

Précis



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Bangladesh Progress Through Partnership

DURING ITS LONG INVOLVEMENT WITH THE development effort in Bangladesh, the International Development Association (IDA) has carried out more than 90 projects and a massive volume of economic and sector work, as well as an ongoing policy dialogue with the government on nearly all aspects of the country's economic and social life. During the past two decades, IDA has financed about a quarter of all foreign aid commitments to Bangladesh. Overall, IDA's assistance has been effective: good progress has been made in health, primary education, adult literacy, fertility reduction, and food-grain self-sufficiency. Despite these achievements, concerns remain regarding food security, the protection of fragile ecosystems, aid dependency, and the reform of public sector institutions.

Background

The most densely populated country in the world, Bangladesh has limited natural resources and is highly vulnerable to natural disasters. Famine is an ever-present danger—well over half the population has experienced extreme food shortages. The per capita annual income is about \$250, and half the population, 80 percent of which is rural, lives below the poverty line.

As it emerged from a bloody civil war in 1971, many doubted the capacity of Bangladesh to survive. But it has survived, and has made notable progress in economic and social development. Since independence, the economy has grown by an average annual rate of about 4 percent, and Bangladesh has been a pioneer in initiatives later adopted successfully by

other countries, such as village banking and oral rehydration therapy for children.

The fundamental weakness of the Bangladesh economy has been the low rate of investment and domestic saving. Dependence on foreign aid has been high: in the country's first 3 years of independence, it received more aid than in all its 24 years as East Pakistan. Aid reached over US\$1.6 billion annually by 1993, or about US\$15 for each person in the country (see table 1 for commitments by sector).

Many observers, both foreign and domestic, have been concerned that the volume of foreign aid has infringed on national sovereignty and undermined self-reliance in the development process. It is clear that aid did indeed fund budget defi-





country has been transformed, and this has been achieved in a very difficult political climate. But progress has not been uniformly good, largely because of deeply entrenched governance issues and powerful vested interests that seek to maintain the status quo. To deal with these issues, OED recommends that future assistance be more clearly focused on reforming state institutions and redefining the role of the public sector, to create an environment more conducive to private sector-led economic development. IDA should ensure that the government is politically committed to the reforms inherent in individual lending operations, and should design those operations with monitorable progress indicators.

cits and inefficient state-owned enterprises, and perhaps reduced the pressure to improve efficiency and cost recovery in public utilities. Nevertheless, it is unlikely that public sector institutions would function more efficiently in the absence of aid. And without external support, many of the programs and projects that have made a difference in Bangladesh would have proceeded more slowly—if at all—which would have had serious economic ramifications and severe social costs. Examples abound, including the population program, child immunization, minor irrigation development, and primary education.

Challenges Remain

Overall, IDA assistance to Bangladesh has been effective, and the partnership forged with the government has led to some notable successes (see table 2 for a summary of social indicators, table 3 for the relevance of IDA assistance, and table 4 for macroeconomic performance). The

Evolution of the Country Assistance Strategy

The World Bank has been involved in the economic development of Bangladesh since independence. To appreciate the evolution of Bank involvement in Bangladesh, it is helpful to break it down into developmental stages.

The 1970s

After achieving independence in 1971, the first government nationalized most of the industrial, financial, and larger commercial sectors and espoused a strong, direct public sector presence in the development process. Relations with the World Bank were colored by fundamental differences regarding the country's policy framework and the proper place of market systems. It was not until 1974 that IDA began to become involved in lending, policy advice, and donor coordination.

Table 1: IDA Commitments by Sector, 1980–95

<i>Sector</i>	<i>Millions of US\$</i>		<i>Percent of total</i>	
	<i>All loans</i>	<i>Adjustment</i>	<i>All loans</i>	<i>Adjustment</i>
Agriculture	1,188.6	—	20	—
Education	411.6	—	7	—
Power	636.3	177.3	11	4
Industry and finance	677.8	438.4	11	7
Multisector	1,237.0	1,141.0	21	19
Oil and gas	453.0	—	8	—
Population, health, and nutrition	239.8	—	4	—
Telecommunications	35.0	—	1	—
Transportation	815.7	—	14	—
Urban development	47.6	—	1	—
Water supply and sanitation	50.0	—	1	—
Other	173.0	—	3	—
Total	5,965.4	1,756.7	100	30

Source: Financial database.

Table 2: Social indicators

	1981	1986	1990	1994
Infant mortality (per 1,000 live births)	111.5	116.0	94.0	77.0
Life expectancy (years)	54.8	55.2	56.0	58.1
Fertility per woman	3.2	3.3	2.9	2.4
Percent of population with daily calorie intake below 2,122	73.2	51.7	47.5	46.0
Percent of population with daily calorie intake below 1,805	50.1	21.7	28.0	n.a.

n.a. Not available.

Source: World Bank data.

Early 1980s

When a civilian government was elected in 1979 and put forth overly ambitious development plans (for example, aiming to reduce fertility to replacement levels and eliminate food imports within six years), IDA's strategy was to encourage the government to establish more realistic goals. The first comprehensive program of assistance was designed to achieve the following:

- *Expand the production of food grains.* Because of the country's severe food shortages, 40 percent of the assistance was directed to agriculture. Projects focused on increasing food-grain yields and the productivity of agricultural labor, with strong emphasis on low-cost minor irrigation, the use of fertilizer and high-yield seed varieties, and upgrading the rural flood control and drainage infrastructure.
- *Improve domestic resource mobilization* to help the country overcome the structural imbalance in its external accounts and its massive public debt. During the first half of the 1980s, Import Program Credits, which were supposed to bring about macroeconomic policy change, accounted for 25 percent of IDA's lending program.
- *Improve project execution* by persuading the government to correct institutional weaknesses and lessen

political involvement in all aspects of civil administration, public enterprises, and the banking system.

- *Improve the country's social indicators.* In addition to financing a family planning and health care network and supporting primary education, IDA's strategy recognized that labor-intensive export production offered good potential for employment generation. To take advantage of this opportunity, economic and sector work and the policy dialogue focused on improving the trade regime and developing an environment that was friendlier to the private sector.

In evaluating the relevance and efficacy of this early strategy, OED found that the focus on increasing food-grain production had been appropriate, although it took almost a decade to fully liberalize agricultural input trade. But the fundamental weakness of the IDA assistance strategy, which negatively affected the outcomes of many operations, was the assumption that the government would commit itself fully to removing the structural and institutional bottlenecks to economic growth. The government made only tentative progress toward enhancing domestic planning. The Bank came to realize that a core constraint in the economic development process was the public sector itself.

Table 3: Relevance of IDA's Country Assistance Strategy

	Period		
	1980-85	1986-90	1991-96
Sensitivity to political economy and governance issues	1	2	4
Awareness and appreciation of institutional constraints	1	1	3
Identification of key development issues	3	3	4
Identification of solutions to constraints	2	2	2
Prioritization of assistance in accord with constraints	3	3	3
Appropriateness of instruments proposed	1	2	3
Accuracy of strategy reflecting experience	2	2	3
Realism of outcome projections	1	1	3
Realism of risk assessment	1	1	3
Adequacy of monitorable progress indicators	1	1	3
Average score	1.6	1.8	3.1

Rating System:

4 - Highly satisfactory 3 - Fully satisfactory 2 - Marginally satisfactory 1 - Deficient.

Source: World Bank data.

1986 to 1991

As the 1980s unfolded, it became clear that heavy donor financing of public institutions in the absence of a serious commitment to reform was counterproductive, and that Import Program Credits were ineffective in bringing about policy change. With this understanding, the strategy was shifted toward specific sector adjustment operations that incorporated more sharply defined change parameters and implementation procedures. Lending to state-owned industrial enterprises was discontinued—in the absence of government commitment to restructuring, this had been deemed futile. At the same time, however, there was increased focus on the state-owned oil and gas enterprises, in an effort to reduce the country's dependence on imported energy and accelerate development of its gas reserves.

IDA also continued its assistance in health and education, and carried out an urgent adjustment operation in the ailing financial sector. The performance of the government-owned development finance institutions, however, did not improve.

The strategy reduced the emphasis on agriculture in the late 1980s because of the country's lack of absorptive capacity and the large number of ongoing projects, many of which were behind schedule.

In its assessment of IDA's strategy during this period, OED found that some lessons from the early 1980s had been incorporated, but that others had been ignored. IDA was correct, for example, in emphasizing family welfare and primary education programs; their relevance had been demonstrated by their good outcomes. IDA was also correct to stop its lending to inefficient public industrial enterprises in the absence of a commitment to reform. However, IDA failed to appreciate the real nature of the governance problems within the central administration, including corruption and poor accountability. It continued to plan projects as if minor administrative adjustments in government agencies would improve project execution. These problems pervaded the projects in the energy sector, which focused exclusively on state-owned enterprises.

1991 to 1996

IDA's strategy for the early and mid-1990s reduced adjustment lending to 15 percent of the proposed lending program, and new operations were pursued only where there was strong government commitment to adhere to quantifiable performance benchmarks and to targets for policy actions. The strategy emphasized the need for strong and sustained improvement in the environment for private sector development and for overcoming deficiencies in infrastructure, particularly power—a sector where project conditionalities required government commitment to improve cost recovery and to reduce system losses. This period also saw an enhanced program of support for primary health care; a continuation of support for population control and primary education, with more emphasis

on the education of girls; and a continued focus on the rehabilitation of rural infrastructure.

Recognizing that fundamental reform of the civil service structure was unlikely, IDA's approach to fostering institutional change was to promote more private participation in activities traditionally carried out by the public sector, including work in power and infrastructure. IDA also promoted the decentralization of responsibilities in the lower levels of government.

There was also increased emphasis on direct poverty alleviation efforts during this period, with a focus on absolute poverty. IDA began to channel funds to non-governmental organizations (NGOs) to design and implement poverty reduction projects, including a highly innovative microcredit operation that could be extended to other sectors.

In addition, IDA carried out an active dialogue with the government on natural resource management, provided inputs into the government's National Environmental Action Plan, and worked to strengthen the capacity of local environmental institutions to monitor environmental degradation. Future investments in flood control and drainage will be in the context of a strategic framework of national land and water planning.

OED found that the strategy for this period was much more relevant than earlier approaches. There was a greater understanding of governance issues and a willingness to take a less compromising position with regard to policy reform and project implementation—perhaps because the balance of payments and food security situation was, by this time, less critical. Lending was thus better able to address the root causes of a number of problems, in keeping with one of IDA's central principles. The OED evaluators also noted that the continued emphasis on population and primary education, and the new focus on working with NGOs to reduce absolute poverty, was entirely appropriate.

Lessons for the Future

To improve the effectiveness of future IDA assistance in Bangladesh, and to accelerate the pace of economic development and the reduction of poverty, two questions must be addressed to develop a guiding vision for the next decade:

1. What should—and can—the government do, and what should be done by the private sector and NGOs?
2. How can the services provided by the public sector be made more responsive to the needs of the stakeholders?

How these questions are answered in each sector and for each activity should determine IDA's assistance strategy and the kind of lending and economic and sector work to be done. Outlined below are more generic lessons that cut across all sectors, and can serve as a guide to future assistance.

- *Refine the Role of the Public Sector.* There is scope for the private sector, NGOs, and local government to be involved in the provision of services. Greater effort must be made to encourage an expanded role for local and municipal governments in all aspects of infrastructure development and maintenance, as well as in education and primary health care. Government involvement in commercial activities must be reduced.
- *Increase Emphasis on Accountability of Systems.* Project design must provide improved accountability of those responsible for providing a service or completing a project. Project design must involve all stakeholders, to define the parameters of accountability and to set a framework for enforcing it. As a general principle, accountability is enhanced by decentralized participation in decisionmaking, finance, and organization. Organizational reforms have been tried in all sectors in Bangladesh, and they have largely failed, because unit performance has not been made accountable to the community served, and there has been no penalty for deficient performance.
- *Pay Greater Attention to Sustainability Issues.* Increased focus is needed on sustainability during project design. No single approach will work in all cases, but much more emphasis must be given to recurrent expenditure requirements for operations and maintenance, cost recovery, and institutional structures or implementing agencies and organizational frameworks. Policy reforms should be sought that are difficult to reverse or undermine, that will produce tangible benefits quickly, and thereby establish a constituency of beneficiaries with a strong vested interest in the sustainability of the initiatives.
- *Improve Project Monitoring and Evaluation.* The emphasis is often on the physical completion of civil works or other such quantifiable targets, but more thought needs to be given to explicit outcome indicators, and these should be included as part of the project design.
- *Recognize Ownership Issues.* Many projects in Bangladesh show signs of incomplete ownership and commitment to project objectives. More of an effort is needed to strengthen the political commitment to needed institutional change, and solid indicators should be sought to gauge this commitment.
- *Define Crucial Objectives and Limit Goals.* In a country that has manifested continual problems in project implementation, it may be useful to limit project objectives to a small number of crucial policy changes and development impact objectives.

Table 4: Macroeconomic Performance

	1981–85	1986–90	1991–95
GDP growth (percent)	3.80	3.9	4.4
GDP composition (percent)			
Agriculture	42.30	37.6	31.4
Industry	13.40	14.3	17.4
Services	44.30	48.1	51.2
		(Percent of GDP)	
Consumption	98.70	96.7	92.3
Private	91.00	83.8	78.2
Public	7.70	12.9	14.0
Investment	13.20	12.5	14.6
Private	7.00	6.3	7.9
Public	6.20	6.2	6.7
Gross domestic savings	1.30	3.3	7.7
Gross national savings	4.30	6.8	12.1
Current account balance of payments	–9.20	–6.2	–2.9
Exports	7.50	8.6	13.5
Imports	19.90	17.4	19.9
Foreign reserves (months of imports)	1.75	3.0	5.8
Consumer prices (annual, period average)	11.20	9.6	3.4

Source: World Bank data.