

## **BANGLADESH: RECENT POLITICAL DEVELOPMENTS**

This note is an update of the political situation in Bangladesh as described in the information paper (IN.13-07) circulated to the Board of Directors of the Asian Development Bank on 29 January 2007.

### **I. Introduction**

1. On 11 January 2007, deepening political deadlock culminated with President Iajuddin Ahmed resigning from the post of chief adviser and declaring a state of emergency. Dr. Fakhruddin Ahmed, a former governor of Bangladesh Bank and retired World Bank senior staff member, became chief adviser to the caretaker Government on 12 January 2007. The declaration of emergency and formation of a new caretaker government greatly eased the political turmoil and led to a restoration of economic activity by restricting politically motivated strikes and other disturbances. With the constitutional mandate to prepare for general elections, the caretaker Government has taken a broad agenda of activity, including an extensive anticorruption drive to establish better foundations for holding elections. It has demonstrated its commitment to a strategic approach to poverty reduction as a platform for its development agenda and expedited structural and sector reforms. It has ably upheld zero tolerance for corruption, abuse of power, and crimes. The caretaker Government continues to enjoy widespread support from citizens disillusioned with poor governance and confrontational politics.

### **II. Recent Developments**

2. The chief adviser's address to the nation on 12 April 2007 dispelled any uncertainty about the timing of general elections. This address, marking 3 months in office of the current caretaker Government, provided a clear and definitive road map to the return of elected government in the country. The chief adviser expressed strong resolve to hold parliamentary elections by the end of 2008. He reiterated his Government's strong commitment to establishing a sustainable framework to ensure that not only the next election but all elections over the long term are held in a free, fair, and neutral manner; free from all unwarranted influences, including "black money" and "muscle power."<sup>1</sup> The stakeholders representing civil society and major political parties, including Bangladesh Nationalist Party and Awami League, responded positively to the chief adviser's address including the time frame for the 2008 elections.

3. The caretaker Government has completed the reconstitution of the Election Commission (EC) with the appointment of a new chief election commissioner and two commissioners. EC has initiated various reform measures to create a proper environment and transparent framework for the 2008 elections. These include compulsory registration of political parties; accountability of political parties in maintaining transparency of party income and expenditures; and debarring criminals, loan defaulters, and black money holders from participating in elections. Initiatives are under way for preparation of the voters list with photographs, along with ancillary national identity cards. EC is expected to ask the United States, United Kingdom, Canada, and Japan for funds to prepare the list.

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<sup>1</sup> Black money refers to income not declared to the tax authority; muscle power refers to use of undue force and/or intimidation.

4. The caretaker Government remains committed to pursuing critical governance reforms with a focus on combating corruption, ensuring the effectiveness and independence of the judiciary and depoliticizing the civil service. It has already reconstituted the Anti-Corruption Commission with new commissioners; framed new laws to tackle corruption; taken tough legal and prosecutorial actions against a number of corrupt politicians, public officials, and others; and ratified the United Nations Convention against Corruption. National and district task forces have been constituted to tackle serious crimes, including corruption. The legal process for separating the judiciary from the executive is now complete. The caretaker Government is planning comprehensive reforms of the Public Service Commission (PSC), including reconstitution of the PSC to make it independent, effective and autonomous, and has decided to set up a national human rights commission.

5. The caretaker Government has accelerated economic and sector reforms in several areas where previous governments had difficulty moving forward for political reasons. It contracted out the operation and management of Chittagong Container Terminal to a private sector operator, thus easing container congestion and improving service quality and labor management. As a result, vessel turn-around time has been halved and costs in the terminal reduced. The Government has also decided to contract out the operation and management of the New Mooring Terminal to private sector. In the financial sector, reforms include finalizing privatization of Rupali Bank and approving corporatization of the remaining three nationalized commercial banks. In energy, reforms accomplished include (i) rationalizing the areas of power distribution entities in Dhaka by transferring Tongi area from Dhaka Electric Supply Authority to Dhaka Electric Supply Company, (ii) reducing outstanding government dues to power sector entities, (iii) raising the power tariff by 5% for urban consumers and 10% for bulk consumers effective 1 March 2007, and (iv) increasing the prices of petroleum products by 15% to 21% effective 2 April 2007. The collection of power, gas, and water bill arrears has improved substantially. Entrepreneurs operating in various sectors, including transportation, have been freed from unwanted interference and extortion. The economy continues to maintain growth momentum with key macroeconomic indicators remaining favorable and business confidence restored.

### **III. Response of the Development Partners**

6. The development partners have expressed continued support for the Government's key reforms. The Joint Strategy Partners (ADB, Japan, United Kingdom's Department for International Development [DFID] and World Bank) met the chief adviser of the caretaker Government and discussed areas for support to improve core governance, expedite energy and transport sector reforms, respond to the avian flu situation, and unlock aid flows. The Joint Strategy Partners reaffirmed to the chief adviser of the caretaker Government their active support in implementing its reform priorities.

7. World Bank has five projects in the pipeline for approval by the end of June 2007, including Development Support Credit IV (\$200 million, single tranche) and Education Sector Development Support Credit III (\$100 million, single tranche). Japan Bank for International Cooperation is considering financing three projects (\$261 million) for power, water, and railways for approval by the end of June 2007. DFID has four projects (\$293 million) in the pipeline for maternal mortality reduction, rural infrastructure, investment climate reforms, and urban poverty reduction; approvals for which, are expected soon. Subject to the Government's request, the

International Monetary Fund is willing to process a new poverty reduction and growth facility for Bangladesh. Other development partners are also preparing new assistance for the country.

#### **IV. Implications for Asian Development Bank Operations**

8. Like other development partners, ADB is continuing its normal operations in Bangladesh taking into account future political risks. Since all major political parties accept the time frame for the 2008 elections and have not indicated any disagreement with electoral reforms, stability is likely to prevail for normal economic activity in the country. ADB will continue to closely monitor the political situation in consultation with other development partners. High level missions including the Joint Strategy Partners reaffirmed that the caretaker Government is committed to moving its development agenda forward despite the complex challenges. The missions agreed that the assistance of the development partners including ADB would be instrumental for the caretaker Government to spearhead structural and sector reforms critical to accelerate growth and poverty reduction. According to the Country Operations Business Plan for Bangladesh for 2007-2009, the projects under processing for Board consideration in 2007 include Sustainable Power Sector Development Program (slipped from 2006), Good Governance Project, Dhaka Water Supply Sector Development Program, Padma Multipurpose Bridge Project (Engineering TA Loan), and Skills Development Project (technical and vocational education).