Board Meeting of March 31, 1998
Statement by Jan Piercy

BANGLADESH - Country Assistance Strategy

1. Bangladesh is one of IDA’s largest borrowers. It is also a country where the World Bank plays a vital policy and leadership role within the donor community. We therefore very much appreciate the informative and candid nature of this important document and we commend staff for undertaking a series of substantive consultations with a broad range of Bangladeshi stakeholders and other donors during the formulation of the CAS. I believe that this enhanced dialogue with civil society is an important step in helping to build and broaden client ownership and political commitment. It also complements the greater effort the Bank is now making, and which we strongly support, to involve stakeholders in the development of its projects and to implement them in partnership with NGOs and civil society.

2. We are fortunate that the timing of our consideration of the CAS coincides with the availability of OED’s excellent Country Assistance Review (CAR) which we discussed at CODE last week. We note that efforts have been made to use the findings of the CAR in shaping the CAS. The incorporation of the findings of the 1998 Poverty Assessment into the CAS is also very welcome.

3. Defining IDA’s operational role in Bangladesh presents us with a difficult and complex challenge. Severe poverty is widespread and, while social indicators are showing steady improvement, overall economic performance is clearly below the country’s potential and is not commensurate with the critical nature of the development problems facing the country or the pace of growth needed to provide adequate employment and tackle poverty on a serious, sustainable level.

4. The heart of the problem, noted in both the CAS and the CAR, is insufficient government commitment and capacity. We remain disappointed at the Government’s failure to move more boldly in implementing its own development vision. While we appreciate the very difficult political environment, including the power of the entrenched vested interests opposed to reform, we believe a sustained and stronger government commitment is essential both to reduce poverty and to ensure effective use of scarce IDA resources.
5. We strongly support the underlying themes and priorities of the CAS strategy, and the Bank’s pro-active stance in promoting good governance and anti-corruption measures. However, the Government has not yet demonstrated its commitment to implement vigorously its own economic and social reform agenda. In line with IDA Deputies’ February discussion of linking lending directly to performance, until such Government commitment is more clearly demonstrated, we cannot support the significant increase in the level of base-case lending proposed in the CAS. Such resources should be channeled to other countries willing to act more aggressively in reform. We would like the Bank to concentrate on selectively strengthening its activities in those areas where it has been achieving results such as programs in human development implemented directly with NGOs and in agriculture. Mr. Wolfensohn’s report to the Board on his visit to Bangladesh correctly highlighted the substantial developmental value of the Bank’s civil society partnerships, developed with the Government’s full support.

6. Our skepticism about the Government’s ability to provide a framework conducive to the effective use of increased Bank resources stems in large part from the fact that there has been little discernible movement in three major reform areas: (a) restoring discipline to the banking sector which urgently needs transparency, accountability, and privatization; (b) improving governance and public sector management; and (c) promoting the private sector.

7. While the Government has taken several initiatives to strengthen the banking sector, the overall slow pace of reform continues to seriously constrain private sector investment and overall economic growth. Based on the Government’s track record, we see little basis for optimism. In this context, we would agree with the CAR (paragraph 39) that: “in many respects the malaise in the banking sector is as chronic today as it was in 1980” and that “an autonomous and efficiently functioning central bank and an effective loan recovery system remain elusive goals.”

8. The Government of Bangladesh and the donor community share a long-held conviction that administrative reform at all levels of the government is pre-requisite to the country’s ability to achieve sustainable growth. The Public Administration Reforms Commission (PARC) is an example of limited progress in this area. We welcome this warmly but it needs to be sustained and expanded to be effective. There has been no action yet on the specific recommendations of this commission (nor on those of its predecessors). This sense of complacency is also reflected by the fact that there has been no mention of a replacement for the Chairman who resigned over three months ago.

9. The CAS and CAR underscore the importance of greater Government efforts to promote a competitive private sector. As stated in the CAR (Paragraph 32): “There is no shortage of entrepreneurship or individual ingenuity, but Government, both at local and national levels, has yet to define a proper enabling environment that reduces transaction costs and allows entrepreneurship to flourish.” Despite the language of the Fifth Five Year Plan to rely more on the private sector, the Government retains control of much of industry, and often, in practice impedes the development of the private sector. It is important that the Government move more boldly in implementing its stated intention of relying more on the private sector to generate higher growth and address the daunting challenges of providing employment for the 2 million annual new entrants to the labor market. To achieve this, we believe the Government needs to: divest itself of enterprises, nationalized banks and other state-owned and operated institutions; create
a policy, legal and regulatory environment that is fair, transparent and stable, and that will attract and retain domestic and foreign investors; and liberalize the trade regime with a view to spurring the growth of efficient, competitive industries geared to Bangladesh's comparative advantages. I realize that such measures are easier to prescribe than implement, but the magnitude of Bangladesh's poverty and other development problems support the need for concrete, urgent action. It is important to recognize that the approximately $300 -400 million used to support failed non-financial institutions is funding that could be spent on more productive programs.

- We noted the enormous economic potential for Bangladesh of a rational, market-focused approach to gas exports. We encourage the Government to work closely and transparently with private sector investors, domestic and foreign, to tap this resource. We understand that there is private sector interest in exporting excess gas to India but that the private sector is becoming frustrated at the Government's indecision on forward planning in this area. This is also a good example of an area where greater World Bank regional focus could be very helpful.

- The CAS also notes the potential for foreign investment flows in power generation. At the same time, we have received reports from U.S. energy companies concerned about Bank support for public sector companies in the gas sector on activities which they believe either compete with, or could be done by, the private sector. While we understand from staff that these are “old” programs which are close to completion, we believe it important that the Bank clearly reinforce its policy of avoiding such projects in the future.

10. In conclusion, we believe the Government has a unique window of opportunity to translate its policy themes into meaningful and decisive action, which would stimulate private entrepreneurship, and the economic growth needed to achieve progress on poverty reduction. We strongly encourage such action, which would also help provide an overall economic policy framework in which increased IDA funding would be justified. As stated earlier, we cannot support the significant increase in the level of base-case lending proposed in the CAS. We believe in client responsiveness, and we know that policy conditionality absent borrower ownership is ineffective. However, where there are clear reform pre-requisites without which we know from the Bank's broad global experience that economic progress and poverty alleviation cannot be achieved, we cannot continue to lend as if we were making progress. To do so only makes the Bank part of the problem instead of the solution and perversely undermines the recognized urgency for reform. In the case of Bangladesh, reform of the financial and banking sector and substantive action to promote a competitive private sector are clearly urgent, too long deferred, and mandatory steps.