Board Meeting of March 31, 1998
Statement by Juanita D. Amatong

BANGLADESH -- Country Assistance Strategy

1. This is a welcome opportunity to discuss the joint Bank-IFC CAS on Bangladesh. We extend our appreciation to Management and staff for a well-prepared and comprehensive document that has benefited from extensive in-country consultations. We commend the authors for the clarity of analysis and note some interesting innovations in the presentation which we hope future CASs will incorporate. In particular, we find the summary graphics in Chart 1 useful in providing a full and clear picture of Bangladesh’s recent macroeconomic performance, while the descriptive text boxes helped to elucidate the characteristics of country-specific issues and developments.

2. I also take this occasion to express how pleased I am about the mainstreaming of the systematic CAR-to-CAS process. I believe it works extremely well in providing an in-depth retrospective review and helps to guide the future direction of the Bank’s country assistance strategy. From our own recent experience with the Philippines CAR and CAS Progress Report, this process has been very positive and productive. I would like to commend OED and Management for their exceptional efforts to ensure a well-coordinated timing of outputs, usually done under a tight timetable, to facilitate a much more fruitful and engaging Board discussion.

3. The balanced and transparent analysis of the document characterizes the country as one of success and failure. Since independence in 1971, economic growth has been steady, food self-sufficiency has been achieved along with remarkable improvements in key social indicators of fertility, infant mortality, life expectancy, female primary school enrollments and adult literacy. Yet, significant challenges pose serious obstacles in the country’s development path.

4. We support the focus of the Bank’s assistance strategy and endorse the proposed increase of $200 million in the base-case lending scenario. Ownership counts and institutions matter. The lack of effective public institutions necessary to support economic growth, private sector development and service delivery makes the task of sustainable development and poverty alleviation in Bangladesh much more difficult. In an environment constrained by weak institutional capacity, greater client ownership has to be ensured, most especially in difficult reform areas.
5. Improving macroeconomic management at both the policy and institutional levels is an essential element of the Bank’s assistance. Low levels of revenue need to be reversed and the current fiscal performance improved. To enhance public savings, loss-making state-owned enterprises (SOE) will be dealt with through a more effective implementation of the privatization program. We also welcome the thrust in private and financial sector development, particularly the assistance on strengthening the troubled banking sector. Plans to rebuild the three institutional pillars of sound banking, consisting of strong regulatory systems, well-managed banks and an effective court system, represent an important step in promoting a healthy and thriving business environment.

6. We would like to hear more about the staff’s risk assessment with respect to the SOE privatization program and reforms in the banking sector. The CAS has been quite candid in recognizing the difficulties that lie ahead given the weak political commitment in these areas. In particular, we are concerned that the Bank and the government are on opposite ends of the spectrum --- the Bank attaches high priority to reforms in the public sector, and the financial and private sector while the government considers these as low priority areas (Annex 11).

7. We commend the Bangladeshi authorities for the impressive progress made in improving key social indicators. The education sector has especially benefited from an effective triad of interventionists consisting of government, the NGOs and the donor community. Education outlays grew from 7.9 percent of the budget in 1980 to 10.3 percent in 1990. This led to an increase in primary school enrollment by 50 percent in the 1980s. Laudable achievement was made in improving female net primary enrollment rates which increased from 49 percent in 1980-85 to 66 percent in 1990-96. However, we note that, in 1997, the allocation declined to 9.6 percent of the budget. What is the expected trend in education outlays? Sustained government commitment to education is critical in the long-term pursuit of building human and institutional capacity. We welcome the Bank’s assistance in the preparation of a 10-year education strategy. In our view, this presents a good window opportunity for an APL operation. Do we expect to extend assistance through this new Bank instrument?

8. The country’s export performance registered significant gains for the economy. Over the past decade, exports doubled to 16 percent of GDP as a result of economic liberalization. However, the need to maintain competitiveness and mount efforts at export diversification are well recognized, especially under conditions of market volatility and changing trade environment. We would like staff to explain further the proposed Matching Grant Facility to assist exporters with product and market diversification. Why is the Export Diversification Project for FY99 considered to be a high implementation risk (Annex 5)? What measures will be undertaken to mitigate expected risks?

9. We strongly support the adequate attention given to agriculture growth and rural development. Despite improvements in poverty, more than half of the population are below the minimum poverty line, with 80% residing in the rural areas. We welcome the proposed Social Development Fund to finance local community initiatives and
microenterprises. What will be the process of beneficiary participation and the mechanisms for effective targeting? In developing viable rural financial systems, how can the much-acclaimed Grameen Bank experience be replicated?
10. Finally, we wish the authorities success in their development efforts. We believe that the situation in Bangladesh can be aptly described as a “glass half-full, rather than half-empty.” The country has made laudable achievements in areas where there is strong political commitment, despite a severely constrained environment.