

**REPORT ON THE
BANGLADESH DEVELOPMENT FORUM MEETING
DHAKA, 8-10 MAY 2004**

I. INTRODUCTION

1. The Bangladesh Development Forum (BDF) meeting was held in Dhaka on 8-10 May 2004, following the BDF in Dhaka on 16-18 May 2003. The Bangladesh delegation was led by Mr. M. Saifur Rahman, Minister for Finance and Planning, and comprised the ministers for commerce, communications, education, health and family affairs, industry, local government, rural development and cooperatives, posts and telecommunication, social welfare, law, justice and parliamentary affairs, women and children affairs, state ministers for energy and mineral resources and power, and other high ranking civil servants from key ministries involved closely with planning and implementing of the reform program. Delegates from 15 funding countries¹ and 14 international organizations² participated. The Asian Development Bank (ADB)'s delegation comprised Toru Shibuichi (Country Director, Bangladesh Resident Mission [BRM], head of delegation); Hua Du (Principal Country Programs Specialist, BRM); Putu Kamayana (Senior Country Programs Specialist, BRM); Stefan Ekuland, Project Implementation Specialist, Shamsuddin Ahmed, Senior Project Implementation Officer, and Zahid Hossain and Rezaul Khan (Senior Economists, BRM) on a rotational basis. Mr. M. Saifur Rahman and Mr. Praful Patel (Vice President, South Asia Region, World Bank) co-chaired the meeting.

2. The BDF was held at an opportune time to reflect on the achievements over the past year since the finalization of Bangladesh: A National Strategy for Economic Growth, Poverty Reduction, and Social Development (or the interim Poverty Reduction Strategy [i-PRS]), which was the focus of the 2003 BDF. The BDF also provided a good opportunity to exchange views on policies and priorities to be reflected in the full-fledged PRS, as intensive work is ongoing to produce a full PRS by end-2004. Development partners (DPs) commended Bangladesh's impressive macroeconomic performance, but expressed that much stronger performance could be achieved from better policies and institutions, especially improved law and order, a reduced cost of doing business (e.g., less corruption), a more competitive financial sector, and improved infrastructure. DPs urged the Government to build a national consensus on the key reforms for economic growth and poverty reduction embodied in the PRS, "ring-fencing" them, and keeping them out of confrontational politics. All agreed that the PRS would be the basis for Bangladesh's strategy to achieve the millennium development goals (MDGs), and that DPs would use the PRS, when completed, as the guiding framework for their future assistance to Bangladesh.

3. The Honorable Prime Minister Begum Khaleda Zia addressed the opening session, after the Vice President of the World Bank, a representative of the International Monetary Fund (IMF), and the Finance and Planning Minister, had made statements on the key development challenges facing Bangladesh. The IMF representative outlined Bangladesh's macroeconomic scenario. The opening session was open to the media. The BDF meeting indicated the Government's overall aid requirements in the coming years, at about \$2 billion per annum to fill the financing gap and to implement the PRS, but there was no pledging.

¹ Australia, Canada, Denmark, France, Germany, Italy, Japan, Republic of Korea, Netherlands, Norway, Russian Federation, Sweden, Switzerland, United Kingdom, and USA.

² Asian Development Bank, European Commission, Food and Agriculture Organization, Islamic Development Bank, International Fund for Agriculture Development, International Finance Corporation, International Monetary Fund, Saudi Fund for Arab Economic Development, United Nations Development Programme, United Nations Fund for Population Administration, United Nations Children's Fund, World Food Programme, World Health Organization, and World Bank.

II. MACROECONOMIC SCENARIO

4. The IMF representative highlighted the impressive achievements since the last BDF and the major challenges ahead for Bangladesh to meet the MDGs by 2015. The gross domestic product (GDP) is expected to grow by 5.5% in fiscal year (FY) 2004 (July 2003-June 2004) compared with 5.3% in FY2003, supported by a rebound in exports and good harvests. The rising trend in inflation, at about 6% in late 2003 and largely a result of increases in import prices, has been contained. Buoyed by the strong performance of exports and enhanced remittances, official reserves have increased over the last year, to the equivalent of three months of imports.

5. Sound macroeconomic policies and advances in structural reform have contributed to the economy's strong performance. Fiscal policy has been prudent. The fiscal deficit has been kept well under control, despite some underperformance on the tax revenue front. Monetary policy has been cautious while providing adequate room for loans to the private sector. Together with reforms in the management of monetary policy and rationalization in interest rates of government saving instruments, these policies have resulted in a gradual reduction in lending rates. The floating of the taka in May 2003 was well managed, and the exchange rate movement has helped to signal competitive allocation of resources. Structural reform has been characterized by major successes and some setbacks. Good progress was made in tax administration and reform of the nationalized commercial banks (NCBs). Critical progress was also made in the National Board Revenue, and the results of these reforms are already starting to show in improved tax collections and the identification and curbing of tax evasion. But, state owned enterprise (SOE) reforms have been much slower than anticipated over the past year due to stiff opposition by vested interests including heavy resistance from labor unions.

6. The key challenge ahead is to create an enabling environment for economic growth in line with meeting the MDGs, while ensuring that the benefits of such growth accrue to the poor. Currently, growth and private investment have been held back by the poor state of physical infrastructure, the high cost of doing business, a weak financial sector, limited human capital, and poor governance. The immediate outlook for economic growth and poverty reduction is clouded by the Multi-Fiber Arrangements (MFA) phase-out by end-2004. It is expected that Bangladesh's exports for ready-made garments to the US will be especially at risk from more intense competition, while its duty free access to the European Union and Canadian markets should allow Bangladesh exporters to retain some of their competitive edge. More importantly, reform initiatives by the Government, notably the flexible exchange rate, the reduction in anti-export bias in trade taxes, and improvements in the investment climate, would help to strengthen export performance over time. The Government has set up a committee to define a comprehensive strategy to manage the transition to a world without MFA quotas, but implementation of all the reform elements will require time and perseverance.

7. Meeting the above challenge requires continued prudent fiscal and monetary policies with intensified and broadened structural reforms, including regaining the momentum of the SOE reforms in the manufacturing sector. The IMF representative stressed that, to successfully carry out the reform agenda, and against the background of the MFA phase-out, Bangladesh would need the backing of the development community, both in the form of technical assistance and in financial support on concessional terms. The IMF representative informed that the IMF is considering augmenting Bangladesh's access to its Poverty Reduction and Growth Facility

(PRGF)³ under the IMF's newly established Trade Integration Mechanism (TIM). The TIM is aimed at providing additional financial support to countries that are adversely affected in the short term by international trade liberalization, such as MFA phase-out, to allow time for adjustment. Other DPs, including ADB, have been supporting the Government to pursue its reform agenda, along with assistance to help mitigate the impact of the MFA phase-out.

III. KEY ISSUES ADDRESSED AT THE BDF

8. The 2004 BDF discussions centered largely on the PRS-in-process, including the following key issues: (i) policies and programs to deliver the PRS and MDG goals; (ii) promoting good governance; (iii) enhancing partnership between government and nongovernmental organization (NGOs); (iv) improving human development outcomes; (v) improving the trade and investment climate; (vi) providing the infrastructure to support growth and development; and (vii) aid governance and implementation of development programs. On each of these issues discussed in seven sessions, the Government highlighted the key challenges and achievements to date, its reform and development agenda, and the progress made since the last BDF. DPs commented on the reform agenda of the Government and suggested methods of improving the effectiveness of the reform initiatives and strengthening the Government-DP partnership. Discussions at the meeting are summarized in the rest of this paper.

A. Policies and Programs to Deliver the PRS and MDG Goals

9. In her address the Prime Minister pointed out that the central development objective of the Government is to reduce poverty in keeping with the MDGs. Bangladesh shows indicators among the best in South Asia after Sri Lanka as measured against the MDGs. Declines in infant and child mortality were among the fastest in the developing world. Population growth has fallen to 1.5% annually, which is below India and Pakistan. In 2003, for the first time, UNDP ranked Bangladesh as being in the medium human development league. Bangladesh has been the only country in the least developed country league to accomplish this status. However, participants agreed that the level of attainments is far from complacency. To transform the interim PRS into a full PRS, the Government has established thirteen thematic groups to address gaps and lapses in the interim PRS, adhering to the core principles of country-driven, results-oriented, comprehensive in scope, partnership oriented, long-term in perspective, and fully participatory in nature. The thematic groups are guided by a 21-member National Steering Committee, chaired by the Principal Secretary to the Honorable Prime Minister, and coordinated by the National Poverty Focal Point situated in the General Economics Division of the Planning Commission.

10. The Government stated that Bangladesh's PRS will emphasize policies for enhancing pro-poor economic growth which will be anchored on (i) macroeconomic stability, (ii) enabling environment for fair and competitive business, (iii) promoting employment, (iv) infrastructure development, (v) development of information and communications technology (ICT), and (vi) fostering agricultural and rural development with improved water resources management. Social development and devising effective safety nets and targeted programs for women, children and all disadvantaged groups will be other strategic blocks of the PRS under preparation.

11. DPs expressed strong support for the PRS. DPs appreciated the hard work going into the PRS and supported the thematic approach since development solutions are found in

³ The IMF's PRGF to Bangladesh, for about \$500 million in seven equal disbursements, was approved in June 2003. Disbursement of the third installment is expected by mid-June 2004 (the first installment was disbursed at approval and the second in January 2004).

multiple sectors. DPs welcomed the fact that the PRS-in-process reflects strong Government ownership, and is prepared in a participatory manner, which involves concerned ministries and agencies through thematic group approach, and private sector, NGOs/community-based organizations (CBOs) and the international community through a series of consultation meetings. However, participants noted that, to be successful, the PRS must be a national document, supported by all key stakeholders, to ensure policy continuity. Specifically, given its time frame, the PRS will need to bridge the electoral cycle, and multi-party support for it is essential. All of the major political parties, especially the major opposition party (Awami League), should agree to “ring-fence” important reforms from the realm of confrontational politics. DPs urged Government to focus on implementation and good monitoring and evaluation, and to ensure that the medium term expenditure framework fully reflects PRS priorities. The ADB delegation, along with the other DPs, agreed that the PRS would provide the basis for external assistance to support the Government’s development priorities and policy and institutional reform initiatives. Specifically, ADB's new Country Strategy and Program (CSP), now under preparation, will build on the PRS, and will be completed in early 2005 synchronizing with the PRS process.

B. Promoting Good Governance

12. A broad array of governance-related issues was discussed at the BDF: financial management, procurement, anticorruption, human security, justice and law-and-order, police and judicial reforms, and democratization and local government. The Government presented in detail its recent measures to address various governance-related issues including steps for combating corruption, separating the judiciary from the executive, modernizing the civil justice system, strengthening the police force, restoring law-and-order; and further reforms to build local government capacities. There was a general agreement that improved governance and better law and order were fundamental to improving the investment climate and to improving people’s safety and security in their daily lives.

13. DPs welcomed the measures that the Government has already taken, for example, passing the Anti Corruption Commission Act, the procurement and financial management reforms, establishing the Energy Regulatory Commission and banking reforms. DPs acknowledged the positive steps by the Government to introduce money loan courts for financial disputes and alternative dispute resolution system in rural areas for timely and consensual disposal of civil suits, and enforce the Anti Money Laundering Act to improve financial transparency. DPs also acknowledged the positive steps that have been taken to promote peace, stability and development in the Chittagong Hill Tracts and to improve the tribal groups’ access to justice by establishing regular courts in the hill districts. While acknowledging the ongoing support by ADB and USAID to assist in operationalizing the independent Anti-Corruption Commission (IACC), DPs sought Government assurance to make the IACC operational soon, beginning with the appointment of commissioners – selected for their integrity and independence – within six months. Participants further agreed that a comprehensive national anticorruption strategy is needed, and a broad consultative process to develop this strategy to address corruption in the top-most reaches and in the political parties should be a top priority of the Government.

14. Regarding human security, justice and the law-and-order issues, DPs expressed major concerns on the confrontational nature of politics, weakening confidence in legal processes and the police, the absence of the major opposition party from Parliament, and attacks on journalists and minorities. DPs urged the two major political parties in Bangladesh to break the links between crime, police, and criminalized politics – “the nexus between some politicians, some police, and criminals, and a nexus that provides a protective umbrella for criminal activities” – a

key message that was delivered by the DPs during the 2003 BDF. DPs expressed that both parties should work together to eradicate corruption in the police, showing their commitment to prosperity, democracy and human security in Bangladesh. In this context, DPs called for the major opposition party's support to collaborate with the Government in pressing forward with police reform and the separation of judiciary from the executive, where initial progress has been made with the support of DFID and UNDP.

15. In the areas of local governance and decentralization, the Government and DPs agreed that promoting decentralization and the development of local government were vital for accountable service delivery and the effective implementation of the PRS. DPs welcomed the Government's plan to strengthen local government. But, as illustrated worldwide, decentralization will take time and require strong political will and financial support.

C. Enhancing Partnerships Between Government and NGOs

16. Bangladesh is recognized widely for the unique strength and diversity of its NGOs. The Government stated that many of Bangladesh's success stories in the areas of health, education, micro-credit, and women empowerment could be explained by the effective Government-NGO collaboration, and the strong involvement of NGOs in providing services that effectively reach the poor. The Government and DPs agreed that the proposed legislation governing NGOs should be reviewed in a consultative way and should be aimed at enabling NGOs to further improve services delivery. DPs again highlighted the importance of timely resolving, under transparent process, the Government's dispute with some NGOs (for their alleged involvement in political activities), which is holding up service delivery to thousands of poor beneficiaries – a key message that was delivered to the Government in the last BDF. Regarding the micro-credit NGOs, DPs submitted, and the Government agreed, that it would not interfere with, or set ceilings on, micro-credit interest rates, and that the micro-credit interest rates would continue to be market-determined. In this context, DPs also expressed concern about alleged corruption in the selection of NGOs by some government departments for implementation of donor-funded projects. Participants agreed that transparency in selection of NGOs, involving third party scrutiny, might be required to ensure that corruption does not infect this important area of procurement and service delivery.

D. Improving Human Development Outcomes

17. In the area of human development, the Government, together with UNDP, presented in detail the country's progress to date in achieving the MDG targets. The Government specifically highlighted the laws and regulations, and its strategies and programs to ensure women and children's advancement and rights including for those residing at the hill tracts. DPs commended Bangladesh's considerable achievements in improving human development indicators, while highlighting several major concerns regarding the increasing inequality associated with the country's recent growth pattern, the high levels of malnutrition, and continued high maternal and child mortality. DPs pointed out that renewed efforts are needed to strengthen women's health and empowerment programs to prevent slippage in these most important MDGs. In this regard, participants noted that, despite the various initiatives by the Government to safeguard women's rights, violence against women and girls remains a major concern. DPs believed that, to attain gender equality in Bangladesh, it is crucial to target adult males for social awareness education, and to ensure moral education on gender equality from primary to higher education. Capacity building of key government ministries and agencies to work on women's advancement and progress monitoring and evaluation is key to achieving the gender-related targets in the PRS.

18. In education and health, DPs commended the sector-wide approach program (SWAP) adopted by the Government to improve sector governance. DPs stated that mis-governance in both sectors, from corruption in procurement, hiring and appointments to pilfering and using public facilities for private gains, are major challenges facing the Government to promote better outcomes. Expenditure tracking and governance audits, measuring whether spending actually reaches its intended targets, and performance-based budget allocations for schools are examples of governance-reinforcing mechanisms that some DPs (including ADB) have been supporting. DPs believed that the above initiatives should be reinforced by systemic introduction of public servants' incentives as part of the civil service reforms in the human development sectors. Above all, DPs emphasized that public-private partnerships, through which the Government, NGOs, and the private sector combine efforts, are key to provide quality education and health services for all. Participants noted that, in health, design of the Health, Nutrition, and Population Sector Program (HNPSP) – the second SWAP in the sector – is just beginning, and major sector governance changes would be required to ensure that the poor have access to affordable health services and to secure progress in MDGs.

E. Improving Trade and Investment Climate

19. In her address, the Prime Minister highlighted that development of the private sector is one of the cornerstones of the Government's economic policy. The Government stated that, through both fiscal incentives and improved rules and regulations, it has created an environment where the private sector can play its due role. The Government presented its trade policies, strategies, and reform initiatives to improve the investment climate and to move the economy to a higher growth path. The Government and DPs agreed that a huge "growth dividend" could come from better policies and institutions, with the highest payoffs from: (i) better rule of law; (ii) reducing the cost of doing business due to poor administrative services, corruption, regulatory bottlenecks, confrontational politics, hartals (general strikes), and politically linked violence; (iii) a more competitive financial sector; and (iv) improving health, education and the quality of infrastructure including port, power, gas and water supply, so the economy can benefit from more foreign direct investment (FDI). DPs urged the Government to tackle and resolve the obstacles to private sector development with a sense of urgency and strong political will, so that substantial progress could be seen by next year's BDF.

20. To survive in a post-MFA world, participants also agreed that Bangladesh urgently needs to improve the competitiveness of its ready-made garments industry, not just in terms of price but, more importantly, in reducing the time-to-market in order to sustain job growth and livelihood, especially for women. DPs noted with concern that Bangladesh is now the most protected economy in South Asia, and the ready-made garments industry is being hurt by high tariff protection and prohibitions on FDI outside the export processing zones.

F. Providing the Infrastructure to Support Growth and Development

21. In this session, DPs underlined the key policy reforms that are needed to remove infrastructure deficiencies and improve the quality of infrastructure services through public-private partnerships and increased private sector participation in the provision and operation of economic infrastructure. DPs estimated that an estimated \$1-2 billion per year in additional private investment would be required to achieve an annual GDP growth of about 7-8% necessary to achieve the goal of reducing income poverty by half by 2015. Improved services are key to reducing the cost of doing business and to attract private investment. DPs suggested

that the Government monitor the increase in private investment including FDI, and share the information with participants during the next BDF.

22. The Government presented in detail progress of the key reforms in energy, transport, and communications to improve sector performance. In energy, good progress has been achieved in improving sector efficiency through restructuring and unbundling of power sector operations and allowing full autonomy to gas sector entities. DPs commended the Government for its recent initiative to establish and staff the Energy Regulatory Commission (ERC), noting that the chair of the ERC will soon be on board following due selection process. DPs observed that the rural electrification program has been a good example to follow; corruption has been kept minimal through transparent and efficient management practices. However, recent incidents of reported politicization and related governance issues would seriously undermine the image of the program if not immediately rectified. The Government assured the DPs that the program would be kept away from political interference.

23. In transport, DPs acknowledged the progress to date in transport sector reforms, and urged the Government to advance reforms in the roads, railway, and ports subsectors, from restructuring the Roads and Highways Department and introducing a road maintenance fund to reorganizing the Bangladesh Railway and upgrading railway infrastructure, and introducing private participation in Chittagong port. It was noted that the National Land Transport Policy (NLTP), approved by the Government in April 2004, would lay the foundation for institutional reforms and integrated development of the road and railway transport subsectors. DPs commended the Government for its initiative to prepare a Multi-modal Transport Policy on the basis of the NLTP, to include other modes of transport, keeping in view their role in promoting subregional cooperation, pro-poor economic growth and environmental conservation. The Government stated that the New Mooring terminal at Chittagong Port would be completed by 2006, and would be operated under the "landlord" concept. In telecom, DPs urged the Government to ensure full budget, staffing and autonomy to the regulatory commission so that it could function more effectively.

G. Aid Governance and Implementation of Development Programs

24. The seventh and last major theme of discussions at the BDF was aid governance and implementation of development programs to increase development effectiveness. The Government and DPs reviewed together the progress in aid governance, focusing on project audits, financial reporting, procurement, project documentation and approval procedures, and harmonization of DPs' procedures. DPs acknowledged the key steps by the Government to address project implementation delays, including streamlining project documentation and approval procedures and enforcing the 2003 Public Procurement Regulations. All agreed that increased development assistance should come from both increased commitment and faster aid utilization. DPs noted with much concern that during the first nine months of FY2004, only 40% of the annual development program (ADP) was implemented, the lowest level in recent years.

25. The Government reported that the Joint Government-DP Working group has made good progress toward unifying Government and DPs project documentation. For investment projects, a development project proposal (DPP) is envisaged to be introduced, which will minimize the additional information required under the current project concept paper (PCP) and project proforma (PP) process. Additional information required under the DPP will be limited to facilitating administrative, legal and financial reporting while other information including social and environmental assessments will be extracted from DPs' project documentation. Likewise, the project approval process will be streamlined. The ADB delegation, together with other DPs,

assured the Government of its readiness to support the implementation of the simplified procedures once approved by the Government (expected in the latter part of 2004).

26. DPs also commended the Government's initiatives to adopt the sector-wide approach in education and health, which could be the basis for sector-wide approaches in other sectors. DPs committed to further harmonization, and emphasized speeding up implementation of externally funded programs to increase development effectiveness.

IV. CONCLUDING REMARKS

27. The BDF was taken very seriously by the Government and the development community, as evidenced by the level of representation it attracted. DPs lauded Bangladesh's notable economic and social progress over the last two decades and particularly, its impressive macroeconomic performance in recent years. The sustained growth, rising exports, a stable real exchange rate, comfortable reserves, and improved public finances, lay the ground for continued reduction in poverty in future years. However, DPs expressed that much stronger performance could be achieved from better policies and institutions, especially better law and order, a reduced cost of doing business (e.g., less corruption), a more competitive financial sector, and improved infrastructure. DPs expressed their strong support for the PRS, its thematic approach and priorities, and their commitment to use the PRS to guide their future assistance strategies in Bangladesh. Specifically, ADB's new Country Strategy and Program, now under preparation, will build on the PRS, and will be completed in early 2005. DPs urged the Government to build a national consensus on the PRS and on the key reforms most critical to ensuing faster growth for poverty reduction.

28. Overall, the BDF provided a very useful opportunity for both the Government and DPs to discuss frankly matters that have serious implications for Bangladesh's future development. Although disappointed by the slower than anticipated progress in several fronts ranging from SOE and trade reforms to a worsening law-and-order situation, DPs appreciated the candor and openness of all Government representatives in the discussions. The BDF also provided ADB with an opportunity to be seen as supportive of the Government, as evidenced by its lead role in assisting the Government to improve the quality of infrastructure services, and expressing to the Government serious concern on a wide range of governance-related issues and other development challenges. It was agreed that the next BDF would be held in Dhaka around the same time in 2005.