="list-style-type: none"> • Quality assurance mechanisms established for monitoring student learning and carrying out impact assessments. • Teachers selected through transparent, merit-based process. • Public subsidies to schools linked to learning outcomes. • Incentives for girls to attend and stay in school continued.
<i>Improve water and sanitation</i>	<ul style="list-style-type: none"> • Surface water quality in and around Dhaka improved. • Coverage of solid waste collection and adequate disposal in selected towns increased. • Three hundred rural communities switching from shallow tube-well water to community-run piped water schemes.
<i>Strengthen local governance</i>	<ul style="list-style-type: none"> • Increased capacity for resource mobilization, planning, and management through training and direct support for local bodies.
<i>Rationalize safety net policy and programs</i>	<ul style="list-style-type: none"> • Introduction of targeting based on proxy means testing and event-linked benefits that ensure more effective protection of the poor and vulnerable.

75. **The World Bank and its development partners support a sectorwide program, the Health, Nutrition, and Population Sector Program, which finances an important part of the Government’s health budget and focuses assistance on making service providers more accountable to service users.** The package of essential health services is to be revised and nutrition made an integral part, helping poor women and children. Measures to improve service delivery will introduce a variety of instruments, such as vouchers (for maternal health and prenatal care) and the contracting out of health services, with women and children expected to be major beneficiaries. The

contracting approach will reinforce accountability through a greater reliance on communities and union parishads (see section below on strengthening local governance) for monitoring. To complement the sectorwide program, the World Bank Institute is developing capacity in health sector reform, focusing on health financing and collaboration between the public and private sectors. A dedicated component of the sectorwide program focuses on emerging problems of HIV/AIDS. IFC will look for opportunities to support investments in innovative health sector projects sponsored by the private sector.

Improving service delivery in primary and secondary education

76. **While Bangladesh has made impressive gains in access to education, especially primary education, quality remains a difficult challenge.** The gross enrollment ratio is about 97 percent at the primary level, but only 43.7 percent at the secondary level and even lower at the college and university level. The quality has deteriorated at all levels, leading to a substantial waste of resources through low pass rates. It is estimated that only about 5 percent of primary school entrants pass the primary school examination at grade 5, the end of the primary school cycle.

77. Several factors account for the problems in quality, including poor teaching quality, high student-teacher ratios, high teacher absenteeism, lack of adequate learning materials, and overcrowded classrooms, often operating in two shifts. Above all, weak management and supervision impede efforts to improve quality. The primary education system remains highly centralized, and school management committees and parent-teacher associations have not yet become effective. Management also remains weak at the secondary level, particularly in the nongovernment institutions that make up the majority of secondary schools.

78. **The PRSP emphasizes the importance of education and learning for poverty reduction.** It also emphasizes the significant improvements needed in quality and in access by the very poor. Among its objectives are to make available early childhood development and preschool, not currently part of publicly provided education; ensure 100 percent completion in primary education; extend education coverage; support modernization of and quality improvements in *madrassah* curricula and effectively implement quality standards; and expand secondary education by improving access and increasing its relevance to the needs of society. The PRSP also proposes actions to improve the effectiveness and reduce the politicization of technical and vocational education and higher education.

79. **The World Bank's support for education reform is strongly focused on improving sector governance and accountability.** In primary education the World Bank is part of an ADB-led donor group that, through the Primary Education Development Project II, supports the Ministry of Primary and Mass Education's six-year program to expand access to education and strengthen its quality and effectiveness. In secondary education the Bank is supporting improvements championed by the Ministry of Education through dialogue and a series of policy-based loans. The objectives are to increase the accountability of secondary schools to government and to the community by linking school subsidies to objective criteria and measures of school performance; build capacity in the ministry to monitor performance through expenditure tracking surveys and program evaluation and monitoring so as to guide policy; improve teacher quality by establishing an independent teacher accreditation authority to certify eligible applicants; and enhance transparency in textbook production through privatization. The Bank plans to follow up in these areas with a sectorwide program on secondary education, which, as noted, will include support for the vocational education and training programs. In addition, IFC will explore opportunities to support investments in education projects sponsored by the private sector, including universities.

Improving water and sanitation

80. **Bangladesh has made good progress in improving access to safe water, moving toward the Millennium Development Goals.** The country stands out in the developing world for having access to pathogen-free drinking water sources in some 97 percent of its villages, thanks to earlier

government programs partnering with NGOs. But the recent discovery of arsenic contamination in some aquifers indicates that this impressive achievement is at risk. Arsenic contamination of groundwater has affected an estimated 25 percent of the shallow tube-wells in rural areas, reducing safe water coverage to around 76 percent of the rural population. In urban areas deterioration in solid waste management similarly poses a serious problem for water quality. Lack of access to safe drinking water in both rural and urban areas, particularly for the poor, has thus become a major emerging issue in water and sanitation services. Others are institutional inefficiency due to lack of clarity on the roles and responsibilities of government and the service providing agencies; inequitable service distribution; financing and cost recovery; and poor sector coordination.

81. **The World Bank will continue to help address rural water supply delivery through the Bangladesh Water Supply Program Project.** This project focuses not only on increasing access to safe water but also on developing an innovative service delivery mechanism by involving NGOs and private entities in rural piped water supply schemes. In addition, the project is piloting a new approach to pourashava water supply. Only about half of all pourashavas have piped water supply systems, leaving the rest to supply their urban population through private hand pumps. Other development partners also are developing municipal water supply projects. Efforts by the World Bank and its development partners in water supply and sanitation are geared toward supporting the Government's agenda of strengthening decentralized service delivery and empowering lower-tier levels of government. By putting service delivery in the hands of communities, union parishads, and pourashavas, the Government is effectively shifting decisionmaking, responsibility, and accountability for investments to these levels, increasing transparency and incentives to improve service delivery and expanding options for scaling up.

82. **The major emerging issues in urban water and sanitation will be addressed during the CAS period through a variety of approaches.** These will include programs to increase the quality and quantity of water resources around Dhaka; improve the water supply, sanitation, and drainage systems in Dhaka and Chittagong; improve solid waste collection in selected towns; develop a model to provide carbon finance support for urban solid waste management; and support conditions for private sector investment in solid waste management in selected towns.

2. Improve the Effectiveness of Safety Nets

83. **The large number of poor people and the depth of poverty in Bangladesh call for exploring how to mitigate poverty and vulnerability through safety net systems.** Bangladesh has a range of formal and informal instruments to mitigate and cope with poverty, but only about 8 percent (4-5 million) of its 63 million poor people receive some form of social assistance. The country's patchwork of safety net programs, all with large administrative overheads—cash transfers and food and in-kind safety nets—target different risk groups, from the disadvantaged to the elderly poor. Consistent with Bangladesh's low income level, however, these programs are limited in scale and coverage. Coupled with inefficiencies, their limited size means that these programs are not adequate for addressing poverty or mitigating vulnerability to poverty. Moreover, the programs are administered by a number of ministries, with gaps, overlaps, and inadequate coordination. And the country's pension system is likely to face fiscal constraints as the base pay and the average age of the workforce rise.²¹

84. There is a need for short- and long-term safety nets, and community-based approaches offer special attractions. These will require an integrated approach, rationalizing programs and developing uniform targeting mechanisms. One such mechanism is proxy means testing, which scores households on easily observed poverty characteristics—such as location, quality of the house, ownership of durable goods, and the education and livelihood of household members—to determine

²¹ In recent years the Government has introduced a pay-as-you-go, means-tested old age payment scheme that supports more than a million beneficiaries. The scheme seems to be well targeted but because of limits on the number of beneficiaries, many who qualify are excluded.

eligibility. The World Bank, working with the DFID, will initiate studies on safety nets and pensions, with follow-on support for social protection assistance programs as an integral component of development policy lending, education based lending (e.g. in the areas of training and conditional cash transfers) and stand alone support as appropriate.

3. Strengthen Local Governance

85. **Efforts to build accountability and improve service delivery are unlikely to succeed without significant improvements in local governance.** These would entail clarifying intergovernmental relationships while strengthening the institutions of community accountability to allow citizen voice and participation in development decisions and building the capacity of local government structures to ensure the provision of basic local services.

86. Rather than a formal tier of government, Bangladesh's local government structures at the district level (upazilas) are little more than the sum of individual central line ministries and other service delivery structures. The lower elected levels of government (union parishads and pourashavas) have limited resources and little authority to raise revenues and are dominated by higher tiers. More important, there is a continued lack of clarity in the assignment of political and administrative accountability in local governance and service provision. Local governments also have no meaningful financial accountability: they have very limited financial and budget authority and are not audited regularly or comprehensively.

87. The centralized arrangements of governance restrict the formal avenues for community participation in local decisionmaking and for citizen oversight of local service delivery systems. There are also limited opportunities for participation in and oversight of local government activities. Seats are reserved for women in local government bodies, but female members are elected from a larger constituency than male members and do not have a clear mandate and role. While the mere election of women may not in itself improve governance, it does allow for enhanced voice and participation of a group formerly left out of decision-making structures.

88. Operational accountability for local service delivery is undermined not only by unclear allocation of responsibility between levels of government. It is also undermined by unclear division of roles between elected local policymakers and service providers. This leads to extensive political interference and the fragmentation of responsibilities for actual delivery of services across agencies outside a clear contracting framework. Local government structures have little strategic and technical capacity to ensure the delivery of basic local infrastructure and services, further undermining their accountability to communities.

89. The Government's PRSP focuses on expanding the scope for pro-poor economic growth by expanding income and employment opportunities for the poor and supporting participatory governance by strengthening accountable and inclusive institutions of local governance. The Government and development partners agreed at the recent Poverty Reduction Strategy Implementation Forum to take concrete steps to strengthen local governance, including by ensuring that reasonable untied resources are available at the local level to respond to community priorities.

90. **The World Bank's strategy will focus on strengthening the accountability of the lowest tiers of government to the citizens who elect them by institutionalizing the interface between communities and elected local governments.** This requires redefining the *intergovernmental compact* between central and local government, strengthening the *voice and client power* of citizens so that they can hold local governments accountable for their performance, and enhancing the *technical capacity* both of local governments to ensure the delivery of basic local services and of provider organizations to actually deliver them.

91. Over the joint CAS period the Bank will support the strengthening of local governance through dialogue and project lending by helping to clarify the assignment of roles, responsibilities,

and resources to local governments to allow them to respond to community priorities; strengthening the capacity of communities to hold local governments to account, through institutions and forums of citizen accountability at the ward level, community monitoring, and awareness building; supporting the development of local governments' core technical, financial, and administrative capacities to expand and enhance the delivery of basic local services; and providing policy advice on strategies and approaches to strengthen accountable local governance and service delivery systems.

92. On the basis of this strategy, the World Bank will work with development partners to develop a common platform of support to local governance through the CAS period. The joint CAS partners are well placed to assist the Government in taking practical steps to redefine the assignment of accountabilities for service delivery, to strengthen the technical capacity of local governments and service delivery agencies to provide services, and to support communities in engaging local government structures to enhance their accountability. The potential for using future initiatives in different sectors to support the strengthening of local governance also will be explored.

4. Enhance Voice and Participation through Community-Driven Development and Other Initiatives

93. **Enhancing voice and participation as a way of strengthening accountability and governance will be an important underlying theme of the World Bank Group's strategy during the CAS period.** This theme will be reflected not only in the initiatives to enhance the role of communities in making formal structures of local government more accountable (as described in the previous section) but also initiatives to support communities directly. The design of selected projects throughout the portfolio will also reflect this approach of using community participation to shift and institutionalize the responsibility for delivering and monitoring services from an external party such as the Bank to the beneficiaries (examples include community fisheries, rural water and sanitation, and education, health, and social protection).

94. Bangladesh is well known for its success in using NGOs and other forms of community organization to deliver services to poor people. But the lack of people's institutions at the village level makes it difficult for citizens at the grassroots to ensure that their development priorities are reflected in national policies and plans. Poverty and social assessment studies show that many nationally implemented poverty reduction programs (for example, microcredit and safety net programs such as food for work and development programs for vulnerable groups) have achieved little sustained success in reducing poverty among the poorest and most vulnerable. The Social Development Foundation, established by the Government as a nonprofit organization in 2001, is designed to promote and institutionalize community-driven development initiatives.²²

95. **The World Bank will expand its support to the Social Development Foundation as one of the channels for enhancing voice and accountability and reducing vulnerability among the excluded poor.** The ongoing Social Investment Program Project is using new ways of delivering critical small-scale infrastructure services, providing social assistance, and promoting income-generating activities for the rural poor while also addressing institution and capacity building at the village level. An important objective is to enhance poor people's voice and participation in development issues at the local level. The project has focused on direct financing at the village level, to support inclusive community organizations and build downward accountability. Its scope has recently been expanded to address poverty in districts affected by "Monga" (famine). The Monga pilot, to be implemented in partnership with PKSf (the apex funding organization for microfinance), will be aimed at improving the immediate income of Monga-affected families during the Monga season.

²² Modeled on PKSf, Bangladesh's renowned microfinance wholesaler, the Social Development Foundation is an autonomous organization designed to support community-driven development, local infrastructure, and livelihoods.

96. **Further strengthening community-driven development in Bangladesh requires ensuring the sustainability of the participatory and service delivery approaches that have been implemented.** That means building and broadening the scope of local governance by improving the capacities of local governments and institutionalizing relations between local communities and local governments, which in turn would improve accountability and empowerment. The next phase of the Social Investment Program Project will therefore use the CDD approach more comprehensively, focusing on strengthening village institutions, improving the livelihoods of marginalized and vulnerable people, and building trust and accountability between community groups and local governments. Results have already shown that the CDD approach can improve service delivery and give voice to poor women and the most marginalized. These initiatives, along with the direct funding to communities, will ensure decentralized management of development programs at the village level and enable poor people to expand their role in local governance.

D. CORE GOVERNANCE

97. Much of the agenda addressed in the two pillars is about improving sector governance. Improving the investment climate involves, for example, strengthening the regulatory environment for industry and finance and removing governance impediments to investments in infrastructure. Similarly, empowering the poor involves making government more accountable for service delivery or infrastructure provision and strengthening local governance to bring government closer to the people. The Bank, through its various instruments and in collaboration with development partners, will attempt to strengthen key institutions responsible for ensuring good governance under these two pillars. It will also attempt to strengthen demand for good governance by encouraging public participation in policymaking and policy and program monitoring across different levels of government. This agenda will be advanced through all Bank activities in Bangladesh, including analytical and advisory activities (AAA), projects, and strategic partnerships with the private sector, academia, and civil society. This mainstreamed approach means that Bank operations, whatever the sector, will be as much about governance as they will be about infrastructure provision or service delivery.

98. **But there are clear limits to the gains from improved sector governance without corresponding improvement in key core governance functions.** Development outcomes depend as much on addressing a set of governance issues that cut across all sectors as they do on improving governance at the sector level. Unless revenue administration is improved, the Government's revenues will not increase as projected in its Poverty Reduction Strategy to fund pro-poor expenditures. As noted, the low revenue effort also prevents the Government from paying civil servants a living wage and allocating adequate resources for operations and maintenance, creating huge incentives for corruption and poor service delivery. Similarly, a failure to address weaknesses in public financial management systems erodes the effectiveness of the rather modest resources Bangladesh deploys through public expenditures (some 13.3 percent of 2004 GDP) to fight poverty, by encouraging waste and corruption. Equally important is the need for better oversight and transparency and improvements in the way public administration is managed so as to ensure an efficient, clean, and accountable civil service.

99. **Strengthening key institutions of accountability—including the legal and judicial sector, which provides a check on the executive—will also help restrain abuse of office and reduce the risk of corruption.** Reform of the justice sector—the courts, public prosecutors, and the police—will be crucial in improving the investment climate, by providing predictability in the enforcement of contracts, supplying the means to settle disputes in an orderly and timely fashion, and maintaining law and order. Such reform is equally important to ensure access to justice for the poor and to protect the poor, especially women, and the weak from human rights abuse and other violations of their personal dignity. Finally, success in improving the investment climate and improving service delivery will depend on whether citizens and investors can hold government

accountable for the services it provides. As stated in the PRSP, “freeing up information itself can act as a powerful driver for building accountability pressures and improving the governance process.”²³

100. The Bank, together with its development partners, will help the Government of Bangladesh address these core governance issues. Reforms in these areas will take considerable time to have an impact. But the Bank will support some clear, measurable steps, explicit and implicit in the PRSP, that will send a strong signal on the direction of change and create a momentum for further governance reforms in public financial management and procurement and the legal and judicial sector (table 5).

1. Improve Public Financial Management and Procurement

101. **Bangladesh has developed a reasonable track record in managing its fiscal balances.** The overall fiscal deficit has been steadily reduced, with the FY04 level of 3.2 percent of GDP representing a big improvement on the peak of 5 percent in FY00 and FY01. With revenue efforts at a low 10 percent of GDP, the decline in the fiscal deficit primarily reflects a successful containment of public expenditures, particularly on the annual development plan. The decline in the fiscal deficit has been accompanied by a secular decline in concessional foreign financing over the years, from 4.8 percent of GDP in FY90 to 1.1 percent in FY04; it has also permitted a substantial reduction in net domestic financing, particularly bank financing, which fell from 1.6 percent of GDP to 0.4 percent in FY04.

102. Without a strategic budget planning process, however, this strong performance in maintaining aggregate fiscal discipline has come at the cost of undermining the effectiveness and efficiency of public expenditure. Expenditure reductions have often been ad hoc and arbitrary, driven by unforeseen revenue shortages and by the poor ability of the public expenditure management systems to properly manage such adjustments. Heavily populated countries tend to have less government spending as a share of GDP, reflecting economies of scale in lower per capita costs of providing services. But coverage of public services in Bangladesh is low in many areas, and despite the relatively modest size of the civil service, the wage bill (broadly defined to include subventions) tends to crowd out other expenditures, such as operations and maintenance and other nonwage public spending.

Modernizing the National Board of Revenue

103. **The revenue effort of Bangladesh has been weak and, for the past several years, stagnating.** With a population of 140 million, the country has only 1.4 million registered income tax payers and 300,000 businesses registered for the value added tax (VAT). Total tax revenue amounts to 7.4 percent of GDP. This low level reflects in part the low elasticity of revenues with respect to income growth due to a heavy dependence on import taxes (27 percent of total tax collections) and numerous exemptions, tax holidays, and preferences. It is also due in part to poor tax administration. The revenue authority and customs have a reputation for corruption, reflecting the lack of accountability and weak incentives characterizing the rest of the civil service (see para. 113). While some progress was made in customs, taxpayers still face cumbersome processes, such as a large number of approvals required for customs clearance, and many opportunities for face-to-face contact with revenue officials, which lead to the extraction of rents.²⁴ The management structure is weak, reflecting a lack of clear organizational direction and leadership. It also reflects an organizational structure based on type of tax, which tends to duplicate functions (such as audits and collection) and undermine the exchange of information. More important, this structure is inconvenient and burdensome for taxpayers, who must deal with different units on similar issues.

²³ Government of the People's Republic of Bangladesh, “Unlocking the Potential: National Strategy for Accelerated Poverty Reduction, October 2005, page 169, para 5.446.

²⁴ The establishment of the ASYCUDA ++ system reduced clearance times and opportunities for face-to-face interactions between customs officials and traders.

104. **The Bank is engaged in an effort to reform the National Board of Revenue.** The Government has taken measures to improve tax collection in the short term by establishing Large Taxpayer Units for Income Tax and VAT. It has recently approved a strategic development plan aimed at increasing revenue collection, developing a more effective organizational structure along functional lines, developing legal and regulatory systems to facilitate rather than hamper trade flows, fostering a culture of taxpayer service, and ensuring that all businesses are treated uniformly and equitably. The initial stages of the plan have been supported by a DFID grant and IDA, through the Economic Management Technical Assistance Project. The plan will also be supported through policy-based lending (DSCs) and IMF programs. A fully fledged tax administration modernization project is also being planned.

Table 5. Targeted Results in Core Governance

Strategic longer-term country outcomes	Indicators of Bangladesh's success that the CAS aims to affect
<i>Enhanced revenue effort and stronger, transparent, and more efficient tax administration</i>	<ul style="list-style-type: none"> • Tax revenue increased by at least 1.5 percentage points of GDP, and exemptions rationalized. • Customs clearance time and number of approvals reduced. • Greater satisfaction of taxpayers, importers, and exporters in periodic surveys. • Expanded tax base.
<i>An efficient, accountable, and transparent system of public financial management at all levels of government and in all state-owned enterprises</i>	<ul style="list-style-type: none"> • Improved ratings on Public Financial Management (PFM) performance indicators based on implementation of agreed action plan in key areas—focusing particularly on enhanced accountability, transparency, and reduced fiduciary risk—including: <ul style="list-style-type: none"> ○ Systematic follow-up by the Government on audit findings and recommendations of the Public Accounts Committee. ○ Procurement regulations continuing to be implemented and new procurement act passed. Oversight, procurement audit, and appeal mechanisms made functional and effective. ○ E-procurement introduced.
<i>Key guardians of accountability functioning as an effective check on the executive</i>	<ul style="list-style-type: none"> • Measures taken by the Government to ensure the independence and operational effectiveness of key agencies by: <ul style="list-style-type: none"> ○ Creating a transparent, fair, and independent process for selecting the leadership and senior management of key agencies. ○ Ensuring the financial and administrative independence of these agencies. ○ Ensuring adequate salaries and other compensation for their leadership and senior management commensurate with their responsibilities and special status.
<i>A transparent, open government conscious of its obligation to disclose information to the public, and citizens made conscious of their right to information</i>	<ul style="list-style-type: none"> • The Government's development and implementation of an information policy strategy, including e-governance • Key government processes made open to the public, including Public Accounts Committee (PAC) hearings, the procurement process²⁵, and disclosure on the Web of periodic financial statements and audit reports.
<i>A service-oriented, accountable, and efficient public service</i>	<ul style="list-style-type: none"> • Personnel management system developed and implemented, including improved merit-based recruitment and promotions, a posting and transfer policy, and a senior service pool.

105. The modernization of the National Board of Revenue will include developing new functional areas such as taxpayer services, audit functions to detect underreported income, and collection enforcement. The Large Taxpayer Units for Income Tax and VAT will pilot this modernization, including through reengineering processes supported by automation. The composition of the National Board of Revenue is to be strengthened and based on functional lines, with human resource management policies and procedures improved to ensure more professional and competitive

²⁵ Government's annual procurement plans and schedules, bidding documents and requests for proposals, shortlists of consultants and lists of pre-qualified contractors and suppliers and contract award information for all large contracts will be made available to public. Summaries of bid evaluations will be made available to all other bidders/consultants submitting proposals after the successful bidder is notified. Representatives of beneficiaries would be allowed to attend bid openings.

recruitment and promotion policies, training, compensation, and career development. The Bank and its partners will encourage the board to work with exporters' and taxpayers' associations to ensure that the quality of service improves. Surveys of taxpayers, exporters, and the general public will monitor perceptions of the board's progress in improving its performance.

Strengthening public financial management and accountability

106. **The World Bank's recent *Review of Institutional Arrangements for Public Expenditure, Financial Management and Procurement* revealed that Bangladesh's public expenditure institutions need to be significantly strengthened.** Key links in the chain of public financial accountability are weak. One of the most serious weaknesses is the lack of a strategic planning process, reflected in the overprogramming of the annual development plan. This lack facilitates discretionary behavior, creates opportunities for rent seeking, and leads to too many underfunded projects, delays in implementation, and chronic underexpenditure. Budget planning is fragmented between revenue (recurrent) and development (investment) budgets and preoccupied with the inputs rather than outputs and outcomes, undermining any performance orientation. Moreover, weaknesses in budget execution related to accounting, reconciliation with the Bank, and reporting delays hinder transparency and create opportunities for mismanagement of public funds. Failure to use international accounting standards in state-owned enterprises conceals the real value of contingent liabilities in the budget. Internal and external controls remain weak, as reflected in the lack of accounting information in line ministries, delays in the publication of audited reports, unsatisfactory quality of the external audits function, and ineffective parliamentary oversight of the entire budget process.

107. **The Government has begun to address these weaknesses systematically as part of a program of reforms supported by the DFID, World Bank, and IMF.** The PRSP calls for strengthening planning processes to avoid overprogramming, including through better project preparation and approval processes. The Government has taken solid steps toward introducing a Medium-Term Budgetary Framework, piloting it in four ministries in FY06 and planning to extend it to six additional ministries in FY07. Expenditure tracking surveys are being carried out in three ministries to study the extent to which the amounts allocated in budgets reach the spending authorities and beneficiaries. The Government has also rolled out a custom computerized accounting system to 20 of 58 district accounts offices and 7 of 49 chief accounts offices. While the introduction of this system was not preceded by a redesign of business processes, it has considerably increased the speed with which accounts are generated and allowed the Government to produce monthly fiscal reports. In addition, the Government has eliminated a major conflict of interest by separating the external audit and internal accounting functions. It now needs to make the Comptroller and Auditor General a truly independent body, with no reliance on the Government for its budgetary allocations and administrative decisions. The Public Accounts Committee of Parliament, reestablished with IDA support in DSC II, has begun to reduce the backlog of audited accounts for discussion, and its deliberations are beginning to be followed by the press in Dhaka.

108. **Progress in improving the quality of public financial management and accountability will be crucial for Bangladesh to meet the goals set out in its PRSP.** The PRSP sees such progress as a critical element in its anticorruption agenda. The Bank is working with the Government to develop a detailed action plan for raising many of the C ratings it has received on Public Financial Management (PFM) indicators to B ratings by the end of the CAS period (see attachment 4). The focus will be especially on improving performance on the indicators with a direct bearing on transparency, financial accountability, and performance. These include indicators relating to comprehensiveness and transparency of the budget, such as provision of information on budgetary allocations and performance standards to enable project and program beneficiaries to monitor the delivery of resources and services; the effectiveness of internal control and audit functions; payroll controls; improvement in the quality and relevance of external audit reports; systematic follow-up of key audit findings; and enforcement of public sector ethics codes and asset declarations.

109. Progress in implementing the agreed financial management and accountability action plan aimed at improving PFM ratings will be a *key indicator in judging the appropriateness of the use of Development Policy Credits* as an instrument in the Bank's program. The Bank will work with its development partners to assist the Government in meeting the PFM standards. A Public Expenditure and Institutional Review is planned for FY07. Technical advice is being planned for integrating the PRSP into the budget through the Medium-Term Budgetary Framework and for finalizing the system requirements of an Integrated Financial Management Information System. And potential project investments in Treasury computerization are being explored. Finally, the World Bank Institute will provide targeted training interventions on fiscal sustainability analysis and debt management for the Ministry of Finance and support to the Ministry of Planning in poverty data analysis and MDG monitoring to better align with the PRSP goals and indicators.

Achieving transparent and competitive procurement

110. **Public procurement is a key source of corruption in many countries, and Bangladesh has been no exception.** Before reforms in recent years, procurement was subject to considerable delays, lacked transparency, was poorly managed, and was seen as the single most important source of leakage of public funds. But the Government has made good progress through these initial reforms. For the first time it issued uniform procurement regulations that apply to all public sector entities across the country, consistent with international procurement practices. It has introduced new standard bidding documents and significantly reduced the layers in the procurement approval processes. It has put into place a unique procurement tracking and monitoring system through an integrated management information system (MIS) now being piloted in a few agencies. The Government is committed to placing soon before Parliament for enactment a new procurement law satisfactory to IDA, which covers infrastructure concessions and build-operate-transfer arrangements (BOTs). This progress has enabled Bangladesh to secure B ratings in three of the four PFM indicators on procurement. Further progress cannot be taken for granted, however, since there is considerable resistance to these reforms from powerful vested interests.

111. **The Bank will, therefore, support a deepening of these initial procurement reforms,** including through policy-based lending (DSCs) and a second Procurement Reform Project that will support implementation of the new law once it has been passed by Parliament. The project will also support an e-procurement system aimed at enhancing transparency and efficiency for both government and bidders. An e-procurement readiness survey will be launched shortly to help prepare an implementation program.

112. Key to successful implementation of a satisfactory new procurement law and full realization of its intent will be strong compliance monitoring, not just by the Central Procurement Technical Unit but also by civil society and NGOs through procurement watch activities. The approach to procurement reforms will include efforts to encourage behavioral change and social accountability; mechanisms to better manage complaints from bidders, civil society, or beneficiaries; extension of the MIS beyond the pilot agencies to the entire government; and systematic publication and tracking of procurement performance indicators. Systematic outreach to the business community, including contractors, suppliers, and consultants, will be crucial to explain the new regulations and encourage its full participation in and support for these reforms. The Bank will support capacity building in the Central Procurement Technical Unit and in line ministries to address this large agenda and provide training in managing government procurement and encouraging behavioral change and social accountability.

Reforming public administration

113. **An underperforming, inefficient, and weak civil service remains a constraint on service delivery and implementation of reforms.** Numerous commissions and reviews have been undertaken, and a fairly comprehensive agenda awaits implementation. Yet progress has been slow. As a 1996 World Bank report states,

there are many individuals in the Civil Service who are highly competent, but cannot render their best because of the Government's compensation policies, working environment, restrictive cadre practices and its practice of deploying the available personnel without trying to match their skills to the requirements of the job. The pay is too flat, with severe below market salaries at the top and above market salaries at the bottom, scarcity of skills at the top, and redundant staff at the bottom. Any reform of the civil service has to address these anomalies.²⁶

114. Several factors explain the lack of political will to address these issues. The unhealthy competition between the major political parties leads to a highly politicized civil service and means that reforms are unsustainable when power shifts from one party to the other. The systemic corruption is self-reinforcing, even to the point where political parties become partly dependent on funding from routine corruption in the civil service. Moreover, there are powerful internal vested interests: the cadre system creates vertical stovepipes of competing interests that distort departmental and ministerial structures and restrict staff movements. Class 4 employees, at the bottom of the rung, are a powerful political lobby strongly resistant to more ambitious reforms.

115. **Even so, a number of public administration reforms have been implemented in recent years.** The size of the public service and the growth of the wage bill have been successfully contained. A Career Planning Wing was created in the Ministry of Establishment to focus on career planning and effective deployment of class 1 officers. A training policy has been issued, and training is now one of the criteria for promotion of officers. There is greater emphasis on merit in promotion and career development. And the Government is considering the reestablishment of a senior civil service or management pool.²⁷ These gains are laudable, though much more needs to be done to improve the civil service. It would nevertheless be unwise to expect much in the way of civil service reform until the forthcoming elections are over.

116. **The Bank will support the Government's efforts to build on these recent modest but important steps.** The PRSP calls for improving incentives, motivation, and capacity within the administration, particularly through a strengthened process of recruitment (including from outside the administration for senior-level positions), a stronger system of rewards and punishment, and oversight and monitoring mechanisms. Through its analytical and advisory services, the Bank will work with the Government to improve the caliber, effectiveness, and efficiency of the civil service. The Bank will help establish a senior civil service.²⁸ While developing such a senior service may take time, in the interim the Bank will undertake preparatory work with the Government and its partners and help strengthen the Government's personnel management system, including through merit- and performance-based promotions, improved postings and transfers, revised compensation, and enhanced training. In addition, the Bank will help the Government manage its wage bill through analytical work to review civil service pay and compensation policy.

2. Strengthen Institutions of Accountability to Strengthen Restraints on the Executive

117. **Strengthening the key guardians of accountability in Bangladesh, with a view to enhancing their quality, efficiency, and independence, is a World Bank priority.** IDA has been supporting the Bangladesh Bank through technical assistance and policy-based lending,

²⁶ World Bank, *"Government that works", Reforming the Public Sector*, Dhaka, 1996.

²⁷ The Senior Service Pool was created in 1979 to "permit the best and the brightest" from all occupational groups to rise to the top of the civil service. It comprised all civil service grades above the deputy secretary level (grade 5). The pool was abolished in 1989, but a quota system remains for entry into posts at the deputy secretary level and above.

²⁸ Notwithstanding some recent relaxation of controls on recruitment at the support staff level, the Government has been able to contain growth of support staff employment at class 3 and 4 levels by maintaining a freeze on the creation of new posts and control over the filling of vacant positions. In addition, in May 2005 the Government announced a revised compensation package for public sector employees. The Government has done well to award a smaller pay increase than was recommended by the Sixth Pay Commission, containing the budgetary impact to a level consistent with fiscal sustainability.

strengthening its ability to hold financial institutions accountable. It is also providing assistance to the Securities and Exchange Commission to enhance its enforcement and regulatory capabilities in financial markets. And it will continue support to the Supreme Court through a follow-on project planned for legal and judicial reform. The World Bank has also supported the establishment and operationalization of an Anti-Corruption Commission through policy-based lending (DSCs), while the Asian Development Bank is providing support to help the commission start its work. In addition, the Bank is providing support to strengthen the office of the Comptroller and Auditor General and may support the Public Accounts Committee. And it has been requested to support the Public Service Commission as part of its work on civil service reform.

3. Support Legal and Judicial Reform

118. **An effective legal and judicial system is critical not only to create effective checks and balances but also to help enforce contracts and settle disputes.** Bangladesh's justice sector suffers from many of the weaknesses common in developing countries. While the Constitution and laws are generally sound, the justice system is seen as corrupt and subject to excessive delays. There is no code of conduct governing the judiciary, and court staff allegedly indulge actively in rent seeking. The higher courts perform better, however, and the Supreme Court has remained a relative island of integrity, showing its willingness to stand up to governments. The delays in the justice system seriously compromise its ability to enforce contracts and property rights: resolving a civil case takes five years on average, from filing to the decision of a district court. These delays lead to a huge backlog of pending cases. Among other things, the delays reflect a lack of modern case management, weak court administration, and deliberate delays by litigants, tolerated by cooperative judges, to avoid resolution when their cases are weak. The system often lacks transparency and accountability and encourages impunity. Access to justice for women is particularly weak and there is a growing perception that violence against women is on the rise.

119. The police are also at the heart of the poor administration of justice. They have been described as a reactive force with a philosophy of public control rather than community service. The police are seen by average Bangladeshis as corrupt and brutal and are a source of internal and external concern about human rights abuses. They are also one reason for the deterioration in law and order that has contributed to the weak investment climate.

120. **The Government has made formal commitments to reform its legal and judicial system.** In 2000 the Government developed a long-term strategy for legal and judicial capacity building that has guided the Bank's initial support to the justice sector. The PRSP identifies criminal justice reform and affordable justice for the poor as high priorities. In addition, the Government commits itself in the PRSP to "meaningful progress on the separation of the judiciary from the executive" to implement a Supreme Court judgment of 2001, which calls for such a separation in line with the Constitution of Bangladesh. This separation requires removing the judicial functions of local magistrates, who now carry out both executive and judicial functions, and developing a cadre of judges to take on these judicial functions.²⁹ With support from the Bank, the Government has initiated a pilot program to increase the efficiency, effectiveness, and accountability of the civil justice system and to increase access to justice for the poor.³⁰ Elements of the reform include

²⁹ Separation of the executive and judiciary is not an issue for the higher courts or lower courts, both of which are administratively under the Supreme Court, not the executive branch. By contrast, the local magistrates, who carry judicial as well as executive responsibilities, report to the executive branch. It is estimated that some 600 judges need to be identified, hired, and trained to replace the current magistracy, a task that will take some time. A judicial service commission was recently established as a first step.

³⁰ A \$30.6 million Legal and Judicial Capacity Building Project financed by IDA was approved by the Board on March 29, 2001. Amendments to the Civil Procedure Code relating to court-facilitated mediation and others aimed at reducing delays in case processing by imposing sanctions for dilatory tactics and modernizing and expediting service of summons have done much to help reduce the number of cases going to trial and shorten case processing times. A limited computer management system introduced in the pilot courts has helped to increase transparency and improve court administration. The project also supported implementation of the New Money Loan Court Act 2003, which has vastly improved loan recovery mechanisms by providing for summary procedures, empowering banks to sell the collateral of defaulters in public auctions, and empowering courts to enforce judgments. The Canadian International Development Agency is

strengthening court administration and reducing delays by improving case management through an automated management information system, strengthening judicial training, and upgrading facilities and other human resource needs in five pilot districts and the Supreme Court. The Government also aims to improve access to justice through a newly institutionalized alternative dispute resolution mechanism, which allows quicker resolution of cases outside the courts by improving access to legal aid and promoting legal literacy and public awareness at the grassroots level. A midterm review of this project is under way and will be used to help evaluate ways of making faster progress in judicial reform.

121. Given the lack of public demand for reforms, however, progress on this front will prove difficult. While pilot reform programs to improve judicial administration are important initial steps, they are not enough to address the weak incentive structure at the root of many dysfunctionalities of the justice system. The rule of law is not in the interests of clientelist politics because it reduces the need for clients to seek the help of patrons in resolving disputes or enforcing contracts. The Bank, with its development partners—particularly the Canadian International Development Agency, Danida, and the European Community—will work on ways to strengthen the demand for legal and judicial reforms and help build a broad national consensus on the need for such reforms and on priorities for justice sector reforms. This effort will center on encouraging and facilitating a dialogue within the justice sector and between the justice sector and civil society, academia, and politicians. One of its aims will be to develop a road map of concrete technical steps required to extract the executive branch at the local level from its judicial responsibilities. This exercise will complement the work of development partners in the broader criminal justice sector. This includes work by the United Nations Development Programme (UNDP), DFID and Japan to improve the effectiveness and efficiency of the Bangladesh police by supporting key areas of access to justice, human resource management and training, and prevention, investigation, and prosecution of crime.

4. Strengthen Demand for Reform and Enhance Access to Information

122. **Experience in other countries suggests that governance reforms best succeed when society demands them, not when the reforms are imposed by external actors.** A central focus of the Bank's energies (and those of its development partners) will be to help further strengthen voice, empowerment, and participation in a country where civil society has made huge strides in a very short time. The Bank will increasingly work with civil society, academia, and think tanks to help build consensus around governance reforms and to monitor progress in governance. It will increasingly partner with civil society and academia in analytical work on issues of governance and in the production and dissemination of high-quality information on the extent, incidence, and consequences of corruption. Over time this engagement will help strengthen the public's perception of the need for governance reforms and increase the pressure on governments to undertake such reforms.

123. For civil society to engage with government on the quality and efficiency of public institutions, it will be important to address the relatively limited formal access to information held by public authorities in what is otherwise a very open society. This access remains limited because there are few institutional mechanisms through which citizens can obtain such information. The PRSP sees addressing this issue as "*the most important entry point*" for enhancing accountability and transparency. It sees a freedom of information law as an important long-term goal. Such a law would provide citizens with a legally enforceable right to obtain, through clearly defined procedures, information held by government on matters of public concern. It would also encourage government to publish information about its activities. As in other jurisdictions, a freedom of information law should explicitly supersede the Official Secrets Act where there are any inconsistencies. The work of

supporting legislative drafting and legal reform. By 2006 it is expected that there will be a database containing all of Bangladesh's primary legislation of general application, accessible to the public from the Ministry of Law's Web site.

the National Law Commission on the proposed Right to Information Act 2002 was a first step toward such a law.

124. **The Bank's analytical work will explore how the public's access to information can be enhanced and how greater transparency can be brought to the budget, public procurement, and the public policymaking process** as a means of stimulating demand for reforms in governance, including through watchdog NGOs. The Bank will support government efforts to strengthen ICT and apply e-governance initiatives in key sectors. The Bank will also work with its partners to help bring about attitudinal changes among civil servants so that they see themselves as "servants of the people" and are encouraged to be open and transparent in their work. Participatory analytical work in this area, undertaken with development partners, will feed a national debate on the role of information in development, contribute to a national information policy, and potentially lead to a freedom of information act. The World Bank Institute, through its Media, Information, and Governance Program, seeks to build the capacity of Bangladesh's Public Information Department to manage and disseminate information and the capacity of the media to access government information, with a focus on excluded groups such as rural women, indigenous populations and char-land dwellers. This work, in conjunction with the work of development partners active in governance and transparency, will help strengthen the capacity of the media and civil society to access and analyze greater information flows, enabling them to better educate the public. The work will also help beneficiaries at the local level monitor access to budgetary information on resources available and service delivery. The World Bank Institute also plans to strengthen the capacity of the Government's National Institute of Mass Communications to continue training and capacity development activities in governance and transparency over the long term.

125. **The roots of many of Bangladesh's current problems of governance lie in areas outside the Bank's mandate—that is, in political governance.** The cost of getting elected in Bangladesh is said to be among the highest in the world relative to income, and campaign financing is thus thought to be a major source of corruption. One contributing factor is the limited enforcement of laws and regulations relating to the declaration of assets and liabilities of high public officials and the failure to make such declarations public. Recognizing this, the Government has agreed to review the implementation of the relevant legislation and policies, recommend necessary actions, and make the review public. There are also major issues of intraparty democracy, which lie at the root of the present confrontational politics. Unless and until these issues are addressed, other reforms cannot fully succeed. It is in these areas of political governance reform, including strengthening political competition and ensuring free and fair elections that the Bank intends to rely on its bilateral development partners to engage the Government in dialogue and provide support. With this in mind, the Bank is in active dialogue with these partners on strengthening their efforts to support such governance reforms.

E. LONGER-TERM STRATEGIC ISSUES

126. The CAS touches on a number of longer-term issues. Upgrading agricultural research, evaluating future directions for higher education, strengthening local governance, and strengthening institutions of accountability are among the issues with long-term implications for Bangladesh's development. As Bangladesh enters its election cycle, there is a significant risk that many such important policy issues now at the top of the development agenda will take a back seat.

127. This potential fallow period for the Bank's policy dialogue also creates an opportunity to take an integrated view of some of the development challenges that Bangladesh's economy will face over the next several decades. High among these will be environmental issues. Natural resources have provided the platform for much of Bangladesh's economic development and growth. The wetlands sustain abundant fisheries that provide 60 percent of the country's protein consumption, while forests and natural vegetation remain the primary source of cooking fuel for the bulk of the country's population. But there are growing signs of declining natural resource and ecosystem

productivity, threatening the country's poverty reduction efforts and longer-term growth prospects. In addition, rapid urbanization—including the high population concentration in Dhaka, likely to become one of the world's most populous cities—has generated a litany of environmental problems that accentuate poverty through environmental health risks associated with deteriorating air and water quality and sanitation problems. Indiscriminate discharge of industrial effluents to ground and surface water and weak enforcement of environmental regulations pose a significant threat to ecological balance as well as serious health risks, particularly among the vulnerable and the urban poor. Developing a strategy to deal with environmental problems (including the eastern rivers) and an understanding of the drivers of urban growth would enable Bangladesh to better cope with its projected population of 250 million in 2050.

128. Diversification of Bangladesh's economy from its current export dependence on garments will also be a major issue and is the subject of an ongoing Bank study on constraints to long-term growth. On the social side maintaining progress toward the MDGs and looking beyond 2015 to progress over the next 25 years will determine the policy priorities over the next decade. And above all, building the institutions that will guide and shape the politics and economy of Bangladesh in the 21st century will be at the heart of any long-term development perspective.

129. The Bank will work with its development partners and with leading academic and policy research institutions in Bangladesh to revisit the challenges of longer-term development in the country. It will use the inevitable interregnum imposed by the political calendar to encourage a debate in Bangladesh society on key long-term development issues and help shape directions for future work that would influence the policy and development directions in future PRSPs. The Bank also plans to prepare policy notes for the incoming government—an agenda for its future support.

IV. DELIVERY OF THE WORLD BANK PROGRAM: LEARNING FROM RECENT EXPERIENCE

A. LESSONS LEARNED³¹

130. **The strategy during the last CAS (FY01-03) was one of a graduated response to Bangladesh's development challenges**, operating mainly in a low case and shifting into the base case as the pace of reforms accelerated with the new government that came to power in 2001. A strategic shift began in FY03, when the first development policy loan—after several years of low-level engagement—was approved by the Board of Executive Directors following significant progress on public expenditure, financial management and procurement, banking, and state-owned enterprise reforms. Good policy performance has continued and has been supported through follow-up Development Support Credits. The Bank has pursued a more strategic, policy-level engagement since then, and its relations and level of dialogue with the country have improved as a result.

131. **On the outcomes outlined in the FY01 CAS, the Bank effectively supported human development and economic growth but was less successful in helping to promote governance improvements and rural development.** Delivery of the Bank's assistance was affected by its limited engagement in several key sectors, including infrastructure. Moreover, poor understanding of country conditions and the political economy of reforms constrained the Bank in developing a responsive country program, with the result that a disconnect emerged between the lending program and analytical work. The Quality Assurance Group viewed the lending program as not sufficiently broad based, while at the project level the Operations Evaluation Department found that outcomes had been mostly satisfactory.

132. **Indeed, disengaging from such critical sectors as banking, power, and water hindered achievement of CAS outcomes and development of the country program.** And despite the focus

³¹ This section summarizes findings from the last CAS Completion Report presented in attachment 6 (pages 86-123)

on governance, the Bank was unable to support the country in key areas of public administration reform, decentralization, and anticorruption. The Bank's strategy might have appeared appropriate at the time, given governance challenges and the policy stance in some sectors. In retrospect, however, the extent of disengagement envisaged during the last CAS appears excessive considering Bangladesh's overall economic and social performance.

133. **Lessons were also learned for the Bank's analytical work.** The Quality Assurance Group found the quality of individual tasks to be consistently good, a conclusion confirmed by the 2004 Client Survey, whose respondents said that the Bank was effective in producing knowledge. Respondents were less positive about the Bank's ability to adapt its knowledge to Bangladesh's needs, however. On this aspect the Quality Assurance Group found that the AAA program lacked client input on its scope and that preparation of reports lacked client participation. It also faulted the AAA program for poor dissemination.

134. Similar messages consistently emerged from the Bank's extensive CAS consultations with different segments of Bangladesh society, the Government, the private sector, academia, civil society, and the donor community (see attachment 5). All emphasized the need to pay attention to the political economy of reforms and country-specific circumstances to support the design of more effective interventions. They also strongly expressed the need for the Bank to strengthen its own fiduciary requirements and to minimize possibilities for corruption in its own projects.

135. **Going forward, the country strategy will incorporate the lessons learned from the last CAS and more recent experience** (box 4). The Bank Group will need to operate differently in the face of the challenges it confronts. First, it will need to pay better attention to local conditions and realities, avoiding routine solutions to country-specific challenges and helping to promote a common view and approach around critical policy issues, especially on governance. Second, a particularly difficult challenge in Bangladesh, the Bank Group will need to recognize the fiduciary risk environment in which it operates and take adequate measures to mitigate the risk.

Box 4. Lessons from the Last CAS and Recent Experience

- *To enhance the development impact, it is important to remain engaged and able to respond as opportunities arise even when the reforms appear difficult to achieve. A more positive and constructive level of engagement has proved more effective in pushing reforms. Moreover, reengaging in a sector after years without dialogue and lending is usually more difficult and costly.*
- *Development policy lending has effectively supported the Government's reform agenda and helped to deepen policy dialogue across several critical sectors.*
- *There is a need to pay close attention to the political economy of reforms and develop realistic expectations about their scope and pace. CAS implementation showed that, given country conditions, reforms cannot always be advanced comprehensively and at an even pace. Nevertheless, the Government's commitment to reform resulted in measurable progress in key areas even though the reform agenda could not be pursued equally across all sectors.*
- *Governance is an area where a positive and constructive approach—moving from rhetoric to concrete, practical support—would likely yield better results. In practical terms, this means unbundling governance issues to implementable levels, gaining more in-depth understanding of these issues, and going beyond traditional areas of past engagement.*
- *The country program supporting CAS outcomes should be especially responsive to client capabilities and institutional capacities. Simultaneously, the program needs to be selective while maximizing partnerships with development partners. "Good local fit" based on a thorough institutional analysis should be particularly emphasized.*
- *The Bank needs to develop a more strategic and, when relevant, programmatic view of analytical and advisory activities (AAA), linking the AAA program clearly to the CAS outcomes and focusing on governance in everything it does. Sector work should be better aligned with lending development, while analytical work should be developed in parallel to support the reform agenda, focusing particularly on how to implement specific, difficult reforms. Involvement of the client should be enhanced, and opportunities for partnerships with other donors actively sought.*

B. WHAT THE WORLD BANK WILL DO DIFFERENTLY AND HOW

136. **The key lessons from recent experience and the results of the CAS consultations call for the Bank Group to do a number of things differently:**

- First, the Bank will ensure that the results focus of the CAS is reflected in everything it does in Bangladesh, from lending and AAA to the way it manages fiduciary risks.
- Second, the Bank will make governance a central focus of its work, influencing decisions about sectoral priorities, the composition of Bank lending and AAA, and the type of instruments deployed.
- Third, the Bank will attempt to systematically involve beneficiaries and affected communities in the design and implementation of all its activities.
- Fourth, the Bank will seek to build strong partnerships with academia, civil society, and the international donor community.
- Fifth, the Bank will become increasingly open and transparent in the way it does business, enhancing disclosure and reaching out to all sections of Bangladesh society and thus positioning itself to become a reliable long-term development partner of Bangladesh.
- Finally, the Bank will step up its efforts to strengthen fiduciary safeguards in the projects and programs it funds and reduce fiduciary risk even as it continues to proactively manage the portfolio and improve implementation (see section IV.E).

137. **A governance-oriented CAS will require new ways of doing business to ensure effective implementation**, with shifts in staffing, institutional processes, and culture (see following sections). Staffing adjustments will start with key members of the Bangladesh country team. A governance adviser will be hired in FY06; a Dhaka-based legal and judicial reform adviser has been hired; and Dhaka-based positions for an operations adviser and lead economist with a strong focus on governance will be advertised in FY06/07. New sector team members with strong governance experience will also be sought.

138. **Institutional processes will be reoriented to ensure a governance dialogue throughout project and AAA preparation.** Following good practice in other Bank Regions, an operations risk management team is being established to provide peer advisory services on core and sector governance issues, allow greater knowledge sharing across teams, and institute early warning systems for high-risk projects (see section IV.E). Country-specific policies already in place require early inception notes for all projects and AAA before formal allocation of budgets. The inception notes require teams to outline governance risk issues early in the concept stage. A series of sector-specific political economy and governance studies have been initiated, such as the one for the Chittagong port and an upcoming study of the power sector.

139. **Feedback from clients and from other donors points to the need for more transparent business practices in Bangladesh to ensure effective partnerships, reduce perceptions of corruption, and encourage voice and participation.** The Bank's program has recently benefited from a more strategic external affairs engagement. A new external affairs manager has been hired, and outreach efforts are being scaled up. A new "Bangladesh Development Series" capturing all Bangladesh-related analytical work is being provided to a broad distribution list of donors, government, and civil society. Similarly, the Bank is expanding its program-specific dialogue with civil society, academia, parliamentary bodies, and the private sector through an enhanced World Bank Institute program. And to ensure maximum voice and participation, many of the Bank's new programs have a strong focus on community involvement. These include local governance, urban development, and social protection.

140. **The most difficult change will be cultural.** The country team will hold a retreat soon after approval of the CAS to internalize the priorities and governance orientation. This CAS will require greater cross-sectoral work, stronger country team alignment on acceptable risks, and a clear understanding of expectations relating to governance within projects and AAA. The process of cultural change will be continuous, with follow-on activities including workshops with other development partners and the Government. The country team will discuss incentives for promoting good governance in project design and best-practice monitoring during supervision. Similarly, an effort is being undertaken to forge team synergies among key governance sectors, such as between urban development and local governance or between legal and judicial reform and work on growth and economic management.

C. LENDING AND WORLD BANK GROUP INSTRUMENTS—A STRATEGY OF ENGAGEMENT

1. World Bank Lending and Analytical and Advisory Activities

141. Under the 14th replenishment of IDA resources (IDA14) Bangladesh's performance-based allocation for FY06 is \$750 million. A similar annual average has been assumed for the CAS period.³² This volume of lending takes into account the governance ratings for Bangladesh built into the Country Policy and Institutional Assessment (CPIA) as well as portfolio performance. It also reflects the "governance factor" integral to the performance-based allocation formula, so that governance factors weigh heavily in Bangladesh's IDA allocation. This level of lending will allow the Bank Group sufficient resources to follow a strategy of strong engagement to address Bangladesh's key development constraints through a range of instruments. These will include development policy lending, investment lending, and interventions that transfer resources directly to the poor, including CDD-based or local government capacity building operations, positioning the Bank as a long-term partner in supporting Bangladesh's poverty reduction agenda.

142. The strong governance filter on the Bank's Country Assistance Strategy will have significant implications for the lending program (see attachment 9 and Annex B3). The Bank will continue to engage the Government on policy and institutional reforms supported by Development Support Credits and Poverty Reduction Support Credits, planned to comprise around 30-40 percent of total lending. These instruments have proved highly effective in supporting strategic reforms across a range of sectors and institutions and have given the Bank access to the highest levels of decision making (attachment 10). But it will increasingly focus these budgetary support operations on improving sector and core governance. Moreover, access to these credits and to any sector policy operation will be conditioned on four economic management and governance-related benchmarks that are key to creating an enabling environment for more effective use of the Government's budgetary resources and Bank-financed budgetary support:

- Maintaining *macroeconomic stability*, including adhering to the targets established under the agreed macroeconomic framework supported under IMF programs.
- Meeting the *revenue targets* established under the PRSP's macroeconomic framework, as revised under the Government's agreements with the IMF.
- Achieving satisfactory progress on the annual benchmarks to be established under the agreed *Public Expenditure and Financial Accountability* (PEFA) framework, which would be aimed at improving Bangladesh's PFM ratings over the medium term?
- Enacting *a new procurement act satisfactory to IDA* and satisfactorily implementing procurement reforms as agreed in the PEFA framework and past development policy lending operations.

The Bank's support for Bangladesh's investment operations will also have a strong governance filter. All support to investments in a sector will address the key governance and institutional constraints to

³² IDA allocations for the outer years are indicative and will be subject to Bangladesh's performance every year as well as to overall IDA resources.

that sector. In particular, infrastructure operations will attempt to enhance the transparency and accountability of private provision of infrastructure.

143. All new projects and programs will attempt to systematically involve beneficiaries and local communities in their design and implementation. Beneficiary monitoring of outcomes will be key in ensuring a strong focus on results in the Bank's program. In addition, as noted, the Bank will increasingly rely on CDD-type operations or projects with CDD components to deliver rural infrastructure and social services, relying on communities to prioritize needs. To reduce the risks of leakage of funds, Bank-funded programs will institutionalize a shift in the responsibility for holding public officials accountable from external third parties such as the Bank to local communities, which stand to lose the most from a failure to deliver on program and project objectives.

144. If a deterioration in policy performance or governance failures should make it difficult to reach agreement on the policy program underlying Development Support Credits or, through lower CPIA ratings, lead to a reduction in resources available to Bangladesh, the Bank will rely increasingly on CDD-type projects to reach poor communities in Bangladesh to ensure that lower resource transfers do not adversely affect its poor.

145. **The Bank's analytical and advisory activities will also be managed more strategically,** to support and inform policy and governance reforms, feed into Bank lending operations, and reach out to key constituencies in Bangladesh by widely disseminating major analytical products translated into Bengali. In its AAA the Bank will attempt to focus systematically on the political economy of reforms, address governance constraints in the sectors and thematic areas covered, carry out governance assessments of key institutions that it may wish to support, position itself on key development and governance issues, and help build consensus for reforms. The Bank will also use AAA to provide technical and advisory support through focused policy notes, particularly to the new government. In addition, the Bank will increasingly use AAA to work with local policy think tanks and academic institutions to foster debate and dialogue in Bangladesh, particularly on sensitive governance issues, and to build local capacity for policy analysis. Given the cross-cutting nature of the development agenda, the Bangladesh country team will establish cross-sectoral thematic groups that collectively prioritize and manage AAA work and take accountability for delivering genuinely cross-sectoral work (see annex B4).

146. The Bank's AAA is expected to play an especially important role in FY07, when the policy dialogue with the Government could slow as the country heads toward an election and the related political uncertainty and policy vacuum. The Bank intends to use this period to undertake joint studies with local institutions aimed at developing a better understanding of longer-term issues in danger of being neglected by policymakers—issues in such areas as the environment (including the impact of global warming), governance, higher education, urbanization, and cross-border regional integration (see section III.E).

2. IFC Program

147. On December 31, 2005, IFC's held portfolio in Bangladesh stood at \$132.5 million in nine projects. Of this, \$102.9 million is for IFC's own account and \$29.6 million for B-loan participants. The projects span a range of sectors, including power, telecommunications, cement, and financial markets. IFC will continue to provide equity, long-term debt, and guarantees in support of local and foreign private investment. IFC will also continue substantial programs of technical assistance through SEDF and FIAS, focusing on developing SMEs, improving the investment climate, and promoting foreign direct investment.

3. MIGA Program

148. MIGA's outstanding portfolio in Bangladesh consists of five contracts of guarantee in the manufacturing and telecommunications sectors with a gross exposure of \$112.1 million (around 2.3 percent of MIGA's total exposure). MIGA recently underwrote an investment by an Egyptian investor in the telecommunications sector totaling \$79.2 million. During the CAS period MIGA plans to support foreign investors in the telecommunications, infrastructure (power), and natural resources sectors. It will focus its technical assistance program on helping to build the capacity of the main government institutions focusing on private sector development, principally the Board of Investment. MIGA will deliver a range of technical assistance services designed to enhance the board's capacity to promote Bangladesh as a location for foreign direct investment, to address investors' needs during the investment process, and to develop effective investor aftercare and policy advocacy functions. MIGA will also work with the World Bank and IFC to build the capacity of the Bangladesh Export Processing Zones Authority.

4. Expenditure Eligibility under the Country Assistance Strategy

149. Country Financing Parameters (CFPs) for Bangladesh were approved on May 13, 2005 (see attachment 8). Under the CFPs IDA may finance up to 100 percent of the costs of individual operations, but counterpart funds will be encouraged. Cost sharing arrangements will be determined case by case, taking into account several factors. These include the Government's program and budget for the relevant sector, alignment with PRSP and CAS priorities, project context and impact of the cost sharing arrangements on project implementation and achievement of development objectives, implications for the CAS envelope, and other potential sources of financing. The application of the CFPs is based on the grounds that the Government has followed prudent fiscal and debt management policies and has shown its commitment to implementing the country's PRSP. Nevertheless, the increased flexibility is expected to be used in well-justified cases and with careful consideration of sustainability risks. Moreover, in applying the proposed financing parameters, the Bank will continue to ensure that all Bank-supported projects include adequate fiduciary management and oversight arrangements consistent with the governance strategy of the CAS.

D. PORTFOLIO MANAGEMENT AND PERFORMANCE

150. **Bangladesh's portfolio performance, much weaker in the recent past, is now broadly in line with the average for South Asia and for all IDA-only countries.** In FY05 the disbursement ratio for Bangladesh's portfolio, at 23 percent, was similar to the IDA average and substantially higher than the 10 percent disbursement ratio for the ADB's broadly similar portfolio. The share of projects at risk is lower than the IDA average, and project outcomes are broadly satisfactory (table 6; for recent trends, see annex B2).

151. Despite recent progress, however, project implementation continues to be slow, and the country portfolio continues to have a large undisbursed amount, totaling \$1.5 billion at the end of FY05. The average project implementation period has continued to increase, growing from 2.8 years in FY02 to 3.6 in FY05.³³ This increase is to some extent a result of the growing number of project extensions. In FY05, for example, Bangladesh had 10 project extensions, out of a total of 35 in South Asia.

³³ The average implementation period is measured by the Bank as the average age of projects in the country portfolio (see annex B2).

Table 6. Portfolio Performance for Bangladesh and Selected Comparator Groups, FY05

Indicator	Bangladesh	South Asia	IDA-only countries
Disbursement ratio (%) ^a	23	26.2	24
Projects at risk (%)	11.5	12	19
Commitments at risk (%)	14	10	19
Realism Index ^b	100	89	73
Proactivity Index ^c	100	89	84
Projects exiting with satisfactory outcomes (%) ^d	100	85	85
Net Disconnect ^e	0	8	4

a. Ratio of disbursements during the fiscal year to the undisbursed balance at the beginning of the fiscal year. Refers to investment credits or grants only.

b. Actual problem projects as a percentage of actual and potential problem projects.

c. Percentage of projects rated as problem projects 12 months previously that have since been restructured, upgraded, suspended, or partially canceled.

d. Includes projects that closed or have disbursed all funds. Not all projects that existed in FY05 have been evaluated by the Operations Evaluation Department (OED).

e. Represents the difference between the Development Objective ratings in the final Project Summary Report or Implementation Summary Report and those in the OED evaluation of the project.

152. The main factors influencing portfolio performance, as noted in the CAS Completion Report (see attachment 6), have been inadequate government ownership of and commitment to project objectives and project design, which have often been overambitious and thus difficult to achieve; delays in project start-up due to, among other things, weak preparatory work, particularly on the recruitment of project consultants and government approval of projects; weak implementation capacity; poor procurement management and inadequate public sector accountability; insufficient attention to the political and institutional context of projects; lack of realism and weak quality of reporting in supervision; and poor monitoring and evaluation systems.

153. Portfolio performance has also been affected by decisions to extend several at-risk projects (some of them actual problem projects), or to postpone partial credit cancellations, in order to support program development objectives. For example, \$200 million in emergency financing for 2004 post-flood rehabilitation was reallocated from three at-risk or problem projects whose remaining balances would otherwise have been canceled.

154. On the Bank's human resource side, the departure of key staff from the Dhaka office, and the consequent loss of mentoring and senior expertise, may have weakened the ability of the Country Office to play its expected role in project implementation and supervision. Reconstituting the staffing pattern, including posting to the Country Office senior international staff with responsibility for key sectors of engagement, will be an important human resource feature of the strategy.

155. The Government and the Bank have responded to these issues, achieving some initial positive results. Besides the overall efforts to improve procurement and financial management, as agreed after the FY04 Joint Country Portfolio Performance Review, the Government, supported by development partners including the Bank, has taken several initiatives to improve project implementation. These include establishing a more streamlined project approval process, including the new "Development Project Proposal"; ensuring better recruitment of consultants by introducing a consultant recruitment monitoring system, adopting an action plan to expedite recruitment of consultants in two key line ministries, and requiring early preparation of complete consultant invitation documents; and strengthening monitoring and evaluation, with a special focus on the Internal Monitoring and Evaluation Department, the agency responsible for implementing monitoring and evaluation of development projects. While progress has been made on each of these

fronts, critical issues remain, largely due to the limited delegation of authority to line ministries and implementing agencies that still prevails.³⁴

156. At the same time the World Bank has been working with line ministries and implementing agencies in developing and maintaining systems for monitoring and evaluation of project performance and in using the available data to identify areas of lagging performance. In addition, the Bank has been closely monitoring project and portfolio progress and regularly providing the Government with a consolidated list of upcoming due dates and deadlines.

157. **Fiduciary issues have also been prominent concerns across the portfolio.** Indeed, with governance weak and corruption levels high, there are considerable risks to the Bank's portfolio in Bangladesh. Delays occur in implementation as documents and decisions are reviewed and re-reviewed at various levels within government, since government budget and human resource management systems include layers of formal sign-offs and other types of protection against malfeasance but relatively few incentives to achieve real results. Tracking studies suggest evidence of leakage, generally, from the social sector programs financed by the Bank and other donors. Procurement post-reviews, a recently completed independent procurement review of selected projects and INT investigations have indicated irregularities under some Bank operations. In addition, the Bank has undertaken assessments of the country's financial management and procurement systems through various studies (see para 159) and paid particular attention during the last CAS period to strengthening the Government's own systems.

158. Learning from these efforts and cognizant of recent cases under investigation or scrutiny, the Bank will again give this area particular attention during the upcoming CAS, as described in the following section.

E. MANAGING THE WORLD BANK'S FIDUCIARY AND IMPLEMENTATION RISK

159. The Bank's efforts during the last CAS period to help strengthen the Government's fiduciary risk management began with a Country Financial Accountability Assessment carried out in 2001 and a Country Procurement Assessment in 2002. These led to Bank support for government procurement and financial management reforms, resulting in considerable progress on procurement and modest but systematic progress on financial management. As discussed (see section III.D), the CAS will further strengthen the Bank's support for these reforms. These institution building efforts will take time to have an impact, however, and in the meantime the Bank needs to significantly deepen its own fiduciary risk management.

160. Recognizing this, the Bank recently completed a retrospective review of independent audits of procurement under eight projects undertaken for the Bank by external consulting firms over the past four years and a sample of external audit reports of Bank-financed projects. The review revealed frequent instances of probable collusion in bidding, made possible by poor procurement practices—including insufficient time allowed for bidding, delays in tender evaluation, lack of transparency in bidding, inadequate bid securities, and the like. Other findings included poor record keeping and documentation by project entities, including inadequate documentation to support variation from the contract amount during implementation or to support claims against statements of expenditures. The Bank responded by declaring misprocurement in some cases and by taking other actions that were mainly project specific.

161. While the Government has a set of sound regulations that will soon be reflected in procurement law, implementation of the intent of the new law will be key. The Bank, through its lending and dialogue, will support such implementation, but achieving progress on this and on

³⁴ Project approval remains highly centralized, and there are strict limits on deviations from approved plans. Moreover, changing or replacing consultants financed by external resources is still beyond the authority of line ministries and agencies.

financial management is likely to remain a challenge for some time. Under the new CAS the Bank is developing and will begin the implementation of a rolling Operational Risk Mitigation Plan that will strengthen its capacity to manage risk systematically throughout its portfolio, including through retrofitting ongoing operations as feasible. This strategy will comprise the following key building blocks:

- *Systematic analysis of corruption risk through AAA and in project preparation.* The Bank will integrate a corruption focus in assessing the capacity of the country and project authorities to manage procurement and financial management, including agency information and documentation management practices; the quality of governance in key institutions in the sector or program being supported; the Bank's past experience with these agencies; and the incentives and disincentives for corrupt behavior among the key stakeholders. This enhanced knowledge should assist the Bank in better addressing corruption risks (see below). It will also result in the Bank staying away from institutions unwilling to address the issues raised in such diagnostic work. Diagnostics in other countries suggest that community-driven programs bolstered by social accountability measures may be less susceptible to corruption. The Bank accordingly plans to direct an increasing share of new lending to such programs, where the onus of responsibility for holding public officials accountable is institutionalized in local communities and the beneficiaries of such programs, facilitated by Bangladesh's strong NGO sector.
- *Smart project design.* If the corruption risk assessment shows that the ministry or agency managing a project would, with some help in addressing its weaknesses, be an appropriate partner for the Bank, the next step would be to design the Bank-supported intervention so as to reduce corruption risks. Supply-side measures that address institutional weaknesses and ensure implementation of the Government's new procurement policies—including making systematic use of e-procurement, improving procurement planning, and ensuring that the outside members on bid evaluation committees hold the process to appropriate standards of integrity—will need to accompany demand-side measures that allow adequate oversight of procurement, financial management, and project outcomes by beneficiaries, NGOs, and civil society in general. The Bank will work to systematically improve procurement practices by promoting the use of e-procurement and improved procurement planning. And whenever appropriate, it will use the dynamic Procurement Risk Model in project preparation.
- *Stronger supervision.* Beyond the regular project supervision that addresses policy and institutional issues, the Bank will undertake each year, beginning in FY06, an integrated, in-depth technical, procurement, and financial management review of projects with high fiduciary risk. This review can include sampling contracts, visually inspecting the actual delivery of work, following up on audit findings and recommendations, and reviewing interim financial management reviews. The Country Portfolio Performance Review will sharpen its focus on corruption issues. The country team will work with the Department of Institutional Integrity to develop a procedure for more effectively addressing complaints relating to corruption.
- *More systematic pursuit of remedies.* The Bank will be more rigorous in identifying red flags indicating corruption and pursue misprocurement and other remedies when appropriate. It will agree with the Government that the Government will take firm action against officials who should be held accountable and will build greater awareness of the consequences of corruption among government staff. The Bank will enhance the follow-up on audit objections, including remedies in the case of material, systemic issues.
- *Enhanced information disclosure.* The Bank will agree with the Government to the release of certain documents that will help enhance the transparency and accountability of Bank-financed projects. These would include aide-mémoire of implementation review missions,

audit reports and the Government's formal responses to these reports, procurement plans and schedules, bidding documents and requests for proposals, shortlists of consultants, and summaries of bid evaluations that do not reveal confidential commercial information provided by bidders. The Bank will work with civil society to help monitor project implementation.

162. Managing a risk mitigation program of this intensity will require that the Bank organizes itself better to do so. The operations adviser in Dhaka will be empowered to guide the entire process on behalf of the country management team. A cross-sectoral Operations Risk Mitigation team has been established, to be chaired by the operations adviser, with a mandate to implement the Operational Risk Mitigation Plan and advise task teams in the design and preparation of projects, share and disseminate information on risks, advise the country management team on strategy for mitigating governance risks, and interface with the Department of Institutional Integrity on complaints received about corruption in Bank-financed operations.

F. PARTNERSHIPS, AID COORDINATION, AND HARMONIZATION

163. To maximize the effectiveness of its programs, the Bank Group is developing a strong partnership with key development partners in Bangladesh. As a first step the Bank Group prepared this CAS jointly with the Asian Development Bank,³⁵ the U.K. Department for International Development, and Japan. These four development partners together deliver \$1-1.5 billion a year in aid to Bangladesh and well over 80 percent of all its development assistance. An effort has been made to ensure that the joint CAS process is fully transparent and open and that the joint strategy has the full support of development partners in the Dhaka-based Local Consultative Group.³⁶ The process has used an inclusive approach to bring other development partners into the discussions on different sectors, consistent with mutual interests. The Local Consultative Group has also been involved in the ongoing consultations on the joint CAS (see attachment 7).

Box 5. Joint Strategy: Main Sector and Subsector Thematic Leaders

Agriculture	World Bank
Civil service reform	World Bank
Energy	ADB/WB
Legal and judicial reform	World Bank
Urban infrastructure	ADB/WB
Rural infrastructure	Japan/WB
Local governance	World Bank
Police reform	Japan
Private sector development	DFID/WB
Rural nonfarm sector	World Bank
Procurement	World Bank
Financial management	DFID/WB
Transport (incl. ports and rail)	ADB/WB
Tax administration	World Bank
Education	ADB/WB
Health	WB/ADB

164. The objectives in having a joint CAS include ensuring better coordination and greater complementarity across the project pipelines of the four donors, giving consistent messages to the Government, and reinforcing one another's efforts in supporting specific sector reforms. The joint CAS is thus expected to also facilitate the development of sectorwide approaches beyond those in health and education, for example, in one or more infrastructure sectors.

165. The joint CAS implies a common assessment of the PRSP, agreement on a common set of broad outcomes, and a common understanding of the strategies needed to deliver these outcomes. The joint work has led to broad agreement on areas of relative emphasis for both analytical work and

³⁵ The ADB's Country Assistance Program was approved in October 2005.

³⁶ Thirty-two countries, bilateral agencies, and multilateral organizations are members of the Local Consultative Group. In addition, there are 24 technical subgroups on sectors ranging from agriculture to governance to HIV/AIDs. Most subgroups serve as a channel for coordination and dialogue among donors, to forge common understandings and integration of policies, approaches, and efforts. The subgroups are generally chaired by the agency with a primary program in the sector.

investments (box 5). Under the joint approach each institution maintains its own business plans and project and AAA pipelines, and each has its own documentation, consistent with its requirements. However, a joint results matrix shows outcomes and benchmarks for the CAS period, together with all the interventions by the four CAS partners supporting a given outcome (see attachment 1). Implementing a joint approach implies higher transaction costs for all parties, and the need to achieve the desired complementarity or collective approach may impose additional constraints on the composition and delivery of a partner's program.

166. Partnerships with other donors will continue. The Bank is involved in sectorwide approaches in health and education. It has initiated sector-specific consultations in the context of the CAS with the aim of bringing in the larger donor community, and joint work and cofinancing are expected in sectors of mutual interest.

167. In *other partnerships* the Bank's program will build on Bangladesh's strengths of a vibrant civil society, strong intellectual and research tradition, and dynamic private sector to maximize impact. Partnerships with local communities, for example, can help shift the onus of enforcing accountability from the Bank to the beneficiaries. They can also strengthen checks and balances and encourage diffusion and decentralization of power and decisionmaking. The Bank will also build strong partnerships with civil society, academic institutions, and the private sector, inviting them, as appropriate, to contribute to and participate in project design, implementation, and monitoring as well as the Bank's analytical work and consensus building on policy reforms.

168. All four CAS partners are committed to supporting *harmonization around government systems* in their interventions to the extent possible. Through the Local Consultative Group, donors are working on a Harmonization Action Plan, which follows on the Paris Declaration on Aid Effectiveness, where governments and development institutions committed to far-reaching and monitorable actions to increase aid effectiveness.

169. An important first step in the Bangladesh Harmonization Action Plan took place recently, as the Government took the lead in coordinating the annual donor forum. The Poverty Reduction Strategy Implementation Forum in November 2005, chaired by the Government, is now part of an annual high-level process to monitor implementation of the PRSP. At the forum the Government announced its intention to also chair sector-level aid coordination working groups involving Local Consultative Group donors and to chair a midterm review of progress on implementation with such donors. The World Bank will support the transition to a Government-led aid coordination process consistent with the Paris Harmonization principles, as well as implementation of the Government's Harmonization Action Plan. Actions to do so will include strengthening the Government's leadership of the aid coordination process; ensuring that harmonization principles and Government leadership are incorporated into key activities supported by the Bank and development partners, such as sectorwide approaches and joint AAA; and participating in the Government-led donor working groups to track implementation of the PRSP.

V. RISKS AND MITIGATION

1. Risks Facing Implementation of the Government's Poverty Reduction Strategy

170. The last CAS, completed on the eve of the 2001 elections, identified three potential risks to the Government's development goals: the election could result in a weak coalition or in a new government unwilling to reform, there could be macroeconomic slippages, and the country's vulnerability to natural disasters could divert attention and resources from development. None of these risks materialized in any significant way. Elections produced a landslide victory for the BNP and its allies, which initiated a number of reforms. Macroeconomic risks were managed well, and Bangladesh continued to enjoy economic growth and macroeconomic stability despite intense

confrontational politics and violent incidents. And as demonstrated in the serious floods of 2004, the country's ability to manage disasters has greatly improved, reducing loss of life and economic disruption. All this suggests that Bangladesh's resilience to political and economic shocks should not be underestimated. Even so, a look ahead to the remaining years of the decade reveals severe risks that will require managing.

171. **The political risks appear the most severe, with inevitable consequences for the economy.** The past two years have seen a significant worsening in the political climate and a marked deterioration in law and order. Increased political violence, including political assassinations, has further intensified the confrontational politics and fed the deepening distrust between the two major political parties. With elections approaching, in January 2007, there is a distinct risk that violence may increase and that the key institutions charged by the Constitution with ensuring fair and peaceful elections—the Election Commission and the neutral caretaker government, which will assume power three months before elections—will come under severe pressure in Bangladesh's confrontational political environment. An election result not accepted by one political party or the other could lead to a prolonged political crisis, distracting attention from Bangladesh's poverty reduction agenda. Thus less than a year into this CAS, a deepening political crisis may greatly hamper its implementation. There is little that the World Bank can do to mitigate such a political risk. The World Bank's bilateral CAS partners are actively engaged in a dialogue with the Government and opposition parties aimed at mitigating this risk. The World Bank itself will, together with its partners, try to engage Bangladesh's political elite and civil society with a view to developing a consensus on the development agenda across the political divide and enhancing awareness of the serious economic costs of confrontational politics. The World Bank will also monitor the situation and use the midterm review of the CAS to adjust the assistance strategy as appropriate.

172. A related risk is that in a period of intense political activity *there will be little political appetite to address the reforms in governance* that are central to successful implementation of the Government's Poverty Reduction Strategy. Vested interests may also continue to hamper attempts to implement reforms. The World Bank will work with its partners to engage key reformers in a close dialogue to try to mitigate this risk. If these expectations materialize, the World Bank will focus its energies on progress in one or two key areas where reforms appear both feasible and highly beneficial. It will also support donor-led efforts to strengthen the demand for reforms from civil society and the private sector.

173. Another related risk is *weak implementation capacity*. Even if the political will for reform exists, the steady deterioration in the quality of the civil service and weak incentives due to low public sector salaries and poor management of the civil service could contribute to slow progress in implementing the Government's Poverty Reduction Strategy. The World Bank will attempt to mitigate this risk through strategic interventions in support of improved capacity building in key areas and support for a merit-based promotion and recruitment system, including a senior service pool providing strong leadership to the civil service.

174. Risks to the growth assumptions underlying the CAS come from the *increased competition that Bangladesh's garment and textile exporters are facing following the end of the Multifibre Arrangement* after January 1, 2005. While there has been no serious disruption of exports in the initial year since the MFA ended, the World Bank will, as described above, support efforts to reform the tax administration and regulatory environment and improve infrastructure provision with a view to reducing the high cost of doing business in Bangladesh. These efforts will help restore competitiveness, remove impediments to foreign and domestic investment, and thus facilitate greater diversification of the sources of growth. The World Bank Group will also provide policy advice and dialogue on competitiveness issues relating to the garment and textile sector in the post-MFA era. In addition, SEDF will continue to help the ready-made garment industry adjust to the changing market that it is facing.

175. Finally, Bangladesh's economy remains highly vulnerable to the risk of *natural disasters*. The World Bank will continue to support the improvements Bangladesh has made in disaster mitigation, which have greatly reduced the size of the shocks imposed by natural disasters on the economy. Working with its partners, the World Bank will support efforts to mainstream disaster management in relevant government institutions.

2. Risks Facing Implementation of the World Bank's Country Assistance Strategy

176. Pervasive corruption in Bangladesh exposes the World Bank's portfolio to high risk. Failure to address this risk carries high development effectiveness, fiduciary, and reputational risks for the Bank. As noted, the World Bank will mitigate this risk by working with the Government to strengthen its fiduciary controls and engaging with the Government in efforts to prevent reversal of its recent reforms in procurement policy. Recognizing that progress in this area may take time, however, the World Bank also will take measures to strengthen its own fiduciary controls in operations that it finances (see section IV.E). While these measures are unlikely to eliminate the risks of corruption in Bank-financed operations, they should, if properly implemented, significantly reduce those risks over time. They will also greatly mitigate the associated reputational risks as the Bank is increasingly seen to be moving decisively to curb corruption in its operations.

177. The upcoming elections may slow the FY07 lending portfolio, now planned to proceed at a regular pace because of Bangladesh's development needs, as a result of a period of potential inactivity associated with the caretaker government and the subsequent formation of a new government. To mitigate this risk, the FY07 portfolio is planned to include projects that are at an advanced stage of preparation and would likely be processed before the caretaker government takes power.

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Attachment 1

CAS OUTCOME MATRIX

This Matrix represents set of outcomes that are being targeted by the four Development Partners in the context of their planned programs¹.

Longer term development agenda for Bangladesh/PRSP Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	Bank and Development Partners Assistance
Pillar I: Improve Investment Climate				
1. A. Maintain Macroeconomic Stability				
Strengthen macroeconomic stability and competitiveness (PRSP)	A good record on macro stability, but vigilance required against emerging vulnerabilities in the public and external sectors	Improve fiscal sustainability	Consistency of fiscal deficits and their financing patterns with requirements of macro stability and sustainability maintained.	World Bank: Ongoing IDA Lending : Enterprise Growth & Bank Modernization (closes FY09) Proposed IDA Lending: DSC IV (FY07); PRSC I (FY08); PRSC II (FY09) Proposed AAA: Strategy for Growth and Employment (FY06); Employment Generation and Role of Migration (FY08) DFID: Support to BFTI & Trade Strategy process; Financial Management Reform Program; Governance Budget Support Instrument; SOE Losses – contribution to EGBM ADB Strengthening Capacity for Poverty Monitoring ; Efficiency Enhancement of Fiscal Management II; Support for Financial Management and Monitoring
				<ul style="list-style-type: none"> • SOE losses and public utilities' arrears reduced* • Tax administration strengthened (see Governance section for details) • Greater satisfaction of taxpayers, importers and exporters in periodic surveys
	<ul style="list-style-type: none"> • Contingent liabilities accounted for and all new public borrowing restricted to above the line 	<ul style="list-style-type: none"> • Improved revenue collection 		

¹ Milestones/Indicators in bold represent those that will be targeted by the Bank's program of support.

* denotes priority target/milestone

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period	Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	Milestones/Intermediate indicators
Development Outcomes (PRSP)	CAS outcomes	Milestones/Intermediate indicators
<p>I. B. Remove Trade Restrictions and Reduce Administrative Barriers</p>	<p>Remove Trade Restrictions*</p> <ul style="list-style-type: none"> Trade structure rationalized and an integrated trade strategy formulated across GOB 	<p>World Bank Group: Ongoing IDA Lending: Economic Management Technical Assistance Program (closes FY09) Proposed IDA Lending: DSC IV (FY07); Private Sector Development (FY07); SEDF: Trade Promotion TA Ongoing AAA: Post MFA Study Proposed AAA: Doing Business Indicators (FY06-FY08); Investment Climate Assessment 2 (FY08)</p>
<p>Create a regulatory environment conducive to enhanced competition and more efficient private sector participation</p>	<p>Reduce Administrative Barriers*</p> <ul style="list-style-type: none"> The approval process in BOI, BEPZA, and Register of JSCs, streamlined and made transparent Reliable and up-to-date business information made available Efficiency of customs & ports admin. increased by streamlining procedures Enforcement of contracts & property rights improved and commercial justice mechanism streamlined 	<p>JOINT : Private Sector Development Program, including RISE (World Bank Group, Japan, DFID, ADB, CIDA, EU)</p> <p>World Bank Group: SEDF: Business Enabling Environment TA; TA on subsectors (agribusiness, RMG, light engineering) IFC: Loans/equity to support private investment as opportunities arise</p> <p>JAPAN : Human Resource Development in EPB and other Trade/Investment Related Organizations; PSD Sub-sector-related Assistance</p> <p>ADB: Support to SEDF (non-lending); SME sector development program I&II</p> <p>DFID : SMEs - Sub-sector, service development, local regulatory reform: support to Katalyst Program & SEDF ; Governance Budget Support Instrument</p>
<ul style="list-style-type: none"> Substantial liberalization needed in highly restrictive trade regime 	<ul style="list-style-type: none"> Average nominal trade protection rate reduced and para-tariffs on non-luxury items phased out* Trade Policy Cell in the Government established 	<ul style="list-style-type: none"> Time required & formal cost of business entry and exit and contract enforcement reduced Business regulations streamlined and an appropriate competition law prepared Time required & cost of customs clearance reduced*
<ul style="list-style-type: none"> High cost of business, arising from: <ul style="list-style-type: none"> Policy uncertainty and reversals Corruption and inefficient application of business regulations Poor law & order / human security for doing business Costly delays at customs 	<ul style="list-style-type: none"> The approval process in BOI, BEPZA, and Register of JSCs, streamlined and made transparent Reliable and up-to-date business information made available Efficiency of customs & ports admin. increased by streamlining procedures Enforcement of contracts & property rights improved and commercial justice mechanism streamlined 	

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
<p>Improve access to and quality of infrastructure services, by strengthening sector governance and encouraging greater private sector participation</p>	<p>Improve governance and efficiency in infrastructure services</p> <ul style="list-style-type: none"> • Large unmet demand for critical infrastructure services -- power, transport, water supply, and telecom • Infrastructure provision dominated by state monopolies with low quality service and weak financial positions • Weak regulatory and distorted price environment that deters private investment • Improve urban congestion and over-concentration in Dhaka, leading to high transaction costs and negative productivity 	<ul style="list-style-type: none"> • A regulatory and pricing framework more conducive to greater private sector participation established • Progress towards the corporatization and commercialization of public utility agencies, and publicized service delivery standards and performance targets in power, telecom, and water sectors • Private sector participation in infrastructure provision increased • Dhaka-Chittagong Transport Corridor improved • Urban planning and management improved 	<p>World Bank Group:</p> <p>Ongoing IDA Lending: Private Sector Infrastructure Development (closes in FY07); Rural Electrification Renewable Energy Development (closes in FY08); Bangladesh Telecommunications TA (closes in FY08); Rural Transport Improvement (closes in FY09); Power Sector Development TA (closes in FY09).</p> <p>Proposed IDA Lending: Road Sector Reform (Reserve); "Crash Power Rehab." (incl. Siddhirganj (FY07); South Zone Power (FY08); Bangladesh Railways (Reserve); Dhaka Chittagong Sewerage & Drainage (FY07); Export Infrastructure Development (FY08); Inland Water Transport (FY09); Rural Electrification and Renewal Energy II (Reserve); Padma Bridge (FY09).</p> <p>IFC: Loans/equity investments and advisory services as opportunities arise</p> <p>Proposed AAA: Urban Strategy (FY07); Inland Water Transport (FY07); Legal & Judicial Review (incl. Land Policy and Admin. (FY07); Urban Transport Financing and Management Study (FY08)</p> <p>ADB: Dhaka Clean Fuel; Gas Sector Dev't Project I; Gas Sector Development Project II; Dhaka Power System Upgrade; West Zone Power Development; Power Sector Development Program II; Power Sector Development Program III; Southwest Road Network Development; Road Network Improvement & Maintenance; Road Network Improvement & Maintenance II; Development of Transport Corridor for Trade Facilitation; Institutional Support for Transport Sector Reforms; Chittagong Port Trade Facilitation; Port Sector Development program; Development of National Involuntary Resettlement II; Development of National Involuntary Resettlement I; Development of National Involuntary Resettlement II.</p>
	<ul style="list-style-type: none"> • Progressive alignment of domestic energy prices with international prices and power prices adjusted to reflect changes in underlying costs* • Bangladesh Power Development Board restructured and successors corporatized • Conclude at least two deals for new privately financed base-load power plants following competitive and transparent procurement and applying the generation financing strategy* 		
		<ul style="list-style-type: none"> • New Mooring Container Terminal in Chittagong Port completed and concessioned to the private sector • Increased quality and number of urban municipal investments implemented 	

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
			<p>ADB, DFID, Japan, WB Group</p> <p>JOINT: Road Sector Development Project (Dhaka Chittagong Highway including 4 laning) [ADB, DFID, Japan]; Railway Sector Development program [ADB, DFID, JBIC, WB]; Rural Electrification [ADB, DFID]; Portable Steel Bridge (Japan, DFID); Rural Infrastructure Dev't (Japan,DFID) ; Road Maintenance Budget Support (Japan, DFID)</p> <p>JAPAN: Jamuna Access Road; Capacity Development of Power Sector Management (Power Sector TQM); Support for power generation facilities in line with sector reform (BPDB Power Plants Rehab, O&M); Support for reforms in power transmission and distribution; Road Maintenance and Capacity Development (RHD and LGED); Rural Development Engineering Center; Railway Track and Locomotive Rehabilitation; Chittagong Port and Inland Water Dredging; Dhaka Circular Waterway; Urban Transport (Rehabilitation of road in Dhaka and Chittagong , Maintenance of Dhaka Road, Dhaka City Link Road); Pontoons in Inland River</p> <p>DFID: Support to Transport Sector Program; Support to gas sector (SCADA); Rural Roads & Infrastructure; Road Maintenance (CIDC3); Infrastructure elements within PSDSP.</p>

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
1. C. Private Sector Friendly Finance, Land and Labor Markets				
Deepen and make more efficient financial intermediation	<ul style="list-style-type: none"> Weak institutional capacity and a deficient legal framework facing the banking sector. NCBs plagued with high levels of NPLs Underdeveloped capital and insurance markets. Access problem especially severe for micro, small & rural enterprises -- problem of the "missing middle" 	<p>Enhance Financial Intermediation</p> <ul style="list-style-type: none"> Supervision of banking sector strengthened Progress towards divestment of remaining NCB and improved debt recovery* Enforcement of bankruptcy and default legislation made stricter Regulation for improved governance of MFIs enacted Regulatory & supervisory frameworks for capital & insurance markets (SEC, Insurance Commission strengthened) 	<ul style="list-style-type: none"> BB prudential norms brought in line with international best practice* Privatization of Rupali Bank completed Adopt corporate governance standards for MFIs Increase market placement of securitized issues. Develop secondary markets for govt. securities and establish reliable yield benchmarks 	<p>World Bank Group:</p> <p>Ongoing IDA Lending: Enterprise Growth and Bank Modernization (closes in FY09); Central Bank Strengthening (closes in FY08)</p> <p>Proposed IDA Lending: Investment Promotion Financing Facility (FY06)</p> <p>SEDF: TA to Partner Financial Institutions, generic training and support to Bangladesh Bank.</p> <p>IFC: Investments to support financial sector development as opportunities arise</p> <p>DFID: Reform in Revenue Administration; Support to the EGBM project on banking modernization & reform; Remittance Partnership Project with Central Bank to expedite and reduce costs of remittances; Prosper program (regulation outputs)-led ; Income III project (urban lending); Ultra Poor Finance & Innovation - Prosper Project; contributions to the BRAC CFPR project; Chars Livelihood Project; Economic Empowerment of the Poorest</p> <p>ADB: Financial Markets Governance Improvement.</p>
		<p>Strengthen policies for rural growth</p> <ul style="list-style-type: none"> Agricultural extension and research progressively more responsive to market needs Initial steps taken to improve the system of land administration and land use planning Functioning of agricultural input and output markets 	<ul style="list-style-type: none"> Demand-responsiveness of agricultural research and extension increased Develop and implement a strategy to modernize land administrations procedures and records Reduce, rationalize, and selectively eliminate 	<p>World Bank:</p> <p>Proposed IDA Lending: PRSC I & II (FY08-09) National Agriculture Technology (FY07); Rural Finance (Reserve)</p> <p>Ongoing AAA: Agriculture Technology Policy Note (FY06)</p> <p>Proposed AAA: Agribusiness Opportunities and Constraints (FY06); Rural Finance Study (FY07); Fisheries Policy Note (FY07);</p> <p>SEDF: Agribusiness TA, incl. value chain analysis.</p> <p>JAPAN: Poultry Management and Capacity Building;</p>
Increase productivity and income growth; improve living conditions for the rural poor	<ul style="list-style-type: none"> Low agricultural productivity and limited potential for productivity growth in rice Weak land administration and unsustainable land use management. 			

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
	<ul style="list-style-type: none"> Poorly functioning agricultural input and output markets Lack of enabling rural investment climate Limited access for rural SMEs to markets & market information 	<p>improved</p> <ul style="list-style-type: none"> Rural business climate improved 	<p>agricultural input subsidies*</p> <ul style="list-style-type: none"> Regulatory environment for agro-business improved 	<p>Crop Sector Development and Diversification Study; Rural Development Engineering Centre; Rural Development in Char & Haor; Master Plan on Small Scale Water Develop.; Integrated Rural Development Project; Participatory Rural Development Project; Local Development Coordination Program; Agricultural Technology Transfer by BARC; Road Maintenance and Capacity Development (RHD and LGED)</p> <p>JOINT: Rural Infrastructure Development Projects [Japan, DFID]; Rural Infrastructure Improvement II [ADB & DFID]; Potable Steel Bridge (Japan, DFID)</p> <p>ADB: Rural Infrastructure Improvement I ; Jamuna Meghna River Erosion; Command Area Development II; Small Scale Water Resources Development II; Small Scale Water Resources Development III (nonlending); Support for Private Public Partnership in Command Area Development (nonlending); Support for Private Public Partnership in Command Area Development; Agribusiness Development I; Agribusiness Development II</p> <p>DFID : Rural Electrification; Catalyst project working in rural markets (to be up-scaled); Contribution to SEDF (agribusiness and agriculture components); Land Administration – Land pilots as part of PSDSP & support to Samata (land rights); Chars Livelihoods Project [DFID]; Rural Livelihoods Project with Care [DFID]; BRAC CFPR project & new Economic Empowerment of the Poorest Project; Comprehensive Disaster Management Program; Prosper Project (rural finance & micro-enterprise (window) [DFID])</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
	<p>Upgrade business related skills and capacity for technology absorption</p> <ul style="list-style-type: none"> Mismatch between worker skills and market requirements Limited capacity for technology absorption 	<ul style="list-style-type: none"> Progress towards alignment of skills and technology absorption with market needs 	<p>World Bank</p> <p>Proposed IDA Lending: Technical, Vocational, Higher Education (FY08)</p> <p>Proposed AAA: Vocational Education (FY06); Higher Education (FY06);</p> <p>JAPAN: Human Resource Development in Private Companies (RMG&IT); Export Promotion Support; Higher Education Scholarship</p> <p>DFID: Catalyst & SEDF programs [DFID]; Chars Livelihoods Program; Support to UCEP & possible programming in vocational education; English Language Training for employment; Environmental & Socially responsible business outputs of Katalyst & SEDF; Governance Instrument; Possible support to CSR & compliance issues, esp. in relation to Post MFA challenges.</p> <p>ADB: Skills Development</p>
	<p>Strengthen adherence to international social & environmental standards</p> <ul style="list-style-type: none"> Poor adherence to social & environmental regulations 	<ul style="list-style-type: none"> Adherence to social & environmental regulations increased 	<ul style="list-style-type: none"> Improve private sector compliance with workplace safety, security and environmental regulations

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
Pillar 2: Empowering the Poor				
2. A. Improve Access to Quality Services Through Better Accountability				
Greater access to quality services for the poor, particularly women and other disadvantaged groups	Improve service delivery that meets the needs of poor people, especially women			
	<ul style="list-style-type: none"> Ensure that services reach the poor Improve provision Strengthen accountability framework Address financing issues Improve incentives to serve the poor Address rent seeking by service providers Information gaps Inefficient water resource management 	<p><u>Health</u></p> <ul style="list-style-type: none"> Access and quality of the poor to health services improved Shorter and more direct accountability links established between the health service providers and beneficiaries <p><u>Education</u></p> <ul style="list-style-type: none"> Access enhanced and quality & relevance of pre-primary, primary and secondary education especially for girls improved 	<ul style="list-style-type: none"> Utilization rate for essential service delivery package of the two lowest quintiles arises from 55% to 65% Further diversification of service delivery through contracting arrangements with NGOs in partnership with UPs. TB detection and treatment improved according to HNPSP action plan Quality assurance mechanisms for monitoring student learning and carrying out impact assessments established Teachers selected through merit based transparent process* Public subsidies to schools linked to learning outcomes* Increase competition in Textbook procurement at the secondary level Continue incentives for girls to attend and stay in schools 	<p>World Bank: Ongoing IDA Lending: Health, Nutrition and Population Sector (closes in FY10); Primary Education Development Project II (closes in FY10); Reaching Out of School children (closes in FY10) Proposed IDA Lending: Dhaka Chittagong Sewerage & Drainage (FY07); Education DSC III (FY07); Technical, Vocational, Higher Education (FY08); Avian Flu Preparedness (under the global APL) (Reserve); HIV/AIDS (Reserve); Water Management Improvement (Reserve); Ongoing AAA: Operationalizing MDGs (FY06); Urban and Indoor Air Quality (FY07); Urban Industrial Pollution (FY08) JAPAN: Strengthening Primary Teacher Training for Science and Mathematics; Safe Motherhood Promotion; Infectious Diseases Control; Arsenic Mitigation Support (Mitigation and Testing Technology); Participatory Rural Development Project; Local Development Coordination Program JOINT: Quality Education for All through PEDP II (Japan/UNICEF, DFID); Support for Non-Formal Education (Japan,DFID) through BRAC); Support for Post Literacy and Continuing Education (DFID & ADB); Primary Education Development Program II (ADB, DFID, Japan & WB); HNPSP (WB, DFID, Japan); Urban Primary Health Care II (ADB, DFID); HIV/AIDS Prevention Project (WB, DFID); Polio Eradication (Japan, DFID); GOB Arsenic Policy Support Unit [DFID and Japan]</p>

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
		<p><u>Water and Sanitation</u></p> <ul style="list-style-type: none"> Water resource management improved Coverage of solid waste collection and adequate disposal in selected towns increased 	<ul style="list-style-type: none"> Surface water quality in and around Dhaka improved 300 rural communities switching from shallow tube-well water to community run piped water schemes. Coverage of solid waste collection and adequate disposal in selected towns increased 	<p>ADB: Secondary Education Sector Improvement I; Teaching Quality Improvement in Secondary Education; Secondary Education Sector Development Program; Skills Development; Primary Education Sector Development Program; Institutional Support for Non-formal Education (nonlending); Support for Private Public Partnership in Madrasah Schools (nonlending); Urban Primary Health Sector Development Program.</p> <p>DFID: District based Maternal and Neonatal Program; CARE's HIV/AIDS Program; ICDDR,B-knowledge building about poverty and health; Rural Hygiene, Sanitation and Water Supply Program through UNICEF and GOB; Advancing Sustainable Environmental Health through WaterAid</p> <p>Other donors: CIDA, EC, GTZ, KfW, The Netherlands, Sida, USAID, UNFPA, UNICEF, WHO</p>
2. B. Strengthen Local Governance				
Effective and accountable local government bodies	<ul style="list-style-type: none"> Centralized control of basic services Strengthen institutional capacity Reduce political interference Address the issue of resources/financing Women members of UPs & municipalities have token rather than 	<ul style="list-style-type: none"> Improved capacity of local government bodies to successfully implement efficient service delivery schemes on behalf of their constituents 	<ul style="list-style-type: none"> Sustained increase in discretionary resources (own revenue and transfers) available to elected local governments. Increased capacity for effective, accountable and transparent generation and use of public resources* Powers and responsibilities of elected women members of local governments increased through allocation of specific subjects to them. 	<p>World Bank: Ongoing IDA Lending: Municipal Services (closes in FY07); Social Investment Program Project (closes in FY07) Proposed IDA Lending: Local Governance Support (FY06); Social Investment Program II (FY08); Community Fisheries Projects (Reserve); Proposed AAA: Local Governance Notes (FY06, 07); Public Expenditure and Institutional Review (FY07)</p> <p>JAPAN: Participatory Rural Development Project**; Local Development Coordination Program**</p> <p>ADB: Supporting Urban Governance Reform (nonlending); Urban Governance and Infrastructure Improvement; Urban Governance and infrastructure</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
realistic power			
2. C. Improve Human Security			
Rationalize Social Protection Systems			
Effective, equitable and predictable social protection system including safety nets	<ul style="list-style-type: none"> Coordinate and improve targeting of various safety net programs and address the issue of leakage. 	<ul style="list-style-type: none"> Safety net policy rationalized and better targeted 	<ul style="list-style-type: none"> A national social protection strategy developed. Proxy means test based targeting and event linked benefits that ensure more effective protection to the poor and vulnerable introduced
Freedom from violence, intimidation, abuse, crime for communities and individuals	<ul style="list-style-type: none"> Improve police behaviour in order not to compound problems for poor people but rather solve them Inferior status of women leading to high levels of gender violence 	<p>Strengthen security and public order</p> <ul style="list-style-type: none"> Police reform effectively pursued in the interests of the poor and vulnerable, especially women & girls Increased effectiveness in reduced human trafficking Improved awareness of rights and services, especially among women, girls and other vulnerable groups 	<ul style="list-style-type: none"> Increased effectiveness in reducing human trafficking Improved awareness of rights and services, especially among women, girls and other vulnerable groups Continue with police reform initiative leading to improved rights based service that protects the interests of poor people through explicit accountability structures
<p>World Bank: Proposed AAA: Pensions Study (FY07); Safety Nets (FY07); Poverty Assessment and Social Impact Analysis (FY07); Country Gender Assessment (FY07); Child Welfare and Youth(FY08) DFID: BRAC CFPR; Char Livelihoods; CARE Livelihoods; Comprehensive Disaster Management and Climate Change Awareness Program (CDMP); WFP partnership and Food security JAPAN: Grassroots Grant Projects for Human Security; Capacity Development for disaster management (Rader Installation, Cyclone shelter, Expert); Dhaka Rainwater Drainage Plan; Earthquake and Tsunami Early Warning System ADB: Flood Early Warning System; Emergency Flood Damage Rehabilitation</p>			

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
3. Governance at Center Stage				
3. A. Improving Implementation Capacity				
Improve Public Financial Management and Procurement Systems and Institutions	<ul style="list-style-type: none"> Strengthen the currently weak revenue effort (10% of GDP) Improve leakages of funds from budget due to flawed procurement regime, poor financial management and weak controls, including ineffective internal audits and inadequate impact of external audits Lack of transparency and weak information flows 	<ul style="list-style-type: none"> Enhanced revenue effort (targets agreed and achieved) and strengthened and more transparent tax administration Progress towards attaining higher standards in Public Financial Management based on agreed PEFA-based benchmarks, including: <ul style="list-style-type: none"> Improved expenditure management, Budgets much more transparent and accessible to the public Improved credibility and timeliness of the Government financial statements Strengthened auditing and enhanced audit impact Improved quality of CAG's audit reports Transparent Procurement System(including 	<ul style="list-style-type: none"> Increased tax revenue by 1.5 per cent of GDP, and rationalized exemptions*; expanded tax base NBR reengineering initiated including increased flexibility to manage human and financial resources more effectively and strengthened Board structure* Improved ratings on Public Financial Management (PFM) on implementation of agreed action plan in key areas, focusing particularly on enhanced accountability, transparency, and reduced fiduciary risk, including: <ul style="list-style-type: none"> Strategic budget management for a closer alignment of the budget with PRSP priorities through the institutionalization of the MTBF. Improved quality of financial statements for the central government Improved quality of audits according to the 	<p><u>World Bank:</u> Proposed AAA: Public Expenditure and institutional Review (FY07)</p> <p><u>DFID:</u> Financial Management Reform Program</p> <p><u>ADB:</u> Financial Management Support for Dhaka WASA (nonlending)</p> <p><u>JAPAN:</u> Financial Management Support for Chittagong WASA</p> <p><u>Other donors,</u> CIDA, UNDP.</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
	<ul style="list-style-type: none"> Issues and Challenges 	CAS outcomes (concessions)	international standards and systematic follow up by the Government on audit findings and recommendations of the Public Accounts Committee <ul style="list-style-type: none"> New procurement law enacted and implemented and E-procurement introduced. Compliance with regulations monitored through independent annual procurement review and civil society
Transformation of Public Administration	<ul style="list-style-type: none"> Deterioration in quality and quantity of public services High levels of corruption in the civil service Lack of professionalism and specialization, top down culture Lack of incentives and professional development/training and capacity in range of specialized skills Weak citizen demand for 	Take strategic steps to reform public administration* <ul style="list-style-type: none"> Measurably improved service delivery and public perception of service delivery (based on service delivery surveys and using 2001 survey as benchmark and integrating sector program targets) Progress in implementing plan to be agreed with GOB to develop a professional merit-based civil service which upholds principles of honesty and integrity and sees itself as accountable to the public 	<ul style="list-style-type: none"> New personnel management system, including extended merit based promotions, transfers within clusters, revised compensation and enhanced training. Agree on steps to reestablish Senior Service Pool. Pay and employment policy consistent with macro economic stability introduced. Incentives linked to performance, including through decompressed pay scales. Skill mix issue addressed.
			<p><u>World Bank:</u> Proposed IDA Lending: Tax and Customs Administration (FY08) Proposed AAA: Public Administration Policy Notes (FY06), Local Governance Notes (FY07)</p> <p><u>JAPAN:</u> Strengthening of BPATC</p> <p><u>DFID:</u> Financial Management Reform Program **, Managing at the Top (MATT)²</p> <p><u>ADB:</u> Good Governance; Governance Management nonlending)</p> <p><u>Other donors:</u> CIDA, UNDP</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
	improvements in public administration		ADB, DFID, Japan, WB Group
3. B. Tackling Corruption			
Operationalize Anti-Corruption Commission (ACC)	<ul style="list-style-type: none"> • Accelerate the proper functioning of ACC • Impunity largely prevails for corruption related offences. • Build ACC as a credible and effective organization • Bangladesh still ranks low in global anti-corruption indices with its scores worsening in recent years. 	<p style="text-align: center;">Operationalize Anti-Corruption Commission</p> <ul style="list-style-type: none"> • Greater public confidence in government's ability to curb corruption as measured in corruption surveys • Reduced opportunities for corruption through simplifying procedures/clearances and where appropriate removing controls and restrictions with improved scores in Doing Business Surveys • Increased public awareness of the costs of corruption and of how to fight corruption as measured in surveys 	<p>World Bank: Ongoing IDA Lending: Development Support Credit IV</p> <p>ADB: Good Governance; Governance Management (nolending)</p>
Operationalize Anti-Corruption Commission	<ul style="list-style-type: none"> • ACC fully operational • Initiate dialogue between ACC and civil society on a strategy to fight corruption • ACC catalyzes development of a coherent and practical strategy to fight corruption including through strengthened prevention, enforcement and education • National Integrity Strategy developed and agreed with government • Civil society activated to raise voice against corruption and monitor public finances 		

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
<p>Strengthen Oversight Agencies²</p>	<p>Weak guardians of accountability (such as Election Commission, Parliamentary Committees, Anti Corruption Commission, Controller and Auditor General, Bangladesh Bank, Securities and Exchange Commission) encourage impunity</p>	<p>Strengthen the Guardians of Accountability</p> <ul style="list-style-type: none"> • Public perception of increased independence and effectiveness of key oversight agencies as measured in anti-corruption surveys • Increased effectiveness of Parliamentary Committees 	<p>World Bank: Proposed IDA Lending: Governance and Accountability (FY09); Public Sector Management (reserve) Proposed AAA: Governance Policy Notes (FY06); DFID: Financial Management Reform Program **; Managing at the Top (MAIT)² ADB: Good Governance; Governance Management nonlending)</p>
			<ul style="list-style-type: none"> • Technical Support Unit of PAC established and fully operational and PAC proceedings opened to the media. • Government takes measures to ensure the independence and operational effectiveness of key agencies by: <ul style="list-style-type: none"> ○ Creating a transparent, fair and independent process for the selection of the leadership and senior management of key agencies ○ Ensuring financial and administrative independence of these agencies ○ Ensuring adequate salaries and other compensation for the leadership and senior management commensurate with their responsibilities and special status. <p>WB will focus on BB, C&AG, PAC, SEC.</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
3. C. Legal And Judicial Reform			
Laying the foundation for a comprehensive reform of the justice sector	<p>Develop Consensus on reform priorities and initiate key reforms</p> <ul style="list-style-type: none"> The overall performance of judiciary remains a source of concern. At any given time, approximately 800,000 cases are pending at different levels of the judicial system. Inherited colonial system of justice ensures 'certainty of expense but uncertainty of results'. <p>While the Supreme Court continues to be held in high regard, perceptions about the integrity of the lower judiciary are a major concern.</p>	<ul style="list-style-type: none"> Court case backlog reduced and increasing resort to ADR. Broad consensus on strategies for reform of key justice sector agencies, including the courts and the police and measurable improvements against agreed priorities. Better understanding of the obstacles to reform in the sector, including political economy constraints. Availability of commercial justice for corporate sector at least in Dhaka and in selected regions. 	<ul style="list-style-type: none"> Supreme Court and selected district courts implement Case Management and Court Administration Reforms. ADR systems introduced. Independent panel of eminent jurists and lawyers established in consultation with government which carries out broad consultations and initiates debate on priorities for justice sector reforms and recommends key actions and next steps. Detailed reform agenda and action plans for the key justice sector agencies developed including police.*
	<p>World Bank: Ongoing IDA Lending: Legal and Judicial Capacity Building (FY07) Proposed IDA Lending: Governance and Accountability (FY09) Proposed AAA: Governance Policy Notes (Public Admin., Legal & Judicial, Asset Declaration) (FY06)</p> <p>JOINT: Police reform (DFID/UNDP, Japan) ADB: Support to Good Governance Initiatives</p>		
3. D. Strengthen Voice/Empowerment/Participation			
Freedom of information law and E-governance.	<p>Improve Access to Information</p> <ul style="list-style-type: none"> Bureaucratic culture thrives on secrecy and control over information 	<ul style="list-style-type: none"> Greater flow of information from government via PRS monitoring and achievement of sector program commitments to information 	<ul style="list-style-type: none"> Government develops and implements an Information Policy Strategy including potential enactment of a Freedom of Information Act
	<p>World Bank: Proposed IDA Lending: Public Procurement Reform Project 2 (FY06); Proposed AAA: Legal & Judicial Review (incl. Information and Transparency Note & Land Policy and Administration) (FY07)</p>		

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
	<ul style="list-style-type: none"> Freedom of information is seen by PRSP as a powerful driver for building accountability 	<p>and accountability</p> <ul style="list-style-type: none"> Measurably increased use of public information to hold government accountable Better informed media monitoring of government performance 	<p>and implementation of information dissemination strategies , while also addressing underlying financial and human resource requirements</p> <ul style="list-style-type: none"> Key business processes redesigned and e-governance introduced to enhance information flows and reduce opportunities for corruption Key public institutional processes made open to the public including Public Accounts Committee hearings, procurement process, disclosure on the web of periodic financial statements and audit reports. 	
Strengthening civil society and participation	<ul style="list-style-type: none"> Civil society needs to adapt itself to its enhanced role by increasing its professionalism and accountability, and becoming stronger in its advocacy functions There is a need for greater clarity roles as service providers and contractors, versus advocacy 	<p>Strengthen Participation</p> <ul style="list-style-type: none"> Measurably more effective advocacy on governance reforms by civil society, media More responsive service provision and improved customer satisfaction in priority sectors as measured in surveys. Measurably increased participation by, and accountability to, beneficiaries in the design and implementation of 	<ul style="list-style-type: none"> Review mechanisms in place and satisfaction surveys conducted, publicized, and incorporated into future planning Gender budget analysis carried out results published and incorporated into financial management reforms Institutionalized participation in expenditure tracking and budget performance analysis Government and donor funded projects systematically require 	<p>World Bank: Ongoing IDA Lending: Municipal Services (closes in FY07); Social Investment Program Project (closes in FY07) Proposed IDA Lending: Local Governance Support (FY06); Social Investment Program II (FY08); Community Fisheries Projects (Reserve); Proposed AAA: Local Governance Notes (FY06, 07); Public Expenditure and Institutional Review (FY07); Behavioral Change and Social Accountability (FY06) JAPAN: Participatory Rural Development Project**; Local Development Coordination Program** ADB: Supporting Urban Governance Reform</p>

Longer term development agenda for Bangladesh/PRSP		Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators	ADB, DFID, Japan, WB Group
	and accountability	<p>government development programs</p> <ul style="list-style-type: none"> Civil society becomes measurably more accountable 	<p>participation by and accountability to targeted beneficiaries facilitated, by civil society</p> <ul style="list-style-type: none"> NGOs commission annual audits of their activities and budgets and publish them 	(nonlending); Urban Governance and Infrastructure Improvement; Urban Governance and infrastructure Improvement II
3. F. Political Governance				
Election process reform	<ul style="list-style-type: none"> PRSP recognizes that high cost of fighting elections and the nature of party finance is a major cause of corruption 	<ul style="list-style-type: none"> Code of conduct for elections monitored, adhered to, and sanctions imposed on code breakers 	<ul style="list-style-type: none"> Code of conduct developed and accepted 	
4. Long Term Strategic Issues				
Improve disaster management capacities	<ul style="list-style-type: none"> Improve disaster response to become more pro-active than reactive Disaster management focused on familiar disaster such as floods & cyclones only Inadequate focus on long term climate change impacts 	<ul style="list-style-type: none"> Improved natural disaster response systems and preparedness at community level, backed by official support Improved surveillance and disaster management in public health Increased information sharing and joint planning at regional level encouraged 	<ul style="list-style-type: none"> Establish a public health surveillance system to track diseases that affect the vulnerable, such as HIV/AIDS Disaster management mainstreamed throughout relevant GoB structures & donor programmes Increase emphasis on mitigating climate change effects mainstreamed in donor programmes to protect interests of the poor 	<p>World Bank Proposed IDA Lending: Disaster Management TA (Reserve); HIV/AIDS (Reserve); Water Management Improvement (Reserve) Ongoing AAA: Country Environmental Assessment (FY06); Proposed AAA: Urban and Indoor Air Quality (FY07); Urban Industrial Pollution (FY08)</p>

Longer term development agenda for Bangladesh/PRSP	Outcomes influenced by the CAS Program during the 4 year period		Bank and Development Partners Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS outcomes	Milestones/Intermediate indicators
Strengthen Environment and Water Resource Management	<ul style="list-style-type: none"> Inefficient water resource 	<ul style="list-style-type: none"> Water resource management capacities including flood control improved 	<ul style="list-style-type: none"> Strengthen Bangladesh Water Development Board

Attachment 2

Progress toward Achieving the Millennium Development Goals

1. A mixed picture emerges for Bangladesh from two recent MDG studies, conducted by the World Bank and the UN/GoB. On the one hand, there has been remarkable progress on several MDGs, such as gender parity, consumption poverty and child mortality. There are also several MDGs within reach, but that will require special attention and concerted effort. Finally, there are a group of MDGs that will challenge the country for some time.
2. Bangladesh has already attained (or nearly so) the goal relating to elimination of gender disparity in schooling opportunities. Bangladesh is the only country in South Asia other than Sri Lanka to have achieved parity in male and female enrollments not just at the primary level but also at the secondary level. This is an impressive achievement for a country that is one of the poorest countries in the world, with a per capita gross national income of only US\$1,770 (in PPP terms) in 2002.
3. The analysis in the report further suggests that attainment of two other MDGs – in particular, the reduction of consumption-poverty and under-five mortality – is also feasible with a combination of interventions, including sector-specific interventions (such as expanding immunization coverage and reducing pupil-teacher ratios), economic growth, improved coverage of infrastructure, and social safety-net programs (such as the Education Stipends Program and the Vulnerable Group Development programs).
4. However, it will be challenging for Bangladesh to attain the child malnutrition-related MDG as well as the education MDGs relating to universal net primary enrollment and primary completion. In the case of child malnutrition, the projections suggest that Bangladesh could come very close to – within 5 percentage points of – the MD goal of having no more than 34% of its children underweight. However, it will be very challenging for the country to attain rates of net primary enrollment and primary completion exceeding 83-86% by 2015. This assessment is based on household survey data. Other studies (UN/GOB) using administrative data show that primary net enrolment target will be met.
5. According to the UN/GoB MDG assessment, another goal that will be difficult to achieve is that related to improving maternal health, indicators of which, such as the maternal mortality ratio, remain among the worst in the world. The MMR, for example, falls in the range of 320 to 400 in 2001. In order for Bangladesh to meet the target for maternal mortality, this figure must be reduced to 143 per thousand live births, which will require the inducement of major behavioral changes in mothers, far greater access to quality reproductive health services, and a generally improved socio-economic situation.
6. With respect to water, the UN/GoB assessment observes that arsenic contamination has reduced the percentage of people with access to safe water from nearly 100 percent down to roughly 80 percent in urban areas and 70 percent in rural areas. This presents a major challenge to improve outcomes by changing ingrained behaviors leading to the use of contaminated water from ground tube wells and/or by providing safer technologies to affected villages. In the case of sanitation, an emerging set of challenges to MDG attainment is driven partly by urbanization,

as only 14 percent of slum dwellers in metropolitan areas have access to sealed latrines. Given that the urban population is projected to nearly double to 50 million people by 2015, adequate provision of water and sanitation to urban dwellers will be crucial for reaching these MDGs.

7. Being located on a flood plain with very limited natural resources, Bangladesh experiences acutely the effects of environmental degradation. Detrimental environmental conditions are also exacerbated by poverty, with many millions of poor people turning to the extremely limited forest products (Bangladesh has one of the lowest amount of forest cover per capita of any nation) for their bio-fuel and energy needs. Reversing the trend of deforestation and increasing energy efficiency, therefore, weigh heavily on the MDG agenda of ensuring environmental sustainability. The financial and institutional resources necessary to accomplish these objectives, however, pose significant challenges to attainment of this MDG.
8. What accounts for the extraordinary progress in improving social indicators in Bangladesh? Some have commented that Bangladesh's better performance may have to do with the fact that public expenditure on health as a proportion of GDP is almost twice as high in Bangladesh (1.5%) as in, say, India (0.9%). This was not always so. In 1990, Bangladesh spent only 0.7% of its GDP on health – less than what India spent (0.9%) (UNDP 2004). Thus, Bangladesh saw public spending on health increase very sharply during the 1990s, while India experienced stagnation in public spending on health (in relation to GDP growth).
9. It is instructive to look at public educational expenditures in Bangladesh and India as well. In 1999-2001, India's public spending on education was 4.1% of its GDP – considerably greater than public spending on education in Bangladesh, which was only 2.3% of GDP (UNDP 2004). However, as in the case of health, public expenditure on education in Bangladesh increased from 1.5% of GDP in 1990 to 2.3% of GDP in 1999-2001 – an increase of more than 50%. In contrast, public spending on education as a share of GDP increased by merely 5% over the same period in India – from 3.9% to 4.1% of GDP. Additionally, there is an important difference between Bangladesh and India in the composition of public spending on education. While Bangladesh spends 45.1% of its total public expenditure on education at the pre-primary and primary level, the relevant figure for India is 38.4%. At the other extreme, India spends 20.3% of its total public spending on education at the tertiary level, in contrast to Bangladesh's 11.1% (UNDP 2004). Thus, the rapid growth of public spending on education and health in Bangladesh, combined with its better balance of educational spending across the primary and tertiary sectors (relative to India), are likely to be important factors in explaining the significant progress the country has made in its social indicators during the 1990s.
10. Another factor that is likely to be important in explaining Bangladesh's relative success in attaining positive social outcomes is the work of its NGOs. Bangladesh may well be the world's leader in using NGOs as vehicles of development. NGOs are involved in virtually every activity in the country – relief and rehabilitation, poverty alleviation, health, education, social protection, and environmental protection, to name a few. A villager in Bangladesh can send his or her child to an NGO school, have family planning and basic health services delivered by an NGO health worker, obtain micro-credit financing from a choice of several NGO banks, sell milk and other dairy products to an NGO dairy cooperative, and make a telephone call on an NGO telephone. Secondary education in Bangladesh is almost entirely provided by the non-

government sector – viz., the NGOs, for-profit schools, and religious schools (madrasas). Likewise, many of the family planning programs of the 1970s and 1980s, which set the stage for the subsequent decline in child mortality, were primarily delivered through NGOs. And several studies suggest that micro-credit programs, which were pioneered by one of the best-known NGOs in the world—the Grameen Bank—have had a significant effect on reducing poverty, especially among females.

11. Yet another factor in explaining Bangladesh’s success, especially its ability to eliminate gender disparity in enrollment even at the secondary level, is the use of targeted public interventions, such as the Female Secondary School Stipend Program (FSSS). The FSSS program is essentially a Conditional Cash Transfer (CCT) or a demand-side intervention for rural girls (the majority of whom are poor) to attend secondary school. By all indications, the FSSS program has been hugely successful in increasing female secondary school enrollments, especially since secondary schooling in Bangladesh is not free and parents are often unwilling to invest in the secondary schooling of their daughters.

12. However, Bangladesh’s progress on the MD indicators during the 1990s does not mean that there are no problems going forward. Indeed, there are several areas of remaining concern. First, there are very large regional disparities in virtually all of the MD indicators in Bangladesh. Districts such as Noakhali, Pathuakali, Chittagong, Rajshahi, and Sylhet have generally not performed well on several of the MD indicators. Even if Bangladesh as a whole attains some of the MDGs, there will be several areas of the country that will remain distantly behind. The analysis in the World Bank report suggests that poor performances on many of the MD indicators are geographically concentrated in a few regions. This in turn means that targeting interventions, central government resources, and economic growth opportunities to the lagging divisions and districts will speed up attainment of the MDGs.

13. Second, the problem of governance – in particular, poor service delivery – is widespread in the social sectors in Bangladesh. Doctors, health workers and teachers are typically absent from their assigned posts at government health centers and schools. Membership of school management committees is highly politicized, and teacher recruitment is often subject to personal influence. Procurement of textbooks and essential drugs is rife with corruption. The quality of health and education services offered at most government health facilities is generally very poor. Yet the evidence presented in this report indicates the tremendous importance of service delivery in influencing MD outcomes. Infant and under-five mortality rates have fallen most in areas where effective family planning and MCH/FP programs are delivered to rural women with low schooling; female school enrollments have increased thanks to a well-designed and well-delivered secondary stipend program that reaches its intended beneficiaries; and public transfer programs that deliver food supplies to the vulnerable in rural areas, such as Food-for-Work, Vulnerable Group Feeding and Vulnerable Group Development, are associated with large reductions in child malnutrition among the poorest children. This suggests that better governance, and improved delivery of social services in particular, would be very important to attaining the MDGs.

14. Better delivery of public services – whether in health, schooling, nutrition, or infrastructure – is a complex and difficult task that entails creation of the right institutions and

incentives, including devolving responsibility for service delivery to local governments and communities, contracting out certain types of service delivery to the non-government sector, empowering consumers to demand better services from government health facilities, introducing competition among public providers, and ensuring the motivation of front-line workers (World Bank 2003).

15. There are some other findings from the World Bank report that are useful to reiterate. The report notes there is evidence of significant synergies among the different MDGs. For instance, a reduction in the proportion of underweight children is strongly associated with a reduction of child mortality. Although maternal mortality is an MD indicator that has not been analyzed in this report, it is clear that interventions that reduce maternal mortality, such as tetanus immunization, expansion of antenatal care coverage, and an increase in the ratio of professionally-attended deliveries, will also bring about large reductions in infant (especially neonatal) mortality. Likewise, reducing child malnutrition is likely to result in both schooling quantity and quality, as better nourished children are more likely to attend school and perform better in school. Thus there are synergies amongst the MDGs that will help in their attainment, which implies that proceeding with simultaneous action on all these measures will have the greatest impact on attainment of the MDGs.

16. The simulations carried out in the World Bank's MDG assessment also suggest that economic growth that brings about an improvement in household living standards is strongly associated with virtually every MD indicator. For example, real per capita GDP growth of 4% per annum in Bangladesh could alone bring down the under-five mortality rate by about 8 deaths per 1,000 live births and the incidence of poverty by 21 percentage points between now and 2015. In addition, this growth could bring about an increase in the net primary enrollment rate of 5 percentage points by 2015. In other words, rapid economic growth could make significant contributions to an improvement in all the MD indicators between now and 2015.

Attachment 3

MEDIUM TERM MACRO FRAMEWORK

I. Macroeconomic Performance During the Last CAS

1. ***GDP growth performance has been good.*** GDP growth averaged 5.4% per annum over the FY01-05 period, the highest 5-year average since independence. Growth has been underpinned by a resurgence of private investment; which grew at an annual average rate of 10%, increasing its share in GDP from 16% in FY01 to 18.5% in FY05. The share of public investment in the meanwhile fell from 7% to 6%. While benefiting from continued strong export growth (about 8% p.a.), with garment exports being the mainstay, growth has also been fairly broad-based. Construction and services sectors in particular have grown strongly fueled by large remittance inflows. Agriculture sector growth has been rather anemic, averaging just 2% over the period.
2. ***Containment of the fiscal deficit at around 3.5% of GDP, partly through curbs on wasteful expenditures, has improved the prospects for fiscal sustainability.*** Fiscal deficit has been lowered from around 6% in FY00 to 3.5% in FY05 and its financing patterns made more prudent, with increased emphasis on concessional external financing. Benefiting from good growth and fiscal prudence, public sector debt has been contained at under 50% of GDP and appears on a sustainable path although there are potential risks. A particular concern is the growing liabilities of the Bangladesh Petroleum Corporation (BPC) due to the recent increases in global oil prices that have not been fully passed-through to consumers; resulting BPC losses equaled 0.7% of GDP in FY05.
3. ***Monetary policy has broadly supported growth while doing a good job of containing inflation.*** Inflation remained below 5% over the FY01-03 period, rising to 6% in FY04 and further to 6.5% in FY05. Bangladesh Bank was slow to respond to the exogenous pressures on inflation arising from global commodity price increases and the 2004 floods, but has tightened monetary policy considerably since March 2005.
4. ***The external sector has benefited from strong growth in exports and remittances, which supported equally robust growth of imports, including of capital goods.*** Exports increased by 40% and remittances doubled over the FY00-05 period while imports increased by 50%. The current account recorded small surpluses in fiscal years 2002, 2003, and 2004 before slipping into a deficit equaling 0.9% of GDP in FY05. Sharply rising cost of oil and other commodity imports contributed to the current account deficit in the latest year. Benefiting also from a pick-up in concessional and other long-term capital inflows, foreign exchange reserves increased from their precarious level of US\$ 1 billion (or 1 month of import cover) in end-2001 to a more comfortable US\$ 3 billion by end-FY05.
5. ***Authorities floated the exchange rate in May 2003.*** The exchange rate has been relatively stable since, with taka losing about 15% of its value against the dollar, although exceptionally strong import growth has put it under some stress since the beginning of 2005. Import growth has been fueled by a sharp rise in oil imports (oil imports exceeded forecast levels by about US\$500 million in FY05), increases in demand for intermediate goods and capital machinery due to increased domestic activity, and higher rice and wheat imports to cover shortages caused by floods. Early on in 2005, Bangladesh Bank used its reserves to support the taka almost to the limit specified in the macroframework agreed with the IMF, but has subsequently allowed the taka to depreciate and tightened monetary conditions to stem further pressures.
6. ***Although external debt is relatively low*** – at about 33% of GDP and that too mostly on concessional terms – because of modest export levels (14% of GDP in FY05), the country faces some medium-term liquidity risks: the ratio of net present value of future debt servicing obligations to goods and non-factor services exports stands at about 150%. A good record on macro stability has led to ***renewed interest by foreign investors.*** Bangladesh is close to completing an agreement with the Tata Group of India which

would bring in FDI worth US\$2.5 billion in production plants for energy, steel, coal, and fertilizers. If it does go through, it would be the single largest foreign investment deal for Bangladesh. Further, the Abu Dhabi Group recently announced a decision to invest US\$1 billion in telecommunications, pharmaceuticals, and hotels.

II. Macroeconomic Prospects over the Next CAS

7. *The Government's medium-term macroeconomic framework commits to fiscal and monetary prudence and deepening structural reforms.* The framework envisages acceleration in GDP growth from 5.4% in FY05 to 6.0% in FY06 and 6.5% in FY08. Such faster growth would require a significantly higher level of investment and more efficient investment decisions than in the past. Achievement of these, in turn, assumes acceleration in the pace of structural reforms to tackle supply-side bottlenecks. As suggested by a recent World Bank report,¹ growth rates of around 7% would be feasible if the Government scales up its efforts to improve economic governance and reduce regulatory costs, address infrastructure constraints (especially ports and power), deepen and improve the efficiency of the financial sector, improve labor quality, and further lower trade barriers. Investment rates would need to rise substantially to a level unlikely to be covered by higher private savings alone: this will require fiscal prudence (cutting budget deficits, lowering SOE losses etc.), continued donor support, and significant increases in foreign capital inflows.

8. *The Government's fiscal policy aims to finance social development and key public investment while containing the deficit and maintaining debt sustainability.* The level of public expenditure, at nearly 14% of GDP, is low by global standards, reflecting weak revenues and low implementation capacity. Total tax and revenue collection rates remain among the lowest in the world at 8 and 10% of GDP. The medium-term framework envisions improvements in these. Revenue to GDP ratio is projected to increase to 12% by FY09 as a result of modernization of the National Board of Revenue, and the expenditure to GDP ratio to 15.5%. Fiscal deficits would be contained at or under 4% of GDP and domestic financing of these would be limited to under 2% of GDP, to ensure continued fiscal sustainability. Fiscal sustainability will further depend on the Government's ability to contain the emerging contingent liabilities being generated as a result of the growing losses of the BPC. Pass-through of international price increases to domestic consumers would be important to contain that risk. Continued monetary prudence would be necessary to contain inflation at the targeted rates of 7% in FY06 which would be lowered down to under 5% by FY08, especially in the face of rising commodity prices.

9. *Export performance faces considerable risks and some opportunities from the dismantling of the Agreement on Textiles & Clothing (ATC) from January 2005,* which exposes Bangladesh to competition from garment exporters previously restricted by quotas. This poses a considerable challenge for the economy, because the garment sector accounts for over three-quarter of total exports, and directly employs about 2 million workers, of whom 90% are women. Woven garment exports seem to have already been adversely affected by the removal of the quota system, recording -4% growth over the January-June period: knitwear exports grew at 26% over the same period, keeping overall garment export growth at 7%. It may still be too early to assess the long-run impact of the quota removals. A hopeful sign is that new investment and market orders continue to flow. Also, Bangladesh is competitive in the high-volume, low-margin segment of the world market and retains preferential access to the EU and Canadian markets due to its LDC status. At the same time, the post ATC world offers some opportunities for Bangladesh, as exemplified in the more-than-doubling of knitwear exports to the US over the January-June 2005 period; knitwear exports to the US were previously constrained by quotas. The invoking of WTO safeguards on China by the EU and the US should also benefit Bangladesh over the next two years.

¹ "Bangladesh: Growth and Export Competitiveness." 2005. World Bank, Washington, D.C.

Attachment 4
Bangladesh's PFM Indicators based on the PEFA framework

Bangladesh: Assessment of PFM Indicators		Rating
Indicators	Comments	
	A. PFM Out-Turns: Credibility of the Budget	
PI-1 <i>Aggregate expenditure out-turn compared to the original budget.</i>	Actual primary expenditures were more than 10 percent lower than the budgeted primary expenditures in all the three years (FY03-05). The consistent undershooting of the budget target largely reflects the over-programming of the Annual Development Program (ADP), driven by a development philosophy that views projects as the building blocks of development and the size of the ADP is seen as an indicator of the government's development effort. This encourages a tendency for the original size of the ADP to be larger than the previous year with reductions in the ADP size made at the preparation of the revised budget in the third quarter of the fiscal year. Typically, the revised ADP is also over-programmed, although to a lesser extent than the original ADP. As far as the recurrent primary expenditure is concerned, actual expenditure deviated from the budget by more than 5 percent in only one of the last three years.	C
PI-2 <i>Composition of expenditure out-turn compared to original budget.</i>	Changes in overall level of expenditure naturally translates into changes in spending for functional budget lines. However, measured as the extent to which reallocation between budget lines contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditures, the changes in the composition of expenditure out-turns have been relatively small in recent years. Variance in expenditure composition exceeded overall deviation in primary expenditures by more than 5 percentage points in only one of the last three years.	B
PI-3 <i>Aggregate revenue out-turn compared to original approved budget.</i>	Actual domestic revenue collection was consistently below 94 percent of budgeted domestic revenue estimates in all the three years. However, it was above 92 percent of budgeted domestic revenue estimates every year. Forecasting of non-tax revenue is generally weaker than forecasting of tax revenue.	C
PI-4 <i>Stock and monitoring of expenditure payment arrears.</i>	There is no reliable data on the stock of expenditure payment arrears and accumulation of new arrears from the last two years. Under the existing cash-based budgeting and accounting system, assessment of the existence and completeness of arrears is difficult. Fragmentary evidence suggest that the stock of arrears could be non-negligible. The stock of government arrears to power companies alone at the end of May 2005 amounted to 0.2 percent of total FY05 recurrent expenditures.	D

B. Comprehensiveness and Transparency

PI-5	<i>Classification of budget</i>	The existing classification structure is 13 digit structure consisting of four separate code dimensions covering analysis for legal, organizational, operational unit or project and economic. The classification is not consistent with COFOG definition in respect of the functions of the government. This impedes external reporting because of the additional functional analysis required and reworking into the COFOG standards that takes place. The budget formulation and execution is based on administrative and economic classification using GFS standards.	C
PI-6	<i>Comprehensiveness of information included in budget documentation.</i>	Detailed budgets covering ministries' activities within their responsibilities are prepared annually and these budgets are further broken down by individual agencies within each ministry. The budget document discloses the main fiscal aggregates for the budget year and the preceding year's original and revised budget estimates. The Budget Speech lays out the key macroeconomic assumptions and provides brief account of the budget implications of new policy initiatives, with broad estimates of the budgetary impact of major revenue and expenditure policy changes. No estimate of the debt stock and financial assets, even for the beginning of the fiscal year, are provided.	C
PI-7	<i>Extent of unreported government operations.</i>	No estimates of tax expenditures, contingent liabilities or the extent of quasi-fiscal activity are presented in the budget documents. A proportion of spending is off budget, but this is relatively small. Not all aid is captured because of the practice of donors' opening special bank accounts in commercial banks that are outside the government accounting system. The budget documents show aggregate spending on subsidies and transfers but no summary of subsidies by purpose nor any discussion of subsidy policy is provided, so the extent to which policy objectives have been achieved is not monitored or reviewed.	D
PI-8	<i>Transparency of inter-governmental fiscal relation</i>	Bangladesh has a unitary form of government with no sub-national governments. The only local government institutions that exist are municipal corporations/municipalities in urban areas and union Parishads in rural areas. Data on their budgets and accounts are provided by local authorities to the Local Government Division, but there is uncertainty about whether this information is complete and the extent to which it is analyzed. Local government funding is by way of grants from central government and limited authority to raise revenue through local property taxes and fees.	D+
PI-9	<i>Oversight of aggregate fiscal risk from other public sector entities</i>	State owned enterprises and autonomous government agencies are a major source of fiscal risk. The standard of accounting records and the treatment of accounting issues in many government owned commercial entities does not meet internationally recognized standards. The methodology and approach adopted in the funding of these entities tend to hide the true extent to which they are using public resources. The SOEs submit their accounts every six months as well as annual audited accounts. The difference between pre and post-audit accounts generally tend to be large. The central government does not usually consolidate overall fiscal risk issues into a report.	C

PI-10	<i>Public access to key fiscal information</i>	<p>The budget speech and budget summary tables are posted on the Finance Division's website immediately after the presentation of the budget to the Parliament. The public cannot easily get access to the complete set of budget documents given to the members of Parliament. The Monthly Accounts produced by CGA are compiled into Monthly Fiscal Report and posted on the website with a 5 months lag. Year-end financial statements are not available to the public. The C&AG publishes every year five audit reports with considerable time lags covering appropriation accounts Civil, Defence, Railway, Post Telegraph and telephone Departments and one financial accounts covering all government receipts and expenditure under each head of accounts. Major issues are generally reported in the media. Competition and award notices for all contracts exceeding \$160,000 are advertised on the central website operated by the Central Procurement Technical Unit (CPTU). Information on resources available to primary service units is generally not publicized.</p>	C
C. Budget Cycle			
PI-11	<p>Policy-based Budgeting</p> <p><i>Orderliness and participation in the annual budgeting process.</i></p>	<p>Budget preparation is historically done with limited involvement of senior officials. The central ministries, Finance Division and the Planning Commission are perceived to make major decisions about the revenue and development budgets respectively. Similarly with budget management. The recent introduction of MTBF in selected ministries and the accompanying developments of Budget Monitoring Committees in these ministries provide expanded opportunities to foster greater participation of line ministries in the budget process. The annual budget cycle runs from July 1 to June 30. The existing budget calendar, which is now being revisited, does not allow for a strategic phase consisting of evaluating the financial constraints, setting up aggregate fiscal objectives and making strategic choices in accord with policy priorities prior to issuing the budget circular. The timetable does not allow the Parliament to effectively scrutinize the budget. However, during the last three years, the legislature has approved the budget before the start of the fiscal year.</p>	B
PI-12	<p><i>Multi-year perspective in fiscal planning, expenditure policy and budgeting.</i></p>	<p>The government is in the process of introducing an MTBF to replace the traditional inputs based approach to budget planning. New policy proposals are distinguished from existing commitments in submissions to the revenue budget and similarly new projects from ongoing projects in the development budget. Since 2002, the government has been preparing forecasts of fiscal aggregates on the basis of the main categories of economic classification for three years on a rolling annual basis as required under the PRGF. DSA has been done by IMF, but the government does not yet have the capacity to undertake DSA on its own. The government started articulating sector strategies with the preparation of the Interim-PRSP in 2003 and the finalization of PRSP in November 2005. However, the strategies are not costed yet.</p>	D+

PI-13	Predictability and control in budget execution. <i>Transparency of taxpayer obligations and liabilities.</i>	The legal framework for taxation has become progressively fragmented over the past decade by innumerable amendments and decrees by various administrations and compliance rates diminished. Tax administration is seriously flawed. The National Board of Revenue has few guidelines and procedures in place to ensure that its field offices and personnel engage in activities that are consistent, uniform, and impartial. Management makes little attempt to monitor these activities, and the field offices and tax officials are not held accountable by the NBR. Tax evasion is widespread. What tax is paid appears to reflect the outcome of face-to-face negotiations between the tax officer and tax payer and bears little relationship to the true tax liability. Taxpayers have access to some information on tax liabilities, but the usefulness of the information is limited due to lack of comprehensiveness and being up-to-date. A tax appeals system of administrative procedures exists, but it has too many loopholes that encourage too many fraudulent appeal cases.	D+
PI-14	<i>Effectiveness of measures for taxpayer registration and tax assessment.</i>	Taxpayers are registered in database systems for individual taxes, but these are not fully and consistently linked. Linkages to other registration/licensing functions are also weak. Penalties for non-compliance generally exist, but are not always effective due to inconsistent administration and corruption. Taxmen find themselves in helpless condition to check increasing number of tax dodgers because of the absence of coordination between different tax departments. Taxpayers have access to independent review of tax decisions and can go to tax appellate tribunals to get redress for their grievances, but the process is regarded as ineffective. Tax audits and fraud investigations are undertaken on an ad hoc basis.	D+
PI-15	<i>Effectiveness in collection of tax payments.</i>	Statistics on average debt collection ratio is not available. Since there are few effective enforcement mechanisms, compliance is largely voluntary and the compliance rates appear to be very low. This presumably results in accumulation of significant tax arrears, although because there is no comprehensive system of tax assessment precise figures are unknown. Reporting on tax collections is done monthly by NBR (with 3-4 weeks lag) and a system exists to reconcile the cash balances with collection reports on a monthly basis. However, there is no system in place to reconcile the tax assessments, collections, arrears and transfers to the Treasury.	C
PI-16	<i>Predictability in the availability of funds for commitment of expenditures.</i>	An effective fund management/control system is in place. The Ministry of Finance (MoF) monitors cash availability closely on a regular basis. Generally, once the budget is approved, the budget allocations for the first three quarters are released by the MoF. However, the scope for virement within line ministry budgets is limited and must be pre-approved by the MoF. The MoF conducts an internal mid-year review of the budget, which serves to moderate unrealistic expectations particularly in regard to ADP targets. This mid-year review, usually completed by end-March, provides the basis for preparing revised budget estimates once a year. Revised budget	C

		estimates are only disseminated on an annual basis at the time of presentation of the next year's budget.	
PI-17	<i>Recording and management of cash balances, debt and guarantees.</i>	<p>The ERD compiles and disseminates comprehensive annual data on external government debt. Data for domestic debt are compiled by Bangladesh Bank and National Savings Directorate for internal government use. Data on domestic borrowing and debt are published in Bangladesh Bank's Annual Report and made available on its website about nine months after the end of the fiscal year. Public debt information is not included in the audited final accounts of the government. The government's entire cash balance with BB is treated as one entity, although separate "windows" for each Chief Accounting Officer are maintained within this balance. Shortcomings in cash management cause large month-to-month fluctuations in government borrowing from BB. No estimates are made of contingent liabilities, such as government guarantees on debt contracted by SOEs. In addition, the impact of quasi-fiscal operations is not systematically reviewed in the context of the budget, nor is any official estimates of potential costs provided.</p>	C
PI-18	<i>Effectiveness of payroll controls.</i>	<p>Payroll controls are overly complicated and opaque. Payroll rules are not transparent. An accurate staff register linked to an appropriate human resources management system is currently not in place. Key balances such as the Provident Fund are not within the operational control of one agreed ministry and key systems including Payroll and Pensions have a number of problems which produce only a limited assurance of the accuracy of Public Account balances on an on-going basis. There are persistent reports of irregularities in the pension system including lack of information on the number of pensioners, the number of dependents and how much money is actually paid out.</p>	C
PI-19	<i>Competition, value for money and controls in procurement.</i>	<p>The Public Procurement Regulations in Bangladesh are relatively new and, although an on-line reporting mechanism is currently being designed to collect and analyze the required data, little such data is currently available. Nevertheless, the new procurement regulations are a significant improvement over what existed before. A legal framework is now being established which, if properly implemented, would ensure competition and value for money. The reformed legal framework provides for open competition above appropriate thresholds: above \$16,000 for goods and services and above \$40,000 for works. Competition and award notices for all contracts whose value exceeds \$160,000 are advertised on the central website operated by the regulatory authority, Central Procurement Technical Unit (CPTU). The Regulations provide for a series of internationally accepted procurement methods with a preference for open tendering. Alternative methods (restricted tendering, direct procurement, two-stage tendering and request for quotations) may be used only where the conditions of the Regulations have been met. The Regulations also provide for a complaints mechanism which, in terms of procedure, is largely consistent with international practice. However, the system is yet to be functional and has not yet dealt with any</p>	B

PI-20	<i>Effectiveness of internal controls for non-salary expenditures.</i>	<p>complaint.</p> <p>Internal control is weak, with implications for increased fiduciary risk in a more decentralized budgeting environment. Expenditure commitment control procedures exist and are partially effective. Rules are complied with in a significant majority of transactions, but use of emergency procedures in several unjustified situations is an important concern. The FD has allocated funds to MTBF ministries to engage contractors to undertake internal audits of MTBF ministries and has issued a government wide Internal Control Manual.</p>	C
PI-21	<i>Effectiveness of internal audit.</i>	<p>Existing internal audit functions in the government are inadequate largely because few of the staff has had professional training and traditionally the demand for strengthening internal controls has been limited. Currently an internal audit arrangement is absent in almost all ministries, divisions and departments except the Ministry of Works, Ministry of Land, Ministry of Roads and Highways, and the Ministry of Education. Reporting is very irregular and internal audit recommendations are usually ignored.</p>	D
	Accounting, Recording and Reporting		
PI-22	<i>Timeliness and regularity of accounts reconciliation.</i>	<p>The CGA accounting information is usually available five weeks after the end of the month. All government computerized accounting is done at the aggregate level, there are no transactions stored in the system as these are all in manual ledgers at DAOs and UAOs. There exists a documented system for bank reconciliation, but the use of these is not producing satisfactory outcomes. In most cases reconciliation with the accounts offices and BB at the source level agrees, but at the aggregate level CGA and BB figures often differ, which CGA officers attribute to BB errors. There is a lack of procedures for ensuring that Suspense Accounts and Remittance Accounts are reconciled and cleared on a regular basis, resulting in build up of large unexplained balances in the Public Accounts. Audited financial statements are not yet available within one year despite ongoing efforts to meet the target.</p>	C
PI-23	<i>Availability of information on resources received by service delivery units.</i>	<p>All public spending in the central government is subject to the budget, which is expressed in appropriations and authorized through the allotment process under the responsibility of the MoF. For the Revenue Budget, there is good information on what resources are received by the service delivery units. Information on the receipt of resources by service units from the Development Budget is often lacking. Also, communities do not have information on budget implementation outside of the aggregated reporting available in government publications. The government has commissioned three expenditure tracking studies for primary and secondary education and primary health care to track the impact of public expenditure.</p>	C
PI-24	<i>Quality and timeliness of in-year budget reports.</i>	<p>Producing accounting information on a timely basis is constrained by the geographical distribution of the Treasury functions under the control of the CGA and the lack of supporting infrastructure including electricity and phone lines to enable computerization. The CGA has begun the process</p>	

		of installing software to enable recording transactions within the accounting system across all sources of data. Currently distribution of the budget across geographic units from aggregate organizational and functional line allocations is weak and there are no effective systems to disclose/distribute budget lines across geographical units.	C
PI-25	<i>Quality and timeliness of annual financial statements.</i>	There exist a clear set of rules, procedures and formats which must be observed by line ministries and implementing agencies, as laid out in the recently issued Public Expenditure Management Manual. In addition, the CGA is required to produce consolidated revenue/expenditure statements every six months and annually. The year-end Monthly Account, the Finance account and the Appropriation Account have never conformed to their official timetables for publication. To date, the year-end Monthly Account and the Finance Account have performed better due to computerization of accounts as regards timeliness than have the Appropriation Accounts. IPSAS is not applied even in the central government's cash-based accounting.	C
PI-26	<i>Scope, nature and follow-up of external audit.</i>	The techniques and methodology used in auditing are not in line with internationally recognized standards. Audit reports are overly detailed and are not timely. The audited final account is not available within twelve months of the year. As a result of late submission of audit report to the President, who places them before the parliament through PAC, is also delayed. Audit findings and recommendations are not acted on effectively by the executive, which diminishes their usefulness.	D+
PI-27	<i>Legislative scrutiny of annual budget law.</i>	The budget is presented to Cabinet in the first week of June for the fiscal year starting 1 July for approval on the same day it is presented to the parliament. Parliamentary Committees do not get the opportunity to review and discuss budget proposals before they are tabled in the full house, which falls short of OECD Fiscal Transparency Guidelines, which recommend that the budget be presented three months ahead of the start of the fiscal year to provide sufficient time for debate and revision, as necessary.	D
PI-28	<i>Legislative scrutiny of external audit reports.</i>	The Public Accounts Committee discusses the external audit reports and questions responsible parties about findings of the report with considerable time lags. Lack of adequate technical and financial support has constrained PAC to carry out further scrutiny and monitoring of follow up of actions. This has resulted in huge audit backlogs awaiting PAC discussion. Hearings on key findings take place with responsible officers from audited entities. PAC usually issues recommendations on action to be implemented by the executive but these are rarely acted upon.	C
D. Donor Practices			
D-1	<i>Predictability of direct budget support</i>	Direct budget support has been a relatively recent phenomenon in Bangladesh and has been largely limited to support from the World Bank's Development Support Credit. The direct budget support outturns have been pretty much in line with the forecast during last three years. All the three DSCs disbursed so far have been single tranche operations. There have been disbursement delays due to delays in the implementation of the agreed prior actions and, as a result, the	B

<p>D-2</p>	<p><i>Financial information provided by donors for budgeting and reporting on project and program aid.</i></p>	<p>government had to temporarily borrow sizable amounts from the domestic banking system. There is no effective reconciliation between the Economic Relations Division, Project Directors, CGA, and Special Bank accounts to ensure completeness of foreign aid reported in accounts. Donors do not always provide any or full details of Direct Project Aid (DPA) spending to Project Directors – although this is improving. There is no consistent monitoring of budget against actual DPA and Reimbursible Project AID (RPA) spending by CAOs to ensure completeness of reporting of foreign aid.</p>	<p>C</p>
<p>D-3</p>	<p><i>Proportion of aid that is managed by use of national procedures.</i></p>	<p>All the aid funded local procurement is managed through national procedures. Only international procurement is managed through respective donor procedures. Cardinal data on the proportion of aid used for local and international procurement is not available.</p>	<p>B</p>

Attachment 5

Summary of CAS Consultations

1. The Country Assistance Strategy of Bangladesh that is being presented to the board has benefited from extensive consultations with various segments of the Bangladeshi society. These consultations have taken place in three stages beginning in early 2004 and the latest taking place in October 2005, in partnership with the four joint strategy partners ADB, DFID and Japan. The objectives of this extensive process were to: (i) solicit views of the Bangladeshis on issues and development challenges facing them in their daily lives, before the conceptualization of the CAS; and (ii) receive feedback on the strategy, priorities and development programs that the WB and development partners aimed to support.

First Stage of Consultations

2. The *first stage* that took place in February 2004, included ten rounds of consultations with various stakeholder groups, with three of these consultations organized in two divisional towns, Rajshahi and Khulna and the others in the capital, Dhaka. Cross-sectional, mixed and theme-based stakeholder groups were invited for these three-to-four hour consultations. In December 2004, a consultation meeting with indigenous people's representatives was organized jointly with the Asian Development Bank at Rangamati (Chittagong Hill Tracts) (Box 1).

Box 1: Regional consultations

The first CAS consultations, held at Rajshahi on February 14, 2004 included a mixed group of 42 participants comprising academics and researchers, local leaders, private sector representatives, activists and staff from NGOs and organizations working on human rights and gender issues. This was followed by a discussion with 24 rural participants in a village in Charghat upazilla of Rajshahi. Then four meetings were organized in Dhaka with various stakeholder groups -- NGO representatives, urban poor, academia and think-tanks, and the private sector representatives. The next public consultation for the CAS was held in Khulna on March 18 with a mixed group drawn from cross-sections of this city. Another consultation with the small-medium enterprises (SME) and business community was organized jointly with the Small Enterprise Development Facility (SEDF) and IFC in Dhaka. After a gap of five months, the next series of consultations was held in August with four meetings in Dhaka with different thematic groups – disadvantaged youth, retrenched garments workers, representatives from organizations for disabled persons, and university students.

3. Given the initial goal of the CAS team to listen to the various viewpoints in the society, the process was designed to be simple, participatory, and interactive. After the initial welcome and introductions, the Bank team provided a brief presentation on the background and the CAS process; the participants were then asked to reflect on the successes and achievements of Bangladesh followed by their views on its problems and failures. The discussion then focused on 'what' could be done and 'how' to address these issues in the context of growth and development and the role of the World Bank as a development partner.

4. Within the wide spectrum of views expressed at the consultations, the achievements and successes of the country were overshadowed by the participants' negative perceptions on the current state of affairs in Bangladesh. These included the deteriorating law and order situation, poor governance, increase in corruption and politicization at all levels of the executive and judiciary, the prevalence of confrontational political culture, and lack of access to basic services (such as timely and adequate healthcare, quality education, arsenic-free safe drinking water, and proper sanitation facilities). Problems mentioned during most consultations also covered the want of income-generating activities and employment opportunities, lack of investment opportunities and lack of security for investments/investors, and bottlenecks in infrastructure (transportation, ports, power, and information technology) as well as the adverse effects of inadequate policy directions and absence of timely decisions national issues (such on the issues of gas exports, ports, finance and stock markets).

5. Given the post-conflict situation in the Chittagong Hill Tracts, in the Rangamati consultations, local participants underscored the need for implementing the 1997 Peace Accord fully, with the streamlining of various legal problems and ensuring that all development activities in the region take into account the preferences of the indigenous peoples.

6. Among achievements and successes of Bangladesh, participants mentioned the increase of enrolment in primary and girls' education, more awareness on health, immunization and family planning, significant development in transports and communication, role of NGOs (such as schooling for urban slum dwellers), more press freedom, increased coverage of sanitation and water supply, and micro-credit helping income generation.

7. The recommendations from these consultations were generally aimed at changing the existing scenario of more negative aspects, where the Bank was to be a facilitator rather than providing prescriptions and could contribute much more to the development process. The areas for which suggestions were made included: (i) facilitating the improvement of Government-NGO relations, (ii) helping decentralization in different spheres, (iii) exploring the export markets for Bangladeshi products in a post-MFA world, and (iv) emphasis on gender and social protection issues. Also, most participants indicated the important role of the Bank in human resource development and capacity building, improvement of infrastructure, exploration and utilization of natural resources, and promotion of reforms and improved governance in the country.

8. In addition, a couple of CAS-related brainstorming sessions were also organized for the Bank's Dhaka office staff. On the other side, the CAS team maintained regular liaison with the Government's team which was then in the initial stages of preparing the full Poverty Reduction Strategy Paper (PRSP). As the CAS would cover the same period as the PRSP, it was envisaged that the main thrust of both these documents will be synchronized -- both the CAS and the PRSP aim to address the same basic problems and build on the common goal of sustainable improvement in prosperity for the majority of Bangladeshis.

Second Stage of Consultations

9. The *second stage* took place in July 2005 after the Bank and the development partners were at a more advanced stage of their preparations. This stage included consultations on the joint strategy of the four CAS partners (in addition to the Bank's specific) and evolved around the joint outcome matrix that summarized, country's development goals, issues and challenges to achieve them, outcomes that the development partners can influence and their programs of support. This stage of consultations included both small focus discussion groups as well as broader audiences, such as a forum of Government Secretaries, private sector representatives, NGOs and civil society, academics and think-tanks, the media, and the broader donor community represented by the Local Consultative Group (LCG) of donors,

10. At these consultations, the Joint Strategy was introduced by the head of one of the agencies as being prepared to have a common approach that would reduce the transactions cost and increase coherence of engagement. After the presentation on the Strategy, which was aligned with the longer-term development agenda as outlined in the draft PRSP, participants were invited to provide their comments on the Joint Results Framework (Outcome Matrix) and responses were provided by the representatives of the four partner agencies.

11. Participants endorsed the strategy and the priority areas identified for support by the Bank and other development partners in connection with the PRSP. Governance and related reforms were consistently highlighted as an area of major concern with participants suggesting the need for a concrete program to address governance issues. Tackling corruption is an important issue but concrete ideas which go beyond stating 'government failure' are needed. It was suggested that the joint strategy could focus more on the developments in the political system, which are important for accelerating the country's

economic development. A related question was how the strategy could help in improving the negative perception of Bangladesh to outsiders.

12. Decentralization was repeatedly stressed upon as the way to address development issues in Bangladesh, with a consensus on the need for an increased role of local governments. The development partners were asked to “speak out in one voice’ to push decentralization.

13. On issues of economy and poverty alleviation, participants mentioned that ‘pro-poor growth’ was not adequately defined and questions were raised as to how the strategy intended to achieve it. It was also pointed that there was insufficient mention of how the strategy would support the achievement of MDG targets.

14. There were queries as to how the CAS proposed to ensure ‘voice to the people’ and to ensure ‘round-the-year employment’ for the poor, and how it aimed to reach the hardcore poor and ensure that development extends to the remote and vulnerable areas.

15. Participants suggested the identification of an agricultural policy that looked into the issues of small farmers and wage labor. Rather than simple rural development, rural planning and management need to be emphasized. Simultaneously, the issue of rapid urbanization and related urban poverty should be highlighted in the CAS.

16. On human development issues, population growth and adolescent healthcare were emphasized. Arresting the deteriorating quality of education as well as the accountability of teachers was required along with ‘non-partisan’ educational management. Some suggested that the CAS should stress upon human security and speak out strongly against human rights infringements in Bangladesh.

17. Private sector representatives mentioned that the cost of doing business in Bangladesh was becoming high, and the private sector cannot access resources at market cost while there is not much PPP on the ground. The role of private sector and its development in the then draft PRSP was not adequately highlighted. The PSD problems highlighted in the consultations include bottlenecks in infrastructure, high-cost economy, access to finance and credit, and the criminalization of the economy. The need for decentralized growth centers and to have the rural economy grow there by fostering private sector and SMEs was underscored.

18. The team plans to follow up on these consultations on a regular basis during the implementation of the program. It also plans to undertake a mid-term review to assess progress towards the outcomes identified in the results matrix.

Attachment 6 CAS Completion Report

Country: Bangladesh	Date of CAS:	February 8, 2001
	Date of Progress Report:	June 30, 2003

Period Covered by the CAS Completion Report: FY01 to FY04

Completed by: Enrique Pantoja, Senior Country Officer

Date of the Report: October 1, 2004

1. This report presents an assessment¹ of the Country Assistance Strategy (CAS) for Bangladesh, defined in the FY01 CAS document and adjusted in the FY03 CAS Progress Report to respond to the country's Interim Poverty Reduction Strategy Paper (I-PRSP).² To identify the lessons – presented in Section F and Table A – that are relevant to the design and implementation of the new results-based CAS, this assessment considered the following:

- Alignment of the CAS with the country's goals and expected development results (Section B).
- Level of achievement of CAS outcomes from FY01 to FY04, and the Bank's contribution to these outcomes (Section C).
- The Bank's related performance during this period (Section D).
- Level of consultation and coordination during CAS preparation and implementation (Section E).

Overview

2. Building on its remarkable achievements, Bangladesh continued to make good social and economic progress during the CAS period despite governance and other structural constraints. This progress indicates the country's potential but also the need to remove these obstacles to achieve even better development results. As the report shows, while the CAS was relevant to this challenge, the overall impact of Bank assistance was modest. By responding in a timely fashion to the reform commitment demonstrated by the new government that took office in October 2002, the Bank played a catalytic role in the definition of the reform agenda and completion of Bangladesh's I-PRSP. In line with the previous Bank strategy, the CAS put governance improvement and institutional development at the center of Bank assistance. Translating this broad goal into measurable results proved difficult, except in a few relevant areas such as public procurement and financial management. In the meantime, governance issues, particularly corruption and law and order, continued to hinder CAS implementation and achievement of outcomes.

3. In general, the Bank could not contribute to the country's progress at the levels initially envisioned in the CAS. Bangladesh was not able to access all of its IDA allocation as it faced difficulty in meeting the CAS triggers for base-case lending levels, which were directly linked to implementation of

¹ In addition to country team inputs, the assessment is based on Bank data and reports related to the country program's quality, responsiveness, and effectiveness. These include the 2004 Country Program Assessment by QAG; the 2004 Country Portfolio Performance Review (CPR) conducted jointly by the Bank, the Asian Development Bank (ADB) and the Japan Bank for International Cooperation (JBIC); project documents and Implementation Completion Reports (ICRs); and assessments by OED and QAG.

² The last CAS was discussed by the Board on December 12, 2000, and the CAS Progress Report on June 19, 2003, along with the Joint Staff Assessment of the I-PRSP.

comprehensive policy and sector reforms. The CAS requirement – reflecting the dominant perception of Bangladesh as a “poor reformer” – of upfront reforms before providing assistance to critical sectors such as power, banking, and water, restricted Bank engagement, while making policy dialogue and country program development, as well as contribution to some of the CAS outcomes, an increasing challenge. Consequently, most of FY01-03 IDA lending was made in the last quarter of FY03. This pattern was also repeated in FY04, when most lending was approved in June, and several key operations actually slipped to the first quarter of FY05.³

4. Simultaneously, delivery of Bank assistance was hindered by poor portfolio performance. Project implementation and disbursements slowed down, and in FY04, the latter fell to very low levels. This situation was reflected in the deterioration of the Bangladesh portfolio, which culminated in FY03 with one of the worse performances of recent years.

5. The above circumstances notwithstanding, the Bank was effective in helping Bangladesh make further human development gains, thus contributing positively towards the country’s achievement of the Millennium Development Goals (MDGs). Bank assistance also helped maintain good economic growth, but overall impact was affected by the Bank’s limited support to infrastructure and power development. Although the Bank contributed successfully to the expansion of rural infrastructure and microfinance, it played a smaller role in promoting agricultural growth. Significantly, results from institution building efforts were still modest, despite constant attention over several CAS periods.

6. How to best help Bangladesh address governance constraints remains among the main strategic issues for Bank Group assistance. To a great extent, the risk-averse behavior of disengagement from difficult sectors promoted by the prevailing Bank culture and the negative perception of the country was implicit in the CAS design, and became evident during its implementation. Moving forward, concrete approaches that deal with governance at the program and project level, while attempting to support change from within those sectors with willingness to reform, could help achieve better outcomes. As the country’s experience indicates, reforms can be implemented even under difficult political and institutional circumstances, although often through an incremental, opportunistic and not always predictable path. To achieve critical mass, however, reforms need to be implemented consistently across key sectors and political cycles.

7. Under the above conditions, Bank strategy requires increased flexibility in its performance-based design, not only in its lending triggers, but also in its strategic approach to sectors critical to accelerating growth and poverty reduction. This flexibility should also be reflected in the country program through programmatic, increasingly multi-sectoral budgetary support that allows lending to be attuned to a changing and difficult-to-predict reform process, while ensuring that progress is sustained. At the project level, better attention is also needed to the political and institutional contexts as well as to cross-sectoral constraints that have proven critical to project implementation, and by extension, project impact and sustainability. The focus on results in the new CAS demands, at the same time, improved measurement and evaluation of project impact, more strategic design of analytical and advisory services, and more realistic definition of what can be accomplished during the CAS period given country conditions and Bank Group resource constraints.

A. CAS Context

8. **The context for strategy development in 2000 was Bangladesh’s remarkable social and human development achievements and its many immediate challenges.** Throughout the 1990s, in

³ These operations included two adjustment credits totaling US\$300 million.

particular, per capita income grew three times faster than the average for low income countries, as real GDP growth reached about 5 percent per year and the population growth rate was further reduced to 1.5 percent. At the same time, poverty declined after virtual stagnation in the 1980s, as corroborated by a decrease in the poverty rate from 59 in 1991 to 50 percent of total population by 2000. Moreover, Bangladesh continued to achieve comparatively better progress in social indicators than countries at similar income levels. On the other hand, poverty numbers remained high, inequality increased, and economic growth needed to be accelerated for faster poverty reduction. The country's good growth performance appeared difficult to sustain, let alone to accelerate, unless the reform agenda was reenergized and macroeconomic management put back on track. Importantly, progress in some human development indicators had slowed down; differences in health, nutrition and population indicators remained large across income groups and between genders; and quality of education and health services needed substantial improvement. Environmental management remained weak, and better management of the country's water resources was urgently needed. New challenges emerged, including preventing an HIV/AIDS epidemic and providing an effective response to arsenic groundwater contamination. That the impressive gains made by Bangladesh had taken place despite governance and other structural problems underscored both the country's potential and some of its major constraints.

9. **Bangladesh made good progress in the past four years, but weak institutions, corruption and deteriorating law and order hindered achievement of CAS outcomes and development effectiveness.** One of the main challenges faced by the Bank in Bangladesh has been finding effective ways to assist a country with substantial development needs, but also with entrenched governance problems. Opposition to reform by powerful vested interests remained strong during the CAS period, and progress at the microeconomic and sector levels could not match the success in achieving macro-stability. Corruption and the law and order situation discouraged local and foreign private investment, while Bangladesh's achievements were obscured by the persistent negative image of the country.⁴ Although aid flows slightly increased recently, both development assistance and private investment remain low.⁵ During CAS implementation, aid effectiveness continued to be hindered by the country's lack of institutional capacity, the government's lack of ownership of development programs, and the weak project implementation capacity of the line agencies.

10. **At the same time, the nature of politics in the country affected both CAS formulation and implementation.** The CAS was prepared more than a year before the 2001 general elections, and the CAS period ended with a new government in office.⁶ Confrontational politics continued to impede the emergence of a broadly-shared national development strategy, challenging CAS formulation. The absence of consensus on key policies also affected the consistent implementation of development policies and programs across the political cycles, challenging CAS implementation. Under these circumstances, PRSP preparation could not advance as expected, and the Bank's plan of preparing a new CAS in FY03 did not materialize. More specifically, the CAS suffered from the intensification of confrontational politics, characterized by frequent *hartals* (strikes) and deterioration in human security. Donor members of the Local Consultative Group (LCG), including the Bank, felt compelled in March 1999 to voice their concerns about the damage being done to the country by confrontational politics, calling on government and opposition parties to work together for Bangladesh's future. By 2000, when CAS consultations began, the political environment had become highly contentious – and Bank-government relations strained – making it even more difficult to build across-the-board political consensus on country priorities

⁴ In 2003 Bangladesh was ranked in Transparency International's Perceptions Index as the country perceived as most corrupt in the world for the third consecutive year, which helped reinforce this image.

⁵ In addition to institutional and political performance, aid flows to Bangladesh had been declining in the period preceding CAS preparation because of lower availability of donor assistance worldwide. FY99 was an exception to this trend in Bangladesh due to the additional aid provided by development partners, including the Bank, to help with the 1998 flood emergency.

⁶ At the time of CAS preparation, two elections and three transitions of government had taken place since the restoration of democracy in 1991, with the two main parties alternating in power.

and development goals.⁷ Similar concerns related to intensified political confrontation and violence linked prematurely to the next electoral cycle prevailed at the end of the CAS period, as corroborated by LCG statements during the Development Forum in May 2004.

11. **When the CAS was prepared, there were two major uncertainties: first, whether a more reformist stance would emerge after the elections; and second, which opportunities would be available to the new government to implement reforms.** The new government – a four-party coalition led by the Bangladesh Nationalist Party (BNP) – demonstrated its commitment to reforms, although these could not be advanced at the pace and levels expected in the CAS. Reforms started to gain momentum in 2002, however, and the CAS Progress Report prepared in 2003 reflects a shift in Bank engagement in line with these new circumstances. Given the difficult country conditions, it is commendable that the economy continued to perform relatively well during the CAS period, and that some difficult reforms were successfully advanced in critical areas such as economic governance, fiscal management, State Owned Enterprises (SOEs), banking, telecommunications and energy. A stronger effort is nevertheless needed to accelerate administrative, legal, and political reforms.

B. Country Development Results

12. **The country development goals and results underpinning the Bank’s strategy were initially derived from the Government’s five-year development plan and several subsequent official documents⁸** However, recognizing that the national strategy required more definition and broader consensus, extensive consultations were carried out during CAS preparation in 2000. In 2003, the Bank’s strategy was adjusted – through a CAS Progress Report – to respond to the new National Strategy for Economic Growth, Poverty Reduction, and Social Development, which is the country’s I-PRSP. The latter was prepared following nationwide consultations, and represents an initial statement of the country’s vision and goals.⁹

13. **Specifically, the CAS aimed at helping Bangladesh achieve its overarching goal – confirmed in the I-PRSP – of reducing poverty substantially within the shortest possible time.** Bangladesh has recognized that faster poverty reduction cannot be accomplished without accelerating and broadening economic growth. The strategic objectives of the CAS, discussed in Section C, were thus selected to support the various areas emphasized in the national plan, and later on in the I-PRSP, to reach an annual growth rate of 6 to 7 percent and a poverty reduction rate of 2 to 3 percent. These areas include giving the private sector a greater role in the economy; increasing the pace of agricultural and non-farm rural growth; emphasizing investments in education, nutrition, health, and water and sanitation; and improving the targeting of social expenditures and safety net programs.

14. **While the MDGs were not yet part of the development agenda, many of the country development results to which the CAS was first aligned anticipated them, often with more ambitious targets.** As shown in Table A, Bangladesh has focused consistently on social and human development results. In addition to controlling population growth effectively without resorting to coercive measures, the country has endeavored to reduce infant mortality, child malnutrition, and maternal mortality; expand access to education; and increase income-generation opportunities for women. During

⁷ Among other issues, the Government had expressed disappointment with the expected level of IDA lending under the low-case scenario, and the pressure to accelerate governance reforms.

⁸ In addition to the Fifth Five-year Development Plan (1997-2002), the CAS considered other official documents that further described the country’s development strategy, including the Partnership Agreement on Poverty Reduction (PAPR) signed between the Government and the Asian Development Bank (ADB) on April 2000, and the Government’s Memorandum for the 2000 Bangladesh Development Forum.

⁹ The Interim PRSP was completed in March 2003, and its implementation started on July 1, 2003 – the beginning of the official fiscal year in Bangladesh.

the CAS period, despite a global economic slowdown, the country maintained its good economic performance, and according to the latest projections, it could achieve 5.5 percent GDP growth in FY04. Given this performance, it is likely that the positive trend in poverty reduction achieved in the 1990s continued into 2004. In some areas such as child malnutrition, maternal mortality, and net primary enrollment, the country surpassed in 2001 the figures projected in the CAS for 2003. Progress toward the MDGs was significant, and for most indicators, Bangladesh is on target or better with regard to achieving the goals. In fact, Bangladesh has already met the MDG target of eliminating gender disparity in basic education while making good progress towards the MDG of providing universal education.¹⁰

15. **As reflected in the CAS Progress Report, the I-PRSP further specifies the country development results sought by Bangladesh, which have been explicitly linked to the MDGs but adapted to reflect country-specific aspirations.** In the I-PRSP, Bangladesh continued to set challenging targets for itself, especially since the base year used was 2000 instead of 1990 – the established benchmark of the MDGs – while 2015 was maintained as the end year. To accelerate progress and meet country targets, the I-PRSP was built upon five pillars, including improving governance, accelerating broad-based growth, investing in human development, promoting women’s advancement, and ensuring social protection.

C. CAS Outcomes

16. **The CAS was built around three strategic objectives relevant to country priorities and development results.** Specifically, the CAS aimed at helping Bangladesh to (i) accelerate broad-based growth; (ii) consolidate human development gains and address emerging challenges including HIV/AIDS and arsenicosis; and (iii) implement an integrated approach to rural development. Linking these objectives was the CAS emphasis on assisting the country in building stronger institutions and improving governance, and dealing with crosscutting issues such as environmental management and gender. These objectives were confirmed in the FY03 CAS Progress Report, adjusted in light of the renewed attention to critical areas for growth such as infrastructure, power and ports.

CAS Design and Implementation Issues

17. **The FY01 CAS made removing governance and other structural constraints affecting growth and poverty reduction critical to Bank assistance.** During CAS consultations in 2000, stakeholders repeatedly voiced as one of their major concerns the very high cost imposed on Bangladesh by poor governance, especially by corruption, deteriorating law and order, and weak institutions.¹¹ The CAS recognized that tackling these issues is a long-term endeavor that requires fundamental changes in the terms of political engagement and the power of vested interests in the country. The CAS aimed at creating “a powerful nexus for positive movement toward stronger, accountable institutions, improved governance and a greater voice for the people.” Translating this broad goal into specific results remains a challenge.

18. **Adapting to Bangladesh’s political cycle, CAS objectives were pursued through a performance-based assistance strategy underpinned by a two-phased approach.** First, during the pre-election period and the settling in of the new government, non-lending activities were given a prominent role while lending continued under the low case. Second, once the country met the CAS performance triggers set for macroeconomic management, governance, reforms in key sectors, and portfolio performance, lending moved into the base case and was extended beyond projects with direct poverty

¹⁰ Data sources include World Development Indicators, The World Bank (2004); and Bangladesh’s I-PRSP, Government of Bangladesh (2003).

¹¹ Similar concerns were raised during I-PRSP consultations in 2002 and PRSP consultations in 2004.

impact. Simultaneously, IFC took into account the existing regulatory obstacles, uncertain economic prospects, and weak business environment prevalent in Bangladesh. As such, IFC focused on investment opportunities with strong, reputable domestic or international sponsors, particularly in manufacturing and infrastructure.

19. **The general strategic approach produced several positive results.** By intensifying analytical work and responding in a timely manner to official requests for advice, the country team engaged the new government very early on, establishing better Bank-government relations and improving policy dialogue, except in a few line ministries, most notably health. Specifically, the Bank prepared a series of briefs covering macro-issues and sectoral priorities, and consolidated and expanded its analytical work on governance. At the government's request, the Bank also prepared several unscheduled policy notes. In addition, analytical efforts provided useful inputs for the preparation of the national poverty reduction strategy – an interim version of which was completed during the CAS period – and for the definition of the new government's reform agenda.

20. **The lending strategy was characterized by a two-track approach distinguishing between key economic and infrastructure sectors and social sectors.** Assistance to the former required clear demonstration of commitment to reform, while in the case of the latter reforms were expected to go hand-in-hand with Bank support. In line with the dominant institutional thinking and the prevalent perception of Bangladesh as a “poor performer,” Bank involvement in sectors such as banking, power and water – whose progress was linked to the CAS triggers – required an acceptable roadmap for reform, credible leadership, and demonstrated commitment through progress on reforms related to governance and structural issues. In social sectors such as health and education, on the other hand, assistance was provided without waiting for reforms, due to the Bank's commitment to help Bangladesh protect and consolidate human development achievements and meet critical poverty reduction needs.

21. **Several mechanisms for delivery of Bank assistance supported the lending strategy:** promoting private sector participation in key sectors and NGO service delivery in social sectors; supporting “islands of excellence” in rural infrastructure and microcredit; and strengthening partnerships with development partners.¹² Accordingly, rather than lending in the financial sector, or in infrastructure development and gas production, the CAS emphasized IDA's role in supporting policy, institutional and structural reforms to promote private participation. The objective was for IDA to help remove policy and institutional constraints and for MIGA and IFC to facilitate investments to increase private sector presence in these sectors. Moreover, IDA was not expected to get involved in areas where the private sector or other donors had been engaged for long and/or had a comparative advantage. Simultaneously, through several poverty-focused interventions, IDA lending was to be extended, as in the past, to several “islands of excellence.” These included the Rural Electrification Board and the successful rural electricity cooperatives (Palli Bidyut Samiti or PBSs), PKSf (Palli Karma Sahayak Foundation) – an apex financing organization for microfinance, and the Local Government Engineering Department (LGED).

22. **Although the overall approach was sound, its implementation was hindered by the difficult reform agenda underlying the CAS.** The CAS triggers reflected the mixed track record of reforms in Bangladesh, the sequencing of reform actions that had worked in other developing countries, and the need to deepen the reform agenda. However, given the political economy and institutional constraints of the country, making progress on such a challenging agenda proved difficult. The CAS expected that a new government, if committed to reforms, could manage to build consensus and overcome entrenched vested interests to initiate comprehensive reforms soon after coming into office, and to maintain steady progress afterwards. In practice, the government succeeded in giving momentum to the reform program in 2003 by

¹² For further details on NGOs and donor partnerships see Section E.

taking advantage of opportunities for reform, but these varied across sectors. As should have been expected, reform progress has thus been incremental and uneven.

23. **In addition, the lending approach to key economic and infrastructure sectors made it particularly difficult for the Bank to develop the country program and to contribute to several CAS outcomes.** Not only Bank financial assistance, but also sector composition of the lending program remained limited for most of the CAS period due to the difficulty faced by the government in meeting the key reforms required by the Bank. The lending approach also increased the challenge for Bank engagement, which was constrained by the Bank's withdrawal from supporting public investments in infrastructure sub-sectors where the private sector was expected to play a greater role. Moreover, during FY02 and FY03, governance concerns, especially corruption, and lack of progress on decentralization and municipal reform, further constrained lending assistance to sectors such as water and urban infrastructure. The result was a difficult and at times tense dialogue that translated into repeatedly unsuccessful attempts to provide lending assistance as made evident by the many projects in banking, power and water that were dropped between FY00 and FY03. Many of these projects had been in and out of the pipeline several times (see Section D and Table E for further details on the evolution of the country program). As the CAS period advanced, the Country Team found itself increasingly constrained in its endeavor to be selective and to maximize the Bank's comparative advantage while developing a lending program relevant to CAS objectives and outcomes.

24. **In the meantime, Bank lending to health and education continued although reform progress in these sectors was relatively slow until recently, and several surveys included these sectors among the most corrupt in the country.** Poor country ownership and lack of good local fit resulted in slow implementation of the reforms proposed for the health sector. By FY03, after about five years of implementation of the Health and Population Sector Program with support from a donor consortium led by the Bank, none of the agreed reforms had been fully implemented, and people, including the poor, were increasingly purchasing health services from the largely unregulated, non-public sector. In education, according to QAG and OED assessments, the Bank had missed crucial opportunities to promote reforms to improve quality, especially through the two operations supporting increased access to girls' education.

25. **The strategic approach was reconsidered in the FY03 CAS Progress Report in light of Bangladesh's I-PRSP, and the emerging lessons from CAS implementation.** Supported by the improvement in country performance and its moving into the base-case scenario, the Bank initiated a shift toward both increased engagement in critical sectors and broad-based programmatic support. This strategic shift was marked at the general level by emphasizing the opportunistic nature of reforms in Bangladesh; and specifically by providing adjustment lending for the first time since the mid-1990s, complemented by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement from the IMF. As a result, FY04 became a transitional year characterized by intensified efforts to increase the levels of Bank engagement in infrastructure in general and power in particular, and to support reforms in a more flexible manner.

CAS Outcomes: Progress and Bank Contribution

26. **The CAS was not a results-based strategy, but it included planned measures and milestones, as well as performance intermediate indicators, from which a set of outcomes under each CAS objective has been derived for this report.** As generally happened across the Bank, monitoring progress was not sufficiently emphasized during CAS implementation. Keeping this factor in mind, the progress

made in CAS outcomes and the Bank's contribution are described below and detailed in Table A.¹³ While progress across most outcomes was generally good, it mainly took place towards the end of the CAS period.

CAS Objective 1: Accelerating Broad-based Economic Growth

27. **Under this objective, the Bank planned to support efforts to improve the environment for private investment, and through IFC and MIGA, promote private investment in energy, infrastructure, manufacturing, and services.** Accordingly, the areas emphasized in the CAS included improving macroeconomic management; establishing an efficient financial sector; furthering trade liberalization, export growth, and diversification; and removing infrastructure constraints. During the CAS period, the first three areas showed encouraging progress, although external factors affected export growth in FY01 and FY02, including a global economic slowdown and deteriorating terms of trade. Reducing infrastructure constraints was the most challenging outcome partially because of the scarcity of public resources and the low response by private sector. The business environment deterred investors and kept their confidence low, which in turn also affected the ability of IFC to make investments. In the meantime, however, IFC started to address the needs of smaller businesses through investments in the financial sector and technical assistance through the South Asia Enterprise Development Facility (SEDF). Overall, the Bank contributed to this CAS objective with analytical work and, for the first time since the mid-1990s, with adjustment lending.

28. **Macroeconomic management improved during the CAS period.** Macroeconomic stability was restored and sustained, and with Bank and Fund assistance, a sound medium-term macroeconomic framework was developed. Good progress was achieved in the CAS outcomes relevant to this objective, including improving quality of public expenditure, increasing domestic resource mobilization, and alleviating the fiscal burden of State Owned Enterprises (SOEs). Several indicators help make this progress clear: from 5.1 percent of GDP in FY01, the central government overall fiscal deficit fell to 3.5 percent in FY03, reflecting improved revenue collection. Modernization of the National Board of Revenue (NBR) was initiated, which will help in the medium term to deal with administrative inefficiencies that currently hinder efforts to improve the poor tax-GDP ratio of the country. A new Privatization Policy was approved in 2002, but the role of the Privatization Commission was not properly defined. Nevertheless, net losses of SOEs fell by more than half between FY01 and FY03, and employment in SOE manufacturing was reduced by over 25 percent.¹⁴ In FY04, increased political pressure and opposition to retrenchment in some areas led to the Government's decision to put on hold the closure or privatization of manufacturing SOEs until after the 2006 elections. Partial retrenchment coupled with a freeze on new recruitment for SOEs will be implemented in the meantime. In addition to the assistance provided through the Development Support Credit in FY03 and a second DSC (FY05), the Bank agreed to finance retroactively in FY04 and regularly through FY06 a good portion of the voluntary retirement schemes (VRS) needed to implement SOE restructuring.

29. **At the same time, Bangladesh made encouraging progress towards establishing an efficient financial sector.** This progress was reflected in two CAS outcomes, namely increasing the autonomy and regulatory capacity of the Bangladesh Bank and improving the management of Nationalized Commercial Banks (NCBs). The government, with assistance from the Bank and the IMF, evaluated the strengths, potential vulnerabilities and key development opportunities of the financial sector. Implementation of the reforms identified as critical to improving the sector gained momentum in FY03, and were supported

¹³ Measuring progress was limited by the lack of baseline and recent data, and the difficulty in observing significant changes in some of the outcomes due to the shortness of the CAS period. Establishing with confidence direct cause and effect between the Bank's contribution and a specific outcome was also challenging given the relative size of the country program vis-à-vis Bangladesh's development needs, the presence of many other actors, and the influence of exogenous factors.

¹⁴ This progress was impacted by higher fuel costs in FY04 that resulted in increased losses in some energy SOEs.

through the DSC and linked to the Fund's PRGF arrangement. Following legal amendments that brought NCBs under the Bangladesh Bank's supervision, institutional capacity building for the latter was started in FY04 with IDA financing and WBI support. A comprehensive strategy to define resolution options for NCBs and address the existing stock of non-performing loans was adopted in FY04, along with actions to improve NCB management. IFC also contributed to financial sector outcomes through a guarantee for local currency financing to the leasing sector, while continuing to support the largest private sector housing lender in the country. Furthermore, IFC and SEDF continued to promote the development of local capital markets and a competitive banking sector in Bangladesh, with specific emphasis on increasing financing opportunities for small and medium enterprises.

30. **Making progress in trade liberalization as well as export promotion and diversification was difficult.** Among the relevant CAS outcomes, reducing anti-export bias in the trade regime advanced slowly, while establishing a clear post-MFA strategy did not receive sufficient attention. Although the Bank supported the modest progress made in overall tariff and customs reforms, Bank contribution to these outcomes was less than initially envisaged. Whereas average protection decreased from 27 percent to 22 percent in FY03, some reversal in trade liberalization actually took place in FY04 as non-tariff measures tended to offset the effect of lower custom duties. Bangladesh was considered then the most protected economy in South Asia, and the challenge was to continue trade liberalization while reducing the country's dependence on import taxes as a revenue source. A post-MFA strategy was prepared with Bank assistance, but this effort did not lead to concrete results. The IFC, however, established a trade enhancement facility that operated as a risk sharing facility between Standard Chartered Bangladesh, the Netherlands Development Corporation (FMO), and IFC. Despite some delays in utilization of the facility by the six participating private sector banks, the facility's overall performance compared favorably with IFC's experience in other countries in terms of both average utilization rate and return.

31. **Reducing infrastructure constraints continued to be one of the most critical issues for accelerating Bangladesh's development.** Among the expected CAS outcomes, quality and coverage of the transport sector increased and conditions in the telecommunications sector improved. With IDA-financed technical assistance, the capacity of the Bangladesh Telecommunications Regulatory Commission (BTRC) was strengthened. Overall performance and competition of the sector improved, although implementation of a transparent inter-connection framework was still pending in FY04. With support from IFC, the country's cellular network continued to expand. Telecommunication services in rural areas were specifically targeted through investments in GrameenPhone that helped to expand the network and the successful Village Phone Program.

32. **Progress was limited in two key CAS outcomes related to infrastructure constraints, namely enhancing availability and efficiency of the energy sector and improving port facilities.** Between FY01 and FY04, the reliability of the country's electricity supply improved, systems losses experienced a sustained reduction from 35 to 30 percent (of total generation), and revenue generation collection increased from 60 to 70 percent (of generated electricity). Bangladesh also made progress in rationalizing the distribution system as a good portion of the rural service areas were transferred, with Bank assistance, from the Bangladesh Power Development Board (BPDB) to the adjoining rural electricity cooperatives (PBSs). Moreover, private sector participation in gas and electricity increased: in mid-2004, the private sector was responsible for over a fifth of gas production and a third of electricity generation. Nevertheless, power shortages and outages continued to impose substantial costs on the economy, along with inadequate access, poor quality, and high transaction cost of services. Only 31 percent of the population had access to electricity, while inadequacy of power supply continued to be one of the main obstacles to private investment in the country. Critically, inefficiencies in port operations remained unchanged due to difficulty in initiating reforms.

33. **Reform in the energy sector advanced modestly.** An Energy Regulatory Commission was established, based on the 2003 ERC Act. The same year, an interim pricing framework for electricity, gas and petroleum products was adopted in the country. However, energy price adjustments did not advance beyond an initial increase in residential urban tariffs in September 2003, and an increase of kerosene prices to parity with diesel prices in May 2004. Due to specific concerns with inflation and its impact on the poor, the Government found it difficult to adjust national prices for gas and petroleum products. In turn, it faced substantial financial costs because of the national prices did not reflect rising global petroleum prices.

34. **Bank assistance for the public sector investments needed in power was low.** Both a Power Sector Reform APL and a Power Sector Technical Assistance Project – listed in the CAS as reserve operations – were dropped in FY02 after several years in the pipeline without the country making the upfront reforms required for IDA assistance. In the interim, the Bank supported rural electrification while continuing to help promote private sector participation. Specifically, the Bank contributed to the establishment of Haripur (360 MW) and Meghnaghat (450 MV) independent power producers through an IDA partial risk guarantee for the former and the on-lending of IDA funds via IDCOL (a financial intermediary) for the latter. At the same time, IFC supported the first independent power producer in Bangladesh through a B loan syndication (US\$19 million), the largest to date in the country.

CAS Objective 2: Consolidating Human Development Gains

35. **The Bank expected to contribute during FY01-FY04 to strengthen the health, nutrition, and population sector; and improve access and quality of the education system in Bangladesh, while helping to deal with emerging challenges such as HIV/AIDS and arsenicosis.** During the CAS period, the country continued to make gains in health indicators, which compare favorably with other countries of similar income levels. In FY01 and FY02, consistent with the low-case scenario, the Bank focused on health and education – despite governance concerns – in addition to rural infrastructure and microfinance, supporting sector reforms simultaneously with the provision of IDA financing. Slow progress on reforms dealing with systemic problems such as quality of service delivery and equity of access affected overall sectoral impact of Bank assistance. Efforts to promote the role of NGOs in health service delivery also faced bottlenecks and delayed implementation of several critical programs.

36. **Despite the shortcomings of the sectorwide program, Bangladesh's health sector improved during the CAS period.** While suffering from teething pains as a first generation sector-wide approach (SWAp) prepared in 1998, the Health and Population Sector Program, supported by a donor consortium led by the Bank, helped improve coordination and development assistance to the sector. More concretely, the Program contributed to the related CAS outcomes, including improving the capacity of the Ministry of Health and Family Welfare; and increasing the level of service quality and utilization at district and sub-district (thana) levels. It also helped prioritize sector and targeted expenditures, especially on programs that benefited children, women, and the poor. Over the medium term, the Program helped improve several health indicators linked to the MDGs, thus contributing to better development impact of health investments. Implementation of the reform agenda and program activities, however, advanced slowly due to the devastating 1998 floods and the change of government. More directly related to program design and scale, there were initial implementation demands that overwhelmed government and Bank capacity to deal with financial management and procurement matters.¹⁵

37. **Community-based nutrition programs were successfully piloted, but their scaling up fell short of expectations.** Implementation of the IDA-financed Integrated Nutrition Program was successful, as corroborated by OED and an independent evaluation study. Bank contribution to helping the country

¹⁵ The Program's mid-term review identified procurement as the single most critical operational issue.

improve nutrition status by scaling up this effort was affected by various factors. First, disagreements between the Bank and the Government delayed approval by the latter of the national program, which could not take off until late FY03 – almost two years after Bank approval. Second, scaling up was decided before the lessons from the previous effort had been clearly assimilated. Results will not be at the level initially expected given that the program was scaled down, resulting in the cancellation of about 25 percent (US\$25 million) of IDA credit funds.

38. **Slow progress was made in establishing the capacity to prevent HIV/AIDS and to respond to the arsenic crisis, although the two IDA-financed projects dealing with these issues had been processed quickly to provide assistance in a timely manner.** In both cases, this lackluster record was due in part to project design issues and unsuitable implementation arrangements. The HIV/AIDS Prevention Project was approved in FY01 to take advantage of the window of opportunity provided by the low incidence of HIV infections prevalent in Bangladesh. After a substantial delay, the project's activities were scaled down in FY03 and about 55 percent of IDA credit funds (US\$22 million) cancelled. As a result, the expected impact of the project has been substantially reduced.

39. Support to the country's efforts to deal with the arsenic problem started in FY99 through analytical work and the IDA-financed Arsenic Mitigation Water Supply Project. The project's design was particularly constrained by the fact that the size and extent of the health problem was – and still is – not exactly known, while no credible treatment to deal with arsenicosis was available. Progress was eventually made under the project in carrying out the emergency measures (i.e., screening tubewells, preparing community plans, etc.), but providing safe drinking water options proved more difficult. Implementation of innovative pilots to establish piped-water schemes could only be started in FY03, complemented by similar efforts under the IDA-financed Social Investment Program. Planned Bank lending assistance to help address the public health aspects of arsenicosis, on the other hand, could not materialize due to different views between the Bank and the Government regarding the proposed project's design and implementation arrangements.

40. **Bangladesh continued to make progress in increasing access to education during the FY01-04 period, but quality remains a major concern.** With respect to CAS outcomes, steady progress was made in improving primary and secondary educational outcomes; improving quality of teachers, curriculum, and textbooks; and in improving equity in education. This progress was achieved through the initial implementation of a medium-term sector reform program, which the Bank planned to support with adjustment lending (FY05), and the extension of the sectorwide approach to primary education development. Overall impact of the Primary Education Development Project was affected by the fact that what was originally designed as a sector program became a set of 25 discrete projects supported by different development partners, including the Bank. Due to the lack of implementation capacity, project coordination was not adequate, leading to disjointed interventions under many sub-components such as teacher training, curriculum development, and monitoring and evaluation (M&E). Based on the lessons learned, the second Primary Education Development Program was prepared in FY04 as a multi-donor assisted SWAp that helped advance harmonization efforts in the country. Additional progress in education-related CAS outcomes was achieved through the implementation of the stipend and tuition program to increase girls' access to secondary education. During the first IDA-financed phase of the program, completed in mid-2001, enrollment of girls in project schools more than doubled, growing from 462,000 to 948,000. Although less than a third of the girls entering grade 10 passed the school leaving examination, their being enrolled likely resulted in delayed marriage, which in time could contribute to lowering the fertility rate.¹⁶ The second phase, also financed by IDA, aims at providing stipends to 1.45

¹⁶ Although OED considered that project outcome as moderately satisfactory, both OED and QAG questioned some of the project achievements due to inadequate attention to quality issues, low achievement levels in the Secondary School Certification (SCC) exams, and failure to target the stipends to the poorest segments of the population.

million girls. Contrastingly, projects to expand the provision of post-literacy and continuing education had limited results, despite assistance from the Bank and other development partners. The future of these efforts became uncertain in FY04 with the elimination of the Directorate of Non-formal Education (DNFE).¹⁷

CAS Objective 3: Implementing an Integrated Approach to Rural Development

41. **During the CAS period, the Bank planned to support Bangladesh's efforts to promote growth in agricultural and non-farm activities, make opportunities and assets available to the poor, and improve access to rural infrastructure and social services.** Rural and agricultural growth was not as impressive during the CAS period as it was in the late 1990s. After a rapid growth rate of 5 percent per year throughout the second half of the 1990s, the agricultural sector suffered a deceleration that resulted in an annual average growth of around 2 percent during 2001-2003. Moreover, wage rates in the sector continued to stagnate despite relatively healthy GDP growth.

42. **Bank contribution to rural growth did not have the impact expected in the CAS.** Analytical work on the agriculture sector was completed in FY03, but was not sufficiently disseminated, while work on rural non-farm growth was only completed in FY04. Although a rural development strategy was finalized in 2000, this effort could not be made operational through specific projects to help promote rural growth. Bank support directed to agricultural diversification, at the same time, had minimal impact. As part of Bank support to the latter, a small effort to promote horticulture exports was implemented, which by definition could only provide modest results. A study on agribusiness sponsored jointly by IDA and DFID did not help identify any concrete interventions. The plan to help finance an Agribusiness Development Project was subsequently abandoned.

43. **Progress towards improving agricultural research and extension and water management capacity was slow.** IDA-financed efforts to improve research and extension and strengthen their links did not have the expected impact. Modest progress was made in rationalizing extension services throughout the country. In addition, some progress was made in improving the operation of individual agricultural research institutes in terms of program prioritization, adoption of a farming systems approach, and following up a research grants scheme. On the other hand, the institutional weaknesses of the Bangladesh Agricultural Research Council (BARC) – particularly in areas such as research policy development, and research financing and budgeting – were not adequately addressed, and as a result the overall efficiency of the national research system remained low. The plan to continue improving water resource management capacity suffered delays, as Bank financial support to the water sector was put on hold in FY02 by regional management due to governance concerns. Nevertheless, progress was made in building capacity in the Water Resource Planning Organization (WARPO) and in restructuring the Bangladesh Water Development Board (BWDB), two key sector agencies. In addition, the National Water Management Plan, completed with Bank assistance, was approved in March 2004 – a major accomplishment considering that two past attempts to develop this plan had failed due to entrenched opposition.¹⁸

44. **Efforts to make opportunities and assets available to the poor produced good results.** Progress was made in most of the expected outcomes, although in different degrees: increasing access to microcredit continued successfully, positive steps to improve the efficiency and effectiveness of social safety nets were implemented, and assessing whether these provide a better alternative is ongoing. In contrast, increasing access to safe drinking water proved to be a more difficult task, although rapid

¹⁷ The Government, NGOs, and development partners have since started to work together to develop a National Framework for Non-formal Education.

¹⁸ Building on these achievements, IDA assistance will be provided in FY05 to improve water management capacity.

progress was made starting in late FY03 (see above). The first IDA-financed microfinance project, completed during the CAS period, exceeded its target of total borrowers by 75 percent, reaching 2.1 million people (90 percent of which were women), while strengthening the institutional capacity of PKSF, the apex agency for the sector. Scaling up efforts continued through a second IDA-financed microfinance operation, and through a Lending and Innovation Credit to test alternative delivery models to extend microfinance services to the poorest, hardest-to-reach households. Efforts to increase income opportunities for the poor through fisheries, silk development and high-value horticulture produce – all of which were actively supported by the Bank and other donors – were not as successful.

45. **Access to rural infrastructure continued to expand during the CAS period.** This expansion was achieved through investments, consistently financed by the Bank, in rural roads, rural markets, and electrification; and by piloting community-driven approaches to deliver social services and infrastructure assets to the poor. Disaster vulnerability was further reduced through the expansion and rehabilitation of riverbank protection works and coastal embankments, as well as through implementation of cyclone mitigation measures. Rehabilitation of polders, at the same time, helped increase agricultural production in the targeted areas. Independent evaluations show that IDA-financed rural roads and markets projects helped increase the marketing of agricultural products and the revenues of farmers with improved access, while also helping to diversify the non-agricultural employment opportunities of land-poor households and to generate employment for destitute women.

General CAS Objective: Improving Governance and Strengthening Institutions

46. **Governance improvement was at the core of the Bank strategy, but progress on this broad objective was slow and the impact of Bank efforts modest.** As mentioned earlier, at the sector level the Bank promoted the establishment of regulatory entities in energy and telecommunications, while promoting institutional reforms in banking and the water sector. At the general level, the Bank expected to promote anti-corruption measures and legal and judicial reform; and to help initiate public administration reform as well as decentralization and local capacity building.

47. **Several anti-corruption measures were initiated, but their impact will only become evident in the medium to long term.** Legislation to establish the Anti-Corruption Commission was approved by Parliament in February 2004. The Commission, however, was not operative and the Anti-Corruption Strategy was incomplete at the end of the CAS period. The process of separation of the judiciary and executive advanced slowly due to the complexity of the task at hand.¹⁹

48. **As with the previous CAS, public administration reforms were among the most challenging to implement as these did not figure prominently in the government's agenda.** After several years in preparation, a public sector modernization program to be financed by the Bank – considered a key element of the CAS program – was dropped from the pipeline in FY02. In FY03, modest steps included in the Development Support Credit to change staff promotion rules were implemented, along with a hiring freeze for the lower levels of the civil service. These actions notwithstanding, at the end of the CAS period public administration remained rigid and not very efficient, representing one of the main obstacles to smooth implementation of development programs and projects. In consequence, delivery of Bank assistance continued to be constrained by civil service rules, politicization of the bureaucracy, and the short tenures of senior bureaucrats.

49. **In contrast, public financial management and procurement capacity improved in recent years.** With additional support from development partners, several of the recommendations of the

¹⁹ The Judicial Services Commission was formed. However, the status of magistrates remained unresolved, as they would prefer to remain under the civil service administration.

Country Financial Accountability Assessment (CFAA) were implemented, including, among others, the separation of the audit and accounting functions, and the establishment of internal audit committees in selected ministries and autonomous agencies. At the same time, following the recommendations of the Country Procurement Assessment Review (CPAR), a Central Procurement Technical Unit was established, a Procurement Law was drafted, and public procurement regulations issued to change the old system completely. In addition to the analytical work, IDA-financed technical assistance was instrumental in achieving this progress.

50. **Modest steps were made to improve the civil judicial system and increase access to justice.** Implementation of the judicial reform program supported by IDA and other donors helped initiate reforms in the Supreme Court and selected district courts. During the CAS period, Money Loan Courts for financial disputes and the Alternative Dispute Resolution Mechanism (ADR) were established.

51. **On the other hand, in FY04 the structure and plan for decentralization remained unclear.** Bank efforts to promote decentralization issues did not produce any concrete results, despite the Government's professed intention of establishing strong local government at various levels. In the end, the pilot effort to test models of decentralization listed as a reserve project in the CAS could not materialize.

Crosscutting Issues: Addressing Social and Environmental Issues

52. **Environmental management capacity did not improve during the CAS period.** To help build this capacity, the Bank planned to support alleviation of air pollution in Dhaka, execute the policy component of the UNDP-assisted Sustainable Environmental Management Program (SEMP), and promote better environmental assessment procedures across all Government line agencies. Bangladesh made progress in improving the forest management system with Bank assistance, which also helped expand mangrove plantations with community participation. Alleviation of urban air pollution in Dhaka was an area of relative success to which the Bank also contributed directly. After the removal of the two-stroke three wheelers, the next challenge to address is the influx of diesel commercial vehicles. In 2002, however, the Bank had to withdraw from SEMP due to disagreement between the Ministry of Environment and Forestry (MOED) and UNDP, and the Bank's concerns with governance in the sector. More positively, a Country Environmental Analysis was initiated in FY04 with Bank and other development partners' support to help strengthen the environmental foundation of the PRSP.

53. **The gender equity agenda remains substantial, even though Bangladesh made further progress in girls' education, microfinance, and expansion of income generation opportunities for women.** Partially due to achievements in these areas, the country met the MDG in gender equality in primary and secondary enrolment. Health and nutrition programs implemented with IDA financing effectively targeted women and their children. The Government recognized the importance of promoting women's advancement by making this one of the five pillars of the I-PRSP. Currently, gender inequalities persist in accessing and controlling resources and in taking advantage of economic opportunities. Although tougher laws were recently enacted against throwing acid on women, Bangladesh still has a high incidence of violence against women.

54. **CAS implementation did not generate any substantial negative social and environmental impacts.** The Government dealt with the initial social impact of SOE closures relatively well, and planned to enhance consultations with labor and promote income generation opportunities and retraining to minimize this impact.²⁰ In FY04, the closing of some SOEs resulted in social disturbances that led to

²⁰ For example, to mitigate social impact of SOE retrenchment, the Government will implement a micro-enterprise and counseling component (US\$10 million) financed by DFID under the Enterprise Growth and Bank Modernization Project.

their temporary reopening. The Bank, at the same time, was slow in supporting the implementation of a Poverty and Social Impact Assessment (PSIA) to understand the full implication of many of the reforms under consideration or implementation.

Overall Assessment of CAS Performance

55. **Based on the analysis of outcome progress, CAS performance is considered marginally satisfactory, while the overall impact of Bank assistance remained modest.** In general, Bank assistance contributed to development progress in Bangladesh during the CAS period, but not at the expected levels. The Bank supported more effectively the objective of consolidating human development gains, followed by accelerating broad-based growth. Assistance to improve governance was less successful, but the Bank helped to initiate important steps toward improving the regulatory framework in telecommunications and energy, initiating institutional change in the water sector, strengthening fiduciary systems, and developing anti-corruption measures.

56. **The modest support to agriculture and rural non-farm growth, and the limited impact in the financial sector, indicate that the Bank's contribution to help Bangladesh move closer to its growth potential was less than originally envisaged.** In the case of the financial sector, the full impact of Bank support was not fully evident yet, since the reform program was in the early stages of implementation in FY04.

57. As shown in Section D, **the lending program evolved without a complete understanding of the impact of program changes on CAS outcomes.** Some of these outcomes seem ambitious in retrospective, particularly if the prevalent country and institutional conditions are taken into consideration. Consequently, the Bank's contribution to several CAS outcomes was lower than expected, particularly in outcomes related to promoting agricultural growth and diversification, reducing infrastructure constraints, improving public administration, and supporting local government strengthening.

58. In addition, **CAS performance was affected by the Bank's difficulty in engaging the government in critical areas such as public administration reform and decentralization.** Both of these areas were prominently discussed in the FY01 CAS document, but lacked country ownership and better understanding of reform constraints.

59. **Despite these limitations, Bank assistance helped Bangladesh make further progress toward the MDGs, particularly those related to human development.** Major health and education sector governance changes are still required to secure this progress, however. Even Bangladesh's much-touted reduction in total fertility is at risk unless health sector policy is improved. Finally, the Bank was less successful in helping the country accelerate progress toward the MDG targets related to environmental sustainability.

D. Bank Performance

60. **In June 2004, total IDA net commitments amounted to US\$2.5 billion, while the IFC portfolio stood at US\$166.6 million.** At the same time, undisbursed IDA commitments totaled US\$1.7 billion. The Bank Group portfolio in Bangladesh included 25 IDA Credits, 4 IDA Grants, 2 GEF Grants, one IDA guarantee (see Table D for portfolio details), as well as 11 IFC-sponsored projects. **Between FY01 and FY04, IDA commitments amounted to US\$1.68 billion and IFC commitments US\$123.1 million.**

Delivery – Bank Assistance during the CAS Period

61. **The lending program included in the FY01 CAS proved to be very tentative, while limited to investment and technical assistance credits** (see Table B for details). The list of dropped projects presented in Table D shows the difficulties faced by the Country Team in initiating or maintaining Bank involvement in sectors such as urban infrastructure, ports, banking, energy, water, and especially agriculture.²¹ In FY00, during CAS preparation, nine projects were dropped from the portfolio. Eight projects were dropped in each of the two subsequent fiscal years. By FY03, the pipeline had become thin and identification of viable projects increasingly challenging. The program continued to change during FY04 as the Bank attempted to respond to I-PRSP priorities and to IDA 13 resource constraints. Despite these efforts, the array of instruments available to deliver Bank financial support remained quite limited. The intention noted in the CAS of using sector wide approaches beyond the health sector only became possible in FY04 through the second phase of the primary education development program. Adjustment lending could only be provided in FY03, when Bangladesh finally moved into the base case.

62. **A disconnect can be observed between the lending and nonlending programs.** Analytical and advisory activities (AAA) were for the most part delivered as listed in the CAS. In FY04, however, AAA delivery slowed down significantly (see Table C). In general, AAA delivery was advanced without adjusting to the changes in the lending program. This situation stemmed, to some extent, from the strategic decision to focus the nonlending program on overall governance, poverty and reform issues, rather than on supporting lending development through formal sector work. With the exception of the agricultural and non-farm rural sectors, health, and to a lesser degree education, formal sector work was minimal during the CAS period.

63. **Despite the wide array of CAS outcomes, most of the commitments made between FY01-04 were concentrated on a few sectors, resulting in an active portfolio dominated by transportation, health, energy and education.** Among the 19 investment and technical assistance projects approved during the CAS period, rural infrastructure, represented in rural roads and electrification projects, received the largest amount of new IDA commitments (US\$381 million). This type of projects was followed closely by education projects, which received US\$375 million. Together, these two set of projects received 45 percent of FY01-04 IDA commitments. SOE and banking reform received the third largest amount (US\$287 million, or close to 17 percent of total), while support to scaling-up microfinance was next (US\$156 million or 9 percent of total).²² This pattern, combined with the fact that 16 projects closed and six projects were extended, contributed to the concentration of the portfolio in transportation, health, energy – including rural electrification and support to increasing private sector provision,²³ and the education sector.

64. **Delivery of Bank assistance was hindered by the limited access to IDA resources experienced by Bangladesh.** The country could only access about 80 percent (US\$1.15 billion) of its FY1-03 IDA allocation as it continued in the low-case scenario for the first two years of the CAS period. In addition, recent analysis indicates that the country performance rating, and by extension the IDA allocation for Bangladesh, may have been further reduced due to the formula, and particularly the governance factor, applied to estimate this rating. Significantly, when the country moved to the base case in FY03, the lending target of US\$715 million set in the CAS could not be met, partially because of the

²¹ Financial support to the water sector, for example, was supposed to reach over 30 percent of the initial FY01-03 lending program, but never materialized due to the factors previously mentioned. Public power sector investment credits (i.e., Power Sector Technical Assistance and Power Sector II – Dispatch and Transmission) included in the “reserve list” could not come to fruition either, pending actual reforms.

²² Commitments for health projects only reached US\$40 million (for HIV/AIDS prevention) due to the delay in preparing the second phase of the SWAp and the decision to drop the Arsenic Public Health Project

²³ This amount does not include the IDA guarantee for the Haripur Power Project (US\$60.9 million).

thin pipeline. Despite these problems, Bangladesh remained among the ten largest recipients of IDA resources during the CAS period, and in FY03 was in fact the largest IDA-only recipient and second overall after India.

65. **In addition, most IDA resources were committed late in the CAS period.** Almost half of total FY01-03 commitments were approved in the last quarter of FY03, and most of the FY04 commitments were scheduled for June. In fact, the adjustment lending provided in FY03 is equivalent to over 50 percent of that year's commitments and over 17 percent of total FY01-04 commitments. The adjustment support (US\$300 million) planned for FY04 slipped into the first quarter of FY05. As shown earlier, however, the reform measures supported by these adjustment credits helped advance CAS outcomes in FY04.

66. **Simultaneously, disbursements experienced a serious slowdown, reflecting slow project implementation.** Over 50 percent of FY01-03 total disbursements took place in FY03 thanks to the provision of one-tranche adjustment support. That year, at the same time, disbursements related to investment and TA projects were down by almost 20 percent with respect to the average for the two previous fiscal years. This trend is also evident in the country's disbursement ratio (net of adjustment lending), which, after reaching levels of 20 percent or more in FY01 and FY02, decreased to 16.4 percent in FY03 and stayed at almost the same level in FY04. At the end of the latter, total gross and net disbursements (US\$228 million and US\$98 million, respectively) for the year had reached unprecedented low levels, reflecting a larger pattern of very low utilization of project aid by Bangladesh.²⁴

67. **Credit fund cancellations also increased, mainly because of the need to restructure problem projects.** In total, about US\$220.0 million in IDA funds, equivalent to 19 percent of FY01-03 commitments, were cancelled during the same period.²⁵ Most of the cancellations (US\$152.9 million or almost 70 percent of total for the period) took place in FY03, and affected several projects that were critical to achieving CAS outcomes. These included HIV/AIDS Prevention (50 percent of credit cancelled); Silk Development Pilot Project (45 percent); Dhaka Urban Transport (37 percent);²⁶ Primary Education Development (30 percent); Fourth Fisheries (30 percent); Fourth Dhaka Water Supply (30 percent); and National Nutrition (25 percent).

Portfolio Assessment

68. **IDA Portfolio performance was unsatisfactory during most of the CAS period. IFC portfolio performance was satisfactory, with non-performing loans below the IFC norm.** The FY01 CAS recognized that portfolio performance had been below the Bank's average. Between FY01 and FY04, despite temporary improvements in some indicators, the portfolio continued to deteriorate. In FY03, Bangladesh experienced the worst portfolio conditions of recent years as the share of projects at risk climbed to 24 percent and commitments at risk to 33 percent.²⁷ During FY04 the portfolio improved slightly, and in June 2004 the percentage of projects at risk was 17 and the percent of commitments at risk

²⁴ Between FY01 and FY04, total gross disbursements in Bangladesh reached US\$1.4 billion and net disbursements US\$972.6 million (of which 69 percent corresponded to investment and TA credits.)

²⁵ About 84 percent of cancellations were due to project restructuring and cost savings, 14 percent due to undisbursed balances at credit closing, and 2 percent due to misprocurement.

²⁶ With cancellations amounting to US\$64.8 million, Dhaka Urban Transport, a problem project for over two years due to over-ambitious design and poor institutional knowledge, was the project with the largest share of total cancelled funds in FY03 (42.4 percent) and overall during the period (29.4 percent).

²⁷ In comparison, FY03 Bank average for both projects at risk and commitments at risk was 15 percent, while the regional figures were 17 and 14 percent, respectively.

was 24. Almost 40 percent of the commitments at risk, however, fell under the Private Sector Infrastructure Development Project (PSIDP), which had then been a problem project for a year.²⁸

69. **The above trend partially reflected the strategic decision to extend several projects at risk, most of them actual problem projects, and/or to postpone partial credit cancellations on the basis of the expected development impact and contribution to CAS outcomes.** While the actual implication for Bank development effectiveness has not been fully evaluated yet, the list of extensions during the CAS period includes, in addition to PSIDP, other key projects such as Arsenic Mitigation Water Supply, Dhaka Urban Transport, and the Health and Population Sector Program. Before being upgraded during FY04, many of these projects were considered problem projects for a considerable period of time (Arsenic Mitigation for almost two years and Dhaka Urban transport for over two years), thus affecting portfolio indicators substantially during the CAS period. Most of these projects suffered from the general design and related implementation problems discussed below.

70. **In addition to design issues, portfolio conditions also reflected slow project implementation due to difficult administrative procedures and processes.** Some of the most serious issues relate to delays in appointing key staff, protracted consultant recruitment, including NGO contracting, and weak procurement and financial management capacity. Although it is expected that implementation of the procurement reform program will help improve this situation, during the CAS period recruitment of consultants and awarding of contracts continued to be affected by undue delays in the evaluation and procurement approval process, unrealistic procurement schedules, tendency among implementation units to re-bid, and the lack of standardized bidding documents. Protracted government approval of the Project Concept Paper (PCP) and Project Proforma (PP) further delayed projects.

Quality of Products and Services

71. **Project design suffered from unrealistic expectations regarding objectives, completion schedules, and expected results, as well as insufficient attention to institutions and political economy.** QAG assessments²⁹ consistently identify lack of clarity and realism of project development objectives as one of the weakest areas in project design, which is, at the same time, found to be generally weak. Several projects considered to be “best practice” faced serious problems because institutional and political challenges were not well understood, and implementation arrangements and/or capacity did not correspond to country conditions. As a result, proposed policy and institutional reforms were often integrated into projects without sufficient client ownership and/or understanding of implementation constraints.

72. **Bank project supervision was affected by the quality and realism of reporting, and insufficient focus on development effectiveness.** On the one hand, over-ambitious monitoring and evaluation (M&E) systems were proposed without a realistic implementation plan and little or no follow up during implementation. On the other hand, an overemphasis on project inputs and disbursements, rather than on outputs and outcomes, resulted in an inadequate measurement of development impact. According to QAG, supervision ratings tend to be generous in the case of Bangladesh, which would imply that portfolio quality is worse than reported.

²⁸ In addition to PSIDP, the list of problem projects in June 2004 included Municipal Services, Microfinance II, Post-Literacy and Continuing Education, and Fourth Fisheries.

²⁹ QAG data at the country level should be analyzed cautiously given the small size of some of the samples. During the CAS period, QAG assessed quality at entry (QAE) of five projects and quality of supervision (QSA) of 11 projects in Bangladesh. The QSA in FY01 focused on “risky projects” and is not comparable with the other years. Both QAE and QSA were found to be generally satisfactory, although in the latter case Bangladesh did not perform as well as the region or the Bank as a whole. To identify trends better, we also considered for this report a longer period, starting in FY97. This brings the sample up to 12 projects assessed for QAE and 22 for QSA (although three projects are included twice in this sample).

73. **As a result, the effectiveness and impact of Bank lending has been mixed: while achievement of project outcomes was mostly satisfactory, sustainability fell behind Bank averages during the CAS period.** Out of 18 projects evaluated between FY00 and FY04, OED agreed that 14 (about 78 percent) had satisfactory outcomes. Sustainability of project benefits was considered likely, however, in only 10 of these projects (about 63 percent). Bangladesh's share of satisfactory project outcomes compares well with the region (81 percent) and the Bank as a whole (76 percent). In contrast, in terms of sustainability, Bangladesh performed below the region (81 percent) and Bank levels (73 percent). See Table D(a) for details of OED ratings by closed project.

74. **Institutional development impact – an overriding concern of the CAS – was modest.** According to OED, only a third of the evaluated projects in Bangladesh had substantial institutional development impact. This figure is substantially below the region (46.2 percent) and Bank (49.9 percent) levels, which were generally low in the first place. Overall, excepting the “islands of excellence” in microfinance (PKSF), rural infrastructure (LGED) and rural electrification (REB), the Bank's efforts to help build good sector institutions in the country continued to be largely disappointing during the CAS period.³⁰ It should be noted that in the case of PKSF, LGED, and REB, Bank support for capacity building built on the successful efforts of other development partners.

75. **Not surprisingly, projects in rural roads, rural electrification, and microfinance had a high overall impact, followed by those in education. Projects in the agriculture sector, on the other hand, did not perform as well.** OED assessments confirm that Bank assistance to Bangladesh to improve rural infrastructure has provided clear benefits, and that over time the Bank has built a beneficial development partnership with government in the rural electricity and transport sectors. Contrastingly, support to agricultural research and extension services did not result in sustainable, visible impacts: sustainability of the Agricultural Research Management Project was rated as unlikely by OED, while that of the Agricultural Support Services Project could not be evaluated due to “significant uncertainties about the future.” In both cases, after several IDA-financed projects, institutional development remained poor.

76. **Gas and urban water supply were sectors with very poor results.** After more than 20 years of assistance, the Bank has not managed to promote substantial institutional and policy reform in these sectors. In the case of the gas sector, overall institutional capacity of Petrobangla remained poor and its ability to deal with gas supply shortages severely limited. The Gas Infrastructure Development Project, which closed in FY00 with unsatisfactory ratings, was the fourth and last IDA credit to the sector. The Fourth Dhaka Water Supply, the last in a succession of Bank-supported efforts was unsatisfactory at most levels, and considered by QAG a “no-win project from entry.” These two projects failed largely because of lack of political will to undertake deep systemic reforms needed in the sector, but also because of poor country ownership and unrealistic expectations. In the case of Dhaka Water, additional factors were unrealistic development objectives and poor design and appraisal that ignored the lessons of the three previous operations.³¹

77. **The overall outcome of the Development Support Credit was rated as moderately satisfactory by OED, while QAG considered that the sustainability of the reform program underpinning it was uncertain.**³² Although the DSC was rated as having a satisfactory quality at entry, QAG had several concerns: Ownership of the reforms supported by the DSC appeared weak beyond the core government team led by the Finance Minister. Moreover, only a small team in both the Government

³⁰ This is one of the main findings of the assessment of Bank-supported capacity building in Bangladesh undertaken by OED in February 2003, and also an important conclusion of the 1998 OED Country Assistance Review.

³¹ QAG recommended, however, that future support to the urban water supply sector should be given only if the Bank can obtain up-front sector reform and municipal reform addressing the systemic issues that hinder the provision of water and other public services in the country.

³² OED concluded that the sustainability of the program included in the DSC was non-evaluable due to similar reasons.

and the Bank participated actively in its completion, while key stakeholders had not been consulted. QAG thus concluded that the three-year reform program proposed in the DSC did not reflect a realistic analysis of institutional constraints and implementation capacity, which made it unlikely that the program could be followed through completely.

78. **Overall quality of analytical and advisory activities during the CAS period was satisfactory according to QAG, but their effectiveness, although encouraging, was somewhat limited.**³³ In general, QAG commended the Bank approach of coordinated analytical work and policy advocacy on governance pursued especially in FY01 and FY02.³⁴ In addition, QAG considered the strong poverty focus of AAA very productive. Specifically, the CFAA was rated by QAG as highly satisfactory while the Poverty Assessment was rated as fully satisfactory. The decision to prepare the Public Expenditure Review (PER) in parallel to the Poverty Assessment allowed the Bank and the Government to take advantage of the complementarities between these efforts, which provided useful inputs to the I-PRSP and helped inform the dialogue on poverty reduction in Bangladesh. Additionally, thanks to the close collaboration with the Bangladesh Bureau of Statistics (BBS), the methodology used in the country to measure poverty improved substantially. More generally, however, analytical work did not help enhance the impact of Bank-financed projects, to a great extent because of the disconnect that developed between the lending and non-lending programs. The overall impact of governance-related work was limited by the difficulty in translating the knowledge gained into concrete ways to deal with deep systemic issues, particularly at the project and sector levels. This difficulty was related, to some extent, to the need to address better the political economy of reforms.

E. Consultation and Coordination

79. **The CAS was prepared following consultations with a wide array of stakeholders across the country, through a process that was considered ‘best practice’ at the time.** CAS dialogue was nevertheless constrained by the political situation, which made it difficult to get attention from opposition parties, and by strained relations with the government. Due to time constraints, the CAS Progress Report did not benefit from consultation with stakeholders, although its draft was shared with government and several development partners. As planned in the CAS, during the pre-election and government transition periods, the Bank used donor meetings, interactions with civil society, and occasionally the media to make the case for reforms, especially in governance. Engagement with civil society, however, was not maintained at the expected levels afterwards.

80. **Partnership with government improved after the elections, but a negative perception of the Bank lingered throughout the CAS period.** According to the Global Poll conducted in FY03, the Bank in Bangladesh was perceived as arrogant, often acting both “irresponsibly” by proposing unsustainable advice, and inconsistently by not always following through.³⁵ This perception was corroborated to some extent by the Bangladesh Client Survey in 2004. To some extent, this perception is the continuation of a historical trend that requires a concerted effort to improve staff behavior and the image of the Bank itself. It stems from the high profile inherent to the Bank as a major donor and leader of the LCG, but also from the increased emphasis given to governance since the mid 1990s, starting with “Government that Works.” While many Bangladeshis have welcomed this focus, others remain ambivalent or resent the “rhetoric” of poor governance from external agencies, especially when coupled with non-lending decisions and no attempts to help promote an endogenous process. At the program or project level, this negative perception

³³ QAG undertook a Country AAA Assessment in 2004, which was subsequently used as an input to the overall Country Program Assessment.

³⁴ The cluster of activities related to governance included in FY01 the Governance Indicators / Citizen Report Cards, the Institutional and Governance Review, the CFAA – prepared with UNDP, and 18 policy briefs prepared for the new government.

³⁵ The perception of the Bank in Bangladesh was among the worst in the region.

was perpetuated by the tendency to apply “best practice,” in reality often dogmatic solutions indiscriminately and without sufficient understanding of the Bangladeshi context. Such tendencies on the part of the Bank were reinforced by the generalized perception of the country as a “poor performer.”

81. **The effectiveness of the Local Consultative Group (LCG), chaired by the Bank, increased during the CAS period.** When the CAS was being prepared, government’s involvement in the activities of the LCG remained limited. Moreover, the Bank and other major donors had only recently started their efforts to bring development assistance under a common development framework and to focus on results.³⁶ During CAS implementation, ownership of the LCG was expanded through the establishment of an Executive Committee with rotating membership, while the government’s participation in LCG activities increased. Presently, senior officials meet periodically with the full LCG, while officials from the line ministries meet regularly with their counterparts in LCG sub-groups. In January 2003 the government and LCG started the Aid Governance Initiative to strengthen the quality of administrative and implementing processes of externally-funded development activities in Bangladesh. Donors and government officials worked together on four groups dealing with audits, procurement, training, and simplification of project documents.

82. **Increased collaboration with development partners in lending, especially through SWAps, and analytical work, enhanced development effectiveness.** While coordination in some sectors remained weak, partnerships in health and primary education were particularly strengthened through sector-wide approaches. In health, both the Government and the donor consortium led by the Bank learned to work better together through the challenging implementation process of the first sector wide approach. The Primary Education Program, which closed in FY04, suffered from lack of binding donor coordination and borrower commitment. In contrast, its new phase represents a good example of donor harmonization and partnership with the government. Based on past experience, a Code of Conduct was also agreed upon among participant donors to ensure decision making by consensus and a common voice.

83. **The need for a clear legal framework emerged during CAS implementation as a central issue to ensure NGO independence and accountability.** Government and development partners, such as the Bank, continued to support NGO efforts to expand access to microfinance. NGOs also played a role in non-formal education, including literacy work, and in delivering health services. However, delays in engaging NGOs affected several critical projects such as National Nutrition and HIV/AIDS Prevention. In FY04, the Government introduced in the Parliament, but quickly withdrew after donor urging, a NGO Bill restricting NGO autonomy and operational flexibility in response to alleged political partisanship of several NGOs and concerns with money laundering.³⁷ While there is a broad consensus among NGOs and donors that an enabling legal framework should be put in place to improve internal governance and accountability of the NGO sector, it is also agreed that this should be done through consultations with all stakeholders.

F. Main Lessons for new CAS Design and Implementation

84. **At the general level, the next CAS will need to promote the emergence of a national consensus on reforms, support PRSP priorities, and help ensure continuity of relevant policies and programs.** The PRSP process offers an excellent opportunity for Bangladesh to build a national consensus on priority reforms and development programs. But more than identifying the policy measures, the challenge for the PRSP, and by extension the new CAS, lies in ensuring that the agreed measures are consistently implemented across the coming electoral cycle, and that progress on macroeconomic policy

³⁶ During the 1999 Bangladesh Development Forum the discussion emphasized development outcomes over level-of-aid inputs for the first time in this type of meeting.

³⁷ Six NGOs were under investigation for allegedly using donor funds for political activity.

is followed closely by sector reforms and legal and administrative changes. Specific lessons from the recent CAS experience are discussed below and in Table A.

Strategic Approach

85. **As emphasized in the CAS, Bangladesh urgently needs across-the-board political and economic governance changes to achieve faster development results and meet the MDGs.** CAS implementation showed that governance reforms are difficult and costly, especially given entrenched vested interests and the polarized nature of Bangladeshi politics. Thus far, however, the CAS approach to governance reforms has been more of a constraint than a means to enhance Bank development effectiveness. **After the modest results obtained so far, the Bank faces the challenge of developing a more positive and constructive strategic approach to governance by moving from rhetoric to concrete support.** In practical terms, this means unbundling governance issues to implementable levels, gaining more in-depth understanding of these issues, and going beyond the traditional areas of past support to governance reform.

86. **The experience during this CAS period shows that reforms cannot be advanced comprehensively and at an even pace.** The Government's commitment to reform contributed positively to CAS outcomes, demonstrating that progress can be made even under difficult conditions. However, after a relatively short-lived window of opportunity, implementation of reforms became increasingly harder in some sectors with the premature start of the electoral cycle and the related intensification of confrontational politics. The situation will become even more difficult as the 2006 elections draw closer. **This experience also indicates that increased flexibility in the reform agenda underlying the lending performance triggers is required.** CAS triggers should deal practically with a reform path that is not easily predictable. The urgency with which reforms should take place needs to reflect more closely the reality on the ground, as well as the related government's understanding of the feasible speed for implementing reforms.

87. **In addition, the Bank should be endeavoring to work from within critical sectors rather than disengaging from them while waiting for reforms to occur.** CAS implementation showed that requiring upfront, often difficult reforms before supporting sectoral investments cannot always deliver the desired outcomes. While it is correct to assume that, in some extreme cases, investment without reforms will not provide sustainable outcomes, investments along with reforms may often lead to better achievement of sectoral outcomes and overall sector development. **To adopt this approach, the Bank should establish a clear set of minimum "rules of engagement" in each sector, instead of a long list of conditions that cannot be met even if some political will exists.** The CAS should take into consideration that the macroeconomic situation and political economy of reform have a significant influence in a sector's performance as well as in the government's ability to implement changes within such sector. As such, it is unrealistic to attempt to "force" actions beyond the point that is feasible at a particular time given constraining factors, many of which are exogenous to the sector.

Country Program Issues

88. **CAS objectives and outcomes should reflect what can be realistically achieved within the CAS period.** Accordingly, the Bank should strive to keep its assistance strategy focused on the results that are feasible given country conditions and IDA resource constraints. In this respect, **the country program supporting CAS outcomes needs to be especially responsive to client capabilities and institutional and political context, while reflecting selectivity and maximizing partnerships with development partners.**

89. CAS flexibility should also be reflected in the mix of instruments used to deliver Bank assistance. **In the case of Bangladesh, an important lending instrument could be programmatic, increasingly multi-sectoral budgetary support that can allow for adjustment the level of assistance to the pace of reforms.** This approach, however, would demand stepped-up efforts to strengthen fiduciary systems and, in general, better results at building institutional capacity beyond the limited number of “islands of excellence.” **“Good local fit” based on a thorough institutional analysis should thus be emphasized in the near future.**

90. **The above approach should translate at the project level into greater realism in project design, completion schedules, and definition of objectives and outcomes, as well as more strategic thinking about supervision.** Increased coordination across sectors is needed for project design and supervision since many long-standing factors affecting project preparation and implementation involve political, legal, and institutional issues that cannot be fully understood nor solved on a project-by-project basis.

91. **The non-lending program should be planned and implemented more strategically by linking it better to the lending program, and in general to the CAS outcomes.** The CAS should consider, at the same time, timing and linking analytical work to policy formulation processes of the Government. Finally, the Bank should try out other effective ways of communication besides regular reports and dissemination workshops.

Bangladesh

TABLES OF CAS COMPLETION REPORT

Table A	CAS Completion Results Matrix
Table B	Planned Lending Program and Actual Deliveries
Table C	Planned Non-lending Program and Actual Deliveries
Table D	Portfolio Summary
Table E	Projects Dropped between FY99 and FY03

Table A – CAS Completion Results Matrix

Country Development Goals and Results	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report (Selected Indicators)	Lessons
<p>Goals: accelerate economic growth, invest in human development, ensure basic welfare and strengthen safety nets.</p> <p>Development Results: (base year: 1995/96) by 2010,</p> <ul style="list-style-type: none"> ▪ Poverty reduced by 50% ▪ Universal primary education attained ▪ Infant mortality and under 5 mortality rates reduced by 65% ▪ Proportion of malnourished children under 5 reduced by 40% ▪ Maternal mortality rate reduced by 75% ▪ Reproductive health services available to all <p>Main Challenges:</p> <ul style="list-style-type: none"> ▪ Reaching / sustaining higher growth rates ▪ Addressing governance ▪ Improving law & order ▪ Future of garment exports in post-MFA era ▪ Removing infrastructure constraints ▪ Vulnerability to disasters 	<p>L-PRSP Goals: improve governance, accelerate pro-poor growth, invest in human development, promote women's advancement, and ensure social protection.</p> <p>Development Results including localized MDG targets: (base year: 2000) by 2015,</p> <ul style="list-style-type: none"> ▪ Poverty reduced by 50% ▪ Universal primary education attained ▪ Infant mortality and under 5 mortality rates reduced by 65% ▪ Proportion of malnourished children under 5 reduced by 50% ▪ Maternal mortality reduced by 75% ▪ Reproductive health services available to all ▪ Gender disparity in primary and secondary education, child malnutrition, and child mortality, eliminated <p>Main Challenges:</p> <ul style="list-style-type: none"> ▪ Same as in FY01 CAS, plus: Changing image of the country ▪ Identifying new sources of growth ▪ Renewed efforts to promote agricultural and rural non-farm growth ▪ Increasing regional integration 	<p>Economic growth:</p> <ul style="list-style-type: none"> ▪ The economy continues to grow; FY04 GDP growth target of 5.5% seems achievable. <p>Development Results</p> <ul style="list-style-type: none"> ▪ Percentage of the poor fell to 50% in 2000 from 59% in 1990; additional 5% reduction projected by 2004. ▪ Net primary enrollment reached 88.9% in 2001 from 64% in 1990 ▪ Ratio of girls to boys in primary and secondary education increased to 102.8% in 2001 from 72.5% in 1990 ▪ Under 5 mortality rate (per 1,000) below 77 in 2003 from 144 in 1990 ▪ Percentage of children underweight projected to fall below 50% in 2004 from 67% in 1990 ▪ Maternal mortality rate (per 1,000 live births) reduced to 3.2 in 2002 from 4.8 in 1990. <p>Main Challenges:</p> <ul style="list-style-type: none"> ▪ High child malnutrition and maternal mortality rates ▪ Stalled fertility rate reduction ▪ Poor quality of education ▪ Significant gender disparities ▪ Low access to electricity and sanitation ▪ Arsenic groundwater contamination 	<ul style="list-style-type: none"> ▪ Bangladesh's remarkable progress in social and human development at relatively low levels of per capita income is attributable to the sustained investment to social sectors and the continued efforts of government and NGOs. ▪ Progress is still below potential. The country has paid a high price for its poor governance, law and order situation, corruption, weak financial institutions, and poorly managed and undeveloped infrastructure. ▪ Greater focus on health outcomes is needed, particularly maternal mortality and child malnutrition, as well as the persistence of infectious diseases. ▪ Economic growth by itself cannot eliminate hunger and chronic food insecurity. Cross-sectoral approaches are needed ▪ Investments in the formal education sector alone will not be enough for Bangladesh to move towards its EFA goals. ▪ Despite significant improvements in access to safe water supply, availability of water supply and sanitation has not necessarily resulted in improved health. 	

Table A – CAS Completion Results Matrix (Contd.)

CAS Strategic Objectives and Outcomes	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report(Selected Indicators)	Lessons
	<p>1. Accelerating Broad-based Economic Growth</p> <p><u>1.1. Macroeconomic management</u></p> <ul style="list-style-type: none"> ▪ Quality of public expenditure improved ▪ Domestic resource mobilization improved ▪ Fiscal burden of SOEs reduced <p><u>1.2. Banking / Financial Sector</u></p> <ul style="list-style-type: none"> ▪ Autonomy and regulatory capacity of Bangladesh Bank increased ▪ Management of Nationalized Commercial Banks (NCBs) improved <p><u>1.3. Trade liberalization / export promotion & diversification</u></p> <ul style="list-style-type: none"> ▪ Anti-export bias in trade regime reduced ▪ Clear post-MFA strategy established <p><u>1.4. Infrastructure Constraints</u></p> <ul style="list-style-type: none"> ▪ Availability / Efficiency of Energy Sector Enhanced ▪ Quality and coverage of transport network enhanced ▪ Port facilities improved ▪ Availability and efficiency of telecoms sector improved 	<p>Same as CAS FY01</p>	<p><u>1.1. Macroeconomic management:</u></p> <p>Good Progress</p> <ul style="list-style-type: none"> ▪ FY04 deficit lower than targeted 4.8% of GDP; Revenue-GDP ratio reached 10.4% (FY03); Domestic financing reduced by 3% (FY03); manufacturing SOE employment and losses reduced by 25% and 41% <p><u>1.2. Banking / Financial Sector:</u></p> <p>Adequate Progress</p> <ul style="list-style-type: none"> ▪ Amendments passed to strengthen Bangladesh Bank; Non-performing loans of NCBs reduced to 29% of assets in 2003; NCB resolution strategy mapped out <p><u>1.3. Trade liberalization / export promotion & diversif.:</u> Slow Progress</p> <ul style="list-style-type: none"> ▪ Some backtracking after average protection lowered to 22% in FY03; No action taken on post-MFA strategy; <p><u>1.4. Infrastructure constraints:</u></p> <p>Slow Progress</p> <ul style="list-style-type: none"> ▪ Energy and Telecoms Regulatory Commission established; mobile phone penetration exceeded fixed lines; Power system losses reduced to 28% (FY03); Private sector generation reached over 30% (FY04); but energy prices increases delayed; and Patenga container (private) terminal project stopped 	<ul style="list-style-type: none"> ▪ Sound macroeconomic policies and advances in structural reform contributed to the country's good economic performance. ▪ Reforms can be implemented under difficult conditions, by following an opportunistic approach. To achieve a critical mass, however, reforms need to be consistently pursued across political cycles. ▪ Local currency lending has the potential to add value to IFC's activities in Bangladesh, provided that delays in processing and obtaining approval are eliminated ▪ While faster tariff reduction was desirable, the process needs to be advanced carefully since import taxes remain a substantial source of revenue

Table A – CAS Completion Results Matrix (Contd.)

	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report (Selected Indicators)	Lessons
<p>CAS Strategic Objectives and Outcomes</p>	<p>2. Consolidating human development gains</p> <p><u>2.1 Health, Population & Nutrition System</u></p> <ul style="list-style-type: none"> ▪ Level of service quality and utilization at district and thana level increased ▪ Community-based nutrition interventions successfully scaled up ▪ Capacity of the Ministry of Health & Family Welfare increased ▪ Capacity to prevent an HIV/AIDS epidemic established ▪ Capacity to develop public health response to arsenic crisis established <p><u>2.2 Access and Quality of Education:</u></p> <ul style="list-style-type: none"> ▪ Educational outcomes in primary and secondary education improved ▪ Quality of teachers, curriculum, and textbooks improved ▪ Equity in education improved ▪ Provision of post-literacy and continuing education expanded 	<ul style="list-style-type: none"> ▪ Same as FY01 CAS 	<p><u>2.1 Health, Population & Nutrition System: Moderate to Good Progress</u></p> <ul style="list-style-type: none"> ▪ Budget allocation for Essential Services Package maintained at 70%, over 90% “one-stop” community clinics constructed, but not all functioning; MOHFW implementing the Reform Agenda Action Plan agreed in June 2003; Successful targeting of the poor with pre-natal care and immunization services; HIV prevalence among high risk groups remains below 5%; but response to arsenicosis slow <p><u>2.2 Access and Quality of Education: Moderate to Good Progress</u></p> <ul style="list-style-type: none"> ▪ Criteria for subsidies to schools linked to outcomes of standardized examinations for grades 10 & 12; Textbook production for grades 11 & 12 privatized; Incentive system to attract and reward qualified teachers approved; Stipends and tuition program for girls continued; Directorate of Non-Formal Education abolished, which delayed implementation of post-lit program 	<ul style="list-style-type: none"> ▪ Experience with SWAps helped demonstrate the benefits of a harmonized approach to achieving development results more effectively ▪ Resource allocation in health should be made more needs-based ▪ Gender-targeted public expenditures narrowed gender gaps in primary and secondary enrollments

Table A – CAS Completion Results Matrix (Contd.)

	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report (Selected Indicators)	Lessons
<p>CAS Strategic Objectives and Outcomes</p>	<p>3. Implementing an integrated approach to rural development</p> <p><u>3.1. Agriculture and rural non-farm growth</u></p> <ul style="list-style-type: none"> ▪ Research & extension improved ▪ Water management capacity improved <p><u>3.2. Opportunities / Assets to Poor Households</u></p> <ul style="list-style-type: none"> ▪ Efficiency and effectiveness of safety nets improved ▪ Access to microcredit increased ▪ Access to safe drinking water increased <p><u>3.3. Rural infrastructure</u></p> <ul style="list-style-type: none"> ▪ Access to rural infrastructure increased ▪ Rural road network improved ▪ Community-driven approaches piloted 	<ul style="list-style-type: none"> ▪ Same as FY01 CAS 	<p><u>3.1. Agriculture and rural non-farm growth_Slow Progress</u></p> <ul style="list-style-type: none"> ▪ National Rural Development Policy formulated since 2001; Rationalization of extension services initiated; but institutional strengthening of BARC not fully successful; Horticultural exports promoted, but effort needs scaling up; National Water Management Plan approved; Departmental procedures of BWDB revised; coastal embankments and their O&M improved <p><u>3.2. Opportunities / Assets to Poor Households: Good Progress</u></p> <ul style="list-style-type: none"> ▪ Food for education program monetized; Microfinance II disbursing on schedule and targets likely to be surpassed; piped water supply pilots successfully implemented; <p><u>3.3. Rural infrastructure: Moderate to Good Progress</u></p> <ul style="list-style-type: none"> ▪ Almost a million costumers served by rural electricity cooperatives; social investment program initiated; over 70% of roads in good condition, but poor maintenance is a concern; new management framework for the feeder road network completed 	<ul style="list-style-type: none"> ▪ Better attention needed to political and institutional context of projects. In the case of fisheries, for instance, project benefits to the poor lost due to rural elite capture in fisheries, and limited access to resources for aquaculture ▪ The most important requirement for sustainable water management is satisfactory institutional arrangements, stakeholder participation in all aspects of water management, and an O&M regime which assures source of funding and efficient operating mechanisms ▪ In rural areas, due to the high density of villages and growth centers, piped-water supply is emerging as a cost-effective solution

Table A – CAS Completion Results Matrix (Contd.)

	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report (Selected Indicators)	Lessons
	<p>4. Building stronger institutions and governance across sectors</p> <p><u>4.1 Public sector management</u></p> <ul style="list-style-type: none"> ▪ Key anti-corruption measures completed ▪ Public procurement and financial management capacity improved ▪ Civil service reform action plan prepared and initiated <p><u>4.2 Legal and judicial reform</u></p> <ul style="list-style-type: none"> ▪ Access to justice increased, particularly for women and the poor <p><u>4.3 Local institutions</u></p> <ul style="list-style-type: none"> ▪ Decentralization process revitalized ▪ Local government capacity increased 	<ul style="list-style-type: none"> ▪ Same as CAS FY01 	<p><u>4.1 Public sector management: Slow to Moderate Progress</u></p> <ul style="list-style-type: none"> ▪ Anti-Corruption Commission Bill passed in Feb/04, but Anti-Corruption Strategy not prepared; Audit and accounting offices separated; Central Procurement Technical Unit established and public procurement regulations issued; Training on new procurement regulations given to concerned officials <p><u>4.2 Legal and judicial reform: Slow Progress</u></p> <ul style="list-style-type: none"> ▪ Judicial Service Commission established; <p><u>4.3 Local institutions: Slow Progress</u></p> <ul style="list-style-type: none"> ▪ Gram Sarkar Bill declared villages the lowest tier of government; Upazilla Bill passed, but elections have not been held; local government capacity remains low 	<ul style="list-style-type: none"> ▪ Developing a more positive and constructive strategic approach to governance should be a priority. ▪ In practical terms, this means unbundling governance issues to implementable levels, and extending support beyond traditional areas of economic governance and fiduciary systems.
	<p>5. Environmental management capacity enhanced</p> <ul style="list-style-type: none"> ▪ Air pollution in Dhaka reduced ▪ Policy component under SEMP implemented ▪ Assessment procedures in Government line agencies improved 	<ul style="list-style-type: none"> ▪ Same as FY01 CAS 	<p>Slow Progress</p> <ul style="list-style-type: none"> ▪ Old buses and trucks, and 2 stroke 4 wheelers banned from Dhaka streets; Bank withdrew from SEMP; environmental safeguards of IDA-financed projects implemented satisfactory 	

Table A – CAS Completion Results Matrix (Contd.)

	FY01 CAS	FY03 CAS Progress Report	Status at FY04 CAS Completion Report	Lessons
<p>Key Country Issues that impacted CAS Implementation</p> <ul style="list-style-type: none"> ▪ Intensification of confrontational politics due to electoral cycle made CAS dialogue difficult and early CAS period challenging ▪ Global economic slow down found the country in a vulnerable position due to deterioration in macroeconomic balances ▪ After elections, renewed commitment helped advance the reform agenda and restore macrostability ▪ However, tradition of rejecting policy and programs agreed by previous administration, and difficult initial relations with Health Ministry delayed implementation of programs in health and nutrition, and preparation of second phase of health sector SWAp ▪ Deteriorating law and order situation and corruption affected country conditions and image deterring investors and constraining IFC role in the country ▪ Weak or missing institutional capacities affected overall design and implementation of programs and policies ▪ Powerful vested interest, even within the bureaucracy, continued to oppose reforms 	<ul style="list-style-type: none"> ▪ Progress on reforms and completion of I-PRSP allowed Bangladesh to move to the base case in FY03, and the Bank to provide adjustment support ▪ However, lack of collaboration between main political parties and law and order situation continued to affect country conditions and image ▪ Strong resistance to change in public administration slowed down critical changes needed to improve conditions affecting project implementation ▪ Macro-stability restored and economic growth reenergized after a slow down in FY01 ▪ But investment climate continued to be poor. 	<ul style="list-style-type: none"> ▪ Bangladesh's good economic performance and remarkable achievements in social and human development results provided a good basis for the progress made during the CAS period ▪ But premature start of the electoral cycle resulted in intensification of confrontational politics ▪ Law and order situation and corruption continued to affect country conditions and image ▪ Under the above circumstances, making projects on reforms was becoming increasingly challenging ▪ Poor investment climate continued to hinder country's progress ▪ PRSP process underway was cementing country ownership of development agenda, but political impasse posed a challenge to the emergence of an even more inclusive national strategy 	<ul style="list-style-type: none"> ▪ Aid effectiveness was affected during CAS implementation by the country's lack of institutional capacity, the government's lack of ownership of development programs, and weak project implementation capacity by the line agencies. ▪ Progress on reforms was achieved opportunistically given political and capacity constraints. Country conditions will become even more difficult as the 2006 general elections approach ▪ PRSP process can contribute positively to enhancing country ownership of development agenda. Moreover, Bangladesh needs to build a national consensus on the priority reforms as soon as possible, and the PRSP process represents an opportunity in this respect. 	

Table A – CAS Completion Results Matrix (Contd.)

	FY01 CAS	FY03 CAS Progress Report	FY04 CAS Completion Report	Lessons
Bank Performance	<ul style="list-style-type: none"> ▪ Delivery (see Tables B & C) ▪ Portfolio Assessment No. of Projects in Portfolio: 26 % of Problem Projects: 15.4 % of Projects at Risk: 19.2 % of Commitment at Risk: 7.1 Disbursement Ratio: 20.8 ▪ Quality (QAG) At entry: n.a Supervision: n.a (OED) % of projects rated unsatisfactory or highly unsatisfactory in previous 5 years: by number: 18.8 by amount: 15.2 Institutional impact: modest <p>The CAS stated that overall portfolio performance had been below the Bank's average</p>	<ul style="list-style-type: none"> ▪ Delivery (see Tables B & C) ▪ Portfolio Assessment No. of Projects in Portfolio: 25 % of Problem Projects: 20.0 % of Projects at Risk: 24.0 % of Commitment at Risk: 33.0 Disbursement Ratio: 16.4 ▪ Quality (QAG) At entry: n.a Supervision: n.a (OED) % of projects rated unsatisfactory or highly unsatisfactory in previous 5 years: by number: 13.3 by amount: 7.9 Institutional impact: modest <p>Portfolio continued to deteriorate, resulting in FY03 in one of the worse portfolio performances in recent years</p>	<ul style="list-style-type: none"> ▪ Delivery (see Tables B & C) ▪ Portfolio Assessment No. of Projects in Portfolio: 29 % of Problem Projects: 17.0 % of Projects at Risk: 17.0 % of Commitment at Risk: 24.0 Disbursement Ratio: 16.5 ▪ Quality (QAG) At entry: satisfactory Supervision: satisfactory, but below Bank average (OED) % of projects rated unsatisfactory or highly unsatisfactory in previous 5 years: by number: 22.2 by amount: 10.3 Institutional impact: modest <p>Portfolio started to improve slightly after unsatisfactory portfolio performance peaked in mid-FY04. However, most indicators were still worse than what they were in FY01</p>	<ul style="list-style-type: none"> ▪ Country program delivery was constrained by a strategic approach that lacked flexibility and better understanding of country conditions ▪ The lessons identified in the FY01 remain as valid at the end of the CAS period, despite some improvements: poor performance relates to inadequate ownership and commitment of government to project objectives – which were often too ambitious; weak implementation capacity, but also inadequate implementation arrangements; protracted decision making and implementation procedures; poor procurement management and inadequate public sector accountability ▪ Bank supervision was affected by the quality and realism of reporting, and insufficient focus on development effectiveness (i.e., M&E) ▪ Decisions on credit cancellations and closing of problem projects in order to meet proactivity indicators should also consider implications for the Bank's development effectiveness and for CAS outcomes
Consultation and Coordination	<ul style="list-style-type: none"> ▪ The CAS was prepared following consultations with stakeholders across the country ▪ CAS formulation constrained by strained Bank-government relations and difficult political environment ▪ Limited involvement of government in LCG activities 	<ul style="list-style-type: none"> ▪ The CAS Progress Report did not benefit from consultations due to time constraints; but the Bank strategy was aligned with the J-PRSP prepared through a broad-based participatory process 	<ul style="list-style-type: none"> ▪ Negative perception of the Bank requires a concerted effort to improve both knowledge of the Bank work in the country and general staff behavior ▪ Legal framework for NGO activities is needed, but it should be defined through a consultation process 	<ul style="list-style-type: none"> ▪ Negative perception of the Bank requires a concerted effort to improve both knowledge of the Bank work in the country and general staff behavior ▪ Legal framework for NGO activities is needed, but it should be defined through a consultation process

Table B Bangladesh – Planned Lending Program and Actual Deliveries (FY01-04)

FY	FY01 CAS Plans (November 17, 2000) a/		Status – FY03 Progress Report (May 23, 2003)			
	Projects	Type b/ IDA \$M	Status c/	Type	IDA \$M	
2001	Air Quality Management	LIL	4.7 Actual		4.7	
	HIV/AIDS Prevention	Inv	40.0 Actual		40.0	
	Legal & Judicial Capacity Building	Inv	30.6 Actual		30.6	
	Microfinance II	Inv	151.0 Actual		151.0	
	Post-Literacy & Continuing Education	Inv	53.3 Actual		53.3	
	Subtotal		279.6	Subtotal		279.6
2002	Female Secondary School Assistance	Inv	100.0 Actual		120.9	
	Rural Electrification	Inv	175.0 Actual		190.9	
	Social Investment Program	Inv	50.0 Forwarded to FY03			
	Water Management Improvement	Inv	55.0 Forwarded to FY04			
	Public Sector Modernization	Inv	40.0 Dropped			
	Rural Credit	LIL	5.0 Dropped			
	Subtotal		425.0	<i>Additional Actual Projects:</i> Public Procurement Reform Financial Services for the Poorest LIL Subtotal	TA LIL	4.5 5.0 321.4
2003	Rural Transport Improvement		150.0 Actual		190.0	
	Water & Sanitation Sector Improvement		75.0 Forwarded to FY04			
	Coastal Zone Development Program		200.0 Forwarded to FY06			
	Early Childhood Development		50.0 Dropped			
	Gorai River Restoration		180.0 Dropped			
	Khulna Urban Services Project		60.0 Dropped			
	Subtotal		715.0	<i>Additional Actual Projects:</i> Social Investment Program (from FY02) Central Bank Strengthening Telecommunications Development Support Credit Subtotal	Inv TA TA Adj	18.2 37.0 9.1 300.0 554.4
	Planned Total FY01-03		1,419.6	Actual Total FY01-03		1,155.4

Table B Bangladesh (Contd.)

FY03 CAS Progress Report Plans (May 23, 2003) a/		Status - CAS Completion Report (Final Date of Current Completion Report)		
FY	Projects	Type b/ IDA \$M	Status c/	Type IDA \$M
2004	Water Management Improvement	Inv	Forwarded to FY05	
	Economic Management	TA	Actual (*)	20.0
	Enterprise Growth & Bank Modernization d/	Inv	Actual	250.0
	Education Sector Dev Support Credit	Adj	Forwarded to FY05	
	Development Support Credit II	Adj	Forwarded to FY05	
	Export Development & Competitiveness	Inv	Dropped	
			<i>Additional Actual Projects:</i>	
			Primary Education Development e/	150.0
			Water Supply Program (*)	40.0
			Reaching Out of School Children (*)	51.0
			Power Sector Development (**)	15.6
	Subtotal		Subtotal	526.5
	Planned Total FY01-04		Actual Total FY01-04	1,681.9

a/Date of actual completion of the document. Final version of the CAS was printed on February 18, 2001; and of the CAS Progress Report on June 30, 2003.

b/ Inv (Investment); TA (Technical Assistance); Adj (Adjustment Lending); SWAp (Sector Wide Approach); and LIL (Learning & Innovation Loan or Credit)

c/ Three categories used: Actual, Dropped, or Forwarded to a different FY.

d/ This project appears in CAS Progress Report as "SOE & Banking Reform."

e/ This project listed in CAS Progress Report as Reserve.

(*) These projects were financed with IDA 13 Grants.

(**) This project includes IDA Credit (US\$7.1 million) and Grant (US\$8.4 million).

Table C Bangladesh – Nonlending Services: Planned and Actual Deliveries (FY01-04)

FY	FY01 CAS Plans (November 17, 2000) a/		Status – FY03 Progress Report (May 23, 2003)	
	Product	Type	Status b/	Type c/
2001	Institutional & Governance Review Financial Accountability Assessment Climate Change Study Health Financing Study Fiscal Strategy for Parastatals Labor Issues Periodic Economic Updates Safety Nets Policy Briefs for New Government Citizen Report Cards Communication for Change Program	Rpt Rpt Rpt Rpt PN PN PN PN PN PN PN Other	Actual Actual Actual Actual Actual Actual Actual Actual Actual Actual Actual Actual	
2002	Country Procurement Assessment Public Expenditure Review Poverty Assessment CFR: Private Provision of Infrastructure Governance & Inst. Quality Survey Development Forum Update Periodic Economic Updates	Rpt Rpt Rpt Rpt PN PN PN	Actual Actual Actual Completed in FY03 Actual Actual Actual <i>Additional Actual Products</i> Review of Public Enterprise Performance Energy Pricing Study Improving Textbook Quality	 PN PN PN
2003	Promoting Rural Non-Farm Growth Periodic Economic Updates Access of Poor to Education Export Development Urban Governance Poverty Assessment Workshop PER Workshop	Rpt PN PN PN PN Other Other	Completed in FY04 Actual Actual Actual Dropped Actual Actual <i>Actual from FY02</i> CFR: Private Provision of Infrastructure <i>Additional Actual Products</i> Private Sector Assessment of HNP Sector Investment Climate Assessment Financial Sector Assessment Paper Development Policy Review Agricultural Growth and Rural Poverty	 Rpt Rpt Rpt Rpt PN

Table C Bangladesh – Nonlending Services (Contd.)

	FY03 CAS Progress Report Plans (May 23, 2003)		Status – CAS Completion Report (Final Date of Current Completion Rep)	
FY	Product	Type	Status b/	Type c/
2004	Competitiveness Study	Rpt	Forwarded to FY05	
	MDG Assessment	Rpt	Forwarded to FY05	
	ROSC: Creditors' Rights/Insolvency	Rpt	Forwarded to FY05	
	Country Environmental Assessment	PN	Forwarded to FY05	
	Teacher Absenteeism	PN	Forwarded to FY05	
	Evaluation of NGO Contracting	PN	Forwarded to FY05	
	Agricultural Technology Review	PN	Forwarded to FY05	
			<i>Actual from FY03</i>	
			Promoting Rural Non-Farm Growth	Rpt
			<i>Additional Actual Products</i>	
			Rail / Ports / Inland Water Transport	PN
			Scaling Up Microfinance	PN

a/ Date of actual completion of the document. Final version of the CAS was printed on February 18, 2001; and of the CAS Progress Report on June 30, 2003.

b/ The following categories are used: Actual, Dropped, Completed in a Different FY; and Forwarded to a different FY.

c/ AAA Type: Rpt (Report); PN (Policy Note); and Other (workshops, dissemination, non-lending TA).

**Table D – Portfolio Summary
(a) Projects Closed during CAS Period**

Name of Project	Approval Date	Closing Date	Net Comm Amount (US\$ m)	Total Disbursed (US\$ m)	OED Ratings			Bank Performance
					Outcome	Institutional Dev	Sustain ability	
Poverty Alleviation (Microcredit)	17-Sept-96	31-Dec-00	105.0	99.0	Satisfactory	Substantial	Likely	Satisfactory
Second Road Rehabilitation & Maintenance	28-June-94	31-Dec-00	146.8	147.0	Satisfactory	Substantial	Likely	Satisfactory
Second Road Rehabilitation & Maintenance (*)	11-May-99	31-Dec-00	80.0	71.8	--	--	--	--
Non-Formal Education	27-Feb-96	30-June-01	10.5	7.9	Satisfactory	Substantial	Likely	Satisfactory
Female Secondary Assistance	11-Mar-93	30-June-01	68.0	63.7	Mod Satisf.	Modest	Likely	Satisfactory
Agriculture Research Management	8-Feb-96	31-Dec-01	50.0	42.9	Satisfactory	Modest	Unlikely	Satisfactory
River Bank Protection	5-Dec-95	31-Dec-01	121.9	105.8	Satisfactory	Modest	Likely	Satisfactory
River Bank Protection (*)	20-Apr-99	31-Dec-01	45.0	42.5	--	--	--	--
Forest Resources Management	23-June-92	31-Dec-01	49.6	46.6	Mod Satisf.	Modest	Non evaluable	Satisfactory
Fourth Dhaka Water Supply	19-Dec-96	30-June-02	80.3	46.7	Mod Unsatisf.	Modest	Unlikely	Unsatisfactory
Bangladesh Integrated Nutrition	30-May-95	30-June-02	59.8	51.6	Satisfactory	Modest	Likely	Satisfactory
Coastal Embankment Rehabilitation	9-Nov-95	31-Dec-02	53.0	43.8	Mod. Sat	Modest	Unlikely	Satisfactory
Coastal Embankment Rehabilitation (*)	20-Apr-99	31-Dec-02	16.5	15.7	--	--	--	--
Agricultural Services Innovation & Reform	14-Sept-99	31-Mar-03	5.0	4.05	Unsatisfactory	Modest	Non evaluable	Unsatisfactory
Second Rural Roads & Markets Improvement	19-Dec-96	31-Mar-03	133.0	121.2	Satisfactory	Substantial	Likely	Satisfactory
Second Rural Roads & Markets Improvement (*)	11-May-99	31-Mar-03	20.0	19.1	--	--	--	--
Silk Development Pilot	18-Nov-97	30-June-03	11.3	6.0	--	--	--	--
Primary Education Development	9-April-98	31-Dec-03	150.0	91.6	--	--	--	--
Development Support Credit (**)	19-June-03	31-Dec-03	300.0	306.7	--	--	--	--
Export Diversification	30-June-99	30-June-04	32.0	31.3	--	--	--	--
Total Closed Projects			1,537.71	1,364.9				

(*) Supplemental Credits after 1998 Flood, evaluated by OED under original Credit
(**) Adjustment Lending, One Tranche

**Table D – Portfolio Summary
(b) Active Projects as of June 2004**

Project Name	Approval Date	Closing Date	Age	Comm Amount (US\$ m)	Net Comm Amount (US\$ m)	Total Undisb. Balance	% Disbursed	Latest DO Rating	Latest IP Rating
Ongoing from Previous CAS Period:									
Private Sector Infrastructure Development	28-Oct-97	31-Mar-07	6.7	235.0	235.0	147.7	36.4	U	U
Health and Population Program	30-Jun-98	31-Dec-04	6.0	250.0	249.2	46.5	81.0	S	S
Arsenic Mitigation Water Supply	27-Aug-98	30-Jun-04	5.9	32.4	28.0	15.4	50.4	S	S
Third Road Rehabilitation & Maintenance	1-Oct-98	31-Mar-05	5.8	273.0	273.0	90.8	69.8	S	S
Dhaka Urban Transport	19-Jan-99	31-Mar-05	5.5	177.0	112.1	39.9	65.4	S	S
Municipal Services	16-Mar-99	30-Jun-05	5.3	138.6	138.6	81.6	42.7	U	U
Fourth Fisheries	20-Jul-99	31-Dec-04	5.0	28.0	19.8	11.1	47.7	U	U
Aquatic Biodiversity Conservation	20-Jul-99	31-Dec-04	5.0	5.0	3.7	1.9	52.4	S	S
Financial Institutions Development	16-Sept-99	30-Jun-05	4.8	46.9	46.9	10.5	76.4	S	S
National Nutrition Program	25-May-00	31-Dec-04	4.1	92.0	68.0	49.4	37.2	S	S
Approved during CAS Period:									
Air Quality Management	25-July-00	31-Dec-04	3.9	4.7	4.7	3.4	37.4	S	S
HIV/AIDS Prevention	12-Dec-00	30-Jun-05	3.6	40.0	18.0	14.6	39.9	S	S
Microfinance II	18-Jan-01	30-Jun-05	3.5	151.0	151.0	28.6	87.2	U	U
Post-Literacy & Continuing Education	27-Feb-01	31-Dec-05	3.3	53.3	53.3	42.8	32.8	U	U
Legal & Judicial Capacity Building	29-Mar-01	30-Jun-07	3.3	30.6	30.6	25.9	26.4	S	S
Female Secondary School Assistance II	12-Mar-02	31-Dec-06	2.3	120.9	120.9	93.8	36.4	S	S
Public Procurement Reform	2-May-02	30-Nov-05	2.2	4.5	4.5	2.7	53.7	S	S
Financial Services for the Poorest	19-Jun-02	31-Dec-05	2.0	5.0	5.0	4.4	24.1	S	S
Rural Elect. & Renewable Energy Development	25-Jun-02	30-Jun-08	2.0	191.0	191.0	183.5	21.1	S	S
Social Investment Program	18-Mar-03	30-Jun-07	1.3	18.2	18.2	17.9	10.1	S	S
Central Bank Strengthening	19-Jun-03	31-Dec-07	1.0	37.0	37.0	37.4	5.4	S	S
Rural Transport Improvement	19-Jun-03	30-Jun-09	1.0	190.0	190.0	191.1	5.6	S	S
Telecommunications Technical Assistance	19-Jun-03	30-Jun-08	1.0	9.1	9.1	9.9	2.8	S	S
Primary Education Development Program II	24-Feb-04	30-Jun-10	0.4	150.0	150.0	152.5	--	S	S
Power Sector Development TA	3-Jun-04	31-Dec-08	0.1	15.5	15.5	15.7	--	--	--
Enterprise Growth & Bank Modernization	8-Jun-04	30-Nov-09	0.1	250.0	250.0	250.0	--	--	--
Water Supply Program	17-Jun-04	30-Apr-10	0.0	40.0	40.0	40.5	--	--	--
Reaching Out of School Children	17-Jun-04	30-Jun-10	0.0	51.0	51.0	51.7	--	--	--
Economic Management TA Program	22-Jun-04	31-Dec-09	0.0	20.0	20.0	20.3	--	--	--
Total Active Portfolio				2,659.7	2,534.1	1,681.5			
Haripur Power Project (IDA Guarantee)	1-Jun-00			60.9	60.9	51.5			

Note: Projects at Risk (ratings in bold)

Table E – Projects Dropped between FY99 and FY04

Fiscal Year	Project Name	No. Projects	Indicative IDA Amount (US\$ m)
1999	Agricultural Sector Investment	1	75.0
	Central Banking TA	1	30.0
	Total	2	120.0
2000	Dhaka Integrated Urban Renewal Program	1	160.0
	Port Efficiency Enhancement	1	50.0
	Inland Water Transport Efficiency Improvement	1	80.0
	Solid Waste Management	1	50.0
	Land Recording System	1	20.0
	Slum Improvement	1	150.0
	Cultural Heritage	1	5.0
	Education Quality Improvement	1	5.0
	Gas Market Development	1	70.0
Total	9	439.8	
2001	Telecom Sector Reform TA	1	12.0
	Urban Services Project	1	17.0
	Second Coastal Embankment Rehabilitation	1	117.0
	Integrated Coastal Zone Management	1	100.0
	Agriculture & Rural Development	1	100.0
	Community Road Safety Initiative	1	5.0
	Coastal Zone Development Program	1	200.0
	NSA Central Banking TA	1	20.0
Total	8	571.0	
2002	Power Reform APL 1	1	125.0
	Public Sector Modernization	1	20.0
	Water & Sanitation Sector Improvement	1	75.0
	Rural Credit LIL	1	5.0
	Marketable Skills Development	1	50.0
	Power Sector TA Assistance	1	10.0
	Rural Financial Services	1	20.0
	Agribusiness Development	1	50.0
Total	8	355.0	
2003	Gorai River Restoration	1	79.6
	Arsenic Public Health	1	40.0
	Development Support Credit	1	250.0
	Rural Livelihood	1	25.0
Total	4	394.6	
Overall Result		31	2,030.6

Attachment 7

Joint CAS Process – Progress to date

1. Four development partners namely WB, DFID, ADB and Japan initiated a dialogue on the preparation of a joint Country Assistance Strategy. They gathered in a two day retreat from March 20-21st, which took place in the World Bank offices in Dhaka (program attached). Over 40 staff from the four organizations participated. The main objectives of the retreat were to:
 - (i) agree on the main partnership principles and teamwork among the four development partners (Box.1)
 - (ii) understand each institution's processes, requirements, and timetables for the preparation of their country assistance strategies
 - (iii) construct a consistent view of Bangladesh's achievements and challenges on growth and poverty as identified by the analytical work and the results of the consultations with the civil society and other focus groups
 - (iv) agree on the emerging themes/pillars for the strategy
 - (v) initiate the preparation of a joint outcome matrix on the basis of the agreed pillars.
2. Dr. Kamal Siddique, the Principal Secretary to the PM, addressed the first dinner of the retreat and spoke about the Government priorities as outlined in their recently prepared National Strategy for Accelerated Poverty Reduction. Secretary ERD, Mr. Ismail Zabihullah, was also invited to attend.
3. The retreat was successful in achieving its objectives and was well received by the participants who were actively engaged throughout. The four development partners **agreed on the partnership guiding principles** (Box 1). There was also broad agreement on the main issues and challenges facing Bangladesh's efforts to achieve higher growth and reduce poverty.
4. Participants **agreed on the main pillars of the strategy** as being: (i) Improvements in the **Investment Climate** for generating growth and employment, and: (ii) **Empowering the Poor** through better skills, health, nutrition and transparent government, with **Governance** being a key constraint and the foundation for success in both pillars. Gender also emerged as an important cross-cutting theme. These were consistent with the CAS approach and story-line developed by the Bank in February 05 at the concept stage. Participants engaged in the preparation of a joint outcome matrix based on the three themes, which will guide their work and the discussions with the Government on how the development partners will measure progress in the implementation of their programs towards supporting the Government's PRSP. Work on the outcomes continued throughout the preparation of the CAS. The results matrix presented in Attachment 1 to this document is the result of such consultations and work among the Bank and other development partners.
5. A second retreat with the donors took place in July 2005, to focus on sector specific issues as well as instruments to deliver the strategy. The output of these processes was the preparation of a set of sector specific strategy notes covering the main priority areas, including, civil service reform, public financial management and procurement, local governance, rural infrastructure, transport, Power, Legal and Judicial, Agriculture, and Education. The main objective of the second stage was to agree on a clearer division of responsibilities among donors and especially use this platform to involve and consult with the rest of the donor community. Therefore, in several of the sectors mentioned above consultations were held with the LCG sub-groups interested in the sector. As a follow up to these meetings development partners will continue to cooperate and coordinate closely with the Government to ensure full support of the PRSP.
6. A newsletter on the joint CAS was prepared on behalf of the four development partners.

**Box 1 : Towards a Common Strategy to Assist Bangladesh:
Partnership Principles**

ADB, DFID, Japan, World Bank

- We will invest time and effort into understanding different agency mandates
- We will recognize our relative institutional strengths and build upon those strengths
- We will work in partnership, resolving differences openly and constructively and respect each others views
- We will share information in a spirit of openness
- We commit to mutual respect in the matter of communication
- We will communicate and maintain agreed common messages to Government and others
- We will represent each others' interests to the Government and other development partners whenever possible
- We commit to ensuring coherence between field offices and our respective agency headquarters
- We commit to coordinating and harmonizing our activities in support of agreed outcomes
- We recognize the high transaction costs associated with such partnerships and resolve to ensure that we will always carefully weigh the costs and benefits of all joint activities and avoid imposing unnecessary burdens on each other.
- We aim to build and maintain our understanding of Bangladesh's development context and base our engagement on this knowledge
- We aim to continue to deepen our understanding of the incentives and institutions in each sector where we provide support
- We are committed to building the capacity in Government to lead and implement its development agenda
- We commit to base our dialogue and programs on Bangladesh's development agenda
- We will work with Government to identify a manageable number of achievable priorities and align our strategies around such priorities
- We commit to a participatory approach with the Government, ensuring that commitment and ownership exist before providing support
- We will be realistic in our expectations, we will be patient, and we will take a long-term perspective
- Above all, we will ensure that everything we do is in the long term interests of Bangladesh's poor.

Hua Du
Officer in Charge
Asian Development Bank

David Wood
Head of Office
DFID

Masahiko Kiya
Counselor
Embassy of Japan

Christine Wallich
Country Director
World Bank

BANGLADESH CAS
Agenda of the Retreat in Dhaka

MARCH 20th

SESSION 1 9:00am - 12:30 pm (approx. 3 hrs). Chair: Japan

Objective: At the end of this session, the donor partners will have constructed a: (i) common understanding of each institution's process and requirements for the preparation of their CAS's and; (ii) a consistent view of Bangladeshi's achievements and challenges as identified by the analysis of growth and poverty and the consultations with civil society and other focus groups.

<u>Time</u>	<u>Topic</u>	<u>Process</u>	<u>Comments</u>
9:00-11:00 am (120 min)	Why and how we work together.	<ul style="list-style-type: none"> • Introduction of participants. • What is a joint CAS and why are we doing it. • Rules of the game and guiding principles for the joint work. 	Even though many may already know each other, it will be important to allow a bit of time for this group to begin forging its own identity, as the concept of a joint CAS is new.
5 mins	Objective of the first day and agenda		
10:35-10:50 15 min	Coffee Break		
10:50 - 11:40 90 min.	Analysis of growth and poverty; current outcomes, recent trends, challenges and constraints to advancing growth and poverty reduction.	Break into four focus groups (two on growth and two on poverty) to discuss issues as relevant and report back to the main session.	<p><u>Questions to be answered in each break out session:</u></p> <ul style="list-style-type: none"> • <u>Growth</u> <ul style="list-style-type: none"> ○ What are the growth trends and what has contributed to those ○ Where does growth come from – what are the sources of growth ○ What are the constraints to future, higher growth needed to reach the PRSP growth target ○ What should be done to address them ○ What does the PRSPs say about that and what were the results of consultations • <u>Poverty</u>

<ul style="list-style-type: none"> ○ What are the poverty trends, income and non-income poverty ○ Who are the poor, rural urban, gender related, lack of assets..etc ○ What should be done to improve poverty trends and achieving MDGs ; issues of employment and real wages, especially in the rural areas and non-income related such as better service delivery and local governance, education, health, gender, infrastructure, etc ○ What does the PRSP say about this and; ○ What are the results of the consultations <p>Relevant background documents: PRSP, Poverty Assessment, MDG report, Trade and Competitiveness, Sources of Growth, Public Expenditure Review, ADB's poverty Assessment update; ADB study on economic growth and poverty reduction in Bangladesh, jointly with Japan; Gender, Poverty and MDGs; Governance Assessment; Dhaka-Chittagong Economic Corridor Development.</p>		
	Lunch served at the retreat venue (WB conference room)	BREAK FOR LUNCH
12:30-2:00pm		

SESSION 2. 2:00 - 5:15 pm (approx. 3 ¼ hrs) Chair: DFID

Objective: At the end of this session, participants will have reached preliminary consensus on the main cross-cutting themes that should underpin the strategy.

Time	Topic	Process	Comments
2:00 – 3:30pm 90 mins	Present back to the plenary session the results of the analysis in the first half of the day.	Have one reporter for each group presenting back to the session the main issues from the break-in groups responding to the questions presented above.	
15 min	COFFEE BREAK		
3:45 – 5:15pm 90 mins	Emerging main themes/pillars of the strategy, e.g. investment climate for growth and employment, service delivery including cross-cutting themes, e.g. governance, gender, environment etc.	Brief presentation summarized from the previous sessions during lunch. Key elements will have been captured on flip charts. Engage a discussion with the group to determine a) that all have the same understanding of what the themes mean; b) whether there are any changes (additions, deletions required).	This is just an airing of initial views, so all see/hear where we are.

MARCH 21st

SESSION 3 9:00 – 12:30 pm (approx. 3 ½ hours) Chair: ADB

Objective: At the end of this session the participants would have reached agreement on the broad expected outcomes for each major theme and on the broad policy and institutional changes to achieve them.

Time	Topic	Process	Comments
9:00 – 9:30am 30 mins	<ul style="list-style-type: none"> Review of yesterday, preview of today Set up for discussion of CAS outcomes: some definitions 	Very brief presentation to create agreement on key terminology: input, output, outcome, performance, result.	<i>Without this agreement, the following conversations will spin in circles as people apply their own concepts and definitions.</i>
9:30 – 11:30 120 mins (includes Coffee Break)	Identify the desirable outcomes and what needs to be done to achieve them.	Break into four /five groups (self-selection) to define main outcomes for each pillar/major theme or sub-theme (not more than 10-12) altogether). To do this, answer the following questions: <ul style="list-style-type: none"> What would be a realistic outcome in a particular area during the CAS period What kind of policy and institutional changes will be needed to make it possible for the country to achieve them.	

12:00 – 1:30pm	Break for lunch	these outcomes?
		Venue: conference room

SESSION 4. 1:30 – 5:15 pm (approx. 3 1/2 hrs). Chair WB

Objective: Summary of the discussion and the emerging strategy.

Time	Topic	Process	Comments
1:30-2:45 pm 75 mins	Present back to the plenary the results of the outcomes break-in sessions.	Discussions	
2:45 – 3:30pm 45 mins	Major risks to the strategy	Brainstorm on 4-5 major risks to the implementation of the strategy.	
3:30 – 3:45 15 min	COFFEE BREAK		
3:45 – 4:45pm 45 mins	Summary of issues and the emerging consensus on key drivers of development and strategy	Brief presentation by CW and discussions	
4:45- 5:15 30 mins	Next steps	<ul style="list-style-type: none"> Bangladesh's place in each institution's program. Status of preparations and institutional processes and timetables for CASs (presentations by each institution). Follow up with joint events	

Attachment 8
Bangladesh: Country Financing Parameters

Items	Parameter	Remarks/Explanation
Cost Sharing. Limit on the proportion of individual project costs that the Bank may finance.	100%	The Bank may finance up to 100 percent of the costs of individual operations. Counterpart funding will be encouraged. Cost sharing arrangements will be determined on a case-by-case basis, taking into account the Government's development program and budget allocated for the concerned sector(s), link to PRSP/CAS priorities, the project context and impact of the cost sharing arrangement on project implementation and achievement of project outcomes, implications for the CAS envelope, and other potential sources of co-financing. It is expected that the Bank's financing share could be higher, <i>inter alia</i> , in community-based projects; provision of services at the local level, including local infrastructure; and social and human development investments. The Bank's financing share may be lower in general infrastructure investments.
Recurrent Cost Financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit	The Bank will continue to monitor the medium-term fiscal position and prospects and its implications for recurrent cost financing. In determining Bank financing of recurrent costs in individual projects, the Bank will carefully consider sustainability issues at the sector and project levels, including arrangements critical to operation and maintenance (O&M) and implied future budgetary outlays. Simultaneously, the Bank will continue to promote the consolidation of development and revenue budgets and improvements in O&M allocation.
Local Cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The two requirements are met. The Bank may finance local costs in the proportions needed in individual projects.
Taxes and duties. Are there any taxes and duties that the bank would not finance?	None	Taxes and duties are considered reasonable and non-discriminatory. Subject to ongoing monitoring of the country's tax policy, the Bank may finance taxes and duties associated with project expenditures. At the project-specific level, the Bank will consider whether taxes and duties constitute an excessively high share of project costs.

Summary Background Note

A. Cost Sharing

1. Presently, IDA accounts on average for about 80 percent of total financing of the projects in which it is involved. Greater flexibility in project cost financing would allow the Bank and GOB to determine the cost-sharing ratios that best support project implementation and achievement of project outcomes. Accordingly, **Bank financing for individual projects in Bangladesh may be up to 100 percent of project costs.** To exercise the added flexibility in cost sharing, the following factors will be taken into consideration:

- *At the general level*, IDA's overall resource envelope for Bangladesh and availability of other sources of financing. If other sources of financing are not readily available for co-financing, the Bank may finance 100 percent of all program / project costs, depending of course, on sector and project level considerations.
- *At the sector and program / project level*, information on the borrower's use of own resources to fund its development program for the sector(s) concerned. Funding from government or from other sources will be encouraged to leverage IDA resources and promote partnerships.

2. Accordingly, the *Bank will apply the following approach to cost sharing in Bangladesh*: On a yearly basis, it will discuss with the Government the upcoming projects in the pipeline and agree on tentative financing share of project costs, which would subsequently be reflected in the Project Concept Note (PCN) of the specific project for further consideration. As noted above, any decision on cost sharing will consider the overall IDA allocation for Bangladesh, and the understanding that 100 percent financing of a given project may have an impact on the size of future IDA credits, and/or on the number of projects to be financed by the Bank. Importantly, at the specific project level, financing (from other than IDA) may come from GOB, beneficiaries, third party international donors and financiers, or when feasible, from local governments. These contributions do not need to be provided on a matching payment-by-payment basis. The Bank will be able to finance the full amount of specific expenditures, rather than a pro-rata share of all (or nearly all) project expenditures. These measures will help streamline project budget releases and payment procedures and enable to focus better on actual project implementation and achievement of project outcomes.

3. **The final decision on cost sharing arrangements will be done on a case-by-case basis**, after careful analysis of the Government's development program and budget allocated for the concerned sector or sectors, link to PRSP priorities, and impact of the cost sharing arrangement on project implementation and achievement of project outcomes. However, considering the above approach and criteria, it is expected that the Bank's financing share could be higher, *inter alia*, in community-based projects; provision of services at the local level, including local infrastructure; and social and human development investments. The Bank's financing share may be lower in general infrastructure investments, particularly in cases when sustainability issues are critical (see section on recurring costs).

4. Current operations may be reviewed and retrofitted to the proposed CFPs on a case-by-case basis. Nevertheless, this exercise, and especially changes in cost sharing arrangements, will only be considered for projects that meet the following criteria: (i) the ongoing project is in the early stages of implementation, and the effort to apply the proposed CFPs retroactively will have a demonstrable impact on project implementation and achievement of project outcomes; (ii) the project ratings are

satisfactory; and (iii) country ownership is considered to be strong, as demonstrated through commitment and dedication to project monitoring and implementation.

B. Recurrent Costs

5. Often starting from 100 percent, the Bank has been financing recurrent costs on a declining scale in most projects in Bangladesh, and particularly in sectors such as education, health and agriculture. In fact, in some projects, 100 percent of recurrent costs, which usually include incremental operational costs and project management, have been financed for several years. On the other hand, the Bank has not financed this type of expenditures under infrastructure projects, with the exception of rural roads projects where financial support has been extended to up to 60 percent of eligible rehabilitation and maintenance expenditures.

6. Bangladesh's overall fiscal and debt situation and prospects are considered reasonable, and financing recurrent costs on a steady basis will not likely affect this situation. Moreover, according to OED reports, most Bank-financed projects in Bangladesh have had between modest to reasonable sustainability prospects, although the country's performance in this respect has recently been below the regional and Bankwide averages¹. Some of the main factors affecting sustainability have been lack of medium term perspective in budget formulation and the fragmentation of recurrent and capital budget planning processes. These issues, however, are being addressed through the ongoing effort to strengthen budget preparation and implementation, and to develop the MTBF.

7. Sustainability has also been affected by the fact that public expenditures on operations and maintenance (O&M) have tended to be inadequate. Partly because donor assistance is concentrated on the ADP, the government has leaned towards new investments without fully understanding the implications for recurrent expenditures.² The ongoing support to improve public expenditure management is thus focusing on identifying mechanisms to secure adequate resource allocation of non-wage O&M expenditures in critical sectors such as education, health, and infrastructure. In addition to inadequate funding, this effort is looking at options for addressing chronic problems with O&M, such as overextension of infrastructure and service networks in relation to financial and institutional capacity, weak bureaucratic incentives to budget and spend on this critical item, inappropriate mix between the wage bill and non-wage O&M, and weak cost recovery.

8. Within the framework of the current efforts to improve public expenditure management, **no specific limit is proposed for the financing of recurrent costs in individual operations.** Accordingly, the level of recurrent cost financing will be decided by carefully considering sustainability issues at the sector and project levels, including implied future budgetary outlays and progress made in addressing O&M issues. When deciding, the Bank will also seek to exploit opportunities to encourage early transfer of recurrent costs to the Revenue Budget. The type of recurrent costs to be financed would cover areas such as operational costs and project management, in addition to other areas consistent with sustainability of investments, and in the long term, of project outcomes. In addition to close attention to progress made on budget consolidation and O&M resource allocation, the Bank will continue to monitor the aggregate fiscal position and prospects and its implications for recurrent cost financing.

¹ In the case of Bangladesh, sustainability of project benefits was considered likely for 63 percent of the 18 projects evaluated by OED between FY00 and FY04. The region's and Bank's shares were 81 percent and 73 percent, respectively.

² Operations and maintenance (O&M) expenditures represented a comparatively low 0.5 percent of GDP in FY04.

C. Local Cost Financing

9. The Bank may finance local expenditure for projects when it is satisfied that: (a) financing requirements for the development program of the country where the project is located would exceed the public sector's own resources and expected domestic borrowing; and (b) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of such projects.

10. In Bangladesh, the Bank has been financing shares of total local project cost ranging from 50 percent in the rural roads sub-sector to 80 percent in the social sectors. Overall, local expenses comprise a significant proportion of project expenses in the country, and Bank financial support for these local costs is critical to the viability of many projects. Specifically, about 69 percent of total disbursements between FY99 and FY04, and 81 percent between FY02 and FY04, were for local expenditures. This trend is expected to continue in future for projects in the portfolio and pipeline. Moreover, the financing requirements for Bangladesh's development program substantially exceed the public sector's own resources, and likely more so when implementation of the PRSP reaches full steam. Presently, Bangladesh faces a financing gap with respect to development programs of about 2.5 percent of GDP, within the constraints of the macro-framework agreed with the Fund and the Bank. Despite renewed efforts, Government revenues from tax and non-tax sources remain comparatively low, which further limits the public sector's capacity to meet development needs.³

11. The two criteria for Bank financing of local costs are met, and it is proposed that foreign and local expenditures be treated in the same way with regard to Bank financing. Therefore, **the Bank may finance local (and foreign) costs in any proportion needed in individual projects.** This approach should provide greater flexibility and reduce administrative burden in IDA-financed projects.

D. Financing Taxes and Duties

12. Bangladesh has a well defined tax policy and parameters with a broad-based VAT, supplemented by luxury taxes and an income tax. The National Board of Revenue (NBR) is the apex tax authority in the country, collecting over 90 percent of total taxes. The NBR portion of total taxes includes customs duty, Value Added Tax (VAT), supplementary duty (SD), income tax, foreign travel tax, electricity duty, wealth tax, advertisement tax, gift tax and miscellaneous insignificant taxes. The 'non-NBR portion' of taxes includes narcotics duty, land revenue, non-judicial stamp, registration fee and motor vehicle tax. Direct taxes represent a low share of total taxes, which makes the tax structure heavily dependent on indirect taxes. The major taxes are customs duty, VAT, SD and income tax.

13. Overall rates of the taxes with implications for Bank financing are relatively moderate.⁴ VAT is 15 percent. Income tax rates range from 10 to 25 percent.⁵ The corporate tax rate ranges between 35 and 40 percent, depending on whether the company has publicly-traded shares or not. Incomes from small and cottage industries are given a 5 to 10 percent tax rebate depending on the production volume. Tax holidays for a period of 5 to 7 years, depending on the location, are given to newly established business enterprises. Some strategic investment goods are exempt from VAT and import duties.

³ At about 9 percent, the Revenue to GDP ratio remains quite low by international standards.

⁴ Up-to-date and detailed information on taxes and duties in Bangladesh can be found at <http://www.nbr-bd.org/db/> (the website of the National Board of Revenue).

⁵ The specific slabs of income tax rate are: On the first Tk. 120,000 of total income, 0 percent; on the next Tk. 250,000, 10 percent; on the next 300,000, 15 percent; on the next Tk. 350,000, 20 percent, and on the balance of total income, 25 percent. Minimum tax payable is Tk 1,800.

14. Trade liberalization has been advanced with a reduction in and rationalization of customs duties. Accordingly, the average rate of customs duty was lowered from 21 percent in FY01 to 15.4 percent in the FY06 budget, while the top rate was lowered from 37.5 percent to 25 percent. The number of non-zero custom tariff rates was reduced from four to three. Custom duties range from 7.5 to 30 percent, and the average custom duty rate is about 14 percent. Supplementary Duties (SDs) are mainly levied on only-imported products (e.g., imports of textiles), with rates ranging from 15 to 35 percent. A few fish products have SD rates of 40 percent, and rates of certain products that are considered as having potential harmful effects on the environment or health have been kept relatively high.⁶ In general, however, the SD rate on imports averages 30 percent. In contrast, duties and other charges on motor vehicles imports can, in certain cases, reach high levels.⁷ Nonetheless, this is not expected to have a substantial impact on Bank financing, since Bank-supported projects do not normally include procurement of a considerable number of vehicles. Importantly, close attention will be paid to this issue when deciding cost sharing percentages.

15. Overall, there is no differential tax treatment in the tax structure that could impact Bank-financed projects. Currently, the tax and duty incidence on goods and works financed by the Bank in Bangladesh is about 20 percent. The Bank has been financing 100 percent of foreign expenditures on equipment goods and materials, as well as 100 percent of local expenditures (ex-factory cost) and 70-80 percent of other items procured locally.

16. In brief, there are no taxes or duties that have been identified as unreasonable or discriminatory. Under these circumstances, **the Bank may finance taxes and duties associated with project expenditures.** The application of this general approach will be subject to ongoing monitoring of Bangladesh's tax policy and its implementation in Bank projects. At the project-level, the Bank would consider whether taxes and duties constitute an excessively high share of projects costs.

⁶ Products with high SDs include, *inter alia*, cigars and cigarettes (90 percent); cocoa and chocolate (60 percent); beer (250 percent); and hard liquor and food containing alcohol exceeding 0.5 percent by volume (350 percent). These SDs, however, have no incidence on Bank-financed projects.

⁷ Overall tax and duties will vary depending on the type of motor vehicle and its cylinder capacity.

Attachment 9
Proposed AAA and Lending Program by Pillars (FY06-09)

Fiscal Year 2006		
AAA	Lending	IDA (US\$M)
<i>Cross-Pillar</i>		
Country Economic Update	DSC III	200
<i>Pillar 1: Improving Investment Climate</i>		
Strategy for Growth and Employment	Investment Promotion & Finance Facility	50
Vocational Education		
Higher Education		
Agribusiness Opportunities & Constraints		
Country Environmental Assessment		
Post MFA Study		
<i>Pillar 2: Empowering the Poor</i>		
Urban Poverty Assessment	Education SAC II	
Operationalizing MDGs		
Behaviorial change and social accountability		
<i>Core Governance</i>		
Governance Policy Notes	Local Governance Support	
Policy Support on Local Governance		
Procurement Capacity Building		
Procurement Monitoring and Evaluation		
Total Lending FY 2006		456
Fiscal Year 2007		
<i>Cross-Pillar</i>		
Country Economic Update	DSC-IV	200
<i>Pillar 1: Improving Investment Climate</i>		
Policy Notes for the New Govt.	National Agriculture Technology	75
Rural Finance Study	Private Sector Development	85
Urban Development Strategy	Siddhirganj Power Project	150
Inland Water Transport Note		
Fisheries Policy Note		
Doing Business Indicators		
<i>Pillar 2: Empowering the Poor</i>		
Multisectoral Nutrition Review	Dhaka/Chittagong Sewerage & Drainage	100
Country Gender Assessment	Educational DSC III	100
Urban and Indoor Air Quality	Avian Flu Preparedness	30
Poverty Assessment (incl. PSIA)		
Social Protection TA		
TA for Poverty Monitoring		
<i>Core Governance</i>		
Freedom of Information Act	Public Procurement Reform Project II	7
Regulatory Commission & Institutions of Accountability		
Legal and Judicial Review		
Public Expenditure & Inst. Review		
Political Economy of Power Sector		
Total Lending FY 2007		747

Fiscal Year 2008		
<i>Cross-Pillar</i>		
Country Economic Update Bangladesh Regional Issues	PRSC I	300
<i>Pillar 1: Improving Investment Climate</i>		
Employment Generation and Role of Migration	Export Infrastructure Development	120
Urban Transport Financing and Mgmt. Study	South Zone Power Distribution Company	150
Investment Climate Assessment 2		
Improving Competitiveness of the Pharmaceutical Sector		
Doing Business Indicators		
<i>Pillar 2: Empowering the Poor</i>		
Urban Industrial Pollution	Technical, Vocational, Higher Education	100
	Social Investment Program II (incl. Rural Livelihoods)	100
	Dhaka Environment & Water Resources	22.5
<i>Core Governance</i>		
Governance Policy Notes	Tax and Customs Administration	60
Total Lending FY 2008		852.5
Fiscal Year 2009		
<i>Cross-Pillar</i>		
Country Economic Update	PRSC II	300
<i>Pillar 1: Improving Investment Climate</i>		
Doing Business Indicators	Inland Water Transport	70
	Padma Bridge	300
<i>Pillar 2: Empowering the Poor</i>		
Agriculture/Rural Sector Update	Urban Development and Services	70
	Air Quality	70
<i>Core Governance</i>		
	Governance and Accountability	100
Total Lending FY09		910

NOTES:

- Policy Notes are prepared as input to a project, and/or a formal publishable AAA report in subsequent FY.
- Lending to be informed by previous AAA.
- AAA to have strong Governance dimension.
- PSIA's to be prepared only once in FY07 in parallel with the Poverty Assessment

Attachment 10

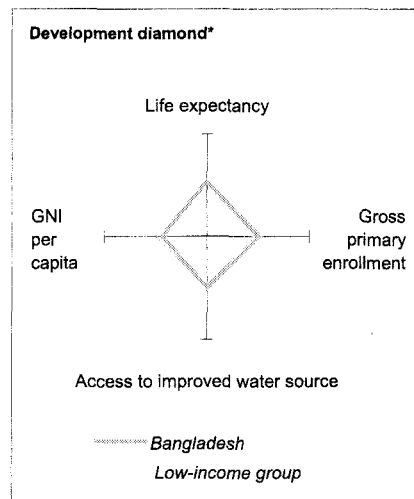
Government's policy performance supported by development policy lending (2003-2005)	
Action area	GOB action and progress to date
<i>Macroeconomic stability</i>	<ul style="list-style-type: none"> • Fiscal discipline maintained, keeping public and external debt at reasonable levels. • Good record on monetary prudence, containing inflation. Interest rates liberalized. • Floating exchange rate regime adopted. Forex reserves stock increased from US\$1 billion in 2001 to just under US\$3 billion. • Trade liberalization further advanced, with reduction in tariff protection and near elimination of trade related quantitative restrictions. Removal of longstanding ban on a wide range of textile imports has been particularly important.
<i>Bank and SOE restructuring</i>	<ul style="list-style-type: none"> • Governance and efficiency of the financial sector improved. Tighter controls on nationalized commercial banks (NCBs). Share of NCBs in total bank assets fell from 54% in 1998 to 40% in 2004 and their NPLs fell from 27% to 18%. • Bangladesh Bank's (BB's) regulatory powers strengthened and its prudential regulations aligned closer with IAS. NCBs brought under BB regulation. • Rupali Bank brought to point of divestment and restructuring and corporatization of 3 other NCBs ongoing with the objective of their divestment. • Measures introduced to strengthen corporate governance & management in NCBs • The number of manufacturing SOEs reduced from 121 in FY01 to 92 in FY04 and employment in these fell from 134,000 to 83,000. • Manufacturing SOEs' losses reduced by 60% since 2001. Non-manufacturing SOEs, not including the BPC, have recorded a profit for 3 three consecutive years.
<i>Public Expenditure, Financial Management and Procurement</i>	<ul style="list-style-type: none"> • Implementation of a medium-term budgetary framework being initiated. Issuance on a pilot basis of new budget guidelines, with elements of more strategic budgeting, and better coordination of recurrent and capital budgets. • Uniform procurement policy adopted for all of public sector, with substantially streamlined procurement approval process. Procurement tracking system through MIS established. Independent review mechanism introduced to handle complaints • Number of initiatives introduced to improve fiscal accountability & transparency, including: (a) computerization of accounts and strengthening of the Controller General of Accounts; (b) provisioning of a Chief Accounting Officer to each ministry; (c) improved reporting of fiscal data with Bangladesh being included for the first time in the GFS Yearbook; (d) separation of accounting from auditing; and restarting of Public Accounts Committee.
<i>More Efficient Revenue Collection</i>	<ul style="list-style-type: none"> • Modernization of the National Board of Revenue initiated. Large taxpayers units established for income tax and VAT. Central intelligence cell also established. • Customs procedures streamlined through introduction of ASYCUDA++ system
<i>Competitive Private sector</i>	<ul style="list-style-type: none"> • Investment regulations including number of clearances sharply reduced • Land Registration Act enacted • Private investment facilitation strengthened
<i>Infrastructure bottlenecks</i>	<ul style="list-style-type: none"> • Billing and collection in the power sector tightened. Power system losses substantially reduced through theft reduction and better maintenance • Measures to improve power supply initiated, including via captive power plants • Energy Regulatory Comm. & Bangladesh Telecom Regulatory Comm. Established • Wireless telephone system deregulated
<i>Public Administration</i>	<ul style="list-style-type: none"> • Promotion policy improved for Class I officers and emphasizes on merit enhanced • Training policy improved with creation of Career Planning & Training Wing • Ministries being organized around clusters for greater efficiency
<i>Anti-corruption</i>	<ul style="list-style-type: none"> • Independent Anti-Corruption Commission established • Money Laundering Prevention Act, 2002, enacted • Alternative Dispute Resolution mechanisms adopted • Judicial Services Commission established
<i>Human development</i>	<ul style="list-style-type: none"> • Tracking studies initiated in health and education to better monitor expenditure • Creation of National Teachers Registration & Certification Authority cleared. NTRCA should improve teacher quality & reduce scope for bribery at recruitment • Textbook production at the secondary level is being privatized • Most delivery of secondary education contracted out to private sector and NGOs • Next phase of health sector SWAP being implemented under HNPS program • Targeted subsidy programs being monetized to plug leakages and lower transaction costs

Bangladesh at a glance

10/28/05

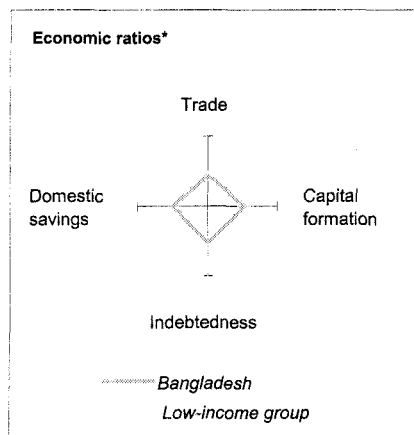
POVERTY and SOCIAL

	Bangladesh	South Asia	Low-income
2004			
Population, mid-year (millions)	140.5	1,448	2,338
GNI per capita (Atlas method, US\$)	440	590	510
GNI (Atlas method, US\$ billions)	61.3	860	1,184
Average annual growth, 1998-04			
Population (%)	1.7	1.7	1.8
Labor force (%)	2.2	2.1	2.1
Most recent estimate (latest year available, 1998-04)			
Poverty (% of population below national poverty line)	50	..	..
Urban population (% of total population)	27	28	31
Life expectancy at birth (years)	62	63	58
Infant mortality (per 1,000 live births)	46	66	79
Child malnutrition (% of children under 5)	52	48	44
Access to an improved water source (% of population)	75	84	75
Literacy (% of population age 15+)	41	59	61
Gross primary enrollment (% of school-age population)	96	97	94
Male	94	105	101
Female	98	92	88



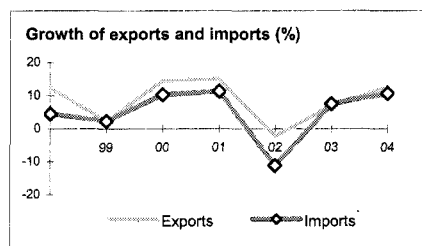
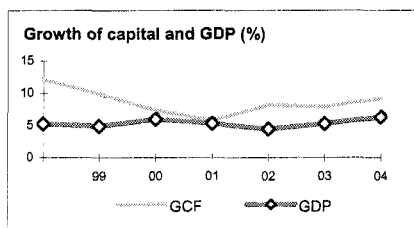
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1984	1994	2003	2004	
GDP (US\$ billions)	19.7	33.8	51.9	56.6	
Gross capital formation/GDP	15.9	18.4	23.4	24.0	
Exports of goods and services/GDP	3.3	9.0	14.2	15.5	
Gross domestic savings/GDP	6.2	13.5	18.6	19.5	
Gross national savings/GDP	16.2	18.8	24.9	25.4	
Current account balance/GDP	-1.1	-0.3	0.1	0.3	
Interest payments/GDP	0.6	0.5	0.3	0.3	
Total debt/GDP	28.7	46.3	36.2	35.4	
Total debt service/exports	17.7	12.9	6.4	8.0	
Present value of debt/GDP	..	..	24.7	..
Present value of debt/exports	..	..	122.0	..
(average annual growth)					
GDP	3.9	5.2	5.3	6.3	6.0
GDP per capita	1.6	3.4	3.4	4.4	4.1
Exports of goods and services	8.7	10.2	6.9	12.5	10.3



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	32.3	25.6	21.8	21.0
Industry	21.2	24.3	26.3	26.6
Manufacturing	14.3	15.3	15.8	16.1
Services	46.6	50.0	52.0	52.4
Household final consumption expenditure	89.6	81.6	77.1	75.8
General gov't final consumption expenditure	4.2	4.9	5.3	5.5
Imports of goods and services	13.0	13.9	20.0	20.8
(average annual growth)				
Agriculture	2.2	3.8	3.1	4.1
Industry	6.0	6.8	7.3	7.6
Manufacturing	5.9	6.0	6.7	7.1
Services	3.7	5.1	5.4	5.7
Household final consumption expenditure	3.1	3.1	4.0	4.6
General gov't final consumption expenditure	3.7	6.3	13.2	10.7
Gross capital formation	6.1	9.0	7.9	9.2
Imports of goods and services	3.9	6.2	7.4	10.6

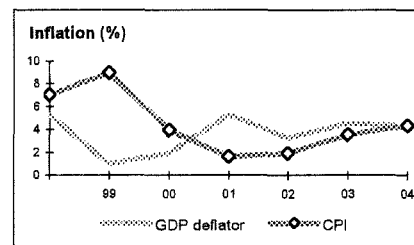


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

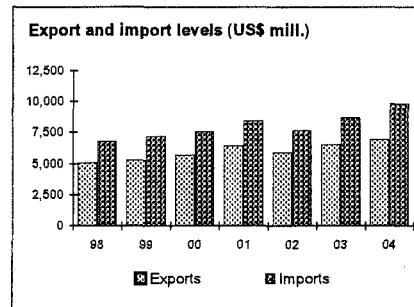
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	..	3.3	3.5	4.3
Implicit GDP deflator	14.0	3.8	4.5	4.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	6.2	9.3	10.3	10.1
Current budget balance	1.1	2.5	2.2	2.4
Overall surplus/deficit	-7.3	-4.5	-3.4	-3.2



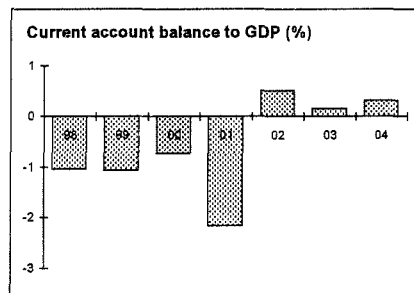
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	823	2,524	6,549	6,959
Raw jute	117	57	82	..
Leather and leather products	85	192	191	..
Manufactures	389	2,026	6,086	6,529
Total imports (cif)	2,353	4,191	8,707	9,871
Food	485	151	581	..
Fuel and energy	355	168	950	1,077
Capital goods	616	1,299	3,439	3,865
Export price index (2000=100)	23	80	107	115
Import price index (2000=100)	40	81	125	130
Terms of trade (2000=100)	57	98	86	89



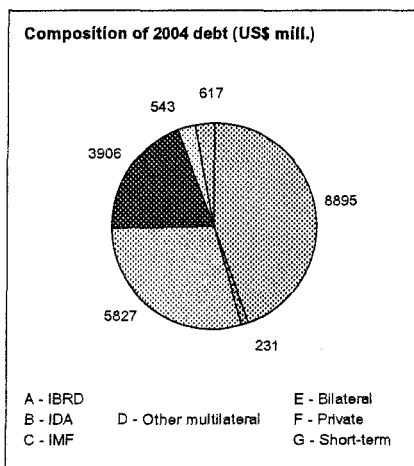
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	1,033	3,057	7,379	8,445
Imports of goods and services	2,543	4,693	10,285	11,638
Resource balance	-1,510	-1,636	-2,906	-3,193
Net income	-64	-31	-458	-374
Net current transfers	1,361	1,578	3,440	3,743
Current account balance	-213	-89	76	176
Financing items (net)	568	881	811	59
Changes in net reserves	-355	-792	-887	-235
Memo:				
Reserves including gold (US\$ millions)	..	2,746	2,471	2,714
Conversion rate (DEC, local/US\$)	24.9	40.1	57.9	58.8



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	5,654	15,622	18,778	20,019
IBRD	50	58	7	0
IDA	1,677	5,378	8,062	8,895
Total debt service	286	556	672	945
IBRD	3	7	7	8
IDA	16	71	180	208
Composition of net resource flows				
Official grants	595	379	428	319
Official creditors	489	705	461	557
Private creditors	..	..	-18	-16
Foreign direct investment (net inflows)	-1	16	376	385
Portfolio equity (net inflows)	0	53	2	6
World Bank program				
Commitments	339	597	554	827
Disbursements	249	405	519	615
Principal repayments	3	36	130	148
Net flows	246	369	388	467
Interest payments	16	42	56	68
Net transfers	230	327	332	399



CAS Annex B2 - Bangladesh
Selected Indicators* of Bank Portfolio Performance and Management
As Of Date 02/01/2006

Indicator	2003	2004	2005	2006
Portfolio Assessment				
Number of Projects Under Implementation ^a	25	29	26	24
Average Implementation Period (years) ^b	2.9	3.0	3.6	4.0
Percent of Problem Projects by Number ^{a, c}	20.0	17.2	11.5	16.7
Percent of Problem Projects by Amount ^{a, c}	21.4	23.5	14.0	16.6
Percent of Projects at Risk by Number ^{a, d}	24.0	17.2	11.5	16.7
Percent of Projects at Risk by Amount ^{a, d}	33.0	23.5	14.0	16.6
Disbursement Ratio (%) ^e	16.4	16.5	23.5	8.5
Portfolio Management				
CPPR during the year (yes/no)	No	Yes	Yes	
Supervision Resources (total US\$)	2249	2185	2788	
Average Supervision (US\$/project)	66	78	90	

Memorandum Item	Since FY 8(Last Five FYs	
Proj Eval by OED by Number	135	14
Proj Eval by OED by Amt (US\$ millions)	7,079.5	1,275.4
% of OED Projects Rated U or HU by Number	28.9	28.6
% of OED Projects Rated U or HU by Amt	23.1	11.4

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

CAS Annex B3 - Bangladesh IBRD/IDA Program Summary

Proposed IDA Lending Program^a

Fiscal year	Project Name	US\$(M)	Strategic Rewards ^b (H/M/L)	Implementation Risks ^b (H/M/L)
2006	Development Support Credit III*	200.0	H	M
	Education Sector Dev. Support Credit II**	100.0	H	M
	Local Governance Support	106.0	H	M
	Investment Promotion Financing Facility	50.0	H	H
	Sub-Total	456.0		
2007	Development Support Credit IV	200.0	H	H
	Siddhirganj Power Project	150.0	H	M
	Dhaka Chittagong Sewerage & Drainage	100.0	H	M
	Public Proc. Reform Project II	7.0	H	M
	Private Sector Development	85.0	H	M
	National Agricultural Technology	75.0	M	M
	Educational DSC III	100.0	H	H
	Avian Flu Preparedness	30.0	H	M
Sub-Total	747.0			
2008	Poverty Reduction Support Credit I	300.0	H	M
	Social Investment Program II (incl. Rural Livelihoods)	100.0	H	M
	Export Infrastructure Development	120.0	H	M
	Technical, Vocational, Higher Education	100.0	H	M
	South Zone Power Distribution Company	150.0	H	H
	Tax and Customs Administration	60.0	H	H
	Dhaka Environment & Water Resources	22.5	M	M
Sub-Total	852.5			
2009	Poverty Reduction Support Credit II	300.0	H	M
	Governance and Accountability	100.0	H	H
	Inland Water Transport	70.0	M	M
	Urban Development and Services	70.0	H	M
	Padma Bridge	300.0	H	M
	Air Quality	70.0	M	M
Sub-Total	910.0			
Total for CAS Period		2,965.5		

In addition, the following reserve projects may be considered for IDA financing during the CAS Period: Water Management Improvement: \$100m; Sector Specific DPL: \$50m; Public Sector Management : \$25m; Nutrition Project: \$50m; Hazard Mitigation TA: \$40m; Road Sector : \$229m; Bangladesh Railways: \$130m; Rural Electrification: \$100m; Rural Finance: \$20m; Community Fisheries: \$30m; HIV AIDS: \$40m. These Projects are not being counted towards the IDA allocation.

* Approved on December 1, 2005

** Approved on March 9, 2006

a. This table presents the proposed program for the next four fiscal years

b. For each project, the strategic rewards and implementation risks are indicated as high (H), moderate (M), or Low (L)

CAS Annex B3 (IFC & MIGA) - Bangladesh

IFC and MIGA Program, FY 2003-20062003 2004 2005 2006

IFC approvals (US\$m)	12.00	30.00		
Sector (%)				
Information		100		
Nonmetallic Mineral	100			
Total	100	100	0	0
Investment instrument(%)				
Loans	100	100		
Equity				
Quasi-Equity				
Other				
Total	0	0	0	0
MIGA guarantees (US\$m)	61.20	45.65		

CAS Annex B4 - Bangladesh

Summary of Nonlending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
RECENT COMPLETIONS (Actual cost)				
Major Reports				
Bangladesh Competitiveness Study	FY05	70	G,B	KG, PS
Bangladesh MDG Assessment	FY05	25	G,D,B	KG,PS
Bangladesh - Housing Finance	FY05	80	G,B	KG, PS
Economics & Governance of NGOs in BD	FY05	200	G,D,B,P	KG, PD
Water Country Assistance Strategy	FY05	180	G,D,B,P	KG, PS
Policy Notes				
NGO Contracting & Comp. Advantage	FY05	80	G,D,B	KG,PS
BINP Evaluation Strategy	FY05	60	G,B	KG,PS
Agriculture Technology	FY05	95	G,D,B	KG,PS
Bangladesh - Governance Policy Notes	FY05	90	G,D,B	KG,PS
Improving Quality of Teachers	FY05	60	G,D,B	KG,PS
Links between Voc. Educ & Labor Market	FY05	120	G,B	KG,PS
MFA Phase Out Policy Notes	FY05	25	G,D,B,P	KG,PS,PD
Public Expenditure Notes	FY05	100	G,B	KG,PS
Teacher Absenteeism	FY05	80	G,D,B	KG,PD,PS
Safety Net Review	FY05	120	G,D,B	KG,PS
UNDERWAY (Planned cost)				
Major Reports				
Operationalizing MDG Goals	FY06		G,D,B,P	KG,PS
Strategy for Growth and Employment	FY06		G,D,B,P	KG
Post-MFA Study	FY06		G,D,B,P	KG,PS
Rural Finance Study	FY07		G,B,D,P	KG,PS
Urban Development Strategy	FY07		G,B,D,P	KG,PS,PD
Country Gender Assessment	FY07		G,P	KG,PS,PD
Policy Notes				
Country Economic Update	FY06		G,D,B,P	KG
Governance Policy Notes	FY06		G,D,P	KG,PS, PD
Procurement Capacity Building	FY06		G,B,D	KG,PS
Behavioral change and social accountability	FY06		G,B,D	KG,PS
Urban Poverty Assessment	FY06		G,B,P	KG,PS
Vocational Education	FY06		G,D,P	KG,PS
Higher Education	FY06		G,B,D	KG,PS
Country Environmental Analysis	FY06		G,P	KG,PS
Policy Support on Local Governance	FY07		G,B, D	KG, PS
Agribusiness Opportunities & Constraints	FY07		G,D,B	KG,PS
Non-Lending TA				
Procurement Monitoring and Evaluation	FY06		G	KG,PS

CAS Annex B4 - Bangladesh (Cont'd)

Summary of Nonlending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
PLANNED				
<i>Major Reports</i>				
Public Expenditure & Inst. Review	FY07		G,B,D,P	KG,PS,PD
Poverty Assessment (incl. PSIA)	FY07		G,B,P	KG,PS,PD
Employ. Generation & Role of Migration	FY08		G,B,D	KG, PS
Investment Climate Assessment 2	FY08		G,B,D,P	KG
<i>Policy Notes</i>				
Freedom of Information Act	FY07		G,B,D	KG
Country Economic Update	FY07		G,B,D,P	KG
Policy Notes for New Govt.	FY07		G,B	KG,PS
Regulatory Commission & Institutions of Accountability	FY07		G,B,D,P	KG,PS
Legal and Judicial Review	FY07		G,B,D,P	KG,PS
Political Economy of Power Sector	FY07		G,B,D	KG,PS
Inland Water Transport Note	FY07		G,B,P	KG,PS
Fisheries Policy Note	FY07		G,D,P	KG,PS
Urban and Indoor Air Quality	FY07		G,B,D,P	KG,PS
Multisectoral Nutrition Review	FY08		G,D	KG,PS
Bangladesh Regional Issues	FY08		G,B,D,P	KG,PS,PD
Country Economic Update	FY08		G,B,D,P	KG
Public Administration Note	FY08		G,B	KG,PS
Governance Policy Notes	FY08		G,B,D,P	KG,PS, PD
Urb. Transport Financing & Mgmt. Study	FY08		G,B,D	KG,PS
Urban Industrial Pollution	FY08		G,B,D	KG,PS
Improv. Compt. of Pharmaceutical Sector	FY08		G,B	KG, PS
Country Economic Update	FY09		G,B,D,P	KG
Agriculture/Rural Sector Update	FY09		G,B,D,P	KG
<i>Non-Lending TA</i>				
Social Protection TA	FY07		G	PS
TA for Poverty Monitoring	FY07		G	KG
<i>Other</i>				
Doing Business Indicators	FY07		G,B,D,P	KG
Doing Business Indicators	FY08		G,B,D,P	KG
Doing Business Indicators	FY09		G,B,D,P	KG

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

CAS Annex B5 - Bangladesh Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-2004	South Asia	Low-income
POPULATION					
Total population, mid-year (millions)	85.4	110.0	140.5	1,447.7	2,338.1
Growth rate (% annual average for period)	2.4	2.5	1.7	1.7	1.8
Urban population (% of population)	14.9	19.8	24.6	28.3	30.7
Total fertility rate (births per woman)	6.3	4.1	2.9	3.0	3.6
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	49.8	..	..
Urban headcount index	..	..	36.6	..	..
Rural headcount index	..	..	53.0	..	..
INCOME					
GNI per capita (US\$)	210	280	440	590	510
Consumer price index (1995=100)	..	76	146	..	..
Food price index (1995=100)	36	90	140	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	31.8	..	..
Lowest quintile (% of income or consumption)	..	..	9.0	..	..
Highest quintile (% of income or consumption)	..	..	41.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	0.8	1.3	1.5
Education (% of GDP)	..	1.5	2.4	3.1	3.2
Social security and welfare (% of GDP)	..	..	..	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	71	84	87	78
Male	..	76	82	89	82
Female	..	66	86	85	76
Access to an improved water source					
<i>(% of population)</i>					
Total	..	71	75	84	75
Urban	..	83	82	93	89
Rural	..	68	72	80	69
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	65	77	67	66
DPT	..	69	85	71	67
Child malnutrition (% under 5 years)	..	66	52	48	44
Life expectancy at birth					
<i>(years)</i>					
Total	47	55	62	63	58
Male	47	55	62	62	57
Female	46	55	63	64	59
Mortality					
Infant (per 1,000 live births)	129	96	46	66	79
Under 5 (per 1,000 live births)	205	144	69	92	122
Adult (15-59)					
Male (per 1,000 population)	383	322	262	249	317
Female (per 1,000 population)	388	308	252	199	266
Maternal (modeled, per 100,000 live births)	..	..	380	534	538
Births attended by skilled health staff (%)	..	..	14	36	38

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

CAS Annex B6 - Bangladesh
Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
National accounts (as % of GDP)									
Gross domestic product ^a	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	24.1	22.7	21.8	21.0	20.5	19.8	19.2	18.6	18.0
Industry	25.9	26.4	26.3	26.6	28.0	28.3	28.6	28.9	29.2
Services	50.0	50.9	52.0	52.4	51.5	51.9	52.1	52.5	52.8
Total Consumption	83.0	81.6	82.4	81.3	82.1	83.3	83.2	82.9	82.7
Gross domestic fixed investment	23.1	23.1	23.4	24.0	24.4	24.8	25.0	25.2	25.2
Government investment	7.2	6.4	6.2	6.2	5.9	6.8	6.8	6.9	6.9
Private investment	15.8	16.8	17.2	17.8	18.5	18.0	18.2	18.4	18.3
Exports (GNFS) ^b	15.4	14.3	14.2	15.5	16.1	17.2	17.4	17.4	17.4
Imports (GNFS)	21.5	19.0	20.0	20.8	22.6	25.3	25.6	25.6	25.3
Gross domestic savings	17.0	18.4	17.6	18.7	17.9	16.7	16.8	17.1	17.3
Gross national savings ^c	21.4	23.7	23.8	24.6	23.9	23.3	23.4	23.6	23.8
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	46997	47563	51914	56585	60017	62156	67188	72942	79220
GNI per capita (US\$, Atlas method)	370	370	400	440	450	460	480	510	540
Real annual growth rates (% , calculated from 1990 prices)									
Gross domestic product at market prices	5.3	4.4	5.3	6.3	5.4	6.0	6.0	6.5	6.5
Gross Domestic Income	4.5	3.9	4.6	6.5	4.5	5.7	5.2	6.1	6.1
Real annual per capita growth rates (% , calculated from 1990 prices)									
Gross domestic product at market prices	3.5	2.6	3.4	4.4	3.6	4.2	4.2	4.7	4.7
Total consumption	3.0	-0.8	2.8	3.2	0.8	4.8	2.9	3.7	4.0
Private consumption	3.0	-1.8	2.2	2.8	0.7	4.8	2.8	3.6	3.9
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	7178	6794	7379	8445	9640	10712	11684	12679	13773
Merchandise FOB	6419	5929	6492	7521	8573	9580	10520	11507	12575
Imports (GNFS) ^b	10103	9061	10285	11638	13560	15733	17214	18643	20041
Merchandise FOB	8430	7697	8707	9840	11485	13272	14606	15874	17191
Resource balance	-2925	-2267	-2906	-3193	-3920	-5021	-5530	-5964	-6268
Net current transfers	2171	2826	3440	3743	4245	4728	5178	5588	5922
Current account balance	-1018	240	76	176	-316	-933	-1066	-1178	-1146
Net private foreign direct investment	174	65	376	385	540	567	595	623	676
Long-term loans (net)	449	921	878	919	837	1046	720	602	558
Official	385	220	428	391	1038	1238	1048	970	975
Private	64	701	450	528	-201	-192	-328	-368	-417
Other capital (net, incl. errors & omissions)	69	-951	-443	-1245	-902	-526	30	439	248
Change in reserves ^d	326	-275	-887	-235	-160	-153	-279	-485	-336

(Continued)

CAS - Annex B6 (Con't)
Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Memorandum items</i>									
Resource balance (% of GDP)	-6.2	-4.8	-5.6	-5.6	-6.5	-8.1	-8.2	-8.2	-7.9
Real annual growth rates (YR90 prices)									
Merchandise exports (FOB)	10.0	-9.8	7.8	-0.8	11.8	8.5	13.2	10.3	10.2
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	3.6	-15.1	5.0	9.0	10.1	10.1	9.0	7.8	7.5
Current revenues	9.0	10.1	10.3	10.1	10.5	11.2	11.4	11.6	11.8
Current expenditures	7.7	8.0	8.1	7.8	8.4	8.3	8.6	8.5	8.6
Current account surplus (+) or defici	1.4	2.1	2.2	2.4	2.1	3.0	2.8	3.1	3.2
Capital expenditure	6.4	6.8	5.6	5.6	5.5	6.8	6.8	6.9	6.9
Foreign financing	1.9	1.6	1.0	1.4	2.3	2.6	2.2	1.9	1.7
Monetary indicators									
M2/GDP	34.4	36.1	37.9	39.0	39.7	40.0	40.8	41.6	42.4
Growth of M2 (%)	16.6	13.1	15.6	13.8	12.8	12.8	13.2	13.0	13.0
Private sector credit growth / total credit growth (%)	67.6	76.1	156.9	78.0	127.1	81.5	81.2	81.4	83.1
Price indices(YR90 =100)									
Merchandise export price index	120.3	123.2	126.2	135.2	149.0	153.5	148.9	147.7	146.5
Merchandise import price index	136.2	146.4	157.8	164.1	173.4	182.1	183.9	185.4	186.7
Merchandise terms of trade index	88.4	84.1	80.0	82.4	85.9	84.3	81.0	79.7	78.5
Real exchange rate (US\$/LCU) ^f	99.2	96.6	92.6	0.0	0.0	0.0	0.0	0.0	0.0
Real interest rates									
Consumer price index (% change)	1.6	1.9	3.5	4.3	5.9	6.5	5.8	4.4	4.4
GDP deflator (% change)	5.3	3.2	4.5	4.2	5.0	5.5	4.9	4.0	4.0

- a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

CAS Annex B7 - Bangladesh

Key Exposure Indicators

Indicator	2000	Actual			Estimate			Projected		
		2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) ^a		15255	17061	18778	20019	21180	22296	23086	23673	24186
Net disbursements (US\$m) ^a		557	217	337	543	907	1116	790	587	514
Total debt service (TDS) (US\$m) ^a		676	727	672	945	1105	1081	1123	1134	1111
Debt and debt service indicators (%)										
TDO/XGS ^b		166.6	182.6	178.8	168.5	156.1	147.2	139.4	131.8	124.8
TDO/GDP		32.5	35.9	36.2	35.4	35.3	35.9	34.4	32.5	30.5
TDS/XGS		7.4	7.8	6.4	8.0	8.1	7.1	6.8	6.3	5.7
Concessional/TDO		93.4	92.8	93.2	..	..	..	..	..	..
IBRD exposure indicators (%)										
IBRD DS/public DS		1.0	0.9	1.1	0.8	0.0	0.0	0.0	0.0	0.0
Preferred creditor DS/public DS (%) ^c		51.9	55.2	63.9	39.5	39.4	44.1	48.7	51.3	55.7
IBRD DS/XGS		0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
IBRD TDO (US\$m) ^d		17	13	7	0	0	0	0	0	0
Of which present value of guarantees (US\$m)										
Share of IBRD portfolio (%)		0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d		6439	7063	8062	8895	9624	10392	11091	11805	12545
IFC (US\$m)										
Loans		91	88	94	116	98	..	..	..	..
Equity and quasi-equity /c		13	13	13	12	12	..	..	..	..
MIGA										
MIGA guarantees (US\$m)		64	64	61	46	..	..	..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

**CAS Annex B8 - Bangladesh
Operations Portfolio (IBRD/IDA and Grants)
As of Date 02/02/2006**

167

Closed Projects

IBRD/IDA *	
Total Disbursed (Active)	789.70
of which has been repai	0
Total Disbursed (Closed)	8,514.09
of which has been repai	1,210.32
Total Disbursed (Active + Clos	9,303.80
of which has been repai	1,210.32
Total Undisbursed (Active)	1,282.41
Total Undisbursed (Closed)	22.48
Total Undisbursed (Active + C	1,304.89

Active Projects

Project ID	Project Name	Development Objectives	Supervision Rating	Last PSR Implementation Progress	Fiscal Year	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements ^a	
										Orig.	Frm Rev'd
P050745	Arsenic Mitigation Water Supply	S	S		1999	32.4		4.35	9.40	12.26	-1.14
P044789	BD Private Sector Infrastructure Dev	MU	MU		1998	235			97.04	94.37	5.89
P081849	BD: Telecommunications Technical Assi	MS	MU		2003	9.12			8.69	2.48	-0.04
P062916	Central Bank Strengthening Project	MS	MU		2003	37			37.06	30.01	
P083890	Economic Management TA Program (EA	MS	MS		2004	20			19.19	3.33	
P081969	Enterprise Growth & Bank Modernizatio	S	S		2004	250			145.17	-9.10	
P044876	Female Secondary School Assis. II	MS	MS		2002	120.9		31.06	46.59	47.68	-2.06
P044811	Financial Institutions Development	S	S		2000	46.9			0.00	0.41	
P074731	Financial Services for the Poorest	S	S		2002	5			2.74	2.13	
P009468	Fourth Fisheries	MS	MS		2000	28		8.25	7.22	14.79	0.52
P069933	HIV/AIDS Prevention	MS	S		2001	40		21.98	4.99	22.85	2.85
P074841	HNP Sector Program	MS	MS		2005	300			250.90	-14.14	
P044810	Legal & Judicial Capacity Building	S	S		2001	30.6			18.13	12.96	
P041887	Municipal Services	S	S		1999	138.6			64.36	64.23	
P050751	National Nutrition Program	MS	MS		2000	92		24.02	10.80	28.24	5.40
P050752	Post-Literacy & Continuing Education	U	U		2001	53.3			38.08	31.69	7.29
P078707	Power Sector Development TA	S	S		2004	15.5			14.57	5.89	
P074966	Primary Education Development Program	MS	MS		2004	150			124.72	1.57	
P075016	Public Procurement Reform Project	MS	S		2002	4.5			1.54	0.93	0.06
P086791	Reaching Out of School Children Project	MS	MS		2004	51			47.58	1.71	
P074040	Renewable Energy Development	S	S		2002		8.2		3.10	-1.52	
P071794	Rural Elect. Renewable Energy Dev.	S	S		2002	190.98			121.60	66.84	
P071435	Rural Transport Improvement Project	S	MS		2003	190			163.08	38.48	
P053578	Social Investment Program Project	S	S		2003	18.24			11.05	3.04	
P086661	iBD - Water Supply Program Project	S	S		2004	40			37.92	-1.32	
Overall Result						2099.04	8.2	89.66	1285.52	459.80	18.77

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

CAS Annex B8 (IFC) - Bangladesh
Statement of IFC's Held and Disbursed Portfolio
as of 02/02/2006

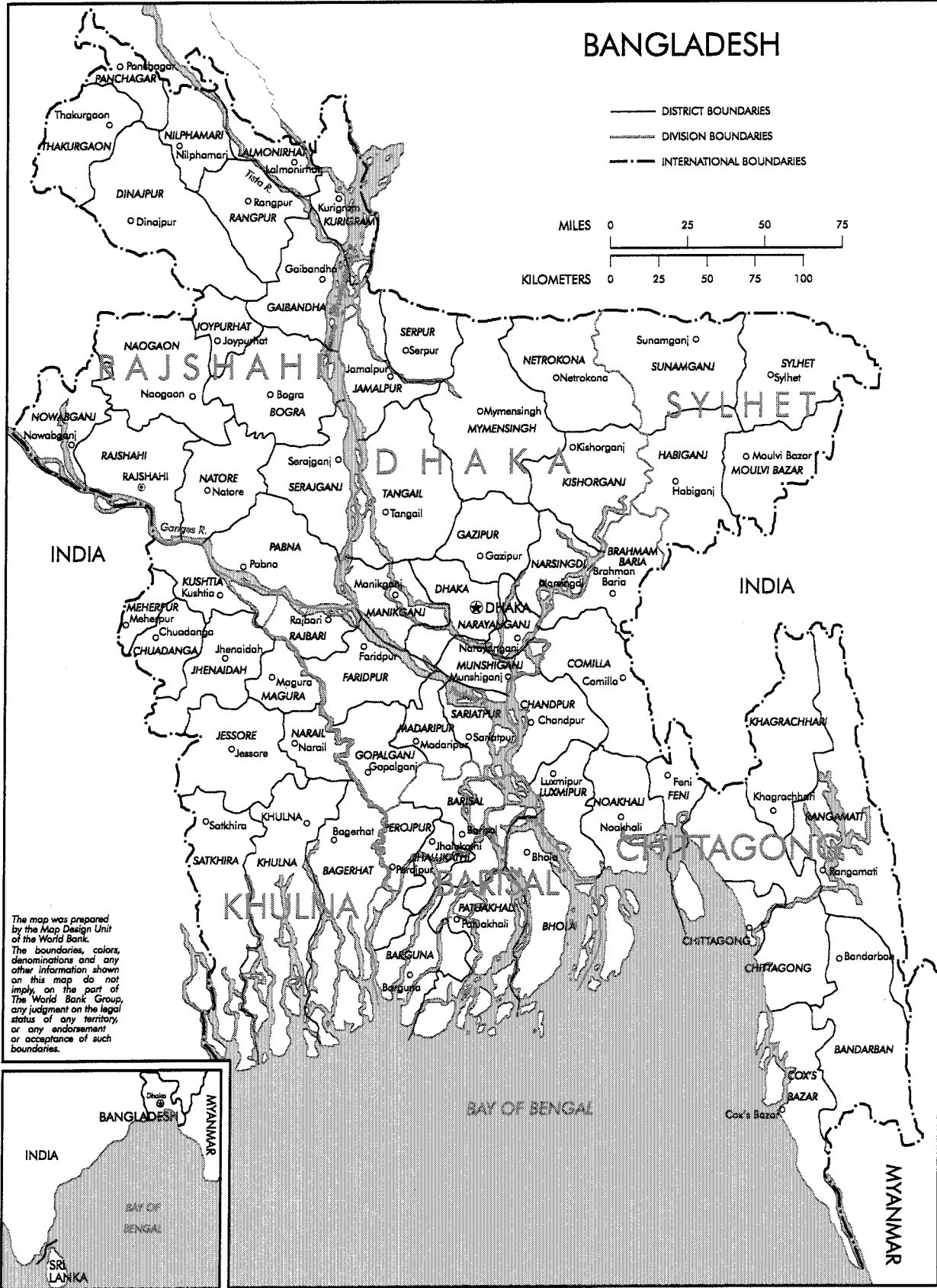
(In US Dollars Millions)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2001	BRAC Bank	0	1.63	0	0	0	1.6	0	0
1997	DBH	2.1	0.65	0	0	2.1	0.65	0	0
1991	Dynamic Textile	0	0	0	1.48	0	0	0	1.48
2004	GrameenPhone Ltd	27.00	0	0	0	27.00	0	0	0
1998	IPDC	3.75	0	0	0	3.75	0	0	0
1998	Khulna	11.27	0	0	13.19	11.27	0	0	13.19
1998/2000	Lafarge/Surma	35.00	10.00	0	15.00	35.00	10.00	0	15
2003	RAK Ceramics	8.40	0	0	0	8.40	0	0	0
2000	United Leasing	0	0	0	0	0	0	0	0
Total Portfolio:		87.52	12.28	0	29.7	87.52	12.25	0	29.67

Approvals Pending Commitment

Approval FY	Loan	Equity	Quasi	Partic
2006 GTFP Dhaka Bank	0	0	0	0
2006 GTFP Eastern Bank	0	0	0	0
2006 Grameen Phone III	70	0	0	0
Total Pending Commitment:	70	0	0	0

BANGLADESH



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