

Report No. 17455-BD

# Bangladesh Country Assistance Review

March 6, 1998

Operations Evaluation Department

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## Abbreviations

ADB	-	Asian Development Bank
ADP	-	Annual Development Plan
BOO/BOT	-	Build-Own-Operate/Build-Operate-Transfer
BPDB	-	Bangladesh Power Development Board
CAS	-	Country Assistance Strategy
CEO	-	Chief Executive Officer
CPR	-	Contraceptive Prevalence Rate
CPP	-	Country Program Paper
CSP	-	Country Strategy Paper
DCA	-	Development Credit Agreement
DFI	-	Development Finance Institution
DWASA	-	Dhaka Water and Sanitation Authority
ERD	-	Economic Relations Division
ERR	-	Economic Rates of Return
ESF	-	Environmental and Social Framework
ESW	-	Economic and Sector Work
GDP	-	Gross Domestic Product
GOB	-	Government of Bangladesh
IMED	-	Implementation, Marketing and Evaluation Division
IPC	-	Import Program Credit
ICB	-	International Competitive Bidding
IDA	-	International Development Association
IDCOL	-	Infrastructure Development Company Ltd.
IFC	-	International Finance Corporation
IIFC	-	Infrastructure Investment Facilitation Center
LDCs	-	Least Developed Countries
LIB	-	Limited International Bidding
MIGA	-	Multilateral Investment Guarantee Agency
MOF	-	Ministry of Finance
NGO	-	Non-Governmental Organization
OED	-	Operations Evaluation Department
ODs	-	Operational Directives
ORT	-	Oral Rehydration Therapy
PERs	-	Public Expenditure Reviews
PSIDF	-	Private Sector Infrastructure Development Fund
PSIDP	-	Private Sector Infrastructure Development Project
SDR	-	Special Drawing Rights
SOE	-	State Owned Enterprise
TA	-	Technical Assistance
TORs	-	Terms of Reference
UNDP	-	United Nations Development Program
WHO	-	World Health Organization

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## MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

### Bangladesh: Country Assistance Review

Attached is the report *Bangladesh: Country Assistance Review* prepared by the Operations Evaluation Department. This Country Assistance Review (CAR) is the ninth in a series of country focused studies designed to evaluate the relevance and efficacy of the Bank's assistance in one country and provide lessons for the future. A working draft of the CAR has been sent to the Government of Bangladesh, but comments have not been received as yet nor has the full report been discussed with the authorities. Following discussion with the Government, resulting changes will be incorporated and the report reproduced and disclosed.

The CAR's main conclusion is that IDA's assistance to Bangladesh over the past fifteen years has been effective, and the partnership forged with the Government has brought about notable successes. While GDP growth has not been spectacular, good progress has been made in improving the general well-being of the population. Fertility has declined thereby curbing population growth, infant mortality has also declined and life expectancy improved. Progress has been made in education, particularly primary education with a strong improvement in the attendance of girls. In a normal climate year, the country has achieved self sufficiency in food grains and, with liberalization in agricultural input trade, smallholders' productivity and incomes have undergone fundamental improvement. Furthermore, efforts in flood control and cyclone preparedness have been effective, with a subsequent reduction in human hardship.

As might be expected with a country with such a complex array of economic, social and political issues, progress has not been uniformly good in all areas. By and large, the reasons for disappointing progress are due to deeply entrenched governance issues. While public savings have improved, a difficulty remains with the poor performances of state owned enterprises and public utilities. Attempts to create a strong and healthy financial sector have only been partially successful. Government ownership, politicization of lending and the absence of effective loan recovery systems have undermined the incentive and accountability framework in a large part of the financial sector.

A number of key strategic lessons emerge from this CAR. In all sectors the role of the public sector needs to be redefined, leaving more room for the private sector, NGOs and local government to be involved in the provision of services. To improve accountability, sustainability and ownership of projects, efforts to involve all stakeholders and beneficiaries in project design and implementation has proven to be very fruitful. Project objectives need to be limited to a small number of crucial policy changes and development impact objectives. Overly complex project design has proven to be counterproductive and led to implementation problems.



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## **Preface**

This Country Assistance Review (CAR) presents the findings of an OED team that visited Bangladesh in August/September 1996. This team held extensive discussions with government officials, representatives of the civil society and the academic community, NGOs, other donors and Bank staff in the Resident Mission. The valuable contribution and cooperation of all involved is gratefully acknowledged.

This CAR covers a very long period of IDA involvement with the Government of Bangladesh and their development effort. The sixteen years reviewed covers 93 projects, a massive volume of economic and sector work and an ongoing policy dialogue that has covered all aspects of economic and social life. The bibliography encompasses nearly 150 reports, books and journal articles, as well as internal operational documentation. This report therefore represents a synthesis of the key findings of an evaluation encompassing a very broad agenda. All materials, as well as more detailed working papers on each sector, are lodged in the Bangladesh CAR files in OED and are readily available on request.

The CAR's main conclusion is that IDA's assistance to Bangladesh over the past fifteen years has been effective, and the partnership forged with the Government has brought some notable successes. Good progress has been made in the reduction of fertility and key health indicators. Progress has also been made in education, particularly primary education, and the country has achieved self sufficiency in food grains in a normal climate year.

As is readily understandable in a country with complex economic, social and political issues, progress has not been uniformly good in all areas. In, general the reasons for disappointing progress are due to deeply entrenched governance issues, often requiring a strong and sustained political commitment to effect change

The lessons drawn from this CAR are presented at a strategic level, which have applicability in Bangladesh and other countries. The aim has been to develop themes that cut across all sectors and will thus help to refine IDA's country assistance strategy and future assistance efforts.





## Executive Summary

### INTRODUCTION

1. Bangladesh evokes strong emotions. Emerging from a bloody civil war in 1971, its capacity to survive was then widely considered precarious. Few countries have represented such a testing development challenge. Famine is an ever present danger, in this densely populated country vulnerable to natural disasters. Per capita income is below US\$250 per annum and half the population, 80 percent of which is rural, still lives below a minimum poverty line.
2. Despite the difficult political traumas from 1977 to 1980, Bangladesh has made progress in economic and social development and the country has been transformed over the past sixteen years. The country now approaches self sufficiency in food-grains and a host of social indicators (fertility rates, infant mortality, life expectancy, primary school enrollments and adult literacy) have shown steady improvement. Since independence growth has been steady. It has accelerated in the nineties.
3. Despite these achievements, questions remain as to food security, future demographic trends, the country's aid dependency and the fragility of its ecosystem. The country is in the midst of a political transformation and development of a multi-party democratic system, encompassing also, establishment of a civil administration structure which has regularly been reshaped and adjusted. The first government nationalized most of the industrial, financial and larger commercial sectors, and espoused a strong, direct public sector role in the development process. Many of these enterprises were abandoned by the original owners, and at the time this was considered the best course of action. Successive governments have sought to reverse the role of the State in direct economic activities, but this effort has not been consistently sustained, faltering in the face of political or vested interest opposition. At the outset, it must be recognized that for much of the seventies and eighties, political developments and evolution of the political system has affected what can be achieved in the economic sphere.
4. The World Bank has been involved in Bangladesh's economic development from the country's very beginnings. This partnership has encompassed, lending, policy advice and donor coordination. Over the past two decades, IDA has financed about a quarter of all foreign aid commitments, covering all sectors of the economy, including balance of payments support. A massive volume of economic and sector work has contributed to policy reform and aid coordination. This sector work did not always convince Bangladesh policymakers of the need for reform, but it undoubtedly strengthened a partnership that has spanned more than twenty five years.

## **The Development Challenge : Toward Effective Balance Between Needs And Expectations**

5. A fundamental weakness of the Bangladesh economy has been the low rate of investment and domestic saving. A further development challenge has been the scarcity of skills and the low levels of literacy. Dependency on external concessional flows has been high. In the country's first three years, Bangladesh received more aid than in all its 24 years as East Pakistan, and annual commitments exceeded US\$1.5 billion by the early nineties.

6. Many observers, both domestic and foreign, have expressed concern that the country's use of foreign aid has infringed on national sovereignty issues and undermined self reliance in the development process. Given the fungibility of resources, aid indeed helped fund budget deficits, inefficient State Owned Enterprises (SOEs) and perhaps reduced the pressure to improve efficiency and cost recovery in public utilities. However, it is unlikely that public sector institutions would function more efficiently in the absence of aid. Without external support, many programs and projects would have proceeded more slowly, if at all, and this delay would have had very serious ramifications and adverse social costs. Examples abound such as the population program, child immunization, minor irrigation development and primary education.

7. Administration of the entire aid program has been demanding. Implementation of the Annual Development Program (ADP) has always been difficult. Often 20 percent of a years' program remains unimplemented. As a result, the gap between commitments and disbursements has widened, and the pipeline backlog has grown. One of the key constraints has been the public sector itself, and the lack of a clear vision of the role that the private sector and non-governmental agencies can play in the development process.

### **Relevance of the Country Assistance Strategy**

#### *1980-1985 : A Slow Start on the Development Agenda*

8. The early eighties witnessed a transition from martial law to the civilian government of President Ziaur Rahman. Its development goals were ambitious, such as replacement fertility levels and elimination of food imports by 1985. In the 1980 CPP, IDA explicitly recognized that these targets were unrealistic, and hence sought to reduce expectations while maintaining Government and donor support for a medium term framework. This was accomplished by focusing on shared objectives and articulating domestic capacity constraints.

9. IDA strategy in 1980 focused on four priorities:

- Expanding food-grain production to achieve self sufficiency;
- Improve domestic resource mobilization to cover an increasing share of the ADP;
- Improve project implementation and execution; and
- Continuing and strengthening momentum on improving social indicators.

Expanding food grain self sufficiency was seen as a key element in the reduction of poverty. Improving yields and rural productivity was seen as a way to increase incomes for the vast bulk of the population. Hence the assistance strategy at this time envisaged that 40 percent of IDA lending would be directed at the agricultural sector with an immediate goal of increasing the

flow of inputs to the farmers. Specifically, attention was directed toward improving input distribution, rural infrastructure and agricultural credit programs.

10. At the time IDA recognized the problems with State Owned Enterprises, and proposed to assist in the restructuring of the jute and textile sectors, so as to improve public savings. This, together with sector work to improve public investment programming, would bring about an increasing ability for local resources to be channeled into the ADP.

11. On this, IDA was quite confident that a quick transition to a sustainable growth path would be realized. Growth projections were about 6.5 percent per annum, and it was envisaged that investment would reach 18 percent of GDP by 1985. These goals proved unrealistic: growth averaged 3.5 percent per annum, and investment only reached 13 percent of GDP. No progress was made in improving the SOEs (although quite a few were denationalized) and the already poor performance of the financial system worsened.

12. The disappointments notwithstanding, the thrust of IDA's assistance strategy was relevant and contributed to development progress in a number of key areas. The focus on food-grain production was justified, and while it took almost a decade to fully liberalize agricultural input trade, the priority given to this challenge was appropriate. Equally, the early strong support given by IDA to the population program proved beneficial.

13. If there was a fundamental weakness in IDA's assistance strategy, it was the implicit assumption that Government was fully committed to a reform of civil service institutions aimed at reducing excessive regulation and administration, to real reform of the inefficient public enterprises and a genuine drive to create a more conducive environment for the private sector. Only gradually through the eighties, did IDA realize that a core constraint in the development process in Bangladesh was the government itself and its unwillingness to enforce the needed public sector reforms.

#### *1986-1990 : Recognizing Some Lessons But Not Others*

14. Eventually, lessons learned in the early eighties influenced the country assistance strategy towards greater relevance. By 1986, IDA had recognized the need to address sector and macroeconomic constraints, with sharply focused policy conditionality. IDA also recognized that trying to deal with inefficient public enterprises in the absence of a strong Government commitment was not productive. Therefore, efforts were made to create a conducive environment for the private sector and deal with the distortions in trade, pricing, credit allocation and interest rates.

15. Renewed efforts were made to improve project execution and to promote improved multi-year budget planning, project and contract approval procedures and better monitoring and evaluation. Since domestic resource mobilization remained a major problem, IDA proposed an expanded program of ESW to cover public expenditure and tax reform, as well as a more intense policy dialogue to reduce subsidies, particularly for fertilizer and food distribution. Population and primary health care remained a priority, with increasingly more complex operations, with multiple donors and more components. The education strategy embraced a stronger focus on primary and girls education.

16. The earlier emphasis on agriculture waned somewhat, since the already large project portfolio was plagued by delays, and absorptive capacity was limited. One major shift in strategy was to increase the emphasis on the energy sector, particularly oil and gas, in order to reduce the country's dependence on imported energy. Finally, the poor loan recovery performance of development finance institutions finally convinced IDA that further line of credit type projects for both agriculture and industry served no useful purpose in the absence of substantial institutional, system wide reform.

17. While important lessons were learned, the efficacy of the revised strategy left a great deal to be desired, and some were not fully absorbed. Implementation and project execution problems worsened, and IDA displayed continuing faith that relatively minor administrative adjustments would solve the problem. The depth of the governance problem was not fully appreciated. While recognizing that dealing with public enterprises in Bangladesh was a high risk endeavor, the emphasis placed on the energy sector, most notably oil and gas and industrial energy efficiency which involved entirely state enterprises, was inappropriate. Finally, progress in liberalizing agricultural input prices and distribution systems was slow and tortuous, which inhibited development of the agriculture sector.

*1991-1996 : A More Rational Approach*

18. A review of IDA's strategy documents from the early nineties discloses a hardening of IDA's strategy, and a sharper focus on implementation and Government commitment. Adjustment lending was reduced to about 15 percent of the proposed lending program, and sector operations undertaken in a selective manner in line with an assessment of the Government's willingness to proceed with a broad reform agenda in a timely manner.

19. By the early nineties, earlier efforts to improve public sector resource mobilization had started to bear fruit, but IDA recognized that a fundamental reform of the civil service was unlikely in the near term. As a result, IDA sought to promote a national debate about the role of the public sector, and the encouragement of greater private sector participation in activities that had been the preserve of the public sector. The 1995 CAS also emphasized new approaches and working more closely with NGOs in the design and implementation of projects. Finally, environmental issues took on greater prominence.

20. Also notable were the 1992 CSP and the 1995 CAS use of articulated performance benchmarks that were put forward to mark progress in the development agenda, and to determine the pace and targeting of areas of new IDA commitments. As a result, IDA's assistance strategy in the nineties became less tolerant of delays in policy reform and project execution, and more realistic in its expectations, and more conservative in its risk assessments. It displayed a much greater appreciation of governance issues.

21. Modest steps were taken to introduces more innovative methods of project implementation. If there was modest criticism of the country assistance strategy in the nineties, is that IDA did not go much farther in seeking alternative implementation mechanisms that increase accountability and a more immediate assessment of outcome. Thus, the sector adjustment lending that was undertaken in the nineties has not been entirely successful, due in part to the fact that IDA did not follow its own strategy of addressing root causes and witnessing a demonstrated Government commitment to deal with known controversial issues. Nevertheless it is clear that IDA has a more sophisticated appreciation of the limitations and difficulties of

public sector reform in Bangladesh. Looking ahead, the use of adaptable lending instruments might help also improve the efficacy of the new assistance strategy.

### **Refining Country Strategy Relevance : Lessons for the Future**

22. A review of IDA's country assistance strategy over the past fifteen years highlights and reinforces a number of key generic lessons:

- *Monitorable Performance Benchmarks:* Country strategies become much more relevant and operationally useful if there are very specific benchmarks in both policy reform and outcomes.
- *Flexibility in the Lending program:* Strategies should allow considerable flexibility to adjust the lending program in response to progress in identified key reform areas.
- *Realism of Risk Assessments:* The validity and relevance of CASs is greatly enhanced by realistic assessments of the difficulties of achieving progress, which in turn makes the risk assessments more meaningful and expectations more realistic.
- *Past Experience Needs a Thorough Assessment:* Before embarking on definition of a future country assistance strategy, more attention should be directed to how effective was the last strategy.
- *Realism in Institutional Capacity Assessments:* In general, CASs underestimate the complexity and time necessary to bring about institutional change and capacity enhancement.

### **Strategy Implementation : Emphasis, Instruments and Efficiency**

23. IDA commitments to Bangladesh during the period under review (FY80 to FY96) amounted to nearly US\$6 billion and involved approval of 93 projects. Disbursement during the period totaled US\$4.7 billion, or about 9 percent of IDA disbursements during the eighties. This proportion declined quite dramatically in the nineties to 5.7 percent, reflecting the absorptive capacity constraints within the country and the increasingly difficult institutional constraints which have impeded project execution. Disbursement ratios during the eighties were well below Bank norms, averaging about 11 percent. A concerted effort to solve this problem was made in the early nineties, and the disbursement ratio reached 17.6 percent by 1996. As might be expected given the implementation problems, supervision effort has consistently been above Bank-wide averages.

24. The intensity of ESW on Bangladesh has been at about Bank-wide averages but higher than South Asia averages. This was an appropriate level as the ESW undertaken has been consistent with the country strategy, and its timing and quality have been good. For example, a Tax Reform study and an Environmental Review fed directly into Government studies and strategy formulation very shortly after completion.

25. From 1980 to 1996, 63 projects have been reviewed and rated by OED. Of this number, 24 projects (38 percent) were unsatisfactory. This compares with a Bank-wide OED average of 33 percent. With regard to sustainability, 35 percent had a likely rating, compared to 45 percent

Bank-wide. Of these rated projects 36 percent had negligible institutional development ratings compared to a 24 percent Bank average.

26. The efficiency of lending assistance to Bangladesh does not compare favorably to Bank averages. In terms of lending staff years per project, Bangladesh is almost 40 percent higher in terms of staff time spent. This relatively less efficient performance is indicative of the difficulties inherent in dealing with Bangladesh's assistance program. Bangladesh requires over 50 percent more calendar time to take a project from project concept to the Board. There is also another very interesting indicator of the difficulties of project assistance to the country. In the context of this review, 83 completed projects were analyzed to ascertain the time between Board approval and effectiveness. It was found that 29 percent took nine months or more to be declared effective. This is strongly indicative of administrative logjams in the country, perhaps a less than full commitment to the project and deficient project preparation and design.

### **Development Outcomes**

27. Growth performance has not been spectacular, and with the exception of flood or drought related years, has been in the range of 3.5 to 4.5 percent per annum.<sup>1</sup> Investment, both public and private, has been deficient, although investment performance has shown a modest improvement in the nineties, with a consequent improvement in the trend GDP growth rate. But two indicators suggest that some profound changes have occurred in the basic framework of the Bangladesh economy. First, the share of agriculture in total output has declined, despite an increase in food-grain output reaching close to self sufficiency by the early nineties. This growth is consistent with the development pattern observed in many other low income countries.

28. Another encouraging and positive trend has been the steady growth in domestic savings, notably private savings. The economy has become increasingly monetized and an increasing proportion of the population has been able to meet basic survival needs for food and shelter, resulting in a rising marginal propensity to save. Strong growth in worker remittances from abroad has added to the pool of private savings. By the early nineties, the public sector had improved its own savings performance, achieved entirely on the revenue side with an improved tax collection performance.

29. Throughout much of the eighties, reserves were at precarious levels, given the country's susceptibility to natural disasters. Current account deficits in the early eighties averaged over 9 percent of GDP, and were only sustainable through concessional foreign assistance. The causes for this external imbalance were structural, but little was done to the mid-eighties to bring about a fundamental change in relative prices or a reduction in the distortions that constrained exports. Following a sustained adjustment effort in the late eighties, the balance of payments improved dramatically and foreign reserves reached historically high levels. Growth in non-traditional exports in the nineties has been strong, led by ready-made garments. This reflects a decline in the real exchange rate from 1985, and the progressive liberalization of the trade and investment regimes. The growth of ready-made garments from nearly zero in 1982 to over US\$2 billion in 1995 is a notable achievement and is indicative of the country's potential in labor intensive, light manufacturing industries.

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<sup>1</sup> It should be noted that following a recent exercise by the Bangladesh Bureau of Statistics for improving national accounts, early findings suggest that GDP has been underestimated (perhaps by as much as 30 percent).

30. While public savings have improved, the overall budget deficit remains quite high averaging 5.5 percent of GDP in the last few years. A major difficulty has been the poor performance of the SOEs, where gross losses reached a staggering 2.1 percent of GDP in 1991. Progress has been made in reducing this, but the SOEs and utilities remain a drain on the economy. Bangladesh has made modest attempts at privatization—mostly in returning nationalized enterprises to the original Bangladeshi owners. Policy makers have been slow to acknowledge the role that the private sector can play in helping to develop the country's infrastructure.

31. While GDP growth has not been spectacular, good progress has been made in improving the general well-being of the population. Population programs have been successful in reducing fertility and curbing population growth. With an aggressive immunization program, particularly from the mid eighties, infant mortality has declined and life expectancy improved. Unfortunately large segments of the population still live a precarious existence with 46 percent of the people having a daily calorie intake below 2122 calories in 1996. While this is down from a massive 73.2 percent in 1981, poverty remains a major challenge.

32. Undoubtedly the pace of reform has accelerated in the late eighties, and this has resulted in an improvement in the investment and commercial environment. The country must generate nearly two million new jobs a year, so an even more dynamic investment environment must be created. 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.

#### *Health and Family Planning*

33. In 1974 gross health statistics in Bangladesh reflected an almost desperate situation. Life expectancy was only 45 years and infant mortality was 140 per 1000 live births. Total fertility rates were about 7, and the population was growing at over 3.0 percent a year. In 1976 the Government declared family planning as one of its top priorities, and IDA gradually assumed leadership of a collaborative effort by the international community, resulting in family planning and health projects of growing size and complexity. The core of these projects financed rural health facilities, recruitment and training of rural family planning and health workers and purchase of contraceptives and other medical supplies.

34. This effort has brought about significant positive outcomes. Fertility has declined to about 2.4, the contraceptive prevalence rate has reached 49 percent and infant mortality has declined to 77 per 1000 live births. Bangladesh's performance in reducing fertility has been a major achievement for a low income country. Between 1985 and 1994, the proportion of children immunized against six major childhood diseases has increased from 2 to 62 percent.

35. Despite these very good achievements, the family planning and health services have a number of serious weaknesses. Internal efficiency of the system is low because of management, staffing and logistical problems. The quality of the delivery of health care in public facilities, particularly in the rural areas is perceived to be poor and drugs are often in short supply. IDA and other members of the donor community and the Government are aware of these problems, but attempts to deal with them have failed. The rising demand for family planning and maternal and child health services is placing an increasing organizational and financial burden on the

system. To meet the goal of a replacement fertility, will require a considerable increase in efficiency, greater reliance on NGOs and the private sector, and greater cost recovery. A revitalized service delivery system will involve greater community involvement, considerable administration decentralization and a different role for government at the national level.

### *Education and Human Resource Development*

36. IDA has been an early supporter of Bangladesh's education efforts, although at the outset there was not a coherent sectoral approach. Early assistance did not address primary education which in retrospect was a mistake. However this deficiency was remedied in 1980 with the first project in primary education and this emphasis has remained. These efforts have been effective. After stagnant primary school enrollment for almost thirty years, gross enrollment rose from 55 percent in 1985 to 63 percent in 1990, to slightly above 100 percent in 1997. Attendance of girls, particularly in rural areas, has increased and NGOs are very active in non-formal literacy programs. New gender equality has been reached in both primary and secondary schools, in part due to a program of stipends for girl students in secondary schools. Government commitment to education has increased, as education outlays have grown from 7.9 percent of the budget in 1980 to 10.3 percent in 1990. The large increase in school capacity and teachers has enabled primary school enrollment to increase by 50 percent in the eighties. IDA and the Government have had much less success in vocational training and specialized education, with negative rates of return for assistance to public vocational and technical training centers.

37. As with health care however, the internal efficiency of the public primary school system is low, and the quality of education is deficient with teachers that are poorly trained and supervised and poor logistical support. Dropout rates are very high, and it takes an average of 8.7 years to produce a single graduate of the five year primary cycle. There is a lack of system accountability, and retention rates for formal government primary education compare unfavorably with programs sponsored by NGOs. Increasing the quality of education requires improving incentives and accountability for teacher performance, improved teacher training, more parental involvement in resource mobilization and school management and further encouragement of NGOs and private providers.

### *Industry*

38. Over the past decade and a half, Government efforts and IDA assistance to create a dynamic industrial sector have not been successful. Only two out of nine projects have been rated as satisfactory, and of the two ongoing projects one is experiencing significant difficulties. The pace of reform of the policy environment has been slow, and the successes that have occurred (ready-made garments) cannot be attributed to Government or IDA. Undoubtedly the situation has got better in the nineties, with more aggressive trade policy reform. IDA attempts to deal with the highly inefficient SOEs have largely failed and in the early eighties IDA financed some SOEs that have now become a liability. The quality and depth of the ESW undertaken by the Bank certainly diagnosed the problems and constraints. However there was a chronic over-estimation of Government ownership of the reform process, given strong and highly politicized labor movements, a central bureaucracy seeking to maintain centralized control and a complex array of policy distortions and regulations. Throughout much of the eighties, genuine Government commitment to, and a vision of, an industrial sector driven by market forces was absent. IDA consistently miscalculated Government resolve to effect real

change. The situation has improved marginally in the nineties. IDA's move to SECALs with broad sector reform agendas has been appropriate, and while not fully successful has generated in some areas a momentum for economy-wide liberalization and nurtured a constituency for wider reform.

#### *Finance*

39. Attempts by Government, with the assistance of IDA and other donors, to create a strong and healthy financial sector in Bangladesh have failed. The outcome of all IDA financial sector projects rated during the review period were unsatisfactory, and not sustainable, and in many respects the malaise in the banking sector is as chronic today as it was in 1980. Comprehensive ESW was undertaken by the Bank, particularly from the mid-eighties, which identified problems and solutions. What was not fully appreciated however were the complex governance issues involved in the sector, the politicization of lending and government ownership and how these factors would undermine the reform agenda. Throughout the eighties and nineties, Government commitment to reform was deficient and project ownership was weak. Lending was politicized, and successive Governments were unwilling to fundamentally address the incentive structures within the public sector banks. This is not to say IDA's efforts were without positive benefit. The sector reform adjustment operation (1990) did bring about some liberalization and reduced the volume of directed credit, and the operation as it progressed, highlighted the nature and seriousness of the problems affecting the banking system, and the urgent need for pervasive reform. But an autonomous and efficiently functioning central bank and an effective loan recovery system remain elusive goals.

#### *Agriculture*

40. IDA has been effective in its assistance to agriculture. Progress has been made toward achieving food-grain self sufficiency, and while it may have taken longer than desired, IDA was instrumental in encouraging liberalization of agricultural input trade. Easier farmer access to minor irrigation equipment, power tillers and fertilizer has brought about a fundamental change in smallholders' productivity and incomes. IDA has also made a valuable contribution in expanding mangrove forestry which in turn has addressed environmental issues and protection of vulnerable shorelines. IDA advice and assistance for extension, research and crop diversification was relevant, however for much of the eighties, IDA's efforts to strengthen the institutions delivering these services was not fully effective. In common with results in the financial sector, IDA has not been successful in improving credit delivery systems for agriculture, which are as bad today as they were in 1980. The blame for this must rest with the Government which has undermined credit delivery in rural areas with periodic loan forgiveness schemes.

#### *Flood Control and Drainage*

41. Overall, IDA has been effective in Flood Control and Drainage. This was an area of considerable technical controversy and, of course, high visibility. IDA's strategy, based on seventies sector work, was to avoid large projects in deeply flooded areas with high civil work costs per hectare. Rather IDA efforts were concentrated on smaller sub-projects in shallow flooded areas with low development and operating costs per hectare. This was not a strategy the Government fully accepted. However, over time, many policy makers came to recognize the worth of such an approach. IDA sector work in this area was also instrumental in developing the

National Water Plan in 1986, which contributed to the establishment of a multi-sector framework for planning water management, and confirmed that minor irrigation and shallow tube wells were vital to rural development. IDA also took a strong coordinating role in the development of a Flood Action Plan in 1989, which in turn served to moderate demands by both Government and some donors for massive civil engineering works, the technical and environmental outcomes, as well as economic viability, of which were uncertain.

42. IDA was not so successful in improving the institutional performance of the Bangladesh Water Development Board. Little progress was made in dealing with deficient operation and maintenance of existing flood control and drainage schemes. From the early nineties there has been a greater degree of beneficiary participation, with local councils becoming more involved for operation and maintenance of smaller schemes. But a basic reform of the institutional framework has yet to be undertaken.

### *Energy*

43. While IDA has had a positive impact in the energy sector, the results are not commensurate with the resources that have been expended. IDA has sought to encourage the Government to allow a greater private sector role in energy, and at least a greater degree of commercial autonomy for public utilities, but Government has resisted. Little progress has been made in reducing system losses in the main urban areas, despite recent separation of generation from distribution. What is noteworthy however, has been the relative success of IDA's efforts in rural electrification and distribution. This is due to the decentralized administrative approach adopted, with the creation of rural distribution cooperatives which are more accountable to the communities that they serve, and operate with a more commercially oriented administrative structure.

### *Infrastructure*

44. IDA support in the development of Bangladesh's infrastructure has been effective in expanding the physical stock, and the development impact, particularly in the rural areas, has been positive. As with other sectors however, what has not been successful has been the creation of sustainable institutions. For urban water there is a lack of commercial orientation with very poor cost recovery, and municipal revenues are inadequate to cover maintenance of existing systems, let alone new investments. Good success has been achieved in IDA's assistance for rural roads using local materials. A problem has been adequate maintenance, but under the latest project, efforts are being made to involve local councils for maintenance of road drainage systems and culverts.

### **Lessons for the Future**

45. Overall, IDA assistance to Bangladesh over the past years has been effective, and the partnership forged with the Government has brought about some notable successes. The country has been transformed and this has been achieved in the face of a very difficult political climate. As might be expected with such a complex array of economic, social and political issues, progress has not been uniformly good in all areas. By and large, the reasons for disappointing progress are due to deeply entrenched governance issues and powerful vested interests that have sought to maintain the status quo.

46. To further improve the effectiveness of IDA assistance in Bangladesh in the future, and accelerate the pace of economic development and reduction in poverty two quite fundamental questions need to be asked to develop a guiding vision for the next decade:

- (a) What should and can the Government do and what should be done by the private sector and non-governmental organizations? and,
- (b) 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 then determine IDA's assistance strategy and the type of lending and ESW that should be done in each chosen sector. The conclusions in the various sector annex each contain a variety of recommendations for the future that are specific to that sector. Outlined below however are more generic lessons for the future that cut across all sectors, to guide the future country assistance strategy.

47. *Redefining the Role of the Public Sector.* In all sectors the role of the public sector needs to be redefined. There is much more scope for the private sector, NGOs and local governments to be involved in the provision of services. Much greater effort must be made to encourage a greater role for local and municipal governments in all aspects of infrastructure development and maintenance, as well as education and primary health care. Needless to say, government involvement in commercial activities must be reduced. As reflected by IDA's current country assistance strategy over the past three years, this approach has produced good results.

48. *Increasing Emphasis on Accountability.* Future project design must seek to improve the accountability of those responsible to provide a service or complete a project. Project design must involve all stakeholders, simply to define the parameters of this accountability and set a framework for enforcing this accountability. As a general principle, greater accountability is enhanced by decentralized participation in decision making, finance and organization. Organizational reforms have been tried in all sectors, whether it be the civil service or quasi-government authorities, and by and large they have all failed. The simple reason is that unit performance has not been made accountable to the community they serve, with no penalty for deficient performance. Public employees in Bangladesh, whether they be teachers, doctors, agricultural extension officers, bank loan officers, or electrical engineers, do not operate under performance and incentive structures that encourages a greater accountability to the communities or clients they serve. There are some notable exceptions and successes, however. The Rural Electrification Cooperatives have had far greater involvement with local constituencies and as a result have proven to be far more successful. Since FY95 IDA has made a strong effort to increase local participation in project design and implementation.

49. *Need to Pay Greater Attention to Sustainability Issues.* More attention should be given to sustainability issues in project design. There is no single approach that will work in all sectors or projects, but much more emphasis must be given to recurrent expenditure requirements for operations and maintenance, to cost recovery if only partial in the beginning, and to institutional structures or implementing agencies and organizational frameworks. Policy reforms should be sought that are difficult to reverse, or undermine, that produce tangible benefits quickly and thereby establish a constituency of beneficiaries with a strong vested interest in the sustainability of the initiatives undertaken.

50. *Borrower Ownership as the Acid Test.* Many projects in Bangladesh have shown symptoms of incomplete borrower ownership and commitment to project objectives. Long delays in effectiveness, delays in appointing key staff or failure to take action on agreed policy measures are a few examples. More effort should therefore be made to strengthen the political commitment to necessary institutional change, and solid indicators should be sought that indicates this commitment. To proceed without this is a disservice to the people of Bangladesh, and often has negative externalities which affects the entire assistance program.<sup>2</sup>

51. *Define Crucial Objectives, Limit Goals, and Greater Selectivity.* In countries which have manifested continual problems of project implementation, it may be useful to limit project objectives to a smaller number of crucial policy changes and development impact objectives. Projects often tend to expand during the preparation and appraisal cycle simply because of the well intentioned desire to generate the maximum impact. However, as is shown on many occasions in Bangladesh this may be counterproductive resulting in disappointments for the Borrower and IDA. For adjustment type operations there is a strong case in Bangladesh for a sequence of single tranche operations, with policy reform enacted before Board presentation. Adaptable lending should also prove a positive instrument in dealing with sequential policy reform.

52. *Need to Improve Project Monitoring and Evaluation.* This issue has improved but there is further scope to evaluate development throughout a project's implementation. Often the focus of attention is on the physical completion of civil works or such like quantifiable targets, but more thought needs to be given to explicit outcome indicators, and these should be included as part of the project design. Projects often run over seven or eight years, and waiting for the ICR to provide a measure of effectiveness is too long.

## Sector Lessons

### *Social Sectors*

53. *Redefining the Role of the Public Sector.* In *family planning*, the Government should progressively reduce its role as primary provider of services as contraceptive prevalence increases and phase out its retailing of family planning services. The NGOs and private providers (allopathic physicians, pharmacists and even traditional practitioners) should be encouraged to gradually fill the gaps. In *family welfare and health*, a more effective role for government can also be defined, with a greater role for private providers which will increase the scope and variety of service alternatives available. In *education*, priority must be given to improving the quality of primary and secondary education. The role of the public sector in technical and vocational education should be limited, and programs that are developed need to be done so in collaboration with private employers, with costs primarily borne by the employer and trainees. In order to increase accountability, schools should eventually become the responsibility of reconstituted local governments, with teachers and administrators being employed by and responsible to these community based administrations.

54. *Increasing Emphasis on Accountability of Systems.* Administrators, managers and service providers in the health and education sectors are not held accountable to the communities

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<sup>2</sup> The Region has clearly recognized this need and in the past two years has sought much stronger Government leadership in project identification and preparation.

that they serve. Government has been very good at “campaign” activities, such as mobilizing communities, increasing school enrollment, vaccination and contraceptive acceptance. It has been less able in bringing about systemic improvements needed to upgrade school quality or monitoring performance of actual health care provision. This means giving greater financial and managerial autonomy to local units within the country’s administrative systems.

55. *Paying Greater Attention to Sustainability Issues.* Recent studies of sector finances suggest that budgetary constraints will limit achievement of Government goals for family planning, health and education. To relieve this constraint an amalgam of approaches will be necessary. The goals themselves may have to be adjusted to more realistically reflect the budgetary envelope, or recognize that budgetary allocations will have to be increased. Greater reliance must be placed on the private sector and the NGOs.

56. *Recognizing Ownership Issues.* All projects undertaken in the social sectors in Bangladesh exhibit symptoms of less than complete ownership of projects (delays in appointing key staff, delays in approving project proformas, failure to take action on agreed policy initiatives are a few examples). Stronger efforts must be made to strengthening the political commitment to institutional change and more effective procedures and control mechanisms in the provision of public services.

57. *Improving Monitoring and Evaluation.* Greater thought must be given to explicit outcome indicators of development impact, which can monitored during project supervision, given the very long gestation period of projects undertaken in the social sectors. In the past, greater attention was focused on physical implementation.

58. *Optimizing the Role of NGOs.* NGOs play an important role in health and education, both in piloting innovative approaches and in the provision of services. The GOB has become increasingly supportive of NGOs over the past decade, and has accepted them as partners in achieving national goals. Scope does exist for greater NGO/Government/IDA collaboration. There is also a lot of scope for private sector provision of social services and IDA needs to explore this further.

#### *Industrial and Financial Sector Development*

59. *Public Sector Ownership of Commercial Banks and Industrial Enterprises.* As has been shown in a host of countries, government ownership of commercial banks and industrial enterprises does not provide the appropriate incentive framework for either internal efficiency and speedy response to changing circumstances or sound allocation of credit within various parts of the economy. Reform of dysfunctional financial and SOE sectors must include at the outset a stated government intent to privatize, *but also* a widely publicized and monitorable action plan to implement this privatization. Stronger efforts also need to be made to strengthen bank supervision and enforcement of prudential regulations.

60. *Redefining the Role of the Public Sector.* For both the industrial and the financial sectors to achieve a more dynamic contribution to the country’s development, it is necessary that there is a clearer definition within the country of the appropriate and necessary role of the public sector. Improving the technical skills within the central bank and granting the necessary autonomy to enforce sound prudential regulation, improving the efficiency and impartiality of the legal system, liberalizing further the trade regime and the overall regulatory environment and

improving the quality of the supporting infrastructure are all solid examples of areas where the GOB should focus its attention. IDA can support this effort to improve the environment for private sector development, but should do so only when there is a demonstrated willingness to embrace a less interventionist public sector role.

61. *Pace and Sequencing of Reform.* The experience of the eighties and nineties in Bangladesh suggests that gradualism in introducing international standards and best practices in the banking system, or encouraging efficiency in the industrial sector, has a number of untoward side effects. The sense of urgency and commitment to a sustained reform program is undermined, and allows coalitions of narrow vested interests to thwart the reform intent. For the success of IDA's future assistance to Bangladesh, it is crucial that IDA seeks fundamental reform in bank supervision enforcement, legal debt recovery enforcement and closure of unviable SOEs, before proceeding in other areas of industrial and financial sector restructuring.

62. *Attention to Sustainability Issues.* Experience in Bangladesh suggests that multi-tranching of adjustment credits does not necessarily ensure sustained commitment to a long term reform agenda. It might prove beneficial rather to have a series of single tranche adjustment or sector operations, with each having more limited but crucial objectives, which may bring a sharper focus to the policy dialogue. This may also improve the process of consensus building necessary to ensure all stakeholders are committed to the reform effort and see the ultimate benefits. There also is a complementary approach to improve sustainability, involving greater participation of non-government stakeholders in sector work and project design thereby improving the sense of a "made in Bangladesh" solution.

#### *Energy and Infrastructure*

63. *The Appropriate Role of the Public Sector.* Much more consideration must now be given to the appropriate role of the public sector in the provision and maintenance of infrastructure in Bangladesh. This suggests that the private sector, both foreign and domestic, has a critical role to play in power generation and distribution, telecommunications, water and sewerage operations, ports and all forms of transportation. Project success has been enjoyed, and sustainability enhanced, the closer the service providers are to the constituency that they serve. Local authorities and municipalities should be given more autonomy and managerial discretion in the investment and maintenance of certain infrastructure, particularly rural roads.

64. *Attention to Sustainability Issues.* Experience in Bangladesh suggests that project design must pay much closer attention to sustainability issues in infrastructure projects. A recurrent theme throughout projects in the energy and infrastructure sectors is the sub-standard performance of responsible institutions. Tinkering with internal structures will achieve little unless attention is directed to changing the reward/sanction philosophy within the service providers. The much better collection performance of the Rural Electricity Boards, compared to the Dhaka Electricity Supply Authority, provides a vivid illustration of what might be achieved.

65. *Donor Assistance and Domestic Self Reliance.* A multitude of donors have provided assistance to all aspects of infrastructure development in Bangladesh. Much has been achieved in the last two decades. In some cases however, most notably the power and natural gas sub-sectors, the flow of concessional resources may have perversely undermined the perceived urgency for reform and domestic resource mobilization. While the power sector will need external resources, these should only accompany a demonstrated commitment to improve

institutional performance. This may suggest a more program approach by IDA in the power sector, with solid agreement with the Government on a wide range of policies, objectives, strategies and expenditures.

*Agriculture and Flood Control*

66. *Redefining the Role of the Public Sector.* As with other sectors, the public institutions supporting agriculture have proven to be resistant to change and service delivery performance has been poor. The positive achievements that have been made in the agricultural sector reflect the liberalization of input trade and greater private sector involvement in this trade. This has brought about significant technology transfer and suggests that in research and extension, public and private contributions are synergistic. Similarly, greater beneficiary participation, with local councils becoming more involved in the operation and maintenance of smaller flood control and drainage schemes has had positive results. This should be extended.

67. *Patient Policy Dialogue Can Help to Define Crucial Objectives.* IDA's role in coordinating efforts in developing a Flood Action Plan have been beneficial in a highly complex area with severe environmental ramifications. Perhaps in a more modest way, a similar approach may be useful in the development of agriculture diversification.





## 1. Background

1.1 Bangladesh evokes profound, moving impressions. Few countries have represented such a testing development challenge. The country is the most densely populated non-city state in the world, with limited natural resources and highly vulnerable to natural disasters. Famine is an ever present danger, with well over half the existing population of over 120 million having experienced periods of extreme food shortages. Per capita income is about US\$300 per annum, and half the population, 80 percent of which is rural, lives below a minimum poverty line. Emerging from a bloody war in 1971, the country's capacity to survive was then widely considered precarious.

1.2 They have been proved wrong. Bangladesh has survived, and progress has been made in economic and social development. Since independence, the economy has averaged about 4 percent annual growth, now approaches self-sufficiency in rice, and a host of social indicators (fertility rates, infant mortality, life expectancy, primary school enrollment and adult literacy) have shown steady improvement. Bangladesh has also been a pioneer in, and leader of developmental initiatives adopted successfully by other developing countries, such as village banking and oral dehydration therapy for children.

1.3 Nevertheless, for all these positive achievements, doubts remain as to whether the achievements already made can be sustained. Questions remain as to food security, the country's aid dependency and the fragility of the ecosystem.

1.4 The country has been undergoing a political transformation and development of a multi-party democratic system, encompassing also, establishment of a civil administration structure which has regularly been re-shaped and adjusted. This history of political development in the country has had a highly significant impact on the development path chosen and on economic outcomes. The early government of Sheikh Mujibur Rahman (1972-1975) the country's first President, nationalized most of the industrial, financial and larger commercial sectors, and espoused a strong, direct public sector role in the development process. For much of the eighties and nineties successive governments have sought to reverse the role of the State in direct economic activities, but this was not a sustained effort, with periods of gradual liberalization which faltered in the face of political or vested interest opposition. A full discourse on the socio-political milieu in Bangladesh, and its evolution over time, is beyond the scope of this CAR. Nevertheless, it must be recognized that political, military, trade union and bureaucratic issues all contribute to a complex governance framework. The dynamics of the interactions between these various groups is not always transparent and has certainly complicated the development process and made project design and implementation more difficult.

1.5 The World Bank has been involved in Bangladesh's economic development since Independence, however the early years (up to 1973) were colored by fundamental differences regarding the country's post-independence policy framework and the role of market systems. Since 1974/75 however, the World Bank and the Government of Bangladesh (GOB) have

engaged in an active development partnership, encompassing lending, policy advice and donor coordination. Over the past two decades, IDA has financed about a quarter of all foreign aid commitments to the country, covering all sectors of the economy, including import and balance of payments support. A massive volume of economic and sector work, which has been made available to the Government and the donor community, has contributed to policy reform and aid coordination.

### **The Development Challenge**

1.6 A fundamental weakness of the Bangladesh economy has been the low rate of investment and domestic saving. Dependency on external concessional flows has been high. In the country's first three years, Bangladesh received more aid than in all its 24 years as East Pakistan, and this aid reached over \$1.6 billion per annum by 1993. By this year, total aid disbursements amounted to about \$15 per person, or about \$90 per average family.<sup>1</sup> This assistance has encompassed the full array of types of foreign assistance; project aid, adjustment assistance and food aid.

1.7 Foreign assistance has covered the vast bulk of the Government of Bangladesh's Annual Development Plan (ADP) during the eighties, and only in the nineties has public domestic resource mobilization improved sufficiently to contribute more significantly to this ADP. It is perhaps not surprising therefore that foreign aid is itself a contentious issue. Many observers, both domestic and foreign, have expressed concern that the country's use of foreign aid has infringed on sovereignty issues and/or undermined self reliance in the development process.<sup>2</sup> Furthermore, this so-called aid dependence is sometimes concentrated in particular areas or sectors in which donors have expressed a particular interest. This may be particularly true in programs in population, health care and rural development, where all donors have had a major role in shaping development policy.

1.8 One thing is certain, administration of the entire aid program in Bangladesh has been demanding. Implementation of the ADP has always been difficult. Often 20 percent of a year's program remains unimplemented. As a result, the gap between commitments and disbursements has widened, and the pipeline backlog has grown. The backlog was over \$6 billion by the end of 1995. The reasons for this are various. The centralized bureaucracy has become even more centralized and hence overburdened. There is political involvement in the project administration processes, which in turn makes civil servants even more loathe to take decisions. And finally, Bangladeshi officials also complain that donor conditions and administrative requirements have become more demanding. A study undertaken by UNDP, found in a survey of 33 projects, that project implementation took on average 71 percent longer than anticipated. Combining time and cost overruns, this study concluded that such losses caused a 37 percent increase in total project cost.<sup>3</sup>

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<sup>1</sup> To put this in perspective, average per family aid receipt is equivalent to about six months' wages for the poorest adult workers.

<sup>2</sup> See Rehman Sobhan, "The Crisis of External Dependence. The Political Economy of Foreign Aid to Bangladesh", in *Experiences with Economic Reforms*, Center for Policy Dialogue, Dhaka, 1995.

<sup>3</sup> See UNDP, 1988. Also for a discussion of the increasingly centralized civil service administration and the burden this imposes see World Bank, Bangladesh: Government that Works: Reforming the Public Sector, 1966.

1.9 The objective of this report is to evaluate the relevance, efficacy and efficiency of IDA's assistance to Bangladesh over the past fifteen years. This will encompass an evaluation of lending and non-lending, including aid coordination. Analysis will cover all sectors of the economy, as well as the key themes of public sector management, institutional development and private sector development. Special attention will be focused upon poverty alleviation and the efforts that have been made to reduce the absolute number of the poor living below a poverty datum line.





## **2. Relevance of IDA's Country Assistance Strategy**

2.1 IDA has articulated a formal assistance and development strategy in the form of Country Program Papers, Country Strategy Papers, Policy Framework Papers and Country Assistance Strategy documents on a regular basis throughout the eighties and nineties. Furthermore, in the context of annual import credits up to 1986, there was a regular, short term review of progress in the implementation of this strategy and adjustments that might be needed. This represents, together with annual Country Economic Memorandums, an intense overview of development progress, and IDA's role in this, that remains unsurpassed in the Bank. The need for a regular, and relatively frequent review of development strategy in Bangladesh has been a function of the intense donor interest in the country, and the country's institutional weaknesses, particularly in the late seventies and early eighties, which inhibited creation of a detailed multi-sector development agenda that was consistent with macroeconomic stability and likely foreign aid flows.

2.2 At the beginning of the eighties, a transition from a martial law regime to the civilian government of President Ziaur Rahman was accomplished, with a convened elected parliament by March 1979. Development of an economic policy focus, and investment planning process, however was tardy, and the need to placate the poor in rural and urban areas, as well as the military, without alienating the urban middle class and rural elite which provided a large measure of the President's political support, meant that many of the Government's stated development goals were wildly unrealistic. Therefore, IDA's assistance strategy was crucial in not only encouraging the Government to establish priorities, but also assisting other members of the donor community to coordinate efforts that would create a critical mass of assistance in high priority areas.

### **IDA Strategy in the Early Eighties : Getting a Handle on the Country's Sweeping Problems**

2.3 In the FY80 CPP, IDA explicitly recognized that Government targets and expectations were unrealistic (for example to reduce fertility to replacement levels by 1985 and eliminate food imports by the same year), and hence faced a delicate task in the context of the overall policy dialogue, in the focus of lending and in aid coordination, of reducing expectations while maintaining support and enthusiasm over a medium framework period. To a large extent this was achieved by focusing on key, stated Government policies or objectives that were uncontroversial and clearly articulating constraints in both absorptive capacity and domestic institutional capabilities.

2.4 In the early 1980s, IDA strategy targeted four priority areas:

- Expanding the production of food-grains so that Bangladesh could secure a self-sufficient food supply.

- Improving domestic resource mobilization so that increasingly a greater share of the country's Annual Development Program (ADP) could be financed with domestic resources.
- Enjoining the Government to undertake the institutional and structural reforms necessary to improve project execution in key economic sectors—with both stabilization and project lending.
- Continuing and strengthening momentum on improving the country's social indicators.

2.5 *Expanding Food-Grain Production.* Severe food shortages in Bangladesh demanded a massive inflow of food imports, straining the country's balance of payments and thus its resources for productive activity. Periodic droughts and floods exacerbated the country's severe food shortages by straining the already poor distribution systems available to bring imported food and commodities to those in need. IDA and the Government recognized that expanding food-grain yields and the productivity of agricultural labor would be key to increasing income levels among the vast pockets of the poverty in rural areas and bringing a measure of food security to the country. Furthermore, as food aid was progressively replaced with local production, other donor resources would be freed up for capital-goods imports that would ultimately improve productivity and employment opportunities in other sectors.

2.6 The assistance strategy at this time proposed that 40 percent of lending would be directed to the agricultural sector, with emphasis on improving the flow of inputs into the sector. Strong emphasis was directed at improving the use of low cost minor irrigation, increased fertilizer availability and use and speedier introduction of high yielding varieties of grain seeds. Attention was also to be given to rural infrastructure, and civil works implemented by the relevant Government agency (the Bangladesh Water Development Board) in small scale flood control and drainage

2.7 *Improving Domestic Resource Mobilization.* With regard to improving domestic resource mobilization, even at this early stage in the assistance effort, the Bank recognized that external assistance could not finance the ADP indefinitely. Tax mobilization efforts were poor, and there were serious weaknesses in public investment programming. IDA proposed to assist the Government through an ongoing policy dialogue and sector work to improve this. At the time of the CPP in 1980, IDA recognized that there were significant problems with the SOEs, particularly jute and textiles and proposed projects to help restructuring inefficient public enterprises in these sectors. However, at this time IDA did not really appreciate the extent of weakness throughout the public enterprise sector, nor was there a clear articulation of what the solution should be. This was also true for the financial sector, with little appreciation of the burgeoning default culture and bad debt problems of the publicly owned banking system.<sup>4</sup>

2.8 During the first half of the eighties, IDA envisaged a continuation of program lending in the form of Import Program Credits, accounting for about 25 percent of the lending program, to help finance the structural imbalance in the external accounts and provide budgetary resources. These Import Credits were also envisaged to be the vehicles to bring about general macroeconomic and structural reform.

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<sup>4</sup> The Region notes with some justification, that at this early stage of IDA's involvement with the SOEs and the country's financial sector, it was unreasonable to expect a fuller understanding of both sectors' deficiencies. Certainly by the mid-eighties, IDA had a much stronger appreciation of the deep seated malaise in both sectors.

2.9 *Improving Project Execution.* IDA explicitly recognized that past technical assistance efforts to improve project execution through the use of foreign consultants and advisors had not been entirely successful. The strategy was to increase emphasis on institutional weaknesses, political involvement in all aspects of civil administration, public enterprises and banking through the ongoing policy dialogue in conjunction with appropriately targeted ESW.

2.10 *Sustaining Momentum on Social Progress.* IDA planned support for a family planning and health care network that had been launched with strong Government initiative. It planned a third population project, as well as credits for programs targeted at primary education and public school administration. The strategy also recognized that labor intensive export production offered good potential employment generation. Hence, the ESW program and the policy dialogue sought to improve the trade regime, reduce the burdensome regulatory environment and endeavor to cultivate a more private sector friendly environment.

### **Assessment of Relevance of IDA Strategy 1980 to 1985 : A Slow Start on the Development Agenda**

2.11 IDA's assistance strategy in 1980, while perhaps not as ambitious as the Government's development targets, was quite optimistic in its assessment of overcoming the development constraints facing the country. Growth was projected at about 6.5 percent per annum during the first half of the eighties, national savings would rise to about 10 percent of GDP, and investment would reach about 18 percent of GDP by mid decade. The reality unfortunately was somewhat different. Growth averaged about 3.5 percent per annum, national savings only reached 4.5 percent of GDP and investment only 13 percent. No progress was made in improving the efficiency of the public enterprises, and the already poor performance of the financial system worsened. *The fundamental weakness with IDA assistance strategy in the early 1980s was the belief that the Government would commit itself fully to removing the structural and institutional bottlenecks to economic growth.* IDA simply did yet not fully appreciate the depths of constraints and the limits of absorptive capacity deep-seated in the country's administrative system. The Government made only tentative, dilatory progress towards enhancing domestic resource mobilization and improving budgetary planning. Only as the 1980s unfolded did the Bank gradually realize that a core constraint in the economic development process was the public sector itself—one that was being supported with large transfers of donor funds, with weak commitment of the political leadership to serious reform.

2.12 While from 1982 there was large scale denationalization of public enterprises, the financial state of many of these enterprises was precarious, with large debts accumulated during their time under public ownership and responsibility for these debt obligations was never resolved. Furthermore, public resource mobilization efforts were dilatory, and the financial results of the remaining publicly owned enterprises worsened. Needless to say, IDA's early assistance strategy to restructure SOEs in the textile and jute sector was not successful.

### **IDA Strategy in the Late 1980s and Early 1990s : Trying to Adjust to Absorptive Constraints**

2.13 For all the difficulties in two core areas however, there were elements of IDA's assistance strategy that were highly relevant and contributed to development progress. The focus on increasing food-grain production was correct, and while it took almost a decade to fully

liberalize agricultural input trade, the priority given to this task was appropriate. Also, continued support of population and family planning programs was correct, despite problems of implementation in the field.

2.14 By the mid eighties it was becoming apparent that seeking to continually expand the size of external resource transfers to Bangladesh to address development needs and persistent balance of payments problems was counterproductive given severe absorptive capacity constraints and a general political unwillingness to address major reform issues. Hence efforts to improve project execution were to be intensified. Under the XIII Imports Program Credit (Credit 1655, for \$200 million), an array of measures were agreed with the Government on multi-year budget planning, project and contract approval procedures and improved monitoring and evaluation. At the same time it was realized that these IPCs were not effective instruments for bringing about sectoral or macroeconomic policy change. Hence IDA strategy shifted toward specific sector type adjustment operations, with more specific and targeted policy change parameters.

2.15 A further shift in IDA strategy in the mid-eighties increased the emphasis on energy sector projects, particularly in the oil and gas sector, in order to reduce the country's dependence on imported energy and accelerate development of the country's own gas reserves. The earlier emphasis on agriculture waned somewhat, partly as the already large existing project portfolio was delayed in disbursing, and absorptive capacity was limited. From past experience, it was recognized that seeking to restructure inefficient public enterprises in the absence of strong Government commitment was futile. As a result no further lending was envisaged to deal with these problems in the industrial sector. Rather IDA emphasized a speedier liberalization of the trade and investment regulation regime, and proposed to support this through sector adjustment lending and directly relevant ESW designed to illustrate constraints and actions that were needed to expand the role of the private sector in the economy.

2.16 Population and family programs remained a priority, as did primary health care, however the increasingly complex operations, with multiple donors, required increased supervision efforts hence the project implementation unit in the Resident mission was to be expanded with bilateral funded technical personnel. A change in education strategy occurred, with a much stronger focus on primary education and accelerating access to this education for females.

2.17 By 1986, it was apparent that the financial and commercial banking sector was in distress and urgent action was needed. ESW in the form of a comprehensive sector study, together with a sector adjustment operation, was the planned approach to bring about the necessary reform. The poor recovery performance of the DFIs finally convinced IDA that further line of credit type projects for both agriculture and industry served no useful purpose in the absence of very substantial institutional and system-wide reform.

2.18 Domestic resource mobilization was still a major problem, and IDA proposed an expanded program of ESW to cover public expenditure and tax reform. Also continued efforts in the policy dialogue were to be directed to reducing the size of public sector subsidies, particularly for fertilizer and the food distribution programs. It was recognized that the existing infrastructure was not being adequately maintained due to inadequate budget provisions, hence attempts were to be made through specific elements in the project lending and in the general policy dialogue to increase allocations for operations and maintenance.

## **Assessment of Relevance of IDA Strategy 1986 to 1990 : Recognizing Some Lessons but Not Others**

2.19 Some important lessons were learned in the early eighties which did manifest themselves in a revised assistance strategy for the country. There was a much greater need to address sectoral and macroeconomic constraints, with much stronger and more sharply focused policy conditionality than what had previously been achieved under the IPCs. Furthermore it was recognized that trying to deal with inefficient public enterprises in the absence of very strong Government commitment and political will was not productive. IDA's assistance strategy during this period also sought to create a more conducive environment for private sector development and deal with the distortions in trade, pricing, credit allocation and interest rates.

2.20 But, surprisingly, certain key lessons were not incorporated and similar mistakes and problems reoccurred. IDA continued to display faith that relatively minor administrative adjustments by the Government would hasten and improve project design and execution. The real nature of the governance problems within the central administration were not fully appreciated. Also, while recognizing on the one hand that dealing with public enterprises was a high risk exercise with a low probability of success in Bangladesh, the emphasis placed upon the energy sector, most notably oil and gas and industrial energy efficiency, which involved all state enterprises, was inappropriate. In fairness, these governance problems involved widespread corruption and poor accountability within the political framework. At the time, these were both areas in which the Bank had limited expertise and was not oriented to address these difficulties.

2.21 Obviously hindsight is always helpful in evaluating a past strategy, but the very slow, almost tortuous, progress made in liberalizing agricultural input prices and distribution systems was disappointing, given the high priority afforded grain self-sufficiency. The continued emphasis given to hastening this liberalization was highly appropriate and relevant.

2.22 One thing that is clearly noticeable in the strategy documents during this period is the greater realism in terms of expected development outcomes and economic projections. GDP growth projections were still somewhat optimistic, as were projections of the improvements in national savings. But given the massive flooding in 1988/89, which seriously affected agricultural output, these projections were very close to actual outcomes suggesting a much greater understanding of economic dynamics in the country.

2.23 The continued emphasis on population and family welfare programs, with much enhanced project activity in this area was relevant, and has been borne out by results to 1996. Also relevant was the shift and focus on primary education in assistance to the education sector. Sector work undertaken in the early eighties clearly showed that the economic returns to investment in primary education were very high indeed. Moving away from assistance to vocational training, higher education and administration training was appropriate given the very poor development outcomes up to 1986.

## **IDA Assistance Strategy 1991 to 1996 : Toughening Conditionalities**

2.24 It is readily apparent from a review of the CSP of 1992 and the CAS of 1995, that IDA's assistance strategy for Bangladesh hardened and became more focused on implementation and pursuing new operations only in areas where there was a manifestly strong Government

commitment. Clearly established performance benchmarks were established not only to mark progress on the development agenda, but also to determine the pace and areas of new IDA commitments. Specific Government actions were identified and quantifiable targets specified. The country assistance strategy emphasized a strong and sustained improvement in the environment for private sector development, an enhanced program of support for population and primary health care, a focus on overcoming the deficiencies in infrastructure, particularly power but only following a demonstrated commitment to improve cost recovery and reduce system losses, a continuation of support for primary education, with an enhanced effort to improve access of females to both primary and secondary education and a continued focus on rehabilitation of existing infrastructure such as rural roads and flood control and drainage systems.

2.25 Adjustment lending was curtailed to about 15 percent of the proposed lending program, and the sector operations undertaken in a very selective manner reflecting an assessment of the Government's willingness and capacity to proceed with a broad reform agenda in a timely manner. Earlier IDA efforts to encourage an improvement in public sector resource mobilization finally bore fruit in the nineties due predominately to a much improved revenue collection performance, but IDA recognized that a fundamental reform of the civil service structure was unlikely. Therefore, IDA adopted a strategy of redefining the role of the public sector, encouraging greater private sector participation in a greater array of activities that were normally the sole preserve of the public sector. Furthermore, IDA sought through its ESW program to develop a comprehensive reform agenda for public administration which included an increased role for other levels of government.

2.26 The 1995 CAS emphasized approaches to bring about speedier progress in absolute poverty reduction, and planned to work more closely with NGOs working in the country in developing the design of projects. In a number of areas, the Government has sought to involve NGOs in project implementation. In 1996, the Board approved the first example of such an approach with the Poverty Alleviation Project (Credit 2922-BD) which will channel funds through an autonomous non-profit organization to NGOs providing micro-credit to the very poor. This is a highly innovative project and suggests the general approach could be broadened to encompass other sectors. IDA is also seeking to support the development of funds to support private sector involvement in the power sector, and other potential infrastructure areas.

2.27 Environmental issues started to take on a greater prominence in IDA's country assistance strategy from about the mid-eighties. However attention to this issue was strengthened in the nineties, with a more comprehensive program of ESW and a more active dialogue on natural resource management issues. Completion of an Environment Strategy Paper provided a direct input into the Government's own National Environmental Action Plan, and IDA has sought to strengthen the capacity of local institutions charged with protecting the environment and monitoring environmental degradation. In particular the 1995 CAS seeks to have future investments in flood control and drainage only in the context of a strategic framework of national land and water planning.

#### **Assessment of Relevance of IDA Strategy 1991 to 1996 : A More Rational Approach**

2.28 Undoubtedly, IDA's assistance strategy in the nineties has become more relevant simply because of a less compromising approach to delays in policy reform or project execution and implementation. Furthermore the country assistance strategy has become much more realistic

about outcomes and in its expectations. In fact both the CSP in 1990 and the CSP in 1992 underestimated GDP growth, investment to GDP ratios and an improvement in national savings. Furthermore the risk assessments of the proposed strategies were much more conservative.

2.29 The country assistance strategies during this period displayed a greater appreciation of governance issues and how this affected project implementation and outcomes. There was also appreciation that while certain reform measures might be politically difficult, there was in fact no alternative but for the Government to proceed to tackle these difficult issues. The sector adjustment lending that did occur in the nineties has not been entirely successful, precisely because IDA did not follow its own strategy of addressing root causes and witnessing a demonstrated Government commitment to deal with known controversial issues. The financial sector provides an obvious example. Nevertheless, it is clear that IDA has learned the lessons of the eighties and is becoming more implacable in seeking clearly quantified performance benchmarks before proceeding with new operations.

2.30 The continued emphasis on population and primary education is entirely relevant, and seeking a speedier reduction in absolute poverty by utilizing more innovative methods of project implementation is also quite appropriate. If there is one criticism of the country assistance strategy in the nineties, it is that IDA has not attempted to go much farther in seeking alternative implementation mechanisms that increase accountability and a more immediate assessment of outcome. For example scope exists for rural local authorities to be more closely involved in maintenance of rural roads and minor flood control and drainage schemes.

#### **Refining Country Strategy Relevance : Lessons for the Future**

2.31 This assessment focuses upon the relevance and appropriateness of the articulated country assistance strategy for Bangladesh in the context of the time it was put forward. Bank-wide, strategies have become more sharply focused, with a far greater emphasis upon short to medium term impact rather than an emphasis on a broad based commitment and a simple transfer of resources. This is appropriate given the experiences in many IDA countries over the last two decades, and also allows for a much more realistic appreciation of outcomes and development progress.

2.32 Table 2.1 below provides an illustrative OED evaluation of the relevance of the Bank's assistance strategy for Bangladesh. What stands out over the ten criteria chosen, is that the Bangladesh country assistance strategy in the nineties has become more relevant and more realistic in its expectations. It might be argued that the more secure balance of payments and food supply situation in 1995 gives IDA a lot more leeway to take a less compromising position on policy reform and lending commitment than might have been the case in 1980. Given the much more precarious food and political situation pertaining in 1980, there is a lot of validity to this argument. Nevertheless, it is clear that IDA has a much more sophisticated appreciation of institutional limitations in the public sector in Bangladesh, and is seeking to circumvent them by more targeted interventions and alternative project implementation approaches.

2.33 Assessment of IDA's evolving strategy in Bangladesh suggests or reinforces a number of key generic lessons for all CASs.

- *Performance Benchmarks Should be Monitorable:* Country strategies become much more relevant and operationally useful if there are clearly defined and/or quantified way points in

both policy reform and outcomes. These benchmarks need to be very specific. This serves to gauge Government ownership and commitment, and thereby serves to define the most effective lending program.

- *The Lending Program Requires Flexibility:* Country assistance strategies should allow considerable flexibility in adjusting the lending program in response to progress in identified key reform areas.
- *Risk Assessments Should be Realistic:* The validity and relevance of country assistance strategies is greatly enhanced by pragmatic assessments of the difficulties of achieving progress in certain areas. This in turn makes risk assessments more meaningful. This also serves to add a more cautionary tenor to development impact expectations.
- *Past Experience Needs an Honest Assessment:* Before defining a future country assistance strategy, more attention should be directed to how effective was the last strategy. If objectives were not achieved, then the causes for this needs to be documented and what changes in approach will result in their ultimate achievement.
- *Institutional Capacity Assessments Should be Specific:* Inevitably country assistance strategies underestimate the complexity and time necessary to bring about institutional change or capacity enhancement. This is often not simply a technical organizational issue, but involves complex governance, and perhaps sociological issues, which are not amenable to speedy change. A greater appreciation and articulation of these governance issues serves to both reduce expectations and encourages ways to circumnavigate these institutional constraints.

**Table 2.1: Bangladesh - Relevance of IDA's Country Assistance Strategy**

<i>Issue</i>	<i>Period</i>		
	<i>1980-85</i>	<i>1986-90</i>	<i>1991-96</i>
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
Does Strategy Reflect Past 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
<b>Rating System</b>			
4. - Highly Satisfactory			
3 - Fully Satisfactory			
2 - Marginally Satisfactory			
1 - Deficient			



### 3. Strategy Implementation: Emphasis, Instruments and Efficiency

#### Lending

##### *Amount and Allocation*

3.1 IDA commitments to Bangladesh during the period under review (FY80 to FY96) amounted to \$5.965 billion and involved approval of 93 projects. For much of the 1980s per capita commitments averaged about \$10 per capita, although this fell dramatically in the nineties to about \$4.8 per capita. These levels of commitments on a per capita basis when compared to Bank-wide averages are rather low. Disbursements during the period totaled \$4.65 billion. From 1980 to 1985, disbursements to Bangladesh amounted to 9.1 percent of total IDA disbursements. From 1986 to 1990, this proportion rose modestly to 9.3 percent, however in the nineties Bangladesh's share has declined quite dramatically to 5.7 percent. This reflects absorptive capacity constraints within the country and the increasingly difficult institutional constraints which have impeded project execution. This also reflects hold-ups in certain key sectors (power) or policy based loans (Jute Sector Adjustment), due to the slow pace of key reforms or implementation of agreed reform actions.

3.2 For much of the eighties, adjustment lending constituted about a third of total commitments, with Import Program Credits every year from 1980 to 1986. The scale of adjustment lending has declined in the nineties to about 15 percent, and will undoubtedly decline further in the absence of key reform initiatives in certain sectors (e.g. finance). In terms of overall sector allocations the largest recipient of assistance has been the Agricultural sector which accounted for 20 percent of total commitments, followed by the energy and oil and gas sectors (15.3 percent), education (7 percent), and transportation (14 percent). Given the continued priority given to population and primary health care in all country assistance strategy periods, it is noticeable that commitments in this sector accounted for 4 percent of total commitments. Before reaching the conclusion that there is a major "disconnect" between articulated strategy and implementation, some caution is necessary. This is a sector that attracts a large number of donors, and IDA projects in this sector have involved a large number of cofinanciers and donor participation. As such the catalytic role of IDA in the population and primary health care sectors is very large indeed, and inferences drawn from commitments alone as to the priority accorded the sector by IDA are very misleading.

**Table 3.1: Commitments (by Sector) 1980-95**

<i>Sector</i>	<i>In Million of US\$</i>		<i>In Percent of Total</i>	
	<i>All Loans</i>	<i>Of Which Adjustment</i>	<i>All Loans</i>	<i>Of Which Adjustment</i>
Agriculture	1188.6	-	20	-
Education	411.6	-	7	-
Power	636.3	177.3	11	4
Industry and Finance	677.8	438.4	11	7
Multi-sector	1237.0	1141.0	21	19
Oil and Gas	453.0	-	8	-
Pop. 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	-
<b>Total</b>	<b>5965.4</b>	<b>1756.7</b>	<b>100</b>	<b>30</b>

*Source:* Financial Database.

3.3 The emphasis given to Agriculture in the lending program was appropriate given the stated high priority attached to an increase in food-grain production and the desire to improve food grain security and self sufficiency. Also the emphasis given to balance of payments support lending up to 1986 was necessary given large food and energy import requirements and the initially low export base. What is perhaps more curious however is the relatively high proportion of commitments made in the power and oil and gas sectors. Undoubtedly, there were serious shortages in power availability and access to power by the vast bulk of the population was deficient. Also rapid development of the country's natural gas resources was crucial to reduce the country's import energy dependency and thereby improve balance of payments sustainability. But this latter sector was an ideal candidate for private sector involvement, particularly from foreign investment sources and is was Government policies that inhibited this. Perhaps IDA's efforts should have focused on a more intensive policy dialogue to improve the policy environment surrounding the oil and gas sector, and reinforced this by a more restricted lending program.

3.4 The relatively high proportion of lending in the transportation sector is appropriate given the poor quality of roads, particularly rural roads, the importance of water borne transport and the inefficiencies within the country's main ports. This sector also includes the Jamuna Bridge Project, an infrastructure project that will have a profound impact upon the links between large portions of the country.

### Implementation

3.5 As noted in Chapter 2, and other parts of this report, implementation of projects in Bangladesh has been a persistent problem, affecting negatively implementation of IDA's development assistance strategy. These implementation problems have been difficult to overcome and have undermined the effectiveness of IDA's assistance efforts. Throughout the eighties the Disbursement Ratios for Bangladesh (averaging about 11 percent) were well below Bank-wide and regional averages. A concerted effort was made in the early nineties to solve the problem and this has borne fruit. The Disbursement Ratio reached 17.3 percent in FY96, and while still below the Bank-wide average of 18.8 percent, the gap had been dramatically narrowed. Further improvement occurred in FY97 with the disbursement ratio improving to 23.7 percent overall and 27 percent for project assistance.

**Table 3.2: Portfolio Ratings and Supervision Effort**

	Portfolio Ratings (average FY86-FY96)		Supervision Effort (Staffweeks/Project)		
	Avg. # Projects under Supervision	% of projects rated less than satisfactory <sup>1</sup>	FY86-89	FY90-92	FY93-96
Bankwide	1706	16.2	15.8	17.2	21.4
Bolivia	16	13.0	23.1	7.6	12.7
Tunisia	29	6.5	10.3	11.1	15.8
Cote d'Ivoire	17	13.4	14.2	16.1	26.2
Chile	14	5.2	11.3	11.8	13.5
Malaysia	18	2.0	8.4	25.1	9.0
Morocco	32	10.4	12.2	14.5	15.8
Colombia	28	21.0	15.9	17.3	42.8
Poland	15	18.7	---	18.6	22.9
<b>Bangladesh</b>	<b>38</b>	<b>23.0</b>	<b>26.17</b>	<b>29.9</b>	<b>32.9</b>

1. This is with respect to Implementation progress.

Source: PBD

3.6 The poor implementation performance of projects in Bangladesh is reflected in the high supervision effort and intensity that has to be undertaken by IDA. As can be seen from Table 3.2, Bangladesh has had to devote levels of supervision effort that are consistently above Bank-wide averages, or averages for IDA countries. These efforts have been progressively increased from the late eighties in order to deal with an ever increasing build up of undisbursed funds. These efforts, together with project cancellations, have brought positive results as witnessed by a decline in the number of projects rated as unsatisfactory in the Annual Review of the Project Portfolio. In FY80, 12.5 percent of the ongoing portfolio was given a problem rating. This climbed dramatically by FY86 to 29.5 percent, and stayed at this level throughout the remainder of the eighties. The proportion of problem projects has gradually declined during the nineties to 21.4 percent in FY96, which is still above Bank-wide averages. Even if the ARPP ratings were not entirely consistent in the rigor of evaluation of ongoing project performance, it is clear that

there are severe capacity and institutional constraints in Bangladesh and these problems may have got worse rather than better.<sup>5</sup>

3.7 One of the problems is the sheer size of the country's ADP. In 1996 there were 1100 projects in this development program, and the agency responsible for monitoring progress, the Implementation Monitoring and Evaluation Division (IMED) in the Planning Commission is simply overwhelmed. The Government realizes this and has sought to introduce systems for prioritizing the monitoring function, but ultimately the only solution may be to be a more selective and rigorous selection of projects for the ADP. Another problem affecting implementation are the onerous bureaucratic and administrative functions that are required to be followed at all stages of the project cycle, from conception to completion. Thus far, streamlining these procedures has proven to be resistant to change.

3.8 From 1980 to 1996, 63 projects have been reviewed and rated by OED. Of this number, 24 projects, or 38 percent were rated as unsatisfactory. This compares with a Bank-wide OED rating of 33 percent as unsatisfactory. With regard to sustainability, 35 percent of rated Bangladesh projects had a likely sustainability rating, compared to 45 percent Bank-wide. Finally with regard to institutional development performance, 36 percent of rated Bangladesh projects had a negligible institutional development rating compared to 24 percent Bank-wide.

3.9 In terms of sectoral performance, the industry and finance sectors stand out. Out of thirteen operations, only 3 (23 percent) had a satisfactory rating. The success rates for other sectors is as follows; agriculture 79 percent, energy 60 percent, education and health 66 percent, technical assistance 50 percent.

3.10 Clearly the outcome performance of IDA projects is a cause for concern. Chapters 4 and 5, discuss these outcomes and the efficacy of the Bank's country assistance strategy. Suffice to note at this stage, that this disappointing outcome reflects inherent difficulties in the overall policy environment in Bangladesh, the role of the public sector and its institutional capabilities. It also reflects poor project design driven by overly optimistic outcome expectations.

### **Economic and Sector Work**

3.11 The intensity of economic and sector work on Bangladesh has been at about the Bank-wide average over the past decade. The share of ESW in the total assistance effort for Bangladesh has been consistently higher however when compared to the South Asia Region. The sector work undertaken has been consistent with the stated country assistance strategy, with perhaps one or two exceptions (see paragraph 3.13 for a further discussion of this). An Economic Report has been completed every year of the period under review, and this has provided a foundation document for the annual Consultative Group meetings. Agriculture and flood control and drainage with 11 sector reports has led the sector effort, followed by Industry (7), Energy (6) and Education (5). From the mid eighties, sector work in the Financial sector (4) and Public Sector Management (4) has accelerated, which is in keeping with the identified problem areas and higher priority development constraints. A comprehensive Environmental Review was completed in 1991 and a detailed report on Food Policy was completed in 1992. Two Public Expenditure Reviews have been completed, the last in 1996, and a Tax Reform study was completed in 1989, again in keeping with the perceived need to improve public sector

<sup>5</sup> By the end of FY97, only 2 projects were classified as problem projects and both were close to closing.

resource mobilization. In the context of the 1994 CEM, a private sector assessment was undertaken.

**Table 3.3: Intensity of ESW**

<i>Country</i>	<i>ESW SYs</i>	<i>ESW as % of Total SYs</i>
Bolivia	3.6	18.3
Tunisia	4.2	18.7
Cote d'Ivoire	4.3	18.8
Chile	3.0	23.7
Malaysia	2.7	22.9
Morocco	6.3	19.9
Colombia	5.7	21.1
Poland	6.9	28.8
Philippines	8.3	23.5
Nigeria	11.2	21.1
<b>Bangladesh</b>	<b>12.7</b>	<b>21.8</b>
Pakistan	10.4	17.9
All Countries	476.7	22.0

*Notes:* 1. Countries are ranked according to population size.  
2. ESW SYs (Ec. and Sector Work Staffweeks) are yearly averages, based on data for FY86-96. SY data include borrower country-identified staffyears only.

*Source:* PBD

3.12 By and large the relevance, timing and quality of this sector work has been good. For example the Tax Reform study and the Environmental Review both fed directly into Government studies and strategy formulation very shortly after completion. Also the Financial Sector review completed in 1987, provided the foundations for the upcoming sector adjustment operation and provided a solid foundation for the policy dialogue. In recognition of the need to create one million new jobs every year, and a more intensive drive to reduce poverty at the lowest income levels, there has been a perceptible shift toward sector work that addresses employment, particularly in the rural areas, and issues related to micro and small level enterprises. Finally, in recognition that public sector administration is a key issue in retarding the effectiveness of the overall development effort, IDA completed a very comprehensive public administration study in 1996, which in form and content is on the cutting edge of Bank sector work in this area.

3.13 There are a number of anomalies however in the sector work program. The relatively strong emphasis given to the Industrial sector in the ESW work program is perhaps somewhat misplaced. This has changed in the nineties, but the sector work intensity directed toward this sector up to the mid eighties has not resulted in a commensurate reward in terms of a fundamental reform of SOEs or a greatly enhanced share of industrial output. A further anomaly has been the relatively limited amount of sector work in population and primary health care, given priorities attached to these areas over the past fifteen years. Of course a simple count of sector reports (2) can be misleading as a considerable amount of analysis is undertaken in the context of project preparation. Also, given the large donor interest in these sectors, it could well

be that others have been active in this area. Nevertheless it is the opinion of this review that scope does exist for more sector work in population and primary health care.

### **Aid Coordination**

3.14 Over 50 official donors provide assistance to Bangladesh, and about 26 of them participate as members or observers of the Aid Consultative Group which meets every year in Paris. This Group is chaired by IDA, and given that official aid covers about 80 percent of the ADP, the donor coordination function of IDA is a crucial one indeed and a vital part of the country assistance strategy. The scope and range of this coordination effort has expanded, most notably from the late eighties, and now encompasses broad groupings of donors that support broad sectoral investment programs under IDA leadership. This has been achieved for population and health, flood control and primary education, and efforts are currently under way to expand this sectoral coverage.

3.15 As there is a large permanent donor presence in the field, IDA in conjunction with the Government has organized Local Consultations Group (with 18 sub-groups) which meet on a regular basis in Dhaka to deal with common implementation issues with more immediacy. The Resident Mission has also expanded over the last six years, taking on a larger share of supervision and becoming more heavily involved in project preparation. The Resident Mission also organizes regular sectoral meetings in Dhaka, with other resident donors to discuss policy issues, sector work programs and project implementation.

3.16 By and large these donor coordination efforts have been effective, and have served to improve cross dissemination of sector work and knowledge and minimize "donor competition" at the sectoral level. Given each donors unique administrative systems and development assistance preferences this has been no easy task, but satisfactory progress has been made. Other large donors such as ADB have taken the lead in reform and assistance to certain sectors (railways and ports), and has supported IDA in other areas but in different parts of the country (rural electrification). Some of the donors with more modest assistance means and programs do sometimes express concerns that their own assistance efforts can be readily identifiable to those to whom they are accountable (e.g. Parliaments and Boards). IDA has been sensitive to this issue, which on occasion does create project design challenges. These issues are discussed more fully in Chapter 5.

### **Participation, Collaboration, and Awareness**

3.17 Traditionally IDA and the World Bank have interacted mostly with relevant government departments, and interested donors, and as a result has often been perceived from afar by observers and other actors in the development process. This has often led to misperceptions and misunderstandings which are counterproductive to the reform process or achieving the goals set in IDA's country assistance strategy. Since the beginning of the nineties, IDA has sought to remedy this situation in Bangladesh. The country has a very large, active and vocal NGO community and efforts have been made to engage these NGOs in the development process and assisting IDA in the design and appraisal of projects. The Resident Mission has taken a much more active role of outreach to the NGO community and has sponsored a study on strengthening the relationship of NGOs with the Government and their contribution to the development process. In rural development, primary health care, family planning and education, IDA has

actively used local NGOs closely involved at the village level to obtain beneficiary inputs into project design and effectiveness. Progress has also been made in involving NGOs in actual project implementation as witnessed by the recently approved Poverty Alleviation Microfinance Project (August 1996).

3.18 Attempts are also underway to bring about a better understanding of IDA's role in Bangladesh to a wider audience. Led by the Resident Mission, an external relations strategy is being developed to bring about greater awareness of IDA's role in the country, and IDA's country assistance strategy. This is to be targeted at all segments of the society, including the illiterate poor in rural and urban areas through appropriate modes of dissemination. A larger number of seminars and workshops have been undertaken with members of the local press and academic community, and attempts have been made to make IDA documents more accessible, including translation into Bangla summarized versions of project activity. This is a positive development and seems to be bearing fruit. During the field mission for this CAR, numerous commentators remarked on a greater "openness" on the part of IDA about its activities in the country. They also noted greater ease of access to documentary information about these activities. This final component of implementing IDA's country assistance strategy is a welcome addition that could ultimately enhance the quality of the overall policy dialogue with the Government.

#### **The Efficiency of IDA's Assistance Program**

3.19 Table 3.4 provides an indication of the overall efficiency of IDA's assistance program for Bangladesh. The primary measure is staffyears (SYs) spent per approved project. As can be seen from the Table, Bangladesh does not compare favorably with the outcome for the Bank as a whole. Even when we look at lending SYs per approved project, Bangladesh does not compare favorably with Bank-wide norms, and is almost 40 percent higher in terms of staff time spent. From the mid-eighties, lending completion staff time has consistently been higher than Bank-wide averages, and has also been consistently higher than averages for the South Asia Region. Adjustment lending cannot explain this difference. For example in FY93, for multi-sector lending, Bangladesh lending completion SYs were over twice the South Asia average, and 4.3 times the Bank-wide average.

3.20 Clearly this relatively less efficient IDA performance is indicative of the difficulties inherent in dealing with Bangladesh's assistance program, and reflects the weak institutional capabilities in the country. Project supervision is more demanding in the country, as reflected in the high average supervision effort shown in Table 3.2, as a result more staff time is taken up by this. Table 3.5 is also very illustrative of the difficulties in implementing the assistance strategy. Bangladesh requires over 50 percent more calendar time to take a project from project concept to Board approval. Taking a longer term perspective, lending completion SYs were much better in the early eighties. A number of reasons may account for this. The whole ADP was less onerous on the Government, with the result that the institutional capacities were not quite so stretched. Second, in program lending (the Import Program Credits) staff time was relatively low reflecting the relatively weak policy conditionality attached to these Credits. Third, the quality of lending, particularly in the Industrial and Financial sectors, was not very good.

**Table 3.4: Comparative Data on the Efficiency of Bank Assistance Programs**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Country	Total SYs	Lending SYs	No. of Projects	Commitment	(1)/(3)	(2)/(3)	(1)/(4) (%)
Bolivia	216.9	81.1	37	1067	5.9	2.2	20.3%
Tunisia	243.9	103.9	33	2278	7.4	3.1	10.7%
Cote d'Ivoire	249.7	106.1	32	2697	7.8	3.3	9.3%
Chile	139.3	56.7	27	2533	5.2	2.1	5.5%
Malaysia	131.5	53.9	22	1677	6.0	2.5	7.8%
Morocco	350.0	155.0	46	4969	7.6	3.4	7.0%
Colombia	283.7	108.4	34	3738	8.3	3.2	7.6%
Poland	262.5	111.1	23	4054	11.4	4.8	6.5%
Philippines	388.9	162.8	45	5382	8.6	3.6	7.2%
Nigeria	584.6	190.2	41	4423	14.3	4.6	13.2%
<b>Bangladesh</b>	<b>638.2</b>	<b>226.3</b>	<b>46</b>	<b>3947</b>	<b>13.9</b>	<b>4.9</b>	<b>16.2%</b>
Pakistan	638.6	236.9	63	6821	10.1	3.8	9.4%
All Countries	23801.7	8611.3	2550	229359	9.3	3.4	10.4%

- Notes:*
1. Countries are ranked according to population size.
  2. ESW SYs (Ec. and Sector Work Staffyears) are yearly averages, based on data for FY86-96. SY data include borrower country-identified staffyears only. Commitments are in US\$ million.
  3. Lending SYs is project development from identification to Board presentation; the other two main categories in the Total SYs are supervision and ESW.
  4. Column (5) is Total SYs per project; column (6) is Lending SYs per project.

*Source:* PBD, Financial Database.

**Table 3.5: Averaged Elapsed Time in Months for FY90-FY96 Approvals  
(IEPS to Board Presentation)**

<i>Country</i>	<i>Number of Approvals</i>	<i>Average IEPS-Appraisal</i>	<i>Average Appraisal-Board</i>	<i>Average IEPS-Board</i>
Bolivia	25	16.5	9.6	26.1
Tunisia	19	22.0	6.5	28.5
Cote d'Ivoire	23	28.1	12.5	40.5
Chile	15	16.6	7.9	24.5
Malaysia	8	14.9	12.0	26.9
Morocco	27	15.5	10.5	26.0
Colombia	21	19.7	14.3	33.9
Poland	23	14.9	12.8	27.7
Philippines	31	14.7	9.6	24.3
Nigeria	22	19.8	14.0	33.8
<b>Bangladesh</b>	<b>26</b>	<b>29.8</b>	<b>13.8</b>	<b>43.6</b>
Pakistan	36	18.1	13.5	31.6
<b>Total</b>	<b>276</b>	<b>230.6</b>	<b>137</b>	<b>367.4</b>

*Note:* IEPS=Initial Executive Project Summary.

*Source:* PBD

3.21 There is also another very interesting indicator of the difficulties of project assistance in the country. In the context of this CAR a review was undertaken of 83 completed projects, some of which were approved before the start of the CAR review period, of the time taken between Board approval and effectiveness of the Credit. Of the 83 projects, 59 (over 70 percent) took longer than three months to be declared effective, 45 (54 percent) took six months or longer, and an astounding 24 projects (29 percent) took nine months or longer to be declared effective. This is clearly indicative of administrative logjams in the country, perhaps a less than full commitment to the project, and deficient project preparation and design. This phenomenon also suggests an operational remedy for the Region. Namely that effectiveness conditions should be kept to a bare minimum, and most of the required actions should be taken prior to Board presentation. This may lengthen the time between Negotiations and Board presentation, but it would create a greater sense of urgency to complete requested actions given the "aging" of the Staff Appraisal Report or the Presidents Report and the relevance of the indicators and information shown therein.





## 4. Development Outcomes

### Macroeconomic Performance

4.1 Growth performance of Bangladesh has not been spectacular, and with the exception of flood or drought related years, has been in the range of 3.5 to 4.5 percent per annum. Investment, both public and private, has been deficient, especially when compared to both countries in the South Asia region as well as countries with similar per capita incomes. This investment performance has shown a modest improvement in the nineties, with a consequent modest improvement in the trend GDP growth rate. Viewed over a long trend period, two indicators suggest that some profound changes have occurred in the basic framework of the Bangladesh economy. First has been the remarkable decline in the relative share of agriculture

**Table 4.1: Bangladesh—Macroeconomic Performance**

	81-85	86-90	91-95
GDP Growth (%)	3.8	3.9	4.4
GDP Composition (%)			
Agriculture	42.3	37.6	31.4
Industry	13.4	14.3	17.4
Services	44.3	48.1	51.2
		(% of GDP)	
Consumption	98.7	96.7	92.3
Private	91.0	83.8	78.2
Public	7.7	12.9	14.0
Investment	13.2	12.5	14.6
Private	7.0	6.3	7.9
Public	6.2	6.2	6.7
Gross Domestic Savings	1.3	3.3	7.7
Gross National Savings	4.3	6.8	12.1
Current Account BOP	-9.2	-6.2	-2.9
Exports	7.5	8.6	13.5
Imports	19.9	17.4	19.9
Foreign Reserves (months of imports)	1.75	3.0	5.8
Consumer Prices (annual % period average)	11.2	9.6	3.4

in GDP from over 40 percent in the early eighties to 25 percent by the late-nineties. While the general trend is consistent with the growth of low-income countries (i.e., as industry and services emerge from a very low initial base), the magnitude of the change is somewhat puzzling. As noted in Annex II there does appear to be some serious anomalies in the agricultural and food grain output data in the nineties, which is inconsistent with fertilizer use and small scale irrigation prevalence. Hence the perceived relative decline in the importance of agriculture in the economy of Bangladesh, must be viewed with a great deal of caution

4.2 A much more encouraging and positive trend over the past fifteen years has been the steady and strong growth in domestic savings performance, notably private savings. A number of factors have contributed to this. The increasing monetarization of the economy, together with a broad extension of banking services into rural areas has facilitated the capacity for monetized savings. Coupled with this, high real administered interest rates on deposits has also been a positive inducement. Also, an increasing proportion of the population has been able to meet basic survival needs for food and shelter, resulting in a rising marginal propensity to save as incomes rise. Workers remittances from abroad have grown sharply in the latter part of the eighties and nineties, also adding to the pool of private savings. Finally, the public sector has also improved its savings performance in the last five years. An average annual current surplus of about 1.1 percent of GDP in the latter part of the eighties, had evolved into a surplus equivalent to 3.3% of GDP by FY95. This improvement was achieved entirely on the revenue side, with an improved tax collection performance and introduction of a value added tax system.

4.3 A vulnerable weakness of the Bangladesh economy has always been the balance of payments. Throughout much of the eighties, reserves were at precarious levels, given the country's susceptibility to the shocks caused by natural disasters, and very high current account deficits averaging over 9.0 percent of GDP in the early eighties were only sustainable through the flow of concessional foreign assistance. The causes for this persistent external imbalance were inherently structural, and little was done up to about 1984 to bring about a fundamental change in relative prices and reduce the distortions affecting the development of export earning opportunities. Food imports alone accounted for about 20 percent of all imports during much of the eighties, and it was only with increasing liberalization in input supplies to agriculture in the late eighties, that food grain output had grown sufficiently to reduce significantly food grain imports.

4.4 The severe flooding in 1988 brought this persistent problem into much sharper focus, and a comprehensive stabilization and liberalization exercise was launched supported by the IMF, IDA and other donors. From 1989 to 1994 there has been a sustained improvement in overall macroeconomic management, as well as a sustained period of structural adjustment and liberalization. As a result of these efforts, the balance of payments performance has improved dramatically, foreign reserves reached historically high levels, inflation was also at a historic low, and, as noted above, there was a strong improvement in national and domestic savings.

4.5 Growth in exports has been very strong in the nineties, led by ready-made garments and other non-traditional products. Export values in 1995 were equivalent to over 17 percent of GDP, rising from just over 8 percent of GDP in 1988. In part this has been due to a significant decline in the real exchange rate in the mid-eighties, which continued through the nineties. Also significant has been a progressive liberalization in the trade and investment regimes, which again, accelerated in the early nineties. For example, prior to 1990, unweighted average nominal protection was 88.6 percent. By 1996, this had declined to 24.6 percent. Undoubtedly, the

growth in ready-made garment exports from almost zero in 1982 to over \$2 billion by 1995 has been a notable achievement, and is indicative of what can be expected of Bangladesh in relatively labor intensive, light manufacturing activities. To date, this potential has not been fully realized, and significant investments in consumer electronics, consumer durables and other consumer products have not occurred as has been the case in other parts of South Asia or China. This reflects the country's infrastructure constraints (particularly power) and still onerous bureaucratic and administrative requirements, as well as perceived political uncertainties by foreign investors.

4.6 One area of macroeconomic stabilization and adjustment that requires further attention is fiscal performance. Progress has been made as noted earlier, in improving central government savings performance, but the overall budget deficit remains high (6.8 of GDP in 1995). A major problem during the eighties and early nineties has been the poor performance of the State Owned Enterprises (SOEs). By 1991, gross losses (that is, the total losses of the loss making firms) reached a staggering 2.1 percent of GDP, and while progress has been made in reducing this, the state enterprise sector, including utilities, continues to be a drain on the economy.

4.7 While Bangladesh has gone through periods of privatization, Government and policy makers have been slow to fully accept that the private sector has a crucial role in the development of the country's infrastructure or primary resources base (e.g. natural gas). Despite official announcements, limited or no progress has been made in private sector investment in power, energy, telecommunications and transportation. At the time of independence in 1971, the development path chosen borrowed much from the earlier path chosen by China. Ironically, in the eighties and nineties, China has pioneered foreign private investment in power, and other sectors, and actively encouraged foreign private inflows into all aspects of industry and manufacturing. Bangladesh needs to do the same.

**Table 4.2: Bangladesh—Fiscal Performance (% of GDP)**

	86-90	91	92	93	94	95
Overall Budget Deficit	-7.4	-7.2	-5.9	-5.9	-6.0	-6.8
Revenue	8.8	9.6	10.9	12.0	12.2	12.1
Expenditure	16.3	16.8	16.8	17.8	18.1	18.9
Current	7.9	8.7	8.3	8.9	8.9	8.8
Annual Development Program	7.1	6.2	6.3	7.1	8.4	8.6
Gross Losses of Public Enterprises	1.1	2.1	1.9	1.1	0.8	NA
Net Losses of Public Enterprises	0.8	1.8	1.6	0.7	0.6	NA
Foreign Financing	7.0	6.2	4.9	5.6	4.9	4.9

### Poverty Alleviation and Human Development

4.8 While GDP growth performance during the eighties and nineties has not been spectacular, good progress has been made in improving the general well-being of the population. With aggressive immunization programs, particularly from the mid-eighties, infant mortality has declined and life expectancy improved. Population programs, again from the mid-eighties, with strong Government commitment have been very successful in reducing fertility and curbing

population growth rates. Unfortunately, large segments of the population still live a precarious existence. But as seen in Table 4.3 below, the proportion of the population with a daily calorie intake below 1805 calories has declined significantly.

**Table 4.3: Bangladesh—Social Sectors**

	81	86	90	94
Infant Mortality (per 000 live births)	111.5	116.0	94.0	77.0
Life Expectancy (yrs.)	54.8	55.2	56.0	58.1
Fertility per woman	3.2	3.3	2.9	2.4
% population with daily calories intake below 2122	73.2	51.7	47.5	46.0
% population with daily calorie intake below 1805	50.1	21.7	28.0	NA

#### **Family Planning, Health, and Nutrition**

4.9 IDA operations, by supporting expansion of health infrastructure and trained staff, as well as policy, and institutional improvements, have facilitated achievement of some significant positive outcomes in family planning and health. Over the past 20 years, Bangladesh has built up an extensive health infrastructure; the country has 3,775 family welfare clinics or health sub-centers (rural dispensaries) at the union level and 349 Thana (sub-district) health complexes. These are at least nominally well staffed with medical and health personnel. A network of 5,000 salaried family welfare assistants and health assistants carries out outreach services in the villages, with domiciliary visits and monthly fixed sites. In addition, NGOs run a number of health facilities in different parts of the country. External assistance has been accompanied by or facilitated rising total Government expenditures on health and family planning, indicating its growing commitment.

4.10 Family planning services are now widely available. Field workers, both government and non-government, play the most important role. The contribution of physicians, private clinics and traditional practitioners remains relatively small. There has been a rapid increase in contraceptive prevalence under socio-economic conditions that would not normally have been conducive to acceptance. Fertility has declined rapidly over the past two decades. People in large numbers continue to express their willingness to have small families and to delay first childbirth. The Contraceptive Prevalence Rate (CPR) has reached 45 percent and knowledge of contraceptive methods is widespread, although varying by groups. The CPR has risen from 8 percent in 1975 to 45 percent in 1993, total fertility has declined from around 7 to 3.3 and the rate of population growth has edged downward from over 3 percent to around 2.2 percent.<sup>6</sup>

4.11 Infant mortality has begun to drop markedly, falling from over 140 in 1971 to 88 by 1994, primarily as a result of the Government's expanded immunization program (EPI).

<sup>6</sup> WHO, "Reproductive Health Care in Bangladesh: A Review of Recent Data and Some Proposals for Future Strategies and Activities", March 1996.

Between 1985 and 1994, the proportion of children immunized against six major childhood diseases increased from 2 to 62 percent. The EPI, with strong support from UNICEF and WHO, has relied on a large-scale program of social mobilization involving government workers, NGOs and the media. The rapid spread of Oral Dehydration Therapy (ORT) to treat diarrhea, developed by the International Center for Diarrhea Disease Research, Bangladesh, has also contributed to the decline in child deaths. In addition, the incidence of malarial cholera and typhoid have been reduced and smallpox has been eradicated. There has also been a modest decline in maternal mortality over the last five years, probably reflecting better family planning services and wider administration of tetanus toxoid.

4.12 Despite these achievements the family planning and maternal and health services have a number of serious weaknesses. Internal efficiency of the system is low because of management, staffing and logistical problems. Some facilities are underutilized, while others are overcrowded. Contraceptive use is increasingly skewed toward more expensive, less efficient temporary methods. Family planning is hampered by the lack of integration with the health services, interruptions of contraceptive supplies, insufficient travel and daily allowances for field staff and needless constraints on the operations of NGOs. The quality of health care is perceived to be poor, drugs are often in short supply, and there is a general sense that medical staff are indifferent to patient concerns. A 1994 study of 40 sub-centers found that patients were adequately examined in only 37 percent of cases and the average consultation lasted less than a minute.<sup>7</sup>

## **Education**

4.13 The increased targeting on vulnerable disadvantaged groups and primary education that occurred from the mid-eighties has had positive results. After stagnant primary school enrollment for almost thirty years, gross enrollment rose from 55 percent in 1985 to 63 percent in 1990. Attendance of girls, particularly in the rural areas, has increased, and female enrollment in secondary schools grew from 24,068 in 1992 to 44,569 in 1994. The enrollment rate for girls in secondary schools increased from 28 percent in 1980 to 42 percent in 1993, and is now about the same as for boys. Literacy and non-formal education programs presently cover about a million students in all age groups, and 75 percent of these services are delivered by NGOs.

4.14 Furthermore Government commitment to education has increased. The under-funding of education has been reduced, as education outlays have been increased from 7.9 percent of the budget in 1980 to 10.3 percent in 1990 (education represented 9.6 percent of the budget in 1997). Infrastructure and teaching staff have expanded. There are now about 45,000 primary schools and 11,000 secondary schools in Bangladesh. According to GOB statistics, there now are about 190,000 primary school teachers serving 12.3 million students. The increase in school capacity and number of teachers has made it possible to accommodate a rapid increase in enrollment and gross enrollment rates. During 1980 to 1990, primary school age population increased by 19 percent, while school enrollment increased by 50 percent.<sup>8</sup>

4.15 Despite the achievements in general education, access to primary education remains a problem for the poorest groups and the quality of education delivered is less than satisfactory.

<sup>7</sup> Zahan S, "Services at Thana Health Complexes Unsatisfactory". Financial Express, Dhaka, March 20, 1994.

<sup>8</sup> World Bank, "Bangladesh: Mid-term Review, General Education Project", January 1993.

Furthermore the educational attainment of women in Bangladesh remains one of the lowest in the world. According to the 1991 Census, the literacy rate for females over the age of five was only 20 percent compared for 35 percent for males. The 1991 Education Expenditure Review reported the completion rate for the five year primary education program was only 43 percent.

**Table 4.4: Bangladesh—Education Comparators**

	<i>Gross Enrollment Rate</i>			
	<i>Adult Illiteracy</i>	<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>
Bangladesh	65	73	19	4
India	52	98	44	
Nepal	74	86	30	6
Pakistan	65	46	21	3
Sri Lanka	12	108	74	5
Low Income Countries	40	101	41	3
World	33	102	52	17

*Source:* World Bank, Education Expenditure Review, Green Cover Report No. 15521 of July 10, 1996.

4.16 Internal efficiency of the school system is low, reflecting high dropout and repetition rates. It takes an average of 8.7 years of teaching to produce a single graduate of the five year primary cycle. This inefficiency reflects the low number of classroom hours, poor quality and absenteeism of teachers and lack of system accountability. Retention rates in both formal and government non-formal primary education compare unfavorably with programs sponsored by NGOs. There are a large number of community schools, with stronger community involvement, however, the quality of the teaching staff is relatively low.

4.17 The quality of education is still deficient; the curriculum lacks relevance, textbooks are outdated, teachers poorly trained and supervised, logistical support weak, and buildings are in poor condition. Instruction time per day is 2.5 hours per day in grades 1 and 2 and 4 hours per day in grades 3 through 5, the lowest in South Asia. In reality actual instruction time is much less according to observers in the field. Access to education remains inequitable, especially for the rural landless, urban poor and girls. This is partly because the real cost of utilization of "free" education to consumers is high. Time costs of having children at school may be considerable and direct private costs of education are high.

### **Industry and Finance**

4.18 Given changes in Government industrial sector policy in 1982, a foundation was established for some promising growth in the manufacturing sector, particularly the non-traditional sectors and the growth and diversification of exports.<sup>9</sup> Performance of the sector during the eighties was disappointing however. Real growth averaged only 2.6 percent per annum between 1981 and 1990, below GDP growth of 3.2 percent per annum. New private

<sup>9</sup> For a full contextual background on the industrial and financial sectors, please refer to Annex III, page 100.

investment was stagnant throughout much of the period, and the SOEs continued to perform poorly. In part this uneven growth was affected by floods (1988), a sharp fall in jute prices (1986) and a variety of political and labor disturbances throughout the period. However other policy constraints have combined to thwart the growth of the private manufacturing sector. These include:

- A high cost of capital and access to credit has been difficult for small manufacturing enterprises.
- The Government's policy of supporting "sick" private and public industrial enterprises, has weakened the banking system, and this lack of "exit" for insolvent firms has weakened stronger competitors.
- Despite some trade policy reform, the manufacturing sector throughout the eighties was highly protected and oriented toward the domestic market. This inward focus contributed to poor quality and reliance on a small domestic market which can grow only as fast as disposable income.
- Despite some denationalization, the large degree of continuing public sector ownership in several large manufacturing sub-sectors such as textiles and jute has inhibited investment and technological progress.

**Table 4.5: Bangladesh—Manufacturing Performance ( percent)**

	<i>FY73-80</i>	<i>FY81-90</i>	<i>FY91</i>	<i>FY92</i>	<i>FY93</i>
Growth Rate	7.8	2.6	2.4	7.3	8.0
Share of GDP	12.0	10.1	9.8	10.1	10.4

4.19 Despite the disappointing overall performance of the industrial sector, some positive and promising structural changes did occur, most notably in the non-traditional export industries of ready made garments, frozen fish and shrimp, leather products and natural gas based fertilizers. These sectors registered an annual average growth rate of 11 percent from 1982 to 1990. Furthermore, throughout the decade good progress was made in the diversification of exports away from a declining world jute market, the country's main export product. Ready made garments for example grew from almost zero in 1982 to over \$700 million by the end of the decade.

4.20 Bangladesh still has a small and relatively underdeveloped financial system. The range and diversity of institutions is narrow and the financial products available are limited in scope. The sector contributed 2.1 percent of GDP in 1989, which declined to 1.8 percent in 1992. Development of the capital market has been slow, and institutional and regulatory frameworks were weak. Domestic savings rates are low compared with the country's neighbors (Bangladesh 7 percent, Pakistan 17 percent, Sri Lanka 19 percent and India 21 percent).

4.21 The financial sector has been dominated by the Government following the nationalization of the commercial banks in 1971. The quality of financial intermediation has been very poor, and loan recovery performances steadily deteriorated throughout the eighties and early nineties. By 1985, it was estimated that nearly 30 percent of the NCB's loan portfolio was impaired by overdue repayments.<sup>10</sup> This percentage was based upon loan classification norms that were well below accepted international prudential standards. Financial deepening (Money/GDP) occurred throughout the eighties, with the M2 ratio climbing from 19.6 percent in 1980 to about 28 percent in 1989. However, this was still low by standards in the neighboring countries.

### **Energy and Infrastructure**

4.22 Bangladesh is one of the lowest per capital energy users in the world, despite a three fold increase in per capita electricity consumption over the last decade and a half. Between 1980 and 1993 the installed generating capacity has tripled from 822 to 2,608 megawatts, or about three times the rate of GDP growth. This is not an insignificant achievement, however, massive investments are needed just to keep pace with present demand growth. In spite of this substantial growth, only about 14 percent of the population is served with electricity. Estimates suggest that generating capacity needs to be increased by almost 1,200 megawatts by the turn of the next century. The provision of adequate electricity is hampered by having over 25 percent of capacity out of service awaiting rehabilitation of service, and having one of the highest number of employees per consumer in the world. There is frequent loadshedding, and a massive system loss of over 35 percent due mainly to illegal connections and/or corrupt billing practices.

4.23 Access to basic infrastructure such as power supplies, is unavailable to nearly 80 percent of the population. Only about 50 percent of the population in urban areas has access to safe water, and telecommunication penetration (at 2 lines per 1,000 people) is still amongst the lowest in the world. The country has made considerable progress in road transport over the past two decades, with the total road network increasing by over two hundred percent to nearly 14,000 kilometers. This road development, however, has tended to focus more on national and regional highways, rather than rural feeder roads connecting rural markets. The rail network has declined in importance as both a mover of freight and passengers. This is a result of the expansion in road traffic, but is also a function of poor management. In the eighties, rail freight traffic declined by 20 percent.

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<sup>10</sup> Watanagase, Tarisa, "Banks in Distress - The Case of Bangladesh", IMF Working Paper, September 1990.

**Table 4.6: Bangladesh—Comparative Overview of Infrastructure Provision**

<i>Indicator</i>	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>Philippines</i>	<i>Thailand</i>	<i>Malaysia</i>
% Households with Electricity	12	54	3131	33	46	43	64
System Losses % of output	35	19	24	18	19	11	16
Population with safe access to drinking water (%) (country wide)	78	73	55	60	81	77	78
Telephone Density Lines/1000	2	8	16	12	10.3	31	111.3
Paved Road Density km/million persons	59	893	229	536	242	513	NA
Percent Paved Roads in good condition (%)	15	20	18	10	31	50	NA

*Notes:* 1. Data generally pertains to the years 1990-94.

2. Sources for data: The World Development Report 1994. A survey of Asia's Energy Prices, and International Telecommunications Union (ITU) reports.

## Agriculture, Food Security, and Flood Control

4.24 Agricultural growth during the period under review (1980 to 1996) has not been spectacular averaging about 2.1 percent per annum, or at about the same pace as population growth. This result is curious given the large increases in fertilizer use, introduction of high yielding seed varieties and more widespread irrigation.<sup>11</sup> Other data suggests that agricultural production has been growing faster than suggested by the GDP calculation. For example, during the period 1990 to 1995, fertilizer use increased by 36 percent, minor irrigation (as measured by shallow tube wells and low lift pumps in operation increased by 101 percent, yet the stated foodgrain production increased from 18.7 million tons to 19.1 million tons (2%).<sup>12</sup> Furthermore data from the Household Expenditure Survey conducted in 1991/92 showed that per capita intake of calories from cereals increased by 8 percent from 1984, and that the share of the food budget going to cereals declined from 58 to 50 percent. Given some of this proxy data, unofficial estimates suggest that agricultural growth has been averaging 1 to 2 percent higher than population growth. What is clear is that by the early 1990s, considerable progress has been made toward achieving rice self sufficiency.

4.25 Rice self-sufficiency has been attained in years of normal weather. However, in the absence of the development of export markets, domestic rice prices fall sharply each time self-sufficiency is reached undermining incentives for further growth. Therefore, attention must be given to the development of rice exports as well as crop diversification into higher value items. While recognizing that crop diversification is demand driven, there is a role for dissemination of alternative crop possibilities. This in turn will require efforts in extension and technology transfer using government and non-government agencies.

4.26 In 1980, input supplies and prices were controlled by the Government, and output prices, particularly for foodgrains, were also controlled in part by procurement policies and food distribution programs. The country has benefited from the so-called Green Revolution, but at a somewhat more modest pace than that experienced in other countries. In part this was due to the inefficient distribution of inputs (fertilizer and irrigation), but with the introduction of low lift pumps and shallow tube wells this situation started to change. By the end of the eighties, with complete liberalization of the market for irrigation equipment and fertilizer, which increased availability and lowered prices, the sector enjoyed some periods of very robust growth despite severe flooding in 1988 and 1989. Unfortunately since 1995, there has been backsliding on the liberalization of distribution and pricing of urea based fertilizers.

4.27 One cannot discuss agriculture in Bangladesh without discussing flood control and drainage. During the annual cycle of flooding, the three main rivers engulf almost two thirds of agricultural land, and not always in a completely predictable manner. This annual flooding and

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<sup>11</sup> Bangladesh has three growing seasons, and hence three rice crops per year. "Ans" is rice planted at the start of the wet season, and harvested while the water in paddy fields is still quite shallow. "Aman" rice grows in the deep water and is harvested at the end of the wet season. "Boro" rice is planted and harvested during the dry season and hence is dependent upon irrigation. The land area which is triple cropped increased between 1985 to 1991 from 1.4 to 2.3 million hectares.

<sup>12</sup> See O.D.K. Narbye "Internal Inconsistencies in Agricultural Statistics", Bangladesh Agriculture: Performance and Policies, UNDP, Dhaka, 1989.

retreating of the rivers, known as *barsha*, is a central part of rural life and the agricultural system providing water, soil nutrients and recharging the aquifer for use in the dry season. The Government and donors have sought to make this flooding less lethal, and at the same time improve agricultural productivity. Progress on this has been mixed.

4.28 Early emphasis was on the construction of massive systems of barrages, embankments and canals with support from the donor community. However technical problems soon manifested themselves, with controversy as to how to “manage” this flood water persisting still. For example siltation raises the river bed, necessitating higher embankments, which raises the lethality of flooding if these embankments are breached. Also there is the problem of drainage. Common structures are “polders” which endeavor to completely seal off a compartment of land, using embankments, from flooding. However, heavy monsoon rains create excess water in the polder and need to be drained, requiring sluice gates which require perpetual maintenance or the land becomes waterlogged. And the siltation problem persists outside the polder, further aggravating the drainage problem.

4.29 This is not to suggest that many of these externalities with regard to flood control programs were not known in the early eighties. They indeed were, however a consensus view was never achieved and civil works proceeded. But the massive floods in 1988, with the loss of over 2000 lives brought the issue of embankments into a much sharper focus. A host of conflicting proposals were put forward, ranging from massive embankments to more modest river bank erosion protection. Following a G-7 meeting in London in 1989, there evolved a Flood Action Program (FAP) designed to bring together a series of studies and activities that would eventually culminate into one coherent set of proposals. The bulk of the FAP are studies, presided over by the Government’s Flood Plan Coordination Organization, which is in turn advised by a Panel of Experts coordinated by the World Bank. Progress toward a consensus as to what should be done, other than the studies, has been slow.

### **Summary**

4.30 In sum, therefore, the eighties and nineties in Bangladesh have witnessed progress in economic and social development, albeit not at a pace one might prefer. Undoubtedly, the pace of reform has accelerated from the late eighties, and this has resulted in an improved investment and commercial environment. But in contrast to other countries in the region and in Asia, Bangladesh has been tardy in limiting the role of central government in all aspects of economic development and focusing upon creating a more dynamic investment environment. Employment creation remains a central challenge. There is no shortage of entrepreneurship or individual ingenuity in the country, but Government both at local and central levels has yet to define the proper balance of support and intervention and creation of a suitable enabling environment that reduces transaction costs and allows this entrepreneurship to flourish.





## **5. Efficacy of IDA's Assistance Strategy : Overall Assessment**

5.1 As one of the poorest countries in the world, an assessment of development progress and achievement in Bangladesh is always going to be conditioned by the understandable desire to reduce absolute poverty and human hardship as speedily as possible. In other words, expectations will always run the risk of being overly optimistic and ahead of what realistically might be expected. Complex political, social and economic factors all serve to constrain the development process, and while identified, are not always so easy to overcome. This in turn results in a degree of impatience and frustration on the part of all those involved in the country's development, and can often lead to over hasty generalizations and suggestions to accelerate progress.

5.2 Furthermore, in assessing the effectiveness of a single agency's participation in this process, no matter how large an involvement, it is vital to remember that there are other agencies involved. Establishing a counterfactual scenario, where there was no IDA involvement is not technically possible. And measuring IDA's performance without an assessment of the performance of others involved in the development effort may ascribe to IDA a capability and independence of action which it does not enjoy.

5.3 Over the past decade and a half there has undoubtedly been progress in both economic and social development. While economic performance has not been spectacular, the macroeconomic situation in 1996 is a lot less fragile than in 1980, and the more rapid growth performance of the nineties is suggestive of what can be achieved with ever more determined efforts to overcome constraints and create an optimal policy environment. Furthermore, a host of social indicators have shown steady improvement which should also serve to encourage a redoubling of efforts to bring about further improvement. IDA has made a positive contribution to this progress and contributed to fundamental changes in the Bangladesh economy.

5.4 At the start of the eighties, IDA's fundamental task has really been to convince policy makers that while the public sector has an important role in the development process, the main dynamic engine for economic development are markets and private initiative. This process of dialogue is ongoing still, and IDA can claim only a partial success in this endeavor. Progress has been made, most notably from the mid eighties, in liberalizing the trade regime, investment regulation, distribution of agricultural inputs and access to foreign exchange. But this progress has been tortuously slow, and successive Governments have never fully embraced the notion that the private sector needs to be encouraged rather than constrained. In many respects authority and decision making is more centralized today than it was a decade ago, and accountability correspondingly diminished. Examples abound. Deficient service delivery in rural clinics and hospitals, inadequate or completely absent maintenance of critical infrastructure such as flood control and drainage systems, massive system losses in power generation and distribution and highly inefficient ports are but a few.

5.5 In the context of *Macroeconomic Stabilization and Adjustment* IDA has taken a secondary role to the IMF, although a prodigious amount of good quality ESW has contributed to the overall policy dialogue. One area where IDA has taken a strong stance has been on public domestic resource mobilization. Progress on this throughout the eighties was slow. But with appropriate sector work (Public Expenditure Reviews and a Tax Reform study) good progress has been made in the nineties, and macroeconomic management has improved. The Government is now making a contribution to the ADP from domestic fiscal resources, but much more needs to be done. In this context, it can be said that IDA has contributed to reducing the country's *aid dependency*. The Import Program Credits which fully disbursed by mid -1988 were not very effective mechanisms for bringing about fundamental policy change, and their discontinuation was appropriate if somewhat late. In the early eighties however, given the country's very low reserves and ability to import essential food and oil, it is debatable whether IDA's structural policy reform stance should have been less compromising with much stronger conditionality contained in the IPCs.

5.6 IDA's *Country Assistance Strategy* became more sharply focused, more relevant and more realistic in the nineties. After a decade of disappointments and deteriorating implementation performance this is perhaps not surprising. The improving macroeconomic position has provided more opportunity to suspend activity in a particular sector where strong policy disagreements exist. Notwithstanding this however, IDA now manifests a much more sophisticated appreciation of institutional limitations in the public sector. And most importantly, is seeking to circumnavigate them by more targeted interventions and alternative project implementation approaches.

5.7 By and large IDA's strategy throughout the period under review was efficacious. The early emphasis on expanding food-grain production and improving birth control prevalence and primary health care was very appropriate, and sustained efforts in these areas have brought positive results. In other areas IDA's tenacity has not brought strong dividends. IDA assistance to restructure SOEs and the financial sector, particularly in the eighties, was not successful. Only gradually through the eighties did IDA realize that the core constraint in the development process in Bangladesh was the public sector itself. Political involvement in all aspects of civil administration, in the public enterprises and commercial banks, and corruption within the civil service and public utilities all served to create strong vested interests in maintaining the status quo.

5.8 The intensity of *ESW* was consistent with Bank-wide norms and some notable successes in assisting Government policy formulation were enjoyed. Studies in trade and tax reform in the late eighties, guided the GOB in implementing reform programs in the early nineties. An Environmental Review fed directly into the development of the Government's own environmental action plan, as did the latest Public Expenditure Review (1996).

5.9 There were a number of anomalies in the ESW work program however. The relatively strong emphasis given to sector work in the industrial sector was misplaced, which has not resulted in a commensurate reward in terms of a fundamental reform of SOEs or a greatly enhanced share of industrial output. A further anomaly has been the relatively small amount of sector work in population and primary health care (two sector reports).

**Box 5.1: Evaluation of IDA's Import Program Credits from 1980 to 1988**

During the period 1980 to 1985, the Board approved five Import Program Credits (IPCs) which disbursed \$619.1 million in balance of payments support to mid 1988. This program of annual balance of payments support, followed eight similar operations in the seventies. The fundamental rationale for these operations was to provide assistance to sustain a minimum level of critically essential imports (food and oil supplies) and alleviate recurring balance of payments difficulties. While some aspects of these balance of payments difficulties could be traced to inappropriate macroeconomic management, much of the difficulty was caused by external shocks (oil price rises), adverse terms of trade movements (declining world jute prices) and a very poorly developed capacity to generate foreign exchange earnings. Furthermore, given that such a large proportion of the population was living at the edge of material survival, dramatically reducing aggregate demand to reduce balance of payments difficulties in the very short term was not humanely feasible.

These operations did seek to identify and remedy critical issues related to production efficiency, and initially focused on policy issues related to the prime objective of increasing food-grain production. As the eighties progressed however, the content of action programs changed to encompass a wider range of sector and macroeconomic issues. Although ostensibly performance oriented, conditionality for second tranche releases tended to be quite general and permitted quite an elastic assessment of performance. Hence tranching of these operations did not really provide an effective enforcement mechanism. This general lack of timing and specificity, reflected IDA's difficult and delicate task in balancing the country's acute short term need for foreign exchange and budgetary resources against fulfillment of a wide range of needed structural reforms.

On the basis of ESW undertaken, IDA was able to identify key constraints and obstacles, and was not reticent in bringing them to the Government's attention. For much of the eighties, the Government argued that while this ESW was of high quality it omitted to pay sufficient attention to equity considerations and the differential behavioral patterns and circumstances of the various socio-economic groups. Furthermore, the Government argued that IDA did not display a full understanding of social and political issues, and the institutional frameworks surrounding these issues. This criticism was not justified.

What was clear was that progress up to about 1987 was very uneven, and conditionality, while comprehensive in its intent, was not fully complied with nor reforms followed up energetically. Throughout the period political commitment to a broad based adjustment program was rather fragile and an institutional framework for integrated management of an adjustment process was not created. During the eighties, the flow of external assistance exceeded \$12 billion, and while this was successful in gradually advancing the goal of macroeconomic stabilization and financing a large share of public investment there may be some validity to the argument that this very assistance undermined a more determined reform effort. By providing a cushion, this assistance, particularly balance of payments support, may have inadvertently created a desensitizing effect on the recipients behavior by alleviating the pressure on the political authorities to be more resolute in addressing pressing economic problems.

**Box 5.1: Evaluation of IDA's Import Program Credits from 1980 to 1988 (continued)**

Nevertheless reform progress was made in a number of areas, and while the pace may have been slow, by the end of the eighties some solid positive results were emerging. Improvements were made in fertilizer distribution and marketing, and sustained IDA attempts finally bore fruit in liberalizing the environment for low cost minor irrigation inputs. Progress was also made in improving overall management of the country's food system and the public food-grain distribution programs. This improvement was particularly noticeable following the massive floods of 1988. Gradual progress was made in the liberalization of the trade regime and the environment surrounding investment, which established a foundation and acceptance for the more aggressive reforms in these two areas that occurred in the late eighties and early nineties. Also between 1982 and 1986, nearly 600 nationalized firms were denationalized against strong domestic opposition.

Less successful was the reform progress in the financial sector. Throughout the eighties few concrete steps were taken to improve the country's commercial banking system and attempts to rehabilitate the variety of specialized Development Finance Institutions did not materialize. Little progress was made in improving domestic resource mobilization efforts, nor in improving budgetary planning and management. Project implementation delays continued, and perhaps got worse during the decade reflecting very little progress in overcoming institutional and administrative constraints.

While the need for these IPCs was clearly manifest in the early eighties, by the mid eighties it was becoming increasingly apparent that a much more detailed and holistic sector approach was needed, with operational mechanisms, such as SECALs, that would have a much more specific reform agenda and set of tranche release conditions. As the country's foreign reserve levels had climbed to about 3.75 months of import equivalent, from only 0.5 months in 1980, the room for discontinuation of the IPCs in favor of more conventional adjustment operations was also there.

*Source:* This précis of the effectiveness of IDA's Import Program Credits in the eighties was drawn from the World Bank, Bangladesh, Program Performance Audit Report, Import Program Credits IX-XIII (Credits 1071, 1194, 1300, 1471 and 1655-BD), June 29, 1990, Report No. 8871.

5.10 Implementation of projects in Bangladesh has been a persistent problem, affecting negatively implementation of IDA's country assistance strategy. These implementation problems have been difficult to overcome, and disbursement ratios (averaging about 11 percent) throughout the eighties were below Bank norms. Efforts were made to improve this which have proven successful, but the supervision intensity effort per project in Bangladesh is about 50 percent higher than the Bank-wide average. There are many reasons for this relatively poor implementation performance. Institutional capacities in the country are under strain, and this seems to have got worse as the ADP has expanded. In fact there are too many projects in the ADP, which makes monitoring problematic. The Government's own procedures and administrative arrangements are cumbersome and time consuming. Finally project design has often been overly optimistic in estimating project completion times, and in some cases are too complex for local institutional capabilities. Attempts at institutional reform have met with very

limited success, and oftentimes the only way to improve the situation has been to circumvent poorly functioning institutions and try to find alternative implementing agencies.

5.11 In terms of *Project Outcomes* from 1980 to 1996, 63 projects have been reviewed and rated by OED. Of this number, 24 projects, or 38 percent were rated as unsatisfactory. This compares with a Bank-wide OED rating of 33 percent as unsatisfactory. With regard to sustainability, 35 percent of rated Bangladesh projects had a likely sustainability rating, compared to 45 percent Bank-wide. Finally with regard to institutional development performance, 36 percent of rated Bangladesh projects had a negligible institutional development rating compared to 24 percent Bank-wide.

5.12 Sector performance has been very variable, and the industry and finance sectors stand out. Out of thirteen operations, only three (23 percent) had a satisfactory rating. The success rate for other sectors is as follows: agriculture, 79%, energy 60%, education and health 66% and technical assistance 50%. Clearly the outcome performance of IDA projects in some sectors is a cause for concern.

5.13 The *Aid Coordination* function of IDA in Bangladesh is a crucial one indeed, given the very large number of donors assisting the country. The scope and range of this coordination effort has expanded, most notably from the late eighties, and now encompasses broad groupings of donors that support broad sector investment programs under IDA leadership. This has been achieved for population and health, flood control and primary education. As there is a large donor presence in the field, IDA in conjunction with the Government has organized a Local Consultations Group (LCG) with eighteen sub-groups. The LCG meets about 6 times per year and the sub-groups periodically. These coordination efforts have been effective.

5.14 IDA operations, by supporting expansion of health infrastructure and trained staff, as well as policy, and institutional improvements, have facilitated achievement of some significant positive outcomes in *Family Planning and Health*. This assistance, together with that of other donors, has been accompanied by rising total Government expenditures on health and family planning indicating its growing commitment. The contraceptive prevalence rate has increased to about 45 percent, from 8 percent in 1975, and total fertility has declined from around 7 to 3.3. Infant mortality has begun to drop markedly, primarily as a result of the Government's expanded immunization program which IDA and other donors have supported.

5.15 Despite these achievements, the family planning and health services have a number of serious weaknesses. Internal efficiency of the system is low because of management, staffing and logistical problems. The quality of the delivery of health care in public facilities, particularly in the rural areas is perceived to be poor and drugs are often in short supply in these areas. IDA and other members of the donor community and the Government are aware of these problems, but attempts to deal with them have failed. The rising demand for family planning and maternal and child health services is placing an increasing organizational and financial burden on the system. To meet the goal of a replacement fertility, will require a considerable increase in efficiency, greater reliance on NGOs and the private sector, and greater cost recovery. A revitalized service delivery system will involve greater community involvement, considerable administration decentralization and a more limited role for government at the national level.

5.16 IDA's assistance efforts in *Education and Human Resource* development have been effective. In particular, the increased targeting on vulnerable disadvantaged groups and primary

education has had positive results. After stagnant primary school enrollment for almost thirty years, gross enrollment rose from 55 percent in 1985 to 63 percent in 1990, and over 100 by 1995. Attendance of girls, particularly in rural areas, has increased and NGOs are very active in non-formal literacy programs. Government commitment to education has increased, as education outlays have grown from 7.9 percent of the budget in 1980 to 10.3 percent in 1990. The large increase in school capacity and teachers has enabled primary school enrollment to increase by 50 percent in the eighties. IDA has had much less success in vocational training and specialized education, with negative rates of return for assistance to public vocational and technical training centers.

5.17 As with health care however, the internal efficiency of the public primary school system is low, and the quality of education is deficient with teachers that are poorly trained and supervised and poor logistical support. Dropout rates are very high, and it takes an average of 8.7 years to produce a single graduate of the five year primary cycle. There is a lack of system accountability, and retention rates for formal government primary education compare unfavorably with programs sponsored by NGOs. Increasing the quality of education requires improving incentives and accountability for teacher performance, improved teacher training, more parental involvement in resource mobilization and school management and further encouragement of NGOs and private providers. IDA, since 1992, has sought to address these issues in a more sustained and aggressive manner and there is increasing evidence that this is bearing fruit.

5.18 Over the past decade and a half, Government efforts and IDA assistance to create a dynamic *Industrial* sector have not been successful. Only two out of nine projects have been rated as satisfactory, and of the two ongoing projects one is experiencing significant difficulties, and has been recently canceled. The pace of reform of the policy environment has been slow, and the successes that have occurred (ready made garments) cannot be attributed to Government or IDA (see also Box 5.2 for a discussion of IFC's activity in the country). Undoubtedly the situation has got better in the nineties, with more aggressive trade policy reform following good IDA ESW and more intense policy dialogue on trade liberalization issues. IDA attempts to deal with the highly inefficient SOEs have largely failed. The quality and depth of the ESW undertaken by the Bank certainly diagnosed the problems and constraints. However there was a continual underestimation of the complexity of unbundling the issues of Government ownership, strong and highly politicized labor movements, a central bureaucracy seeking to maintain centralized control and a complex array of policy distortions and regulations. Throughout much of the eighties genuine Government commitment to, and a vision of, an industrial sector driven by market forces was absent. Hence Government ownership of projects was deficient, and IDA has consistently miscalculated Government resolve to effect real change.<sup>13</sup>

5.19 The situation has improved in the nineties, and IDA's move to SECALs with broad sector reform agendas has been appropriate, and while not fully successful has generated a momentum for more economy-wide liberalization and created a growing constituency for this wider reform. Where success has occurred (the Export Development Project), the objectives

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<sup>13</sup> The Region believes, however, that there was a genuine attempt to encourage successive Governments to make hard political choices, and given the importance of the SOEs, and their impact on the budget, IDA persistence in seeking change was warranted. This is undoubtedly a valid point. Nevertheless, as has been manifested in the nineties, a stronger focus on key sector and sub-sector policy reforms and actions is a more effective way of using IDA resources in the sector.

were very clear and specific and the project was modest in its scope and expectations. Good progress has been made in trade reform and investment deregulation, and this has been sustained. The regulatory environment is still oppressive, however, and the extensive public sector involvement in industry has yet to be solved.

5.20 Attempts by Government, with the assistance of IDA and other donors, to create a strong and healthy *Financial* sector in Bangladesh have also failed. All OED rated projects during the review period were unsatisfactory, and not sustainable, and in many respects the malaise in the banking sector is as chronic today as it was in 1980. Comprehensive ESW was undertaken by the Bank, particularly from the mid-eighties, which identified the problems and the solutions. What was not fully acknowledged, however, were the complex governance issues involved in the sector, the politicization of lending and government ownership and how these factors would undermine the reform agenda. Throughout the eighties and nineties, Government commitment to reform was deficient and project ownership was weak. While it is always difficult to gauge this commitment and how it will be sustained over a multi-year reform effort, IDA consistently overestimated it and had unrealistic implementation expectations as a result.

5.21 It is unfair to suggest that no benefits accrued from IDA's efforts. The sector reform adjustment operation brought about some liberalization and reduced the volume of directed credit, and the operation as it progressed, highlighted the nature and seriousness of the problems affecting the banking system, and the urgent need for pervasive reform. But an autonomous and efficiently functioning central bank and legal loan recovery system have not been fully established.

5.22 IDA has been effective in its assistance to *Agriculture*. Good progress has been made toward achieving rice self sufficiency, and while it may have taken longer than desired, IDA was instrumental in liberalizing the agricultural input trade. Easier farmer access to minor irrigation, equipment, power tillers and fertilizer has brought about a fundamental change in smallholders productivity and incomes. IDA advice and assistance for extension, research and crop diversification was relevant; however, for much of the eighties, IDA's efforts to strengthen the institutions delivering these services was not fully effective. In common with results in the financial sector, IDA has not been successful in improving credit delivery systems for agriculture, which are as bad today as they were in 1980. Much of the blame for this must rest with the Government which has undermined credit delivery with periodic loan forgiveness schemes. Also the specialized public financing institutions had no incentive structure to enforce loan recovery. IDA has made a valuable contribution in expanding mangrove forestry which in turn has addressed environmental issues and protection of vulnerable shorelines.

5.23 Overall, IDA has also been effective in *Flood Control and Drainage*. This was an area of considerable technical controversy and of course high visibility, given the periodic severe flooding. IDA's strategy, based on seventies sector work, was to avoid large projects in deeply flooded areas with high civil work costs per hectare. Rather IDA efforts were concentrated on smaller sub projects in shallow flooded areas with low development and operating costs per hectare. This was not a strategy the Government fully accepted, however over time many policy makers came to recognize the worth of such an approach. IDA sector work in this area was also instrumental in developing the National Water Plan in 1986, which finally established a multi-sector framework for planning water management, and that minor irrigation and shallow tube wells were a vital element of this. IDA also took a strong coordinating role in the development of a Flood Action Plan in 1989, which in turn served to moderate demands by both Government and

some donors for massive civil engineering works whose technical and environmental outcomes, as well as economic viability, was uncertain.

### **Box 5.2: International Finance Corporation Activity in Bangladesh**

#### **Past Experience**

During the period under review (1980 to 1996), IFC activity in Bangladesh has been limited. There were a number of reasons for this. For many years the environment for private sector activity in the country was less than encouraging. There was a wide array of regulatory and administrative impediments to foreign investment and the development of the indigenous private sector. In addition, Government and private sector relations tended to be adversarial rather than facilitative, reflecting the residual effects of the nationalization and centrally planned economic policies followed in the seventies. The business environment was also adversely affected by an absence of an effective legal system and weak enforcement of existing regulations. This adverse policy and legal environment when combined with a relatively underdeveloped domestic market and a shortage of entrepreneurial talent, managerial expertise and skilled labor all served to hamper private sector development.

Between 1980 and 1992, IFC made four investments in Bangladesh, totaling US\$10.27 million. By the end of FY96, IFC's portfolio exposure in the country was down to US\$3.7 million. IFC's experience in these projects was mixed. Two projects, Bata Shoes Limited and IDLC, a leasing company, were successful. The other two projects, Dynamic Textiles and IPDC (and an earlier investment made in 1979) were problem projects. Even the successful projects were hampered by controlled trade policies and cumbersome governmental procedures.

For example, IFC's investment in the local expansion of a multinational shoe manufacturer, while yielding satisfactory dividends, was hampered by Government policy to ban the import of raw hides, and the very high import tariff on leather finishing chemicals (45-60 percent). The procedure for claiming duty draw-back facility for export was also very cumbersome. These government actions put this firm at a disadvantage in a fiercely competitive international market. The situation improved considerably in the early nineties, with a relaxation on the import ban on raw hides, lowering of import tariffs (15 -22.5 percent) and introduction of bonded ware-housing. This was a successful IFC project, and the equity investment has now been divested with a solid gain.

IFC's other success in Bangladesh was an investment (in 1985) in IDLC, the country's first leasing company. This was in collaboration with a Korean leasing company, KDLC. At the time in Bangladesh, medium to long-term project finance was scarce, and the commercial banks focused on short-term trade financing. Although awareness of this additional source of medium-term financing took some time to develop, leasing became popular with entrepreneurs as they realized the advantages of this form of financing. Selecting credible clients, however, was difficult given the endemic default culture described in this chapter. Client servicing and persistent follow-up were central features for IDLC's success. Today, following IDLC's lead, there are now nine leasing companies. To augment IDLC's lending resources, IFC approved a US Dollar Guarantee in 1995 to ANZ Grindlay's Bank for them to give a Taka loan to IDLC.

IPDC, IFC's third investment in the country, had a difficult start. Several investments suffered repayment problems because of the absence of an effective legal system which inhibited enforcement of the borrower's contractual obligations. However, IPDC's operations have significantly improved now that the Government has demonstrated its commitment to strengthen the legal framework. IPDC's more recent investments have registered substantially better repayment performance and with the development of the Dhaka Stock Exchange (DSE), IPDC's equity holdings are showing healthy capital gains.

**Box 5.2 (Continued)****Future Agenda**

As noted in Chapter 4 of this Country Assistance Review, the economic reform momentum was fitful throughout the eighties. However, from late-1991, economic liberalization took on a more sustained character and foreign and domestic investor interest expanded. As a result, IFC activity accelerated from about mid-1992. A local presence was established at the Resident Mission in 1993, and increased efforts were made by both Washington-based staff, as well as the New Delhi South Asia Regional Mission, to increase the project pipeline. These increased efforts have borne fruit, with six projects approved in the last two years for a total amount of US\$55.77 million in IFC and participant bank loans, and equity. The IFC Board approved an equity investment in an unincorporated joint venture with a USA oil/gas company for gas exploration and development in the north east region of Bangladesh, which is the first private sector investment since gas concession blocks were awarded through bidding in the early nineties. A rural telecom project was also approved for telephone connection to rural homesteads and rural business growth centers in the northern half of Bangladesh. Other projects include a hotel, a cement plant, a housing financial company and a leasing company. Furthermore, there is now a much expanded pipeline which includes transactions in power, telecommunications, cement, housing finance, leasing, health care, urban transport, the gas sector and textiles.

In addition to its direct investment activities, IFC's Foreign Investment Advisory Service (FIAS) has been active throughout the eighties, although this has expanded significantly in the nineties. Also, IFC has worked closely with IDA on certain aspects of the ESW program, with completion of a Private Sector Assessment in 1994 which provided inputs into the 1994 CEM. Advisory services have also been provided to the local Securities and Exchange Commission, to the Government of Bangladesh on privatization and private sector involvement in the power sector and the Telecommunications Regulatory Board.

**Lessons for the Future**

IFC involvement in Bangladesh to date highlights a number of important and generic lessons applicable for IFC activity in many developing countries.

- All projects and ventures require very strong operational management and technical support. In environments where the degree of necessary managerial and technical expertise is in short supply, it is essential to have foreign partners that are willing and able to have a close managerial and technical support function almost on a day to day basis.
- No matter how viable a venture may look in financial and economic terms, if the legal, regulatory and financial systems are deficient the chances for a successful outcome and a positive development impact are greatly reduced.
- The role of the government in ensuring a facilitative and nurturing environment for private sector development is a crucial element in the success of any project or undertaking. Not only should the regulatory and administrative environment be "user friendly", but it should be pro-active and flexible in overcoming unforeseen obstacles. This often requires both policy reform and bold government leadership to overcome entrenched bureaucratic practices and attitudes.
- Strong collaboration is needed between IFC and other parts of the World Bank Group, in identifying and overcoming constraints to private sector development. Already established IFC private sector contacts can prove to be a valuable source of information in the identification of these constraints and the sequence of reform needed to overcome them.

5.24 IDA was not so successful in improving the institutional performance of the Bangladesh Water Development Board. Also little progress was made in dealing with deficient operation and maintenance of existing flood control and drainage schemes. However efforts have continued, and from the early nineties there has been a greater degree of beneficiary participation, with local councils becoming more involved for operation and maintenance of smaller schemes.

5.25 On balance, IDA has had a positive impact in the *Energy* sector. However, if one takes note of the resources that have been directed at the sector, and balances this against the sustained achievements, the overall efficacy of IDA's assistance is much more modest. IDA has sought to encourage the Government to allow a greater private sector role in energy, and at least a greater degree of commercial autonomy for public utilities, but Government has resisted. Little progress has been made in reducing system losses in the main urban areas, despite separation of generation from distribution. What is noteworthy however, has been the relative success of IDA's efforts in rural electrification and distribution. This is due to the decentralized administrative approach adopted with the creation of rural distribution cooperatives which are more accountable to the communities that they serve, and operate with a more commercially oriented administrative structure. While five of seven projects in the oil and gas sector have been rated as satisfactory, the long term sustainability of the public sector's total monopoly position in the sector is questionable. IDA has encouraged the Government to allow a greater role for the private sector in gas development and some success has been achieved. Eight out of twenty three exploration blocks have been leased out and offers for the remainder are under evaluation.

5.26 IDA support in the development of Bangladesh's *Infrastructure* has been effective in expanding the physical stock, and the development impact, particularly in the rural areas, has been positive. As with other sectors however, what has not been successful has been the creation of sustainable institutions. For urban water there is a lack of commercial orientation with very poor cost recovery, and municipal revenues are inadequate to cover maintenance of existing systems let alone new investments. Good success has been achieved in IDA's assistance for rural roads using local materials. A problem has been adequate maintenance, but under the latest project, efforts are being made to involve local councils for road drainage and culverts. This approach is strongly endorsed by the Planning Commission and could lead the way for greater council participation in a variety of other areas thereby improving accountability and sustainability.

5.27 In summation IDA's assistance strategy has been efficacious and effective, but there have been failures. There has been a consistent failure to fully recognize institutional constraints and compose an effective means to deal with them. The complex governance issues that surround the public sector's role in the economy, have progressively become more understood, but an effective means to deal with these issues has yet to be fully developed. The recognition that decentralization of authority in the implementation of development efforts thereby improving accountability and involvement of beneficiaries, has been slow to evolve. Despite over fifteen years of policy dialogue, the enabling environment for private sector development is still deficient. A large amount of ESW has been undertaken which identified the constraints, and suggested solutions, but liberalization has proceeded fitfully. This has undermined development progress and a speedier reduction in overall poverty. There is no doubt that the political environment has been difficult for much of the period under review, and this has negatively affected the effectiveness of IDA's policy dialogue. A consistent theme throughout the period

have been IDA recommendations for reform and change thwarted by Government unwillingness to act boldly. Nevertheless, persistence by IDA in this dialogue has brought about some notable successes which have contributed to an improvement in the human condition in Bangladesh.





## 6. Lessons for the Future

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

- (a) What should and can the Government do and what should be done by the private sector and non-governmental organizations? and,
- (b) 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 then determine IDA's assistance strategy and the type of lending and ESW that should be done in each chosen sector. Outlined below are generic lessons for the future that cut across all sectors, and would guide the future country assistance strategy. Specific sector recommendations follow.

6.2 *Redefining the Role of the Public Sector.* In all sectors the role of the public sector needs to be redefined. There is much more scope for the private sector, NGOs and local governments to be involved in the provision of services. Much greater effort must be made to encourage a greater role for local and municipal governments in all aspects of infrastructure development and maintenance, as well as education and primary health care. Needless to say, government involvement in commercial activities must be reduced.

6.3 *Increasing Emphasis on Accountability of Systems.* Future project design must seek to improve the accountability of those responsible to provide a service or complete a project. Project design must involve all stakeholders, simply to define the parameters of this accountability and set a framework for enforcing this accountability. As a general principle, greater accountability is enhanced by decentralized participation in decision making, finance and organization. Organizational reforms have been tried in all sectors, whether it be the civil service or quasi government authorities, and by and large they have all failed. The simple reason is that unit performance has not been made accountable to the community they serve, with no penalty for deficient performance. Public employees in Bangladesh, whether they be teachers, doctors, agricultural extension officers, bank loan officers, or electrical engineers, do not operate under performance and incentive structures that encourages a greater accountability to the communities or clients they serve.

6.4 *Need to Pay Greater Attention to Sustainability Issues.* More attention should be given to sustainability issues in project design. There is no single approach that will work in all sectors or projects, but much more emphasis must be given to recurrent expenditure requirements for operations and maintenance, to cost recovery if only partial in the beginning, and to institutional structures or implementing agencies and organizational frameworks. Policy reforms should be sought that are difficult to reverse, or undermine, that produce tangible benefits quickly and

thereby establish a constituency of beneficiaries with a strong vested interest in the sustainability of the initiatives undertaken.

6.5 *Need to Improve Project Monitoring and Evaluation.* This issue has improved but there is further scope to evaluate development throughout a projects implementation. Often the focus of attention is on the physical completion of civil works or such like quantifiable targets, but more thought needs to be given to explicit outcome indicators, and these should be included as part of the project design. Projects often run over seven or eight years, and waiting for the ICR to provide a measure of effectiveness is too long. It would also be useful to assist the Government in administrative reform designed to streamline the process of project design and implementation.

6.6 *Recognizing Ownership Issues.* Many projects in Bangladesh show symptoms of incomplete ownership and commitment to the project objectives. Long delays in effectiveness, delays in appointing key staff or failure to take action on agreed policy measures are a few examples. More effort should therefore be made to strengthen the political commitment to necessary institutional change, and solid indicators should be sought that indicates this commitment. To proceed without this is a disservice to the people of Bangladesh, and often has negative externalities which affects the entire assistance program.

6.7 *Define Crucial Objectives and Limit Goals.* In countries which have manifested continual problems of project implementation, it may be useful to limit project objectives to a smaller number of crucial policy changes and development impact objectives. Projects often tend to expand during the preparation and appraisal cycle simply because of the well intentioned desire to generate the maximum impact. However, as is shown on many occasions in Bangladesh this may be counterproductive resulting in disappointments for the Borrower and IDA. For adjustment type operations there is a strong case in Bangladesh for a sequence of single tranche operations, with policy reform enacted before Board presentation. Adaptable Lending should also prove a positive instrument in dealing with sequential policy reform. While this may increase lending staff time there will be a compensatory saving on supervision effort, and may also serve to help the Borrower to focus on key issues and expedite the process of consensus building within the country.

### **Social Sector Development**

6.8 *Redefining the Role of the Public Sector.* In *family planning*, the Government should progressively reduce its role as primary provider of services as contraceptive prevalence increases and phase out its retailing of family planning services. The NGOs and private providers (allopathic physicians, pharmacists and even traditional practitioners) should be encouraged to gradually fill the gaps. In *family welfare and health*, a more effective role for government can also be defined, with a greater role for private providers which will increase the scope and variety of service alternatives available. Public funding of hospital-based curative procedures crowds out cost effective basic health care, and Government programs should work with and upgrade skills of, rather than restrict, indigenous practitioners and midwives. The main role for the Government should in the provision of safe water and sanitation, control of communicable diseases and the provision of health education. In *education*, priority must be given to improving the quality of primary and secondary education. The role of the public sector in technical and vocational education should be limited, and programs that are developed need to be done so in collaboration with private employers, with costs primarily borne by the employer

and trainees. Subsidies to universities should be phased out and user charges raised. In order to increase accountability, schools should eventually become the responsibility of reconstituted local governments, with teachers and administrators being employed by and responsible to these community based administrations.

6.9 *Increasing Emphasis on Accountability of Systems.* Administrators, managers and service providers in the health and education sectors are not held accountable to the communities that they serve. Within the framework of the Government's programs and projects, and thereby Bank/IDA support, the scope for improving this accountability is intrinsically limited. Government has been very good at "campaign" activities, such as mobilizing communities, increasing school enrollment, vaccination and contraceptive acceptance. It has been less able in bringing about systemic improvements needed to upgrade school quality or monitoring performance of actual health care provision. Organizational reforms have been tried, but thus far they have all failed because the major, politically powerful stakeholders (government physicians, family welfare workers and teachers) have not believed the reforms were in their interest and have thereby undermined them. Efforts must continue to involve all these stakeholders in a reform agenda in which all see benefit. As a general principle, greater accountability is enhanced by decentralized participation in decision making, finance and organization. This means giving greater financial and managerial autonomy to local units within the country's administrative systems. These local units should have greater responsibility for planning and budgeting, collecting fees and determining how collected funds and government transfers would be used. Not only would this improve accountability but it would also provide signals about the appropriate mix of services, encourage greater community participation and minimize administrative overhead.

6.10 *Paying Greater Attention to Sustainability Issues.* Recent studies of sector finances suggest that budgetary constraints will limit achievement of Government goals for family planning, health and education. To relieve this constraint an amalgam of approaches will be necessary. The goals themselves may have to be adjusted to more realistically reflect the budgetary envelope, or recognize that budgetary allocations will have to be increased. Greater reliance must be placed on the private sector and the NGOs. More vigorous attempts must be made to increase the efficiency of provision of services, together with increasing charges to beneficiaries of publicly provided services. Redefining the role of Government is also desirable from an accountability perspective, and charges to beneficiaries for curative medical care and for higher education are justified on equity and efficiency grounds.

6.11 *Recognizing Ownership Issues.* All projects undertaken in the social sectors in Bangladesh exhibit symptoms of less than complete ownership of projects (delays in appointing key staff, delays in approving project proformas, failure to take action on agreed policy initiatives are a few examples). In future assistance, stronger efforts must be made to strengthening the political commitment to institutional change and more effective procedures and control mechanisms in the provision of public services.

6.12 *Improving Monitoring and Evaluation.* Greater thought must be given to explicit outcome indicators of development impact, which can be monitored during project supervision, given the very gestation period of projects undertaken in the social sectors. In the past, greater attention was focused on physical implementation. While ICRs are somewhat better in assessing project outcomes than supervision reports, the time lag of ICR completion averages about eight years from project approval. A perfect example is the Technical Education project which was

approved in May, 1984. Closing was extended three times until June 1992, and the PCR was issued in October 1993. There were 11 supervision missions between October 1984 and November 1991, and at no time was the project's rating less than satisfactory, largely as physical rehabilitation and procurement of equipment was relatively timely. Yet, the project cannot be deemed a success as a large proportion of the new graduates had great difficulty in entering the labor market.

6.13 *Intensifying Sector Work.* Over the past twenty years, only five sector reports have been prepared on education and population/health sectors, although other studies have dealt with these sectors peripherally. This may not be enough to keep a sharp focus in the ongoing policy dialogue in the sectors. The recently established Health Economics Unit in the Ministry of Health and Family Welfare has already produced reports on key issues in the health sector including a public expenditure review; an analysis of recurrent costs, user fees and the poor, costing the package of essential health services; and mobilizing resources through hospital user fees. There is much for the Bank to build on in health and education.

6.14 *Optimizing the Role of NGOs.* NGOs play an important role in health and education, both in piloting innovative approaches and in the provision of services. The GOB has become increasingly supportive of NGOs over the past decade, and has accepted them as partners in achieving national goals. However the GOB does have concerns over accountability and efficiency and maintains a strong regulatory role. Bank relationships with the NGOs has been good, and bank operations have benefited from the approaches taken by some NGOs. However, discussions in the field suggest that many NGOs are reluctant to approach the Bank because of the complexity of Bank procedures and procurement regulations. And the need for Government guarantees. Scope does exist for greater NGO/Government collaboration and interaction and the Bank/IDA would benefit considerably as it seeks to improve its effectiveness in the social sectors in Bangladesh.

6.15 *Reshaping Lending Operations.* The time may now be appropriate for a transition from "project" to a "program form of lending for core operations in the population, health and education sectors. This program approach would involve agreement with the Government on a wider range of policies, objectives, strategies and expenditures. Disbursements would be linked to policy performance and satisfactory progress of the expenditure program. Adopting this approach will require agreement on a "new vision" for the role of Government and other stakeholders in the sector, as well as a review of the sector expenditure program and its financing. The existing project approach of very large and complex operations with many sub-components are not really designed to carry the burden of the significant policy changes that might be necessary to move to new paradigms for the provision of population, health and education services.

### **Industrial and Financial Sector Development**

6.16 *Public Sector Ownership of Commercial Banks and Industrial Enterprises.* As has been shown in a host of countries, government ownership of commercial banks and industrial enterprises does not provide the appropriate incentive framework for either internal efficiency and speedy response to changing circumstances or sound allocation of credit within various parts of the economy. Reform of dysfunctional financial and SOE sectors must include at the outset an explicit statement of government intent to privatize, *and also* a widely publicized and monitorable action plan to implement this privatization in parallel with increased efforts to

strengthen central bank supervision and enforcement of prudential regulations. During the eighties, the Government of Bangladesh has made progress in denationalizing a large number of formerly nationalized SOEs, but the momentum has been variable and a policy of protection for the inefficient remains. Ultimately this is not sustainable and represents a tax on the more productive.

6.17 *Redefining the Role of the Public Sector.* For both the industrial and the financial sectors to achieve a more dynamic contribution to the country's development, it is necessary that there is a clearer definition within the country of the appropriate and necessary role of the public sector. Improving the technical skills within the central bank and granting the necessary autonomy to enforce sound prudential regulation, improving the efficiency and impartiality of the legal system, liberalizing further the trade regime and the overall regulatory environment and improving the quality of the supporting infrastructure are all solid examples of areas where the GOB should focus its attention. IDA can support this effort, but should do so only when there is a demonstrated willingness to embrace a less interventionist public sector role. Stronger attention must also be given to the role of micro-credit in both rural and urban areas, which have been shown to be viable and successful by NGOs. Greater links need to be progressively forged between NGOs engaged in micro-credit provision and the formal banking system (see also para 6.21 below).

6.18 *Pace and Sequencing of Reform.* The experience of the eighties and nineties in Bangladesh suggests that gradualism in introducing international standards and best practices in the banking system, or encouraging efficiency in the industrial sector, has a number of untoward side effects. The sense of urgency and commitment to a sustained reform program is undermined, and allows coalitions of narrow vested interests to thwart the reform intent. A gradualist approach often enhances the power of the more permanent (relative to changing political leadership) centralized administrative bureaucracy, maintains the scope for rent seeking behavior and dilutes the confidence of both domestic and foreign investors who have witnessed, or experienced, past 'liberalization' efforts. For the success of IDA's future assistance to Bangladesh, it is crucial that IDA seeks fundamental reform in bank supervision enforcement, legal debt recovery enforcement and closure of unviable SOEs, before proceeding in other areas of industrial and financial sector restructuring.

6.19 *Attention to Sustainability Issues.* Experience in Bangladesh suggests that multi-tranching of adjustment credits does not necessarily ensure sustained commitment to a long term reform agenda. It might prove beneficial rather to have a series of single tranche adjustment or sector operations, with each having more limited but crucial objectives, which may bring a sharper focus to the policy dialogue and facilitate a more sensitive understanding of short term political constraints. This may also improve the process of consensus building necessary to ensure all stakeholders are committed to the reform effort and see the ultimate benefits. While this approach may seem at first glance to increase Bank staff time in project appraisal, there will be a compensatory trade off against staff time spent in supervision. It will also help implementing agencies in Bangladesh insofar as already weak implementation capacities can be more sharply concentrated.

6.20 *Technical Assistance, Institutional Development and Sector Adjustment.* As has been repeatedly shown during IDA's assistance to these two sectors over the past decade and a half, institutional strengthening is an indispensable part of sector reform. Careful thought therefore must be given to the timing and focus of technical assistance designed to improve the

capabilities involved in the sectors. For example, good bank supervision skills and systems are critical ingredients in improving the overall financial system. As such, technical assistance efforts in this area should perhaps precede more comprehensive sector wide reform efforts.

6.21 *Increasing Emphasis on Accountability.* The almost complete lack of project success in these two sectors over the last fifteen years, suggests that accountability on the part of designated implementing agencies is deficient. Attempts must be made to alter this. The recently approved microenterprise line of credit project that will disburse through a specially created foundation for onward transmittal to participating NGOs lending to very small enterprises is a very promising sign.

### **Energy and Infrastructure**

6.22 *The Appropriate Role of the Public Sector.* Much more consideration must now be given to the appropriate role of the public sector in the provision and maintenance of infrastructure in Bangladesh. This not only suggests that the private sector, both foreign and domestic, has a critical role to play in investment and operations in power generation and distribution, the oil and gas sector, telecommunications, water and sewerage operations, ports and all forms of transportation, but also suggests that various levels of the public sector must become more actively involved and a proper regulatory role for the state being made more explicit. Project success has been enjoyed, and sustainability enhanced, the closer the service providers are to the constituency that they serve. Local authorities and municipalities should be given more autonomy and managerial discretion in certain investment and maintenance of infrastructure. Where funding and institutional capabilities are weak, then these should be progressively strengthened. In clearly commercial areas such as the oil and gas sector, telecommunications and power, public ownership has not optimized exploration, production or distribution and there is clearly a place for private sector partnership in this sector in Bangladesh. And even where public corporations remain, they must be allowed considerable managerial autonomy and discretion to operate on purely commercial lines

6.23 *Attention to Sustainability Issues.* Experience in Bangladesh suggests that project design must pay much closer attention to sustainability issues in infrastructure projects. Expanding generation capacity, or urban access to potable water, serves little purpose if non technical system losses are not addressed vigorously or if cost recovery remains dilatory. In a similar vein, expanding the rural road network without attention being directed to maintaining the existing network undermines the development impact of the investments made. A recurrent theme throughout projects in the energy and infrastructure sectors is the sub-standard performance of responsible institutions, and an approach to governance that reduces accountability rather than enhances it. This is not so much the result of limited human capital and technical skills (the Local Government Engineering Department in the Ministry of Local Government, Rural Development and Cooperatives is well endowed with competent engineers and technicians for example), but rather a function of existing bureaucratic and administrative systems. Tinkering with internal structures will achieve little unless attention is directed to changing the reward/sanction philosophy within the service providers. The much better collection performance of the Rural Electricity Boards, compared to the Dhaka Electricity Supply Authority, provides a vivid illustration of what might be achieved. While annual performance contracts for senior management to achieve certain organizational and operational targets is by no means the perfect panacea, it would certainly help. The quid pro quo of this of course is the need for broad managerial autonomy and discretion.

6.24 *Donor Assistance and Domestic Self Reliance.* A multitude of donors have provided assistance to all aspects of infrastructure development in Bangladesh. Much has been achieved in the last two decades. In some cases however, most notably the power and oil and gas sectors, the flow of concessional resources may have perversely undermined the perceived urgency for reform and domestic resource mobilization. While there is indeed a shortage of reliable generating capacity in the country, much could be achieved simply by a determined program to reduce system losses and improve collections. The beneficiaries from these "rents" are not the poorest in the society, yet it does represent a tax on those without power. While the power sector will need external resources, these should only accompany a demonstrated commitment to improve institutional performance. This may suggest a more program approach by IDA in the power sector, with solid agreement with the Government on a wide range of policies, objectives, strategies and expenditures. Disbursements could then be linked to policy performance, and clearly monitorable indicators of system performance.

### **Agriculture and Flood Control**

6.25 *Redefining the Role of the Public Sector.* As with other sectors, the public institutions supporting agriculture have proven to be resistant to change and service delivery performance has been poor. The positive achievements that have been made in the agricultural sector reflect the liberalization of input trade and greater private sector involvement in this trade. This has brought about significant technology transfer and suggests that in research and extension, public and private contributions are synergistic. Similarly, greater beneficiary participation, with local councils becoming more involved in the operation and maintenance of smaller flood control and drainage schemes has had positive results. This should be extended.

6.26 *Patient Policy Dialogue Can Help to Define Crucial Objectives.* IDA's role in coordinating efforts in developing a Flood Action Plan have been beneficial in a highly complex area with severe environmental ramifications. Perhaps in a more modest way, a similar approach may be useful in the development of agriculture diversification.