Board Meeting of March 31, 1998
Statement by Juan L. Cariaga

Bangladesh – Country Assistance Strategy

This Country Assistance Strategy (CAS) for the Peoples Republic of Bangladesh presents a comprehensive overview of recent political and economic developments, and especially of the difficulties in developing and implementing an assistance strategy for poverty alleviation in the face of a number of serious challenges. We appreciate staff’s efforts in preparing this candid and informative document for our consideration.

The challenges are complex and difficult to resolve. Progress has been impressive in a number of areas since independence in 1971, and yet much more remains to be done. The Country Assistance Review (CAR) discussed recently by CODE as well as the Operation Evaluation Department’s (OED) review of 15 years of IDA assistance are crucial for consideration of the present CAS, and rightly receive extensive attention. While we are pleased to see that OED’s review concluded that IDA’s assistance strategy has become more relevant in the 1990’s, it also noted administrative bottlenecks and at times a less than enthusiastic commitment by the government to some projects.

The previous 1995 CAS had given priorities to specific themes such as public sector reforms, private sector development, speedier progress in poverty reduction and improvement in the implementation of investment projects, especially in agriculture and infrastructure. The candid and detailed explanation of previous projects, failures as well as successes, and the lessons learned in project implementation and outcomes are an important contribution and strength of this CAS.

We learn that substantial components of all three recent adjustment credits were cancelled because, without strong and unambiguous government commitment to reforms, policy-based adjustment lending cannot work to its full potential. The OED Review therefore made specific recommendations for improving relevance and implementation of IDA programs. We are pleased to see that this CAS pays close attention to those lessons learned.

For much of the past twenty years, successive government in Bangladesh have had to deal with the interests of different actors, including political sectors, the military, private business, civil society and others, which has created a complex governance framework. Moreover, that framework has often been affected by political
developments and the ability of some vested interests to slow or stop needed reforms.

The agreement reached earlier this March 1998, between Bangladesh’s major political parties to end a six-month boycott of Parliament is welcome. We hope that this will allow the authorities to devote increased energies to poverty alleviation and developmental efforts.

Clearly, Bangladesh faces a serious situation, with weak public sector management and an inadequate institutional capacity. The structural reform and changes needed and proposed in this CAS require a broad consensus on the role of the public sector, an emphasis on accountability and sustainability, as well as ownership, that we see has not been particularly strong to date. We would appreciate additional information as to whether staff believes the commitment for development has been strengthened or not as a result of recent political events.

There are also some concerns that funding from multilateral and bilateral institutions and donors might offset the funds that should be coming from an improved composition and distribution of public spending. This situation would require that the Bank ensure that its projects do not merely reinforce the position of those who might not welcome needed reforms. Paragraph 29 points out that “experience shows that institutional development is by no means a hopeless task” increasing our belief that we must be careful not to abandon our goals too early when confronted with difficult situations.

There are two important issues in which the Bank is involved and which we believe it important to emphasize: (i) the need for more sustainable privatization and (ii) banking sector reforms that will reassure investors and depositors of the system’s honesty.

First, we believe the controversial one of privatization requires renewed attention, involving as it does, the reversal of decisions taken in the seventies when companies in the industrial, financial and larger commercial sectors were nationalized. Bangladesh has made modest progress at privatization, mostly in returning some nationalized enterprises to their original owners. Policy makers, however, have been slow to recognize the role that the private sector can play in helping to develop the country. An important step would be preparation and passage of an adequate legal framework providing an enabling environment for the private sector. There is also a need to continue to look for alternatives that contribute to resolving difficulties in the privatization of the important jute industry.

We support IDA and IFC’s proposed strategy to foster private participation, attracting foreign investment in gas and power, improving transport (with a focus on rural feeder roads and markets), and ports, telecommunications and urbanization.

Secondly, The financial sector also merits increased attention. The adjustment operation (in 1990) for the financial sector brought about some liberalization and reduced the volume of direct credit, but an efficient functioning central bank and an effective system for loan recovery remain unfulfilled goals. The Bank’s strategy to help the government rebuild the three institutional pillars of sound banking – strong regulatory systems, well-managed banks and an effective court system – seems reasonable. The presently high level of non-performing
loans must be addressed in order to establish public trust in the honesty of the banking system. In this context, however, we believe there should be a clearer definition with the country of the appropriate and necessary exit of the state from commercial banks and public enterprises.

We would note that the Bangladesh government has been very good at mobilizing communities, increasing school enrollment, vaccination and family planning, all of which required “campaigns.” Does the government now intend to undertake an educational campaign describing its reform efforts in key areas such as privatization and banking?

There are serious political risks in Bangladesh that are candidly described, as well as the continuing problems of vested interests and uncertainties involved the need for new FDI flows and possible pressures from the East Asia crisis. This Chair was pleased to meet with Bangladesh authorities during the Executive Directors travels to the region and has been better able to understand the social, cultural and political situation within which the Bank and the authorities work. Certainly this is important, and we agree that the Bank needs to remain engaged over the longer term, as this CAS suggests. At the same time, we urge that the authorities renew their efforts to consider how best to direct their efforts towards modernization of the state as we approach a new millennium.

Overall, we believe that the strategies proposed, taking into account lessons learned from previous experiences and the long-term outlook that is indicated, offer the best opportunity for success. We welcome the increased reliance on the resident mission and give the Bangladesh authorities our best wishes and support as they continue their
developmental efforts.