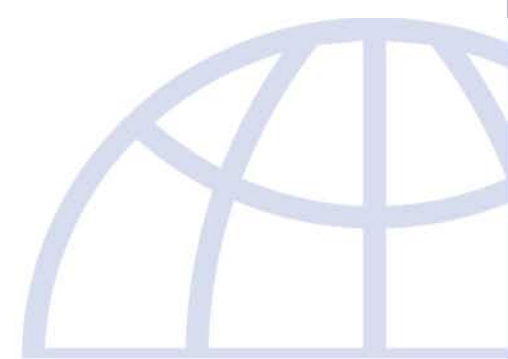




BANGLADESH

COUNTRY ASSISTANCE STRATEGY

2006 - 2009





The World Bank

World Bank Office Dhaka

Plot: E-32, Agargaon,
Sher-e-Bangla Nagar,
Dhaka-1207, Bangladesh.
Tel: 880-2-8159001-28
Fax: 880-2-8159029-30
www.worldbank.org/bd

The World Bank

1818 H Street, N.W.
Washington DC 20433, USA
Tel: 1-202-473-1000
Fax 1-202-477-6391
www.worldbank.org

All Bangladesh Development Series (BDS) publications are downloadable at :

www.worldbank.org.bd/bds

For further information on the CAS visit:

www.worldbank.org.bd/cas2006

Standard Disclaimer: This report was prepared by staff of volume staff of the International Bank for Reconstruction and Development/ the World Bank. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Copyright Statement: The material in this publication is copyrighted. The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

ISBN: 984 32 3213 5

Design: Designed and printed by Progressive Printers Pvt Ltd, Ph: 9661031

Illustration Credits: Cover (all photos): Arifur Rahman; Back cover (from left): Rashed Ahmed, Mufty Munir, Arifur Rahman
Section Dividers: Executive Summary (from left): Rashed Ahmed, Mufty Munir, Mufty Munir;
Bangladesh Country Assistance Strategy (from left): S.M.A. Hye Shapan, Kiron, Arifur Rahman;
Key Indicators (all photos): Mufty Munir; Annexes (from left): Mufty Munir, Rashed Ahmed, Mufty Munir

T A B L E O F C O N T E N T S

EXECUTIVE SUMMARY 1

BANGLADESH COUNTRY ASSISTANCE STRATEGY 9

INTRODUCTION 9

I. THE COUNTRY CONTEXT 11

A. RECENT POLITICAL DEVELOPMENTS 11

B. ECONOMIC AND SOCIAL PROGRESS 11

C. THE GOVERNANCE CONUNDRUM 13

D. HOW HAS BANGLADESH'S STRONG ECONOMIC AND SOCIAL PERFORMANCE COEXISTED WITH POOR GOVERNANCE? 19

II. UNLOCKING BANGLADESH'S POTENTIAL: A STRATEGY FOR ACCELERATED POVERTY REDUCTION 23

A. BANGLADESH'S DEVELOPMENT VISION AND THE PRSP 23

B. DEVELOPMENT CHALLENGES 24

III. THE WORLD BANK GROUP'S ASSISTANCE STRATEGY 28

A. THE STRATEGIC FOCUS—GOVERNANCE AT CENTER STAGE 28

B. PILLAR 1: IMPROVING THE INVESTMENT CLIMATE 29

C. PILLAR 2: EMPOWERING THE POOR 41

D. CORE GOVERNANCE 49

E. LONGER-TERM STRATEGIC ISSUES 60

IV. THE WORLD BANK GROUP PROGRAM 62

A. LESSONS LEARNED 62

B. WHAT THE WORLD BANK WILL DO DIFFERENTLY? 64

C. A STRATEGY OF ENGAGEMENT : WORLD BANK GROUP INSTRUMENTS 65

D. PORTFOLIO MANAGEMENT AND PERFORMANCE 69

E. MANAGING THE WORLD BANK'S FIDUCIARY AND IMPLEMENTATION RISK 70

F. PARTNERSHIPS, AID COORDINATION, AND HARMONIZATION 73

V. RISKS 75

A. PRS IMPLEMENTATION RISKS 75

B. COUNTRY STRATEGY IMPLEMENTATION RISKS 76

T A B L E O F C O N T E N T S

END NOTES 79

TABLES

Table 1	Development Performance and Outcomes for Bangladesh and Selected Comparators	12
Table 2.	Bangladesh Social Indicators : Actual and Predicted Values	13
Table 3.	Investment Climate : Targeted Results	31
Table 4.	Empowering the Poor : Targeted Results	42
Table 5.	Core Governance : Targeted Results	51
Table 6.	Portfolio Performance for Bangladesh and Selected Comparator Groups, FY05	68

BOXES

Box 1.	Governance : A Mixed Record of	14
Box 2.	Recent Reforms	20
Box 3.	Power Sector : Issues	34
Box 4.	The South Asia Enterprise Development Facility	37
Box 5.	Lesson form the last CAS and Recent Experience	63

KEY INDICATORS

Bangladesh at a Glance	83
Social Indicators	85
Key Economic Indicators	86
Bangladesh: Proposed IDA Lending FY06–09	88
Bangladesh: Program of Analytical and Advisory Activities	89
Key Exposure Indicators	90
Bangladesh: Active World Bank Projects	91
IFC's Held and Disbursed Portfolio	92

ANNEXES

CAS Results Matrix	93
Progress toward achieving the Millennium Development Goals	116
Medium-Term Macro Economic Framework	121
PFM Indicators based on the PEFA framework	125
Summary of Consultations	133
Joint CAS Process: Harmonization in Action	137
Proposed Analytical and Advisory Activities and Lending Program (FY06–09) by CAS Pillar	140

MAP OF BANGLADESH 142

ABBREVIATIONS AND ACRONYMS

AAA	analytical and advisory activities	KfW	Kreditanstalt für Weiderralfbau
ACC	Anti-Corruption Commission	MDG	Millennium Development Goal
ADB	Asian Development Bank	MDI	Millennium Development Indicator
BNP	Bangladesh National Party	MIGA	Multilateral Investment Guarantee Agency
CAS	Country Assistance Strategy	MOF	Ministry of Finance
CDD	community-driven development	MTBF	medium-term budgetary framework
CFP	country financing parameter	NBR	National Board of Revenue
CGA	Controller General of Accounts	NCB	Nationalized Commercial Bank
CIDA	Canadian International Development Agency	NGO	nongovernmental organization
DFID	Department for International Development (United Kingdom)	O&M	operations and maintenance
DSC	Development Support Credit	OECD	Organisation for Economic Co-operation and Development
EC	European Commission	PAC	Public Accounts Committee
EU	European Union	PFM	public financial management
FDI	foreign direct investment	PRSP	Poverty Reduction Strategy Paper
FIAS	Foreign Investment Advisory Service	SEDF	South Asia Enterprise Development Facility
FY	Fiscal Year	Sida	Swedish International Development Cooperation Agency
GDP	gross domestic product	SME	small and medium-size enterprise
GTZ	German Agency for Technical Cooperation	SOE	state-owned enterprise
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome	UN	United Nations
ICT	information and communication technology	UNDP	United Nations Development Programme
IDA	International Development Association	UNFPA	United Nations Population Fund
IFC	International Finance Corporation	UNICEF	United Nations Childrens Fund
IMF	International Monetary Fund	USAID	United States Agency for International Development
JBIC	Japan Bank for International Cooperation	VAT	Value-added tax
JSAN	Joint Staff Advisory Note	WHO	World Health Organization

Currency Equivalents

(Exchange rate effective January 23, 2006)

Currency unit = Bangladeshi taka (Tk)

Tk66.57 = US\$1

US\$1.44 = SDR 1

The symbol "\$" indicates the US dollar.

G L O S S A R Y

Char land	Char lands are islands in floodplains, highly prone to inundation.
Hartal	Strike, work stoppage
Madrasah	Islamic school
Pourashava	Municipality
Shariah	Islamic law
Union parishad	The lowest administrative level, comprising several villages
Upazila	Subdistrict

A C K N O W L E D G E M E N T S

This Country Assistance Strategy was prepared under the overall guidance of Christine Wallich by a team led by Alma Kanani in collaboration with Sarwar Lateef, Enrique Pantoja, Robert Floyd, Catherine Tovey, Zahed Khan, Junaid Ahmad, Nilufar Ahmad, Khurshid Alam, Oxana Bricha, Amit Dar, Maitreyi Das, Dilshad Dossani, Marc Dutz, Anastasia Gekis, Zahid Hussain, Zafrul Islam, Karin Kemper, Qaiser Khan, Kees Kostermans, Sandeep Mahajan, Syed Mahmood, Mohinder Mudahar, Kamla Pariadhaven, David Savage, P.K. Subramanian and Alan Townsend. Many others on the Bangladesh Country Team also supported the Country Assistance Strategy team with their inputs. This document was produced by Catherine Tovey and Rehnuma Amin and edited by Jill G. de Villa.

This Country Assistance Strategy for Bangladesh was prepared jointly with three other development partners: ADB, DFID and Japan, whom we also thank for their partnership and support.

The World Bank Group greatly appreciates the close collaboration of the Government of the People's Republic of Bangladesh in the preparation of this Country Assistance Strategy.

The Country Assistance Strategy for the People's Republic of Bangladesh (2006–2009) was discussed at the World Bank Board on March 29th, 2006.

We are pleased to disseminate the Country Assistance Strategy via the Bangladesh Development Series.

The World Bank

Vice President
Country Director
Task Team Leader

Mr. Praful C. Patel
Ms. Christine Wallich
Ms. Alma Kanani

The International Finance Corporation

Acting Vice President, (Operations)
Director, South Asia Department
Task Manager

Mr. Declan J. Duff
Mr. Iyad M. Malas
Ms. Anastasia Gekis

BANGLADESH

COUNTRY ASSISTANCE STRATEGY



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

BANGLADESH'S REMARKABLE SOCIAL AND ECONOMIC PROGRESS

1. Bangladesh has recorded impressive economic and social gains since the 1990s. The country has achieved steady economic growth of 4-5 percent annually, relatively low inflation, and fairly stable domestic debt, interest, and exchange rates. This growth performance, coupled with an impressive decline in the population growth rate from 2.5 percent in the 1980s to 1.7 percent in 1990-2004, has led to a doubling of annual growth of per capita gross domestic product (GDP), from 1.6 percent in the 1980s to 3.3 percent in 1990-2004. In terms of per capita GDP growth, Bangladesh outperformed both International Development Association (IDA)-only countries and low-income countries in this period. This record was also accompanied by more stable growth, itself a function of Bangladesh's improved disaster management capacity.

2. More important, Bangladesh has taken large strides toward achieving the Millennium Development Goals (MDGs). The country has outperformed most low-

income countries on a range of social indicators. It increased gross primary enrollment from 72 percent in 1980 to 98 percent in 2001 and has already attained the MDG of eliminating gender disparity in primary and secondary enrollment. With the sharp decline in infant mortality from 145 to 46 per 1,000 live births between 1970 and 2003, and in child mortality from 239 to 69 per 1,000, Bangladesh is set to achieve the targeted two-thirds reduction from 1990 levels by 2015. Food security has improved markedly, even for the very poor. There have also been steady gains in income poverty: the share of the population in poverty declined from 59 percent in 1990 to 50 percent in 2000, with rural areas accounting for nearly four-fifths of this decline. Bangladesh's actual values for fertility, infant and child mortality, contraceptive prevalence, and crude birth and death rates are much better than would be predicted for a country at its income level. These gains have occurred despite widely held perceptions of poor governance. Bangladesh has low scores on most global governance perception indicators, and investors rank corruption among their most serious concerns.

BANGLADESH'S GOVERNANCE CONUNDRUM

3. How has Bangladesh done so well despite such poor governance? Explaining this conundrum requires unbundling governance, recognizing both successes and failures. Bangladesh has shown slow but steady gains in public accountability, with successive free elections, an increasingly assertive Supreme Court, a rapidly growing and active civil society, and a relatively free media. The state has encouraged the emergence of a vigorous private sector through sound macroeconomic management and trade liberalization. Financial sector governance is improving, and successive governments have allocated budgetary resources wisely, emphasizing pro-poor expenditures. Governments have made room for and forged strong partnerships with nongovernmental organizations, which have contributed to the impressive development gains. On the other side are the governance failures. The increasingly unhealthy competition and lack of trust between the two major political parties sours the political climate and is a major governance weakness. The high cost of elections feeds public corruption. An overly centralized state reduces public accountability in the delivery of services. An inadequate revenue effort and weak public financial management undermine the effectiveness of pro-poor spending policies and foster corruption. A weak civil service and justice sector compromise the delivery of essential services, including law and order.

DEVELOPMENT CHALLENGES

4. The recently completed Poverty Reduction Strategy Paper (PRSP), "Unlocking the Potential," recognizes that despite past gains, a large unfinished agenda remains. About 63 million people live in deprivation, two-thirds of them in extreme poverty. Inequality may be rising. Adult illiteracy remains persistent and is falling only slowly. With malnutrition and maternal mortality levels in South Asia still among the highest in the world, Bangladesh's relatively good performance compared with India and Pakistan is little comfort. Attaining the MDGs calls for accelerating economic growth to 6-7 percent a year. This will not be easy. While garment exports have continued to perform well, risks to the sector remain. Garment exports, three-quarters of all exports, are vulnerable to competition from low-cost producers now that the Multifibre Arrangement has come to an end. The availability of cultivable land is declining. Accelerating growth will require higher investment levels-to diversify into areas of comparative advantage and to finance infrastructure-and higher productivity. This in turn calls for a substantial improvement in the investment climate, harmed by perceived high levels of corruption and lack of transparency.

5. Attaining the human development goals will require accountable and responsive social service delivery systems that reach the poor. Raising productivity and reaching the more difficult goals for maternal mortality and malnutrition will require improving the quality of education and health services. And this will require

improving institutional accountability and incentive structures, still very weak as a result of a poorly functioning and overly centralized bureaucracy operating within one of the most centralized countries in the world. These gains in quality will also depend on improvements in the quality of local governance. Improvements in the investment climate and service delivery also require stronger core governance. The modest revenue effort needs to be enhanced, and Public Financial Management, including procurement, strengthened to reduce leakages. And greater public access to information will be needed if civil society and the public are to hold government accountable for service delivery. As the PRSP states: "a major thrust of the Poverty Reduction Strategy has to be on ensuring good governance".

GOVERNANCE AT THE HEART OF THE NEW COUNTRY STRATEGY

6. The World Bank's strategy, strongly focused on governance, is aligned with the PRSP. The two pillars of the Country Assistance Strategy (CAS) - improving the investment climate and empowering the poor-reflect the focus of the World Bank's programs across sectors. These programs will address sector governance issues in both pillars, as well as core governance, such as public procurement, Public Financial Management, and judiciary reform. This mainstreaming of governance implies that all World Bank interventions will be as much about improving governance as they will be about improving sector performance. The CAS puts governance at center stage. Governance will

be the central focus in every sector the World Bank engages in, and sector governance reform will be the target of every World Bank-supported project. Thus, the CAS is designed around three main themes-improving the investment climate, empowering the poor, and core governance.

7. Pillar 1: Improving the Investment Climate. The CAS supports the Poverty Reduction Strategy's two primary aims. First, the World Bank will build on Bangladesh's strengths by continuing to help maintain macroeconomic stability and accelerate its progress toward an open, market-based economy. Second, it will help the Government address weaknesses in the investment climate by removing significant policy, institutional, and regulatory constraints; by infrastructure provision; and by improving the business environment.

8. In infrastructure, the World Bank's principal focus will be to improve sector governance and efficiency, and reduce opportunities for corruption and nontransparent procurement practices. Support will be provided to sector governance reforms and investments in the power sector, rural electrification, water and sewerage, roads, railways, and other transport means. Agriculture and rural and urban development will also be supported. In energy, a priority will be to strengthen the regulatory framework, address distorted pricing, and encourage accountable and transparent public procurement processes that reduce political interference in investment decisions.

9. The World Bank will also help the Government enhance the legal and

regulatory environment for the private sector, develop an effective competition policy, reduce administrative barriers, establish policies friendly to foreign direct investment, deepen banking and financial sector reforms, and upgrade business-related skills. Further trade liberalization efforts, including reducing non-tariff barriers, improving the competitiveness of the textile and garment sectors, and improving trade transport infrastructure will be supported.

10. Pillar 2: Empowering the Poor. The CAS supports the PRSP's call for improving the quality of services while seeking to attain and improve on the MDGs. The World Bank will build on Bangladesh's impressive social gains by helping the Government meet the MDGs while also enhancing the quality and efficiency of social service provision to the poor, particularly women, by strengthening sector governance and accountability and enhancing "voice" and participation. The program will support governance reforms and investments in health, education, water and sanitation, environment, microfinance, strengthening of local government, and safety net approaches.

11. A principal new thrust of the World Bank's strategy will be in local governance. The World Bank, working with its development partners, will attempt to enhance accountability by helping citizens participate in decision making and in holding service providers to account. It will help clarify the assignment of roles, responsibilities, and resources to local governments to allow them to respond to

community priorities, strengthen the capacity of communities to hold their governments to account, and support capacity development in core functions aimed at strengthening accountability and transparency. It will also enhance voice and participation through additional community-driven development operations.

12. Core Governance. The principal focus in core governance will be to increase transparency and accountability and reduce opportunities for corruption. Priority will be given to improving Public Financial Management and public procurement processes. The World Bank will support a strategy aimed at modernizing the National Board of Revenue to reduce corruption and improve tax collection. The World Bank is also working with the Government to develop and implement a comprehensive, time-bound public financial management action plan, including a deepening of the promising initial reforms of public procurement.

13. The World Bank and its development partners will support the strengthening of key institutions of accountability including the Comptroller and Auditor General, Public Accounts Committee, Bangladesh Bank, Public Service Commission, and Securities and Exchange Commission. Enhancing the quality, efficiency, and independence of these institutions will be crucial in improving the investment climate. Strengthening the legal and judicial sector is equally important to ensure access to justice for vulnerable groups, and to protect society from human rights abuse and other violations of personal dignity.

Active engagement with civil society and strategic partnerships is planned to help strengthen this focus on improving accountability.

14. The interventions in core governance reflect the World Bank's comparative advantage and mandate. But the roots of the governance crisis in Bangladesh lie mainly in its political institutions. Thus addressing this crisis requires reforming election finance, improving the way political parties are governed (i.e., enhancing intra-party democracy), improving the quality of political competition, and increasing the effectiveness of Parliament as a key institution. The World Bank will support its bilateral development partners to the limits of its mandate to help Bangladesh address these issues.

IMPLEMENTING THE CAS

15. World Bank Lending. The CAS envisages a program of around \$3 billion of credits and grants from IDA, the World Bank's soft loan window, over 4 years, based on continued good policy and implementation performance. In the CAS period, the World Bank's program will comprise both policy-based lending (also known as budget support lending) to support reforms as well as sector-specific investment projects. To support the World Bank's program from a fiduciary perspective, the CAS also outlines a strengthened risk management program designed to address corruption risks to the World Bank's own projects. This will include systematic analysis of risks through

economic and sector work and during project preparation, improved project design, strengthened implementation oversight, and enhanced information disclosure. Additionally, the World Bank is expanding governance expertise and will carry out governance assessments in critical sectors. The goal is to ensure World Bank programs that are aligned with, and robust to, the development challenges of Bangladesh.

16. The World Bank's lending program will be substantially influenced by the enhanced focus on governance. Development Support Credits will emphasize improvements in sector and core governance, and access to these credits will be conditioned on governance-related benchmarks. Investment projects in a particular sector will focus on the key governance constraints in that sector, while others will support improvements in local governance, financial management, and procurement. In addition, the World Bank will increasingly rely on community-driven development operations that directly empower the poor. The World Bank's program of analytical and advisory activities will also be managed more strategically to support governance reforms.

17. IFC and MIGA Programs. The International Finance Corporation (IFC), with a current portfolio of \$132.5 million in nine projects, expects to continue to provide direct support to the private sector, with a special emphasis on infrastructure, energy, and manufacturing sector projects. IFC will also support the development of local capital markets and a competitive banking

sector. The South Asia Enterprise Development Facility (SEDF) will continue to provide technical assistance to financial intermediaries, small and medium-size enterprises (SMEs), and professional service firms that support SMEs. The Multilateral Investment Guarantee Agency (MIGA), with an exposure of \$112 million in five contracts, plans to support foreign investors in telecommunications, infrastructure, and natural resources and provide technical assistance to the Board of Investment and support to the Export Processing Zones Authority.

MANAGING THE WORLD BANK'S FIDUCIARY RISK

18. The strong governance component of the CAS will require new levels of engagement by the World Bank. The World Bank will continue to engage in policy and institutional reform, but with an increased operational focus on improving sector and core governance. This means changing the way the World Bank does business, to reduce overall risks (including corruption risks) associated with its projects. The World Bank will implement the rolling Operational Risk Mitigation Plan which is being developed by the recently established Operational Risk Mitigation Team. The plan will comprise several key building blocks: carrying out, through analytical and advisory activities and in project preparation, a systematic analysis of corruption risk in sectors of potential engagement; designing "smarter" projects that reduce corruption risks; strengthening supervision efforts, including through a systematic annual review of projects

assessed to be at high fiduciary risk; more rigorously pursuing the remedies open to the World Bank when corruption is found; and enhancing the disclosure of information that would facilitate oversight of project implementation by third parties, civil society, and beneficiaries.

PARTNERSHIPS, AID COORDINATION, AND HARMONIZATION

19. The World Bank Group has prepared this CAS together with the Joint Strategy Partners, which, in addition to the World Bank Group, comprise the Asian Development Bank (ADB), the Department for International Development (DFID) of the United Kingdom, and Japan. This joint CAS reflects agreement on the country context, the outcomes the four partners plan collectively to support, and the strategies needed to attain these outcomes. It ensures that the Joint Strategy Partners' separate business plans complement and leverage rather than compete with one another. Going forward the Joint Strategy Partners will further strengthen their inclusive approach, coordinating at the sectoral level with all interested donors. This collective donor partnership is supportive of current efforts to harmonize donor activities around a Government-led development strategy and government systems: the Poverty Reduction Strategy Implementation Forum of November 2005, chaired by the Government, is now supported by all donors as an annual process to monitor implementation of the PRSP. The World Bank will also strengthen partnerships with civil society, academic institutions, and the private sector, working with them to help

forge consensus on difficult issues relating to governance or other contentious policy matters and encouraging them to contribute to the World Bank's analytical and advisory activities and the design of lending activities as appropriate.

20. Through this new Country Assistance Strategy, the World Bank is committed to working with the Government and People of Bangladesh to unlock Bangladesh's potential (see box).

Country Assistance Strategy Pillars and Outcomes

CAS Pillar 1—Improving the Investment Climate

- Macroeconomic stability maintained.
- Governance and efficiency in infrastructure services improved.
- Trade restrictions and administrative barriers reduced.
- Finance, land, and labor markets are provided that are conducive to private sector activity.

CAS Pillar 2—Empowering the Poor

- Quality of health services for the poor improved.
- Quality and relevance of primary and secondary education improved.
- Water supply and sanitation improved.
- Local governance strengthened.
- Safety net policy and programs rationalized.
- Voice and participation enhanced.

Core Governance

- An efficient, accountable, and transparent system of public financial management functioning at all levels of government and in all state-owned enterprises.
- Transparent and competitive public procurement processes.
- Revenue effort enhanced, and the tax administration is stronger, transparent, and more efficient.
- Key guardians of accountability functioning as an effective check on the executive.
- Performance of legal and judicial systems improved.
- A transparent, open government conscious of its obligation to disclose information to the public, and citizens made conscious of their right to information.
- A service-oriented, accountable, and efficient public service.

BANGLADESH

COUNTRY ASSISTANCE STRATEGY



2006-2009

BANGLADESH COUNTRY ASSISTANCE STRATEGY

INTRODUCTION

1. The last Country Assistance Strategy (CAS) for Bangladesh was discussed by the World Bank's Board of Executive Directors on December 12, 2000, almost 10 months before national elections and in the CAS Progress Report in June 2003, after the new Government completed the country's interim Poverty Reduction Strategy Paper (PRSP). The new Government, which came to power in October 2001 after the third consecutive and largely peaceful elections since Bangladesh reemerged as a democracy, successfully restarted reforms on critical fronts while ensuring sound macroeconomic and fiscal management. This good performance enabled Bangladesh to move from the CAS's low case to the base-case lending scenario in FY03, and the World Bank Group initiated a strategic shift, reengaging in critical sectors and providing programmatic development policy lending to support implementation of the reform program. Accordingly, the first Development Support Credit (DSC) was approved in June 2003. The three DSCs approved thus far have complemented a 4-

year Poverty Reduction and Growth Facility arrangement by the International Monetary Fund (IMF), also approved in June 2003.

2. Deepening this strategic shift, the FY06-09 CAS aims to align World Bank Group assistance with the recently completed PRSP (discussed by the Board in January 2006 along with the Joint Staff Advisory Note). The PRSP reflects the country's vision for unlocking the development potential of Bangladesh, a potential amply demonstrated by the remarkable socioeconomic progress made in the past two decades despite serious governance challenges. To accelerate poverty reduction, the PRSP is strategically built on a policy triangle of pro-poor growth, human development, and governance. In line with the goals and priorities of the PRSP, this CAS aims to help Bangladesh improve its investment climate and empower the poor while placing governance at center stage, simultaneously addressing key sector governance issues in both CAS pillars and in cross-cutting core governance issues and institutions.

3. To promote the coordination and

harmonization of aid and increase development effectiveness, the World Bank Group has prepared this CAS jointly with the Asian Development Bank (ADB), the Department for International Development (DFID) of the United Kingdom, and Japan. The joint effort has been framed by a common understanding of the PRSP and by agreement on both a common set of broad outcomes and the strategies needed to help Bangladesh achieve the outcomes. Because of institutional requirements, each partner has developed its own assistance strategy document, including complementary country programs for analytical and advisory services, technical assistance, and lending.

4. This CAS puts a greater emphasis on results, and a common results framework has been developed as part of the joint effort, including indicators and milestones for outcomes consistent with the PRSP. Implementation of the PRSP faces several challenges, and the joint results matrix of the development partners recognizes these. Given the difficult political environment in Bangladesh, the Government has had to pursue reforms opportunistically. The CAS takes into account the national elections expected to take place in early 2007, recognizing that as this date approaches, implementation of the reform agenda, and of development programs and projects, will become increasingly difficult, with a new window for intensified reform emerging only after a new government takes office.

I. THE COUNTRY CONTEXT

A. RECENT POLITICAL DEVELOPMENTS

5. The period since the last CAS has been eventful. A four-party alliance led by the Bangladesh National Party (BNP) has been in office since October 2001. After elections considered by international observers to be free and fair, the BNP-led alliance replaced the incumbent government, coming to power with a two-thirds majority in a 300-seat Parliament. BNP had a popular mandate to tackle corruption, improve law and order, and reenergize the reform agenda. Its term in office, however, has been characterized by a worsening in its relations with the main opposition party, the Awami League, leading to prolonged opposition boycotts of Parliament, frequent work stoppages (hartals), and, more recently, political violence. All this has contributed to the increased turbulence of politics in this young democracy. Moreover, in recent months a number of ominous terrorist incidents have occurred, purportedly inspired by a banned organization in support of the imposition of Islamic law (shariah) in secular Bangladesh.

6. The political environment may become more difficult as the country approaches its fourth consecutive democratic elections, which should take place in early 2007. The current government completes its term in office in October 2006 and, as required by the Constitution, a caretaker government should be appointed within 15 days of the

dissolution of Parliament. The caretaker government, headed by a chief adviser with all the powers of the prime minister,¹ should, together with the Election Commission, ensure that the elections are free and fair.

B. ECONOMIC AND SOCIAL PROGRESS

7. In the context of such turbulent politics, along with poor initial conditions and vulnerability to natural disasters, Bangladesh's achievements in economic and social development have been remarkable. The country has achieved steady economic growth of 4-5 percent annually, relatively low inflation, and fairly stable domestic debt, interest, and exchange rates. This growth, coupled with an impressive decline in the population growth rate from 2.5 percent in the 1980s to 1.7 percent in 1990-2004, has led to a doubling of annual per capita growth of gross domestic product (GDP), from 1.6 percent in the 1980s to 3.3 percent in 1990-2004 (see table 1). In per capita GDP growth Bangladesh outperformed the countries that borrow from the International Development Association (IDA), which grew at 1.8 percent and low-income countries, which grew at 3.0 percent, in the later period. This growth record was accompanied by lower volatility due in part to the diminishing severity of the impact of natural disasters.²

8. Bangladesh has taken large strides toward achieving the Millennium Development Goals (MDGs). The country

has outperformed most low-income countries on a range of social indicators. It increased gross primary enrollment from 72 percent in 1980 to 98 percent in 2001 and has already attained the MDG of eliminating gender disparity in primary and secondary enrollment. With the sharp decline in infant mortality from 145 per 1,000 live births in 1970 to 46 in 2003, and in child mortality from 239 per 1,000 to 69,

Indicator	Bangladesh	India	Pakistan	Sri Lanka	Low-income countries	IDA-only countries
Growth and structural change						
GDP growth rate (period avg.)	3.3	4.4	1.1	3.4	3.0	1.8
Trade (% of GDP*)	30.8	25.7	37.1	79.9	38.8	64.3
Foreign direct investment, annual net inflows (% of GDP, period avg.)	0.2	0.6	0.9	1.3	1.3	2.7
Workers' remittances (% of GDP, period avg.)	4.1	2.4	2.9	6.4	..	..
Net aid flows (% of GNI*)	2.5	0.2	1.3	3.7	3.0	..
Monetization of economy (M2 as % of GDP*)	31.3	49.7	42.1	35.2	40.5	25.8
Agricultural value added as % of GDP*	24.7	26.4	25.4	21.2	28.1	31.0
Macroeconomic management						
Overall budget deficit, including grants as % of GDP*	3.2	7.4	1.8	8.2	..	..
Current revenues, including grants as % of GDP*	10.1	19.5	14.9	15.3	..	..
Total expenditures as % of GDP*	13.3	26.9	16.7	23.5	..	..
Inflation rate (period average)	4.9	7.7	7.9	10.4	..	..
Current account deficit as % of GDP**	0.3	1.1	-0.8	-0.7	..	..
Total reserves, in as months of imports**	3.0	13.7	5.2	2.7	11.7	5.0
Poverty and social development						
Poverty headcount ratio at PPP\$1 a day**	36.0	35.3	17.0	5.6	..	..
Mortality rate, under five (per 1,000)**	69.0	87.0	98.0	15.0	122.0	151.6
Ratio of girls to boys in primary and secondary education**	106.8	88.5	71.1	102.8	87.2	88.5
Primary completion rate**	73.3	80.9	..	98.2	71.5	68.3
Improved water source (% of population with access)**	75.0	86.0	90.0	78.0	75.1	61.3
Fertility rate (births per woman)**	2.9	2.9	4.5	2.0	3.6	4.4
..Not available. *End of period ** MRE is Most Recent Estimate. Note: These indicators are part of the IDA14 reporting requirements. Source: World Bank, World Development Indicators database.						

Table 2. Bangladesh Social Indicators: Actual and Predicted Values

Indicator	Actual value	Predicted value
Population growth, annual (%)	1.74	1.84
Fertility rate, total (births per woman)	2.9	4.2
Contraceptive prevalence (% of women ages 15-49)	54	35
Birth rate, crude (per 1,000 people)	28	32
Death rate, crude (per 1,000 people)	8	12
Mortality rate, infant (per 1,000 live births)	46	70
Life expectancy at birth, female (years)	63	59
Life expectancy at birth, male (years)	62	56
Primary completion rate, total (% of relevant age group)	73	72
Maternal mortality ratio (national estimate, per 100,000 live births)	380	384

Note: Predicted values are based on available data for 153 developing countries, and show social indicators for countries at Bangladesh's per capita income level.

Source: World Bank, World Development Indicators 2005 (Washington, D.C., 2005).

Bangladesh is set to achieve the targeted two-thirds reduction from 1990 levels by 2015. Food security has improved markedly, even for the very poor. There have also been steady gains in income poverty; the share of the population in poverty declined from 59 percent in 1990 to 50 percent in 2000, with the rural sector accounting for nearly four-fifths of this decline. Bangladesh's actual values for fertility, infant and child mortality, contraceptive prevalence, and crude birth and death rates are much better than would be predicted for a country at its income level (see table 2).

C. THE GOVERNANCE CONUNDRUM

9. *Bangladesh's remarkable economic and social gains have taken place despite widely held perceptions of weak governance.* Perceptions-based governance indicators prepared by staff at the World Bank Institute, which aggregate data from a number of survey-based indexes, reveal low ratings for Bangladesh on six key indicators,

with particularly poor ratings *on control of corruption, regulatory quality, and rule of law* (see box 1). In addition, a recent investment climate survey of 1,001 manufacturing firms operating in Bangladesh showed that nearly three-fifths of them saw corruption as the most serious constraint, next to infrastructure. Two other governance-related issues (tax administration and customs) ranked among the top six constraints.

10. *How has Bangladesh done so well despite such poor governance?* Recent analysis suggests that understanding this conundrum requires unbundling the broad concept of governance, recognizing that Bangladesh has had both successes and failures.³

11. *Bangladesh has seen some impressive successes in governance since the 1980s:*

- *The state has increased its accountability to citizens.* The conduct of three successive, relatively peaceful elections with high turnouts and with the incumbents losing

power twice in succession is evidence of the growing maturity of the electorate. The rapid growth of civil society and of an increasingly mature and critical media has amplified the voices of the poor and of citizens more

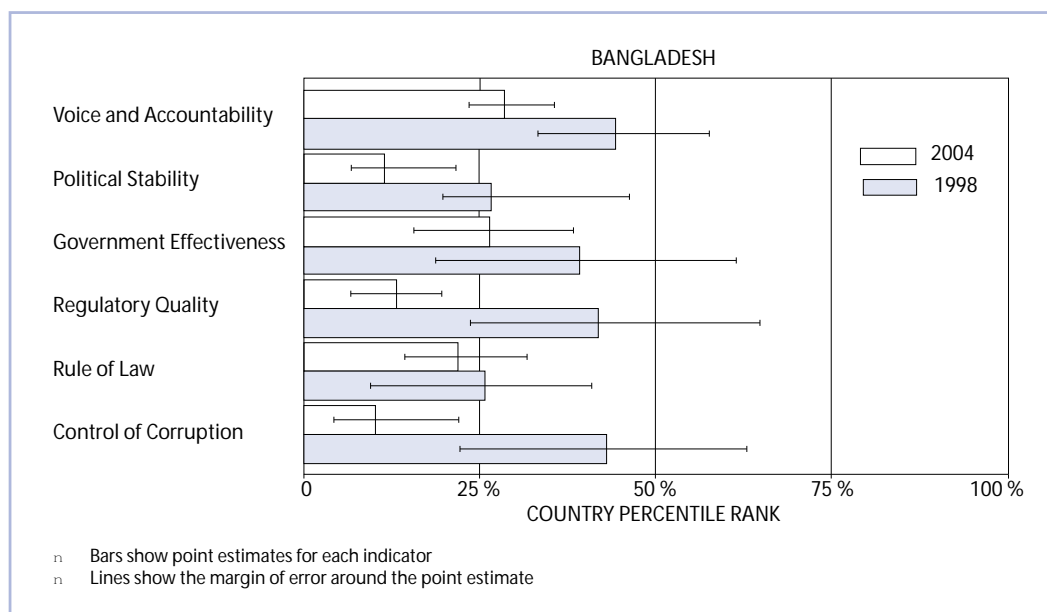
generally. The Supreme Court has asserted its independence from the Government and held successive governments to account through key verdicts in a series of public interest litigations.

Box 1. Governance : A Mixed Record

Governance in a country refers broadly to the exercise of power through the country's economic, social, and political institutions. These include the processes by which governments are selected, held accountable, monitored, and replaced; the capacity of the governments to formulate and implement policies and manage resources efficiently; and the respect of citizens for the institutions that govern social and economic interactions among them. Good governance is underpinned by a system of checks and balances embedded in an accountability framework that is based in the rule of law and in transparent transactions and exchanges of information.

The World Bank Institute has developed a set of indicators aimed at capturing these broad dimensions of governance. These perceptions-based indicators, which cover some 209 countries, have been used since 1998 to measure performance in six main dimensions of governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption.

Bangladesh scored poorly on all six indicators for 2004. For control of corruption Bangladesh's percentile ranking was 10.3; for political stability, 11.7; for regulatory quality, 13.3; and for rule of law, 22.2 (see figure). Bangladesh did somewhat better on government effectiveness (26.4) and voice and accountability (28.6). Bangladesh's performance compares poorly with that of other low-income countries on political stability, regulatory quality, and control of corruption, while it outperforms other low-income countries on voice and accountability and rule of law.



A comparison of the point estimates for these indicators over time suggests that Bangladesh's performance worsened on all six indicators between 1998 and 2004. But because of large (though declining) margins of error, there is not enough evidence to conclude that Bangladesh's governance improved or worsened except in the case of regulatory quality—where it is possible to say, at a 90 percent confidence interval, that there was a perceived decline—and control of corruption—where it is possible to conclude that there was no improvement and probably a deterioration. But it is also clear that on three of the six indicators (political stability, regulatory quality, and control of corruption) Bangladesh ranks in the bottom quartile of all countries, even allowing for margins of error.

n **The state has increasingly created space for the development of the private sector,** through strong macroeconomic management⁴ and progress on trade liberalization. Trade in goods nearly doubled as a share of GDP between 1990 and 2004, to 30.8 percent, reflecting both a rapid expansion in garment exports and a significant liberalization of imports.⁵ More recently, the Government has privatized or shut down about 55 state-owned manufacturing enterprises (from about 121 in FY01) and reduced employment levels in these enterprises, visibly improving their finances. The Government has also relied on the private sector to deliver essential public services such as secondary education.

n **Sound macroeconomic policies and greater openness combined with the migration of Bangladeshi labor abroad have led to a surge in overseas remittances,** which reached about 5 percent of GDP by the end of the 1990s. Such remittances, together with the earnings from peacekeeping operations, amount to \$5 billion to \$6 billion a year. These funds directly benefit rural families, including the poor, by helping to finance land purchases, agricultural inputs, and business start-ups as well as improvements in education and health. Much of Bangladesh's growth has come from a booming private rural economy and industrial and export growth led by private enterprises.

n **Recent efforts to improve governance in the financial sector have had a noticeable impact in improving the sector's performance.** Measures to enhance the capacity of Bangladesh Bank (the central

bank), one of the key institutions of accountability in the country, and changes in the regulatory framework have led to improvements in the performance of private commercial banks. These banks have met the Basle capital adequacy ratios, seen a sharp decline in nonperforming loans (from 16 percent in 1998 to 3 percent in 2004 on a net basis), and begun to strengthen their corporate governance. Although the performance of nationalized commercial banks (NCBs) remains problematic, their nonperforming loans have also been reduced, from 27 percent in 1998 to 18 percent in 2004. New lending by NCBs has been capped, a ban on new loans to defaulters has been strictly enforced, about 100 bank branches have been closed, and the NCBs' share of loans has fallen from 70 percent in 2000 to 40 percent in 2006. One of the NCBs, the Rupali Bank, is being brought to the point of sale, and management of the others is being strengthened prior to their possible sale.

n **Sustained allocations of public resources for pro-poor activities have played a crucial role in ensuring wise allocation of public expenditures and thus in contributing to the strong poverty-reducing outcomes. For example:**

1 Military spending has been contained at 1.1 percent of GDP, which is much less than half the average for the region, and leaves fiscal space for pro-poor spending.

1 Rural infrastructure, particularly roads connecting about 1,400 of 2,100 growth centers and markets, has received increased financing thus contributing to

the significant increase in nonfarm activity, employment, and income.

l The injection of public funds for health and education has been sustained, and combined with progressive policies to ensure participation, inclusion, and empowerment and strong partnerships with the private sector and nongovernmental organizations (NGOs), all of which have contributed to Bangladesh's strong progress in social outcomes.

n **The state has made space for and forged partnerships with NGOs to deliver public services.** Unlike in many developing countries, where civil society is either crowded out or co-opted by the state, in Bangladesh successive governments have recognized the state's inability to meet the high public expectations for service delivery and have chosen to carve out strategic partnerships with NGOs to deliver such services as microfinance, health, education, drinking water, and sanitation. Microfinance reaches about 65 percent of the country's poor people. And NGOs account for 9 percent of health care expenditures and 8 percent of primary enrollment. While the state continues to play the predominant role in health and education, NGOs provide a growing share. The leading Bangladeshi NGOs have evolved into social enterprises with considerable capacity for nationwide service delivery, creating a sound foundation for future social development and poverty reduction.

n **The state has greatly improved its capacity for managing natural disasters.**

The macroeconomic and social impact of natural disasters has been greatly reduced, and the resilience of the poor has increased. The factors contributing to this improvement include greater nonfarm incomes, policies that have reduced leakages in food distribution and allowed private sector imports, the highly effective and well-targeted Voluntary Group Feeding System, the construction of cyclone shelters, and the establishment of early warning systems.⁶ The response capability of civil administrations has improved markedly, and government campaigns to educate households on food and water safety precautions during floods and cyclones have proved effective. NGOs play a major role in disaster prevention, recovery, and relief, and vigorous domestic opposition and a free press have motivated governments to respond promptly to disasters.

12. These successes are partially offset by some marked failures in governance:

n The state of political competition is unhealthy. Political power is concentrated in two major parties, led by rival families that have dominated Bangladesh's politics since its independence. This has discouraged the emergence of intraparty democracy. Bangladesh has a "first-past-the-post" system of elections, in which the winner is the candidate who garners the most votes—but not necessarily a majority vote. This results in large stable majorities for governments, reducing the effectiveness of Parliament by lessening the importance of the opposition. The lack of competition is accentuated by a highly centralized state. In the absence of elected regional governments

that exercise real political power, a change in power at the center leaves virtually nothing for the losers. The patron-client nature of politics feeds the bitter relations and lack of trust between the two dominant political parties. Parliament has been ineffective in its role as a check on the executive, and opposition parties of different hues prefer to mobilize public support for their cause on the streets and through hartals. The dependence of political parties on muscle power leads to the criminalization of politics and increasing political violence. More recently, extremist religious movements have taken advantage of the discord in the secular political leadership through a series of violent incidents. Fractious politics are not unique to Bangladesh; both the developing and the industrial world provide many similar examples. But the fractiousness is proving costly by contributing to political uncertainty and the poor investment climate.

n The formal legal mechanisms that regulate campaign financing activities are ineffective. As in many other democracies, developing and industrial alike, elections in Bangladesh cost far more to contest than candidates are allowed to spend. Each candidate for Parliament is permitted to spend up to Tk500,000 in contesting constituencies that represent around 250,000 voters. While this amount is not particularly low in relative terms (\$0.16 on a purchasing power parity [PPP] basis per voter), it is only a fraction of the true cost of fighting an election. The need to finance campaigns is reportedly a major source of the high levels of corruption in Bangladesh

and elsewhere in the region. Moreover, the illegality of such funds reduces transparency and blurs the line between a parliamentarian's public and private funds. In the absence of efforts to reduce the cost of contesting elections, curb campaign spending, or properly enforce rules relating to the declaration of a candidate's assets and liabilities and make such declarations public, the risks of state capture by those who bankroll candidates become significant.

n Revenue mobilization is handicapped by poor governance. Bangladesh's budgetary revenue effort has been abysmally low: tax revenue amounts to less than 10 percent of GDP and comes from a very small share of the population. This situation reflects the serious governance challenges facing the National Board of Revenue (see paras. 103-05). The small tax base in turn creates huge incentives for corruption as well as opportunities for rent seeking by forcing the Government to pay abysmally low salaries to civil servants, reduce operations and maintenance expenditures, and ration essential public services.

n Despite recent progress, Public Financial Management needs further strengthening to become an effective policymaking and accountability instrument for the Government. While public expenditure policy has many positive aspects (see para. 11), financial management systems remain weak, undermining the effectiveness of the policy. The budget planning process lacks a medium-term strategic orientation, allowing discretionary behavior in budget planning and implementation. While efforts

to introduce information technology in budget accounting and reporting are under way, manual systems are still used for all budgetary transactions, reducing the effectiveness and transparency of expenditure management. Public financial accountability systems inside and outside the executive are at a nascent stage, and consolidating these systems will require long, sustained efforts. Until recently procurement has been a major source of corruption. A modern and effective legal framework for procurement has been developed and now needs to be implemented and its outcomes monitored.

n Budgetary constraints and failure to create transparent and accountable processes for private sector participation in infrastructure have contributed to the sector's low levels of investment. Inadequate revenues and weak financial management contribute to the Government's inability to fund infrastructure from the budget, while private provision has lacked transparency. There has been progress in some areas, such as telecommunications, where cellular operators have quickly overtaken landlines. But power shortages are cited by business enterprises as their most important constraint, and port facilities are inefficient, corrupt, and failing to keep up with demand, raising shipping costs and reducing competitiveness. Failure to create transparent and accountable processes for private participation in infrastructure and to address pricing issues has been a major constraint on investment in electricity, and powerful interests tend to resist reforms in Chittagong port, the country's largest.

n As in many developing countries, politicization, low salaries, and poor human resource management have contributed to a steady deterioration in the quality of the civil service as well as other government services, such as the police and the judiciary. The civil service today, with some important exceptions, is increasingly poorly trained, highly hierarchical and secretive, and open to political pressures. Moreover, the civil service sees itself as accountable to its higher-level masters rather than to Bangladeshi citizens, whom it is supposed to serve. This situation has eroded the quality of public service delivery and regulation while undermining accountability and increasing the fiduciary risks to public funds. While the wise decision to develop strategic partnerships with the private sector and NGOs has mitigated the costs to the country, civil service management and performance issues cloud prospects for the country's future.

n The justice sector is dysfunctional. Despite an activist and vigilant Supreme Court, the justice sector faces serious challenges of inefficiency and corruption. Law and order is weak, and crime is underreported and poorly investigated. The police, the citizens' first point of contact with the formal justice system, are held in little confidence. Bangladesh has the lowest ratio of police to citizens on the subcontinent. About 70 percent of its police officers (around 80,000) are constables, who are poorly trained and equipped, and have limited authority, education, and skills. And only 1.2 percent of the police force is female. The focus of the criminal

justice system appears to be on maintaining public order and protecting the wealthy and powerful rather than preventing, detecting, and investigating crime. The lower courts are particularly inefficient and corrupt. As the PRSP notes, "an inherited colonial system of criminal and civil justice which ensures 'certainty of expense but uncertainty of results' poses major barriers to the poor in terms of accessibility and affordability⁷." Moreover, enforcing a contract through a court costs three times as much in Bangladesh as it does in China, where it also requires half as many days on average. Similarly, banks find it nearly impossible to collect collateral on defaulting loans. This situation is a major impediment to attracting foreign direct investment. A credible justice system that enforces clear laws in a just, transparent, and efficient manner is essential to create the stable, predictable, and secure environment necessary for investment and to ensure the human security that is integral to sustainable development and poverty reduction.

D. HOW HAS BANGLADESH'S RELATIVELY STRONG ECONOMIC AND SOCIAL PERFORMANCE COEXISTED WITH POOR GOVERNANCE?

13. Two factors need to be recognized. First, judgments about the quality of governance in Bangladesh need to take a sufficiently nuanced view. The foregoing analysis shows that governments of differing political persuasions have pursued fairly sound economic policy stances macroeconomic stability and

economic openness, adopted a private-sector-led development strategy, created space for NGOs to operate and complement government efforts, and allocated public resources sensibly, particularly in terms of pro-poor spending.

14. Second, the private sector and NGOs have taken advantage of this to deliver growth and services. By creating a duty-free environment through bonded warehouses, for example, the Government enabled the ready-made garment sector to get around the constraints of a corrupt tax administration. Similarly, by encouraging provision of social services by the private sector and NGOs, the Government compensated for weak governance and poor public service delivery and allowed itself to concentrate on its proper role as a regulator and provider of public health services.

15. These steady but largely untrumpeted and insufficiently recognized gains are often overshadowed by the much noisier failures of the country's political governance and the corrupt elements in its elite. These failures tend to be captured in the perceptions-based data on governance, which have not yet been extended to the broader dimensions. Analysts outside the country therefore often seem to overlook its strong economic and social outcomes and the good policy governance that underpins these outcomes. The foregoing and other reforms (see Box 2) taken by various governments have been instrumental in delivering the good social and economic outcomes Bangladesh registers at present.

Box 2. Recent Reforms	
Action area	Government of Bangladesh action and progress to date
Macroeconomic stability	<ul style="list-style-type: none"> n Fiscal discipline was maintained, keeping public and external debt at reasonable levels. n A good record on monetary prudence was sustained, containing inflation. Interest rates were liberalized. n A floating exchange rate regime was adopted. The stock of foreign exchange reserves increased from US\$1 billion in 2001 to just under US\$3 billion. n Trade liberalization was further advanced, with reduction in tariff protection and near elimination of trade related quantitative restrictions. Of particular importance has been the removal of longstanding ban on a wide range of textile imports.
Bank and State Owned Enterprises	<ul style="list-style-type: none"> n Bangladesh Bank's regulatory powers strengthened and its prudential regulations aligned closer with international accounting standards. Nationalized commercial banks have been brought under Bangladesh Bank regulation. n The Rupali Bank has been brought to point of divestment. The restructuring and corporatization of 3 other nationalized commercial banks is underway to prepare for their future divestment. n Measures have been introduced to strengthen corporate governance & management in nationalized commercial banks. _ The number of manufacturing state owned enterprises reduced from 121 in FY01 to 92 in FY04 and employment in these fell from 134,000 to 83,000. _ Manufacturing state owned enterprises' losses reduced by 60% since 2001. Non-manufacturing state owned enterprises, not including the Bangladesh Petroleum Corporation, have recorded a profit for three consecutive years.
Public Expenditure, Financial Management and Procurement	<ul style="list-style-type: none"> n Implementation of a medium-term budgetary framework is being initiated, including issuance on a pilot basis of new budget guidelines, with elements of more strategic budgeting, and better coordination of recurrent and capital budgets. n Uniform procurement policy is being adopted for all of public sector, with substantially streamlined procurement approval process. A procurement tracking system through MIS has been established. Independent review mechanisms have been introduced to handle complaints. n A number of initiatives to improve fiscal accountability & transparency have been introduced, including: (a) computerization of accounts and strengthening of the Controller General of Accounts; (b) provisioning of a Chief Accounting Officer to each ministry; (c) improved reporting of fiscal data with Bangladesh being included for the first time in the Government Finance Statistics Yearbook; (d) separation of accounting from auditing; and restarting of Public Accounts Committee.
More Efficient Revenue Collection	<ul style="list-style-type: none"> n The modernization of the National Board of Revenue has been initiated, including the establishment of "large taxpayers" units for income tax and VAT and a central intelligence cell. n Customs procedures have been streamlined.

Box 2. (cont.) Recent Reforms	
Action area	Government of Bangladesh action and progress to date
Competitive Private sector	<ul style="list-style-type: none"> ■ Investment regulations including number of clearances have been sharply reduced. ■ The land Registration Act has been enacted. ■ Private investment facilitation has been strengthened.
Infrastructure bottlenecks	<ul style="list-style-type: none"> ■ Billing and collection in the power sector have been tightened. Power system losses have been substantially reduced through theft reduction and better maintenance. ■ Measures to improve power supply have been initiated, including via captive power plants. ■ Energy Regulatory Commission & Bangladesh Telecom Regulatory Commission have been Established. ■ The wireless telephone system has been deregulated.
Public administration	<ul style="list-style-type: none"> ■ The promotion policy for Class I officers has been improved with an enhanced emphasis on merit. ■ Training policy has been improved with creation of Career Planning & Training Wing. ■ Ministries are being organized around clusters for greater efficiency.
Anti-corruption	<ul style="list-style-type: none"> ■ Independent Anti-Corruption Commission has been established. ■ Money Laundering Prevention Act, 2002, has been enacted. ■ Alternative Dispute Resolution mechanisms have been adopted. ■ Judicial Services Commission established.
Human development	<ul style="list-style-type: none"> ■ Tracking studies have been initiated in health and education to better monitor expenditure. ■ Creation of National Teachers Registration & Certification Authority (NTRCA) has been cleared. NTRCA should improve teacher quality & reduce scope for bribery at recruitment. ■ Textbook production at the secondary level is being privatized. ■ Most delivery of secondary education has been contracted out to private sector and NGOs. ■ Next phase of health sector SWAP is being implemented under HNPSP program. ■ Targeted subsidy programs are being monetized to plug leakages and lower transaction costs.

16. *But the price that Bangladesh pays for poor governance may be rising to the point where it begins to seriously undermine the effectiveness of the country's development efforts.* The increasingly fractious politics and the political

uncertainty they breed are a major factor in the poor investment climate, particularly for foreign direct investment, offsetting the Government's pro-private-sector stance. Foreign investors that might have been attracted by the Government's "open

economy" policies are put off by poor infrastructure, the inability of the justice sector to enforce contracts, the deteriorating law and order, and the high level of corruption in regulatory agencies. Moreover, while government policies have been sound, implementation has always been weak and is steadily deteriorating, reflecting the failure to address institutional weaknesses and reform the civil service. The failure to control corruption and the deteriorating law and order are symptoms of a larger failure of governance, reflecting the perverse incentives arising from the high cost of contesting elections, the politicization of the civil service, and the steady, long-term erosion in its quality and in the quality of law enforcement. In addition, government responses to weaknesses in implementation have often been compelled by pressure from the public due to the relatively free media and active civil society and have tended to be ad hoc. Experience in other countries shows that such responses typically fail to systematically address institutional weaknesses. Innovations and improvements

often have proved unsustainable, rarely survive the departure of inspired leaders, and may even become problems themselves, as with the excesses committed by the Rapid Action Battalion.⁸

17. Nor can the sustainability of past social achievements be taken for granted. The early gains took up the slack in the system. Further progress toward the ambitious MDGs will prove difficult if the Government fails to address underlying institutional weaknesses. Giving priority to pro-poor resource allocations will not be enough. Doctors and other health care providers must reach mothers needing pre- and postnatal care. And teachers need to attend schools. Similarly, a pro-private-sector stance will not be enough to address the massive underinvestment in infrastructure-particularly the underinvestment in energy, which accounts for the current energy crisis in Bangladesh. The solution also requires tackling the growing lack of transparency in deals relating to private provision of infrastructure.

II. UNLOCKING BANGLADESH'S POTENTIAL A STRATEGY FOR ACCELERATED POVERTY REDUCTION

A. BANGLADESH'S DEVELOPMENT VISION AND THE PRSP

18. Recognizing these challenges, the Government has outlined its vision in the full PRSP, "Unlocking the Potential," released in October 2005. The PRSP appropriately stresses the links between investment, growth, job creation, and poverty reduction. It identifies key areas where reforms are needed, public investments are required, and public policies merit improvement. It does not shy away from tackling difficult issues, according a prominent place to combating corruption, restoring rule of law, and making governance work for the poor. It builds on past achievements, aims to prevent slippages in areas where progress has been made, and addresses weaknesses in implementation, emphasizes the centrality of employment creation, and strengthens the focus on women's empowerment.

19. As the Joint Staff Advisory Note (JSAN)¹ observes, the PRSP vision appropriately builds on the policy triangle of growth, human development, and governance, and argues for special attention to goals and outcomes in the following areas:

- n Employment generation
- n Nutrition
- n Maternal health
- n Quality of education
- n Sanitation and safe water
- n Criminal justice system
- n Local governance.

20. The PRSP emphasizes that progress toward these goals requires creating an open, competitive environment conducive to private investment, with particular importance given to exports and the rural sector, where 85 percent of Bangladesh's poor people live;² improving the ability of poor people to participate more fully in the growth process, through access to better-quality education, health, water, and nutrition; and, most important, ensuring that the Government addresses both sector governance concerns and core governance issues, such as by improving government capacity, promoting local governance, tackling corruption, enhancing access to justice for the poor, and improving security and public order. As the PRSP states, "a major thrust of the Poverty Reduction Strategy has to be on ensuring good governance."³

21. The JSAN, however, notes that the PRSP lacks a well-thought-out process of growth acceleration to justify the high growth projections, and that despite the focus on a growth agenda driven by the private sector, there is too much reliance on public rather than private investments. Moreover, the trade policy regime, which impinges on growth, should have been comprehensively reviewed. The omission of a strategic vision for the development of the financial sector also weakens the pro-poor growth agenda presented in the PRSP. While the PRSP recognizes infrastructure as an important impediment to growth and poverty reduction, it needs a greater focus on improving governance in these sectors,

especially power. The lack of specificity on sectoral governance reforms, despite the very welcome strong focus on overall governance, suggests a need to broaden the ownership of governance reforms within the Government. Finally, for the PRSP to be a credible instrument, a clear plan is needed for its implementation and monitoring. The plan will facilitate prioritization and achievement of the PRSP's goal and be mainstreamed in the Government's processes for policy formulation, implementation, and monitoring.

B. DEVELOPMENT CHALLENGES

The Poverty Challenge

22. The PRSP recognizes that Bangladesh's progress in social and economic development and the way forward should be seen in relation to the magnitude of the poverty challenge.⁴ While income poverty in both urban and rural areas declined by almost 1 percentage point a year in the 1990s—an impressive 9 percentage points over the decade—the absolute number of people below the poverty line has not changed. About 63 million people live in deprivation, two-thirds of them caught in extreme poverty. Poverty has fallen unevenly across regions, with most of the gains in the Dhaka division and large pockets of poverty remaining in Chittagong, Khulna, and Rajshahi. Moreover, inequality is rising, making the task of reducing poverty even more difficult. Attaining the key income poverty goals will require accelerating the rate of income poverty reduction substantially beyond the 1.5 percent a year achieved in 1990-2002. Adult

illiteracy is persistent and falling only slowly, particularly among women. With malnutrition levels in South Asia still among the highest in the world, Bangladesh's relatively good performance compared with India's and Pakistan's is little solace. More than half the children aged 1-3 are underweight, and more than 40 percent of women are severely malnourished. Maternal mortality is high as a result of inadequate access to health services during pregnancy and childbirth and the poor nutritional status of pregnant women.

Progress and Prospects on the Millennium Development Goals

23. The poverty challenges are reflected in Bangladesh's progress and prospects on attaining MDGs, where the picture is mixed. As noted, the country has made remarkable progress toward several MDGs. Several others are within reach, though attaining them will require special attention and concerted effort. And some MDGs will challenge the country for a considerable time (see annex 2). A mixed picture is thus emerging, as two recent MDG assessments suggest.⁵

n Bangladesh has already attained the MDGs relating to gender parity in schooling opportunities and universal primary education. It is the only country in South Asia other than Sri Lanka to have achieved parity in male and female enrollment at the primary and the secondary levels. Attaining two other MDGs—reduction of consumption poverty and under-five mortality—is also feasible, through a mix of sector-specific interventions (such as expanding immunization coverage and reducing pupil-

teacher ratios), economic growth, improved coverage of infrastructure, and social safety net programs. Attaining the MDG relating to child malnutrition and those in education relating to universal net primary enrollment and primary completion remains challenging but within reach. For child malnutrition, the projections suggest that Bangladesh could come very close-within 5 percentage points-to the MDG of having no more than 34 percent of its children underweight by 2015. Whether Bangladesh is likely to achieve net primary enrollment and primary completion rates exceeding 83-86 percent by 2015 remains unclear.

n Attaining the maternal mortality goal will be challenging for Bangladesh. The country has the lowest maternal mortality ratio in South Asia, but the region's indicators are among the worst in the world. In 2001 Bangladesh's ratio was in the range of 320-400 maternal deaths per 100,000 live births. To meet the target Bangladesh must reduce this figure to 143 per 100,000 live births, which will require inducing major behavioral changes in mothers, vastly expanding access to quality reproductive health services, and broadly improving the socioeconomic situation.

n Bangladesh had nearly achieved the safe water goal, with 97 percent of its population having access to pathogen-free water. But arsenic contamination posed a new round of challenges, and the portion of the population with access to pathogen - and arsenic-free water is now roughly 80 percent in urban areas and 70 percent in rural areas. The Government's "total sanitation" program has been a real success

in rural areas, achieving broad coverage. But new challenges to attaining the MDG for sanitation are emerging, driven in part by urbanization: only 14 percent of slum dwellers in urban areas have access to sealed latrines, and the urban population is projected to nearly double-to 50 million people-by 2015.

n Reversing the trend of deforestation and increasing energy efficiency weigh heavily on the MDG agenda of ensuring environmental sustainability. The financial and institutional resources needed to accomplish these objectives pose significant challenges to attainment of this MDG.

Macroeconomic Performance and Prospects

24. In the face of these challenges, achieving the PRSP's poverty reduction objectives and related MDGs will require that Bangladesh maintain its current achievements in good, stable growth and, more important, move to a higher and more equitable growth path of 6-7 percent a year (see annex 2). The country's GDP growth performance has been good for almost two decades, averaging 5.4 percent a year in FY01-05, the highest 5-year average since independence. This growth was underpinned by a resurgence of domestic private investment, which grew at an average annual rate of 10 percent, increasing its share in GDP from 16 percent in FY01 to 18.5 percent in FY05.⁶ While benefiting from continued strong export growth (about 8 percent a year), with garment exports the mainstay, growth has also been relatively broad based. Construction and services sectors have seen

particularly strong growth, fueled by large inflows of remittances.

25. Strong growth in exports and remittances has also benefited the external sector. Exports increased by 40 percent and remittances doubled in FY00-05, while imports rose by 50 percent. The current account recorded small surpluses in FY02-04 before slipping into a deficit equaling 0.9 percent of GDP in FY05. The sharply rising cost of oil and other commodity imports added to the current account deficit in FY05. Benefiting from a pick-up in concessional and other long-term capital inflows, foreign exchange reserves increased from their precarious level of \$1 billion (one month of import cover) at the end of 2001 to a more comfortable \$3 billion by the end of FY05.

26. The Government's medium-term macroeconomic framework in the PRSP commits to accelerating GDP growth from 5.4 percent in FY05 to 6.0 percent in FY06 and 6.5 percent in FY08. Such an acceleration of growth will require a substantial increase in investment and productivity levels. Productivity growth in turn will depend on improvements in infrastructure provision and labor quality, which as the JSAN notes will take time to bring about. Two major sources of growth are highly vulnerable, however, pointing to the need for diversification of the economy. Garment exports, three-quarters of the country's total exports of goods, face greater competition from low-cost producers such as China with the dismantling of the Agreement on Textiles and Clothing since January 2005 (see annex 3). The availability of cultivable land, an important source of past agricultural

growth, has been declining, in part because of urbanization and infrastructure development. While these potential threats call for efforts to enhance the competitiveness of exports and productivity of agriculture, there is also little alternative to policies encouraging the diversification of the economy beyond these sectors. Key to meeting the higher growth target will be attracting foreign investment, a priority whose urgency, the JSAN argues, is not sufficiently reflected in the PRSP. Attracting such investment will require substantially improving the investment climate. This in turn will require addressing the main constraints confronting private investors, such as infrastructure shortages (particularly power and ports), poor law and order, high levels of corruption, and the weak regulatory environment. And removing the infrastructure constraints will require better governance and more transparent private provision of infrastructure.

27. Accelerated growth and continued fiscal prudence are expected to improve prospects for fiscal and debt sustainability, although, as the JSAN emphasizes, poor revenue efforts and growing liabilities of state-owned enterprises remain a concern. The Government lowered the fiscal deficit from around 5 percent of GDP in FY01 to 3.5 percent in FY05 and adopted more prudent financing patterns, with greater emphasis on concessional external financing. As a result, public sector debt has been contained at less than 50 percent of GDP and appears to be on a sustainable path. Over the medium term the Government's program in the PRSP commits to maintaining

fiscal deficits at or below 4 percent of GDP and limiting domestic financing to about 2 percent of GDP. This reflects an expected improvement in total revenue collection, projected to reach 12 percent of GDP by FY09 as a result of modernizing the National Board of Revenue and containing expenditures at 15.5 percent of GDP. Fiscal sustainability will also depend, however, on the Government's ability to contain the growing liabilities of the Bangladesh Petroleum Corporation stemming from the recent increases in global oil prices. The increases have not yet been fully passed through to consumers, leading to losses equal to 0.7 percent of GDP in FY05.⁷ Continued monetary prudence will be necessary to contain inflation at the targeted rates of 7 percent in FY06 and less than 5 percent by FY08. Although external debt is relatively low, at about 33 percent of GDP and mostly on concessional terms, the country faces some medium-term liquidity risks because of modest export levels (14 percent of GDP in FY05).⁸ The JSAN, therefore, encourages the authorities to further improve the working of the foreign exchange market and to allow the exchange rate to operate flexibly in response to changes in economic fundamentals.

Service Delivery

28. Further gains in human development will be difficult to achieve and sustain without service delivery systems that are more accountable, more responsive, and able to reach the very poor. Improvements are needed in the quality of education (including higher

education, to provide skilled labor) and in health services, including maternal health and nutrition. With government highly centralized, the poor find it difficult to hold public providers accountable for delivering services and responding to their needs. Recent efforts to enhance local democracy and make more resources available to local governments provide an opportunity to strengthen local governance and increase the voice of the poor in identifying, designing, and implementing programs for rural infrastructure and social services.

Core Governance Institutions

29. Improvements in service delivery will also require improvements in core governance institutions. The JSAN welcomes the strong focus on governance in the PRSP and commends the emphasis on a prioritized, selective approach. A key priority will be Public Financial Management. The rather modest revenue effort will need to be enhanced, and Public Financial Management, including public procurement, will need to be strengthened to ensure that scarce public funds reach their intended beneficiaries. This in turn calls for improvements in civil service management. Access of the poor to justice will be a high priority, as will broader improvements in the justice sector to ensure the rule of law and reduce investor uncertainty about enforcement of contracts. Public access to information will be key to such improvements in governance and to the ability of civil society to intermediate public oversight of the Government's budget and development programs.

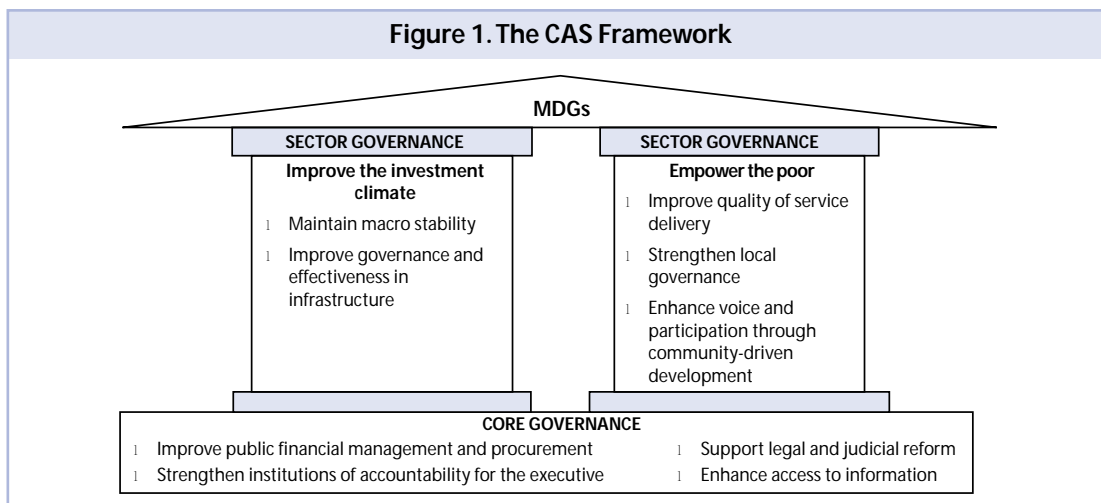
III. THE WORLD BANK GROUP'S ASSISTANCE STRATEGY

A. THE STRATEGIC FOCUS- GOVERNANCE AT CENTER STAGE

30. The World Bank Group will align its CAS with the Government's Poverty Reduction Strategy. It will make governance the core focus, cutting across the two pillars of the Government's strategy - improving the investment climate and empowering the poor-while also addressing the core governance issues common to these two pillars (see figure 1). Under pillar 1, improving the investment climate, the World Bank Group will build on Bangladesh's strengths by continuing to help maintain macroeconomic stability and accelerate its progress toward an open, market-based economy. At the same time it will help the Government address weaknesses in the investment climate by removing policy and institutional constraints to infrastructure provision and improving its weak regulatory quality. Under pillar 2, empowering the poor, the World Bank Group will attempt to build on Bangladesh's impressive social gains by

helping the Government meet the MDGs relating to human development while also enhancing the quality and efficiency of service provision to the poor by strengthening sector governance and accountability and enhancing voice and participation. The World Bank Group will also respond to the policy opening in local governance by launching its first direct efforts to strengthen service delivery by local governments and enhance their accountability to local communities.

31. Progress under both pillars will depend on successful reforms in Bangladesh's core governance. The World Bank Group will therefore assist in strengthening Public Financial Management to help increase budgetary revenues and ensure better use of public funds, and in revitalizing institutions that enhance public accountability. The World Bank Group will also join its partners in helping to strengthen civil society and provide access to information, both critical if citizens are to hold their government to account.



32. The approach of mainstreaming governance in the World Bank Group's program will mean that its operations, whether in infrastructure, health, education, financial services, or any other sector, will be as much about improving governance as they are about improving sector performance and service delivery. A special focus on involving communities in program delivery and monitoring, through support for local governance and community-driven development approaches, aims to ensure that the onus of enforcing accountability for results and management of resources increasingly shifts from the World Bank Group and its development partners to beneficiaries, improving chances for success and sustainability.

33. Recognizing the interdependence of the governance challenges facing Bangladesh, the World Bank Group strategy covers a broad spectrum of issues. The Government's PRSP sensibly advises against dissipating donor resources for governance across too wide a front. Thus the World Bank Group will pragmatically focus its energies and resources on four key areas that are sufficiently important to use its political capital with the Government to pursue results and where it is believed that results can be achieved: improving governance and efficiency in infrastructure, especially power; supporting local governance and community-driven development initiatives that empower the poor by bringing governments closer to the people or involve beneficiaries in the design and implementation of programs; improving the Government's Public Financial Management, including making

procurement more competitive and transparent; and strengthening the Government's tax and revenue effort. These areas will be important avenues for delivering results in the World Bank Group's program (see annex 1). At the same time the World Bank Group will maintain a modest level of policy dialogue and lending engagement across a broader front, enabling it to respond quickly to opportunities for reform that may arise in other areas and to support the work of its development partners. The following sections outline the proposed program in more detail.

B. PILLAR 1: IMPROVING THE INVESTMENT CLIMATE

34. A healthy investment climate is essential to generate the higher levels of investment and productivity needed to sustain higher growth and absorb the new entrants to Bangladesh's growing labor force. It is especially needed to attract foreign direct investment (FDI), with its technology transfer and other productivity-enhancing spill-over effects. Although Bangladesh has, on paper, the most liberal FDI regime in South Asia, FDI remains low (estimated at 1 percent of GDP in FY05). Investors clearly are deterred by perceptions of high political risk and by weaknesses in the implementation of the liberal FDI regime, including nontransparent tendering and contracting processes for private infrastructure investors, severe infrastructure shortages, high levels of corruption that raise the cost of doing business, and other investment climate

problems identified in the 2003 Investment Climate Assessment. While the recent investor interest in natural-resource-based projects is promising, these projects have not yet materialized, and the investment climate remains problematic for large and small investors alike. Moreover, the investment climate in rural areas-where most of Bangladesh's poor live-undermines the development of agribusiness activities that could be the main driver of broad-based employment.

35. The Government's strategy as laid out in the PRSP has two primary aims. The first is to ensure a stable macroeconomy and enabling business environment by improving trade policies, improving the legal and regulatory environment for the private sector, developing an effective competition policy, establishing FDI-friendly policies, and deepening financial sector reforms. The second is to strengthen sectors critical to pro-poor growth, including agriculture, infrastructure, water resource management, and information and communication technology (ICT).

36. The World Bank Group together with several development partners will focus on four investment climate priorities: maintaining macroeconomic stability; improving governance and efficiency in infrastructure, especially power and ports; reducing trade restrictions and administrative barriers; and providing private-sector-friendly finance, land, and labor markets (see table 3). Weak governance remains the main challenge in each of these areas. As an integral part of

its strategy the World Bank Group will therefore seek to address the underlying institutional incentives that create opportunities for poor governance and corrupt behavior, undermining sector performance and better development outcomes. To support private sector growth and boost the competitiveness of industry, the IFC will focus on technical assistance and investments in financial institutions to support the development of SMEs; investments to support financial market development and growth of the telecommunications and manufacturing sectors; and energy sector and infrastructure investments, subject to progress on governance and sector reforms and appropriate environmental and social safeguards. The IFC will focus in particular on supporting competitive manufacturing and services. Special emphasis will be given to encouraging FDI and regional integration through IFC investments and technical assistance from the South Asia Enterprise Development Facility (SEDF) and Foreign Investment Advisory Service (FIAS). The Multilateral Investment Guarantee Agency (MIGA) will provide support to foreign investors through political risk insurance, and support to the wider efforts to improve the investment climate through technical assistance to build the capacity of key government agencies focusing on private sector development. In addition, the IFC's SEDF will continue to partner with FIAS on a program to reduce administrative barriers, promote special economic zones, and build government capacity to promote private investment.

Table 3. Investment Climate: Targeted Results	
Strategic longer-term country outcomes	Indicators of Bangladesh's success that the CAS aims to affect
<i>Maintain macroeconomic</i>	<ul style="list-style-type: none"> ■ Reduce state-owned enterprise losses and public utility arrears.
<i>Improve governance and efficiency in infrastructure services</i>	<ul style="list-style-type: none"> ■ Align domestic energy prices with international prices and adjust power prices to reflect changes in underlying costs, and develop a policy framework for developing energy resources. ■ Make progress towards corporatization of public utility agencies to become fully commercialized, and widely publicize service delivery standards and performance targets in power, telecommunications, and water. ■ Conclude at least two deals for new privately financed base-load power plants following competitive and transparent procurement and applying the generation financing strategy
<i>Reduce trade restrictions and administrative barriers</i>	<ul style="list-style-type: none"> ■ Reduce the nominal average trade protection rate and phase out paratariffs on nonluxury items. ■ Streamline business regulations and enact an appropriate competition law. ■ Increase the efficiency of customs and port administration by streamlining procedures, improving the efficiency of bonded warehouses and duty drawback systems, and strengthening information technology capacities. ■ Streamline and make transparent the approval process in the Board of Investment, Bangladesh Export Processing Zones Authority, and Registrar of Joint Stock Companies.
<i>Provide private-sector-friendly finance, land, and labor markets</i>	<ul style="list-style-type: none"> ■ Progress toward divestment of remaining nationalized commercial banks and improved debt recovery. ■ Strengthen regulatory and supervisory framework for capital and insurance markets, ■ Reduce, rationalize, and selectively eliminate agricultural input subsidies. ■ Develop and implement a strategy to modernize land administration procedures and records.

Maintain Macroeconomic Stability

37. Bangladesh has a good record of maintaining macroeconomic stability. But recent changes in the external environment have revealed possible fiscal and balance-of-payment vulnerabilities (see annex 3). The budget has recently come under pressure because of stagnating revenues, growing losses of the state-owned energy enterprises (totaling about 0.8 percent of GDP in FY05), public sector wage increases, and higher explicit and implicit budgetary

subsidies. Meanwhile, the capacity to absorb concessional external financing remains weak as a result of weak implementation capacity. *Improving fiscal sustainability is therefore essential, with the priority being to reduce the losses of state-owned energy enterprises and strengthen revenue administration* (see paras. 103-105).

38. The World Bank will continue to support fiscal adjustment through its policy dialogue and development policy lending, including progressive alignment of energy

prices to international levels to lower the losses of the Bangladesh Petroleum Corporation, loss reduction programs and rollback of state ownership in remaining state-owned enterprises (where the World Bank is supporting voluntary retirement schemes and retrenchment costs for closed or privatized enterprises), and modernization and strengthening of tax administration to improve revenue performance (see paras. 103-05). To help address quasi-fiscal deficits and contingent liabilities, the World Bank will support lending caps on the NCBs to contain their losses and improve their performance and assist the Government with their restructuring and privatization.

Improve Governance And Efficiency In Infrastructure

39. In the infrastructure sector the World Bank Group will focus on improving governance and transparency in large-scale investments and infrastructure asset management; and supporting investments in small-scale, decentralized infrastructure services. It will also try to support the leveraging of ICT for growth and good governance.

Improving Governance in Infrastructure Sectors and Expanding Infrastructure for Growth

40. **Ineffective and poorly managed infrastructure, particularly power and ports, has been reported as the main constraint to businesses and households in Bangladesh.** The main causes of the poor performance are the institutional and governance structures for organizing,

managing, and financing infrastructure sectors; a distorted pricing framework; and the excessive political interference in investment decisions. All these limit the much-needed private sector participation in these crucial sectors and consequently the resources available to upgrade them. The World Bank Group and its development partners will focus on improving sector governance and supporting reforms for the efficient provision of infrastructure services in the public and private sectors. Priority will be given to appropriate and transparent processes for identifying, procuring, and managing infrastructure projects, essential to attract private sector participation. Specific areas for the World Bank Group support, conditioned on monitorable progress on governance, include providing energy for growth and empowerment and improving national transport and communication systems.

41. Providing energy for growth and empowerment. Only a third of households in Bangladesh have access to electricity. In rural areas, where grid-supplied power is largely absent, access is limited to a few households and enterprises. The lack of reliable power supply imposes big costs on businesses-captive power generation, widely used, increases electricity costs by 50 percent compared with grid-supplied power-and load-shedding has major adverse effects on industry and daily life. Power shortages are likely to become an important constraint on growth if not addressed in the near term.

42. In addition, the sector suffers from major inefficiencies, and the losses

accumulated by state-owned energy enterprises are a big drain on the budget. Sector performance is characterized by growing load-shedding (up to 800 megawatts a day in 2005), large financial and technical losses, uncertainties surrounding future natural gas supplies for the sector and development of new generation capacity, and a new and still-weak regulatory agency.

43. Governance issues affecting the development of Bangladesh's power sector demand coordinated action by key donors. The World Bank Group, in collaboration with the ADB, will focus first on expanding power generation capacity in the short run, to address the load-shedding and supply constraints that have become acute as a result of political interference in the procurement of new generation capacity (see box 3). Helping the Government address these procurement constraints is a World Bank Group priority; the World Bank Group will also support rehabilitation of existing generation plants as the most cost-effective means of bringing additional power on line in the short run.

44. **The World Bank Group will focus on improving the policy environment for power development through technical assistance and policy-based lending (DSCs).** It will assist the Government with the development of a least-cost generation plan and a generation financing strategy to enable mobilization of private sector funds, with the support of the IFC, MIGA, the ADB, and others. Investments in peak power capacity expansion and complementary transmission facilities are

planned, jointly with the ADB, subject to the Government's committing to a fully open and competitive procurement process. Support for the Government's small-scale power program is also envisaged, subject to the same condition. Also planned are investments in urban power distribution systems to strengthen their performance through corporatization, and in rural transmission, distribution, and electrification, following on from the current rural electricity project. Cross-border infrastructure is not yet firmly planned, but the World Bank expects to support this as and when it emerges. On the policy side the World Bank's main objective in the sector is to improve its governance and commercial viability; thus satisfactory implementation of an appropriate energy pricing formula, the strengthening of the Energy Regulatory Commission, and completion and implementation of a financial restructuring plan for the power sector will be pursued in parallel.

45. In the gas sector further policy and regulatory reform is required for private investment to materialize and meet rapidly growing domestic gas demand from industry and the power sector over the coming years. Petrobangla coordinates oil, gas, and mineral exploration, production, and marketing, and controls the activities of gas sector entities, although they are nominally independent corporate bodies under the Companies Act. The largest of these, Titas Gas Transmission and Distribution Company, which controls more than 60 percent of the gas market, suffers from very high system losses and poor bill collection. The World Bank will support the

Box 3. Power Sector: Issues

In 2005 Bangladesh's power sector generated 160 kilowatt-hours of electricity per capita, among the lowest levels in the world. While installed generating capacity is 5,025 megawatts (MW), secure capacity is only about 3,950 MW. In 2005 load-shedding of up to 800 MW was necessary on 287 days, for a total of 1,433 hours (equivalent to 60 full days). Major industries have responded by sharply expanding captive power generation. But the load-shedding badly affects growth, especially for small and medium-scale industries and others that cannot afford captive generation. With electricity consumption growing an average 8.2 percent a year in 1994–2005, Bangladesh faces an expected shortfall of about 2,500 MW of generating capacity during the next 5 years. The reasons behind the shortfall are complex, but one is apparent government interference in procuring power generation plants. Contracts are subject to frequent retenderings without bids being awarded, substantially delaying project implementation.

Besides the limits in physical infrastructure, the power sector faces critical financial challenges. Major power sector entities are financially insolvent. The Bangladesh Power Development Board (BPDB) owes the Government Tk56 billion in debt service liabilities. The power sector has poor accounting practices, resulting in delays in finalizing accounts and completing audits, overvaluation of assets, underestimation of expenses, and inadequate provision for bad debts. Poor governance, reflected in low bill collection rates and high system losses (technical and nontechnical), continue to hamper the sector's development and financial sustainability.

In addition to support for capacity expansion, development partners have been providing support to BPDB and the Dhaka Electric Supply Authority (DESA) to improve their financial management capacity and upgrade their financial management systems. The Asian Development Bank has provided support for corporatizing Ashuganj Power Station, several distribution companies, and ultimately BPDB itself.

development of an enabling environment for the domestic gas sector through policy dialogue and policy-based lending. The World Bank will consider key gas transport investments (pipelines) for financing, in coordination with the ADB, while the IFC will consider direct investments, should suitable opportunities arise. Similarly, the Bank Group will work toward supporting government and private sector efforts aimed at environmentally and socially sustainable exploration of the large *coal* deposits that have been identified in Bangladesh.

46. *The World Bank Group and development partners will assist improvement of the national transport systems.* The private sector has taken on a growing role in transport, bringing improvements in sector performance. Today state-owned transport companies

carry less than 5 percent of passenger traffic and about 1 percent of freight. The private sector is also engaged in road construction and maintenance. Competition is similarly strong in inland water transport, where services are provided mainly by small private operators. But Bangladesh Railways faces strong competition only from the road sector, not from private rail operators. And in the port sector private participation is limited to cargo services.

47. Despite progress in the transport sector, several issues remain. There are critical physical and policy barriers to passenger and freight flows, and the continuing low productivity of the remaining state-run activities strains the national budget. The Chittagong port, which handles 85 percent of the country's trade, suffers from labor problems, poor management, and lack of equipment, all of

which create opportunities for corruption.² Domestic financing of road maintenance is inadequate, and regulatory procedures remain complex. All this limits the ability of the nation's transport system to respond to user needs.

48. The World Bank Group will support the Government's transport sector strategy, aimed at gradually establishing an integrated multimodal transport system and promoting subregional cooperation by developing transit links and cross-border facilities. This strategy requires strengthening policies and institutions that govern road, rail, inland water, and port services to improve efficiency and quality. The ultimate objective is to facilitate private sector participation in financing large infrastructure projects and particularly in securing appropriate financing for maintenance, which has emerged as a serious problem for the future viability of the transport sector. Through policy dialogue and investment projects, the World Bank Group, in cooperation with several development partners, including the ADB and the Japan Fund for International Cooperation (JBIC), will focus on removing bottlenecks in the primary road network and establishing a sustainable road maintenance funding mechanism; supporting improvements in the main transport corridors, including the Dhaka-Chittagong corridor as a major export corridor and the Padma Bridge; providing support to the rail sector, contingent upon reforms of Bangladesh Railways to increase its financial sustainability and commercial orientation; and supporting regional cooperation in railways and harmonization

of policies, technical standards, and operating procedures to encourage international freight and passenger rail traffic.

Supporting Investments in Community and Small-Scale Infrastructure

49. The World Bank will support small-scale infrastructure projects that give the poor in rural areas access to such services as piped water, farm-to-market roads, rural transport, and power. In addition, the World Bank will continue to support rural grid electrification through the Rural Electrification Board, focusing also on transforming the rural electrification cooperative sector, with corporatization or consolidation as possibilities. Such projects will provide power for rural development until the national grid reaches these areas. Special attention will be given to improving rural livelihoods through small-scale investments supported by a follow-on project, the second Social Investment Program Project with the Social Development Fund. Small-scale infrastructure projects also will be supported through the program to strengthen local governance (see paras. 85-92).

Leveraging Information and Communication Technology for Growth and Governance

50. Although Bangladesh has not yet seized the opportunity to use ICT for development and governance, the Government's PRSP recognizes its role in socioeconomic development. With around four telephones for every 100 people in Bangladesh, reliable access to

telecommunications and the Internet remains limited. Growth in the sector has been driven mainly by private investments in the mobile market. Delays in restructuring the government-owned Bangladesh Telegraph and Telephone Board have continued to hamper sector growth. Attracting further investments in the sector will require a stronger regulator and a predictable and transparent regulatory framework.

51. The World Bank, together with Japan and other development partners, is using technical assistance and policy dialogue to support the Government's reform agenda. Policy-based lending (DSCs) will play a role in the future, most immediately to support the corporatization of the Bangladesh Telegraph and Telephone Board. A key objective is to improve ICT sector performance by fully separating the policy and operational functions in telecommunications, improving the regulatory environment for telecommunications, and encouraging development of nationwide broadband infrastructure through public-private partnerships. A second aim is to use ICT in government to improve service delivery and governance, including through e-procurement and through e-government initiatives for providing citizen services. The IFC has supported the rapid growth of mobile capacity in Bangladesh and will continue to look for opportunities to invest in private telecommunications and other ICT service providers. MIGA will support foreign investors interested in the ICT sector through the provision of political risk insurance.

Reduce Trade Restrictions and Administrative Barriers

Removing Trade Restrictions to Enhance Competitiveness

52. *Trade regulations, a proliferation of para-tariffs, and arbitrary and cumbersome customs procedures create opportunities for corruption, reduce competitiveness, and raise the cost of doing business.* Bangladesh remains the most highly protected economy on the subcontinent, with tariff rates well above the regional average. In addition, many non-tariff barriers add to the cost of doing business and lower competitiveness, including revenue administration, tax and customs, and infrastructure-related trade logistics such as ports and other forms of transport. The duty drawback system is inefficient and impedes export diversification because of the complexity of the import duty regime and lengthy administrative procedures.

53. *The World Bank will support enhanced competitiveness through policy dialogue and development policy lending.* Its aim will be to help the Government lower the nominal protection level to the regional average before the end of the CAS period, consistent with the revenue requirements of the macroeconomic program. A particular focus will be reducing and ultimately eliminating paratariffs on nonluxury goods. The policy dialogue will also focus on enhancing the competitiveness of the textile and garment sectors now that the Multifibre Arrangement has come to an end. Through investment projects, the

Box 4. The South Asia Enterprise Development Facility

In FY02 the IFC committed \$5 million and brought in a number of donors to establish a regional facility for small and medium-size enterprises (SMEs), the South Asia Enterprise Development Facility (SEDF), with a five-year budget of more than \$42 million. Recently donors agreed to extend the facility to 2008. Based in Dhaka, the facility promotes SME development by providing technical assistance to SMEs and to the banks, professional service firms, and institutions that serve them in Bangladesh, Bhutan, Northeast India, and Nepal. SEDF employs more than 60 staff in Bangladesh, focusing on improving access to finance, developing subsectors (ready-made garments, light engineering, agribusiness, information technology), and improving the business environment. SEDF works closely with other IFC and World Bank activities, including value chain analysis of such subsectors as ready-made garments, light engineering, and agribusiness to identify key issues and interventions to promote their growth and development.

In Bangladesh, following on from the Investment Climate Assessment, SEDF is working to improve the company registration process, with good results. SEDF and the Foreign Investment Advisory Service (FIAS) have provided strong support to the Government in designing a major private sector development project that is funded by several donors and will bring together World Bank Group and donor programs to improve the investment climate (see para. 54). The project includes forming a task force of key government officials, and consultative groups involving key private sector players. SEDF and FIAS will continue to provide technical assistance to support the implementation of the project.

World Bank will also support several activities related to trade logistics, especially improvements in the trade transport infrastructure and in revenue administration (see paras. 48 and 103-05). Through SEDF, the IFC will continue to focus on increasing the access of SMEs to international markets by facilitating international business-to-business contacts in such sectors as ready-made garments, agribusiness, light engineering, and information technology and promoting the reduction of nontariff barriers to trade between Bangladesh and Northeast India, including through access to trade finance (see box 4). In addition, the World Bank Institute will develop a multiyear capacity development program aimed at building negotiation skills for handling bilateral, regional, and multilateral trade agreements and related trade negotiations.

Reducing Administrative Barriers

54. *While Bangladesh typically requires fewer formal procedures over fewer days to establish a business than other countries in the region, the red tape is more formidable than the legal requirements suggest, according to the World Bank's Doing Business database. Moreover, once firms are operational, government agencies make frequent visits.³ Not surprisingly, Bangladesh has received low and deteriorating scores on the World Bank Institute's indicator of regulatory quality (see box 1). High regulatory costs are particularly worrying since the end of the Multifibre Arrangement, as Bangladesh's garment manufacturers need to compete with low-cost producers in Cambodia, China, and Vietnam. Adding further to the cost of doing business is the limited availability of industrial and agricultural land combined with the significant government ownership of land.*

55. To spur productivity-enhancing investments and reduce opportunities for rent seeking, the World Bank Group will focus on enhancing entry and competition, supporting deregulation, and strengthening institutions. In close cooperation with development partners, the World Bank Group will pursue a program of interventions to help streamline regulatory processes and establish regulatory policy capacities in the Government; facilitate the provision of land and infrastructure services through an industrial zoning program and other initiatives; build capacity in the Government to diagnose, formulate, and implement private sector development policies and promotional programs (such as in the Board of Investment, Bangladesh Export Processing Zones Authority, Registrar of Joint Stock Companies, and related institutions); and review labor and environmental clearances for starting and operating businesses with a view to strengthening national systems of environmental and social safeguards to meet international norms. Through parallel analytical work, the Bank plans to support the formulation of a national strategy for land administration and records.

Provide Private-sector-friendly Finance, Land, and Labor Markets

Enhancing Financial Intermediation

56. Enhancing financial intermediation is essential to support economic growth and the private sector. The financial sector remains shallow, with bank credit to the private sector just 29 percent of GDP and very limited financial market penetration. Deep-rooted institutional weaknesses

hamper the intermediary role of the banking sector: weak management, political interference, and directed lending have resulted in a state-owned banking sector with serious performance problems. Recent government measures have significantly strengthened Bangladesh Bank (the central bank) and reduced the nonperforming loans of the four NCBs from 34 percent to 25 percent. A relatively free licensing policy has permitted the emergence of 30 private banks and reduced the NCBs' share of banking assets to 40 percent. And one of the NCBs, Rupali Bank, is being brought to the point of sale. But the financial system is far from meeting the demands of the market. Microfinance institutions serve an estimated 14 million households, with a total asset base of 1.4 percent of GDP. These provide a welcome alternative to moneylenders, providing credit to poor households and the possibility of exit from poverty. For established enterprises, however, the underdeveloped capital market limits the availability of longer-term finance. And between these two groups is the "missing middle:" small entrepreneurs, rural and urban, who remain underserved by the formal credit markets.

57. The World Bank Group's strategy will focus on further strengthening governance in banking and financial sectors. Technical assistance will support strengthening of the Bangladesh Bank and restructuring of the remaining NCBs, with support from World Bank-financed external management teams. Partial or full divestment over the medium term is the goal, and the World Bank may play a further role in assisting the restructuring

and privatization, in cooperation with the IMF, through investment projects and policy-based lending. The World Bank Institute will support this work by strengthening Bangladesh Bank's capacity for research and policy analysis as well as its capacity for combating money laundering. As the need and opportunity arise, the IFC and/or the ADB may play a role as an investor in some of the privatized NCBs. To support trade promotion in Bangladesh, the IFC will provide local banks with risk coverage that extends and complements their capacity to deliver trade finance to their clients. In addition, the IFC will provide financing and technical assistance to strengthen private banks and nonbank financial institutions, and will continue to work to increase access to finance, particularly for SMEs, through SEDF's technical assistance program. The program includes training for partner financial institutions and Bangladesh Bank. Thanks to the technical assistance provided by SEDF, partner financial institutions have facilitated an estimated additional \$177 million in financing to SMEs over the past 3 years.

58. The World Bank Group will continue to support improvements in the regulatory framework for microfinance activities through policy dialogue and policy-based lending. Through analytical work and lending (as appropriate), the World Bank Group will support access to microfinance for the poorest and to mesofinance for SMEs. A rural finance study will examine gaps in financial services to farmers and small rural enterprises, and a follow-on rural finance project is being considered. To

improve access to long-term finance, an investment promotion and finance facility is being developed to support public-private partnerships. To help deepen capital markets, technical assistance is being provided to the Government in securitizing the revenue streams of key revenue-earning infrastructure projects such as the Jamuna Bridge.

Strengthening Policies for Rural Growth

59. Strengthening policies for rural growth is key in Bangladesh's land-constrained environment. With nearly all available agricultural land already under cultivation, future income and employment growth in the rural economy, where 85 percent of Bangladesh's 63 million poor people live, will depend almost entirely on diversification into high-value agriculture and growth in the rural nonfarm sector. Greater backward and forward linkages and a denser rural-urban continuum appear critical for creating more and higher-paid employment; contract farming for high-value agriculture (given land fragmentation and very small farm size), processing of agricultural commodities into semifinished and finished products, and packaging, storage, and transport to urban and export markets are all part of the picture. With land a scarce commodity and land administration weak, "land grabbing" by powerful people and criminal elements is quite common, and is affecting agricultural and rural growth and land use for other sectors.

60. The Government has identified agricultural and rural development as a top priority for generating employment and

reducing poverty. The Government's policy framework has four priorities: intensification of major crops, diversification into high-value crops (horticulture), development of noncrop agriculture (fisheries, poultry, and livestock), and promotion of rural nonfarm activities (rural micro, small, and medium-size enterprises). Achieving these priorities will require addressing a number of challenges, in particular, strengthening research and extension systems, improving formal rural institutions, increasing the efficiency of agricultural input and output markets, improving the investment climate, and increasing the availability of and access to rural finance for SMEs. It will also require addressing issues of land management and administration (see the previous paragraph), which are becoming an impediment to urban planning and development.

61. The World Bank Group and its development partners will complement the Government's efforts to achieve strategic goals in agriculture and rural development. They are providing support to improve agricultural productivity by strengthening capacities for research and technology, improving the functioning of agricultural markets, and promoting diversification into such subsectors as fisheries, an important emerging export sector. Through analytical work, the World Bank also plans to support the formulation of a national strategy for land administration, with follow-on support for improving land administration and records. In addition, the IFC's SEDF will continue a program of technical assistance to develop market opportunities for agribusiness SMEs.

Upgrading Business-Related Skills and Capacity for Technology Absorption

62. Every survey of business emphasizes the need to upgrade labor skills and ensure that the education system prepares graduates with skills needed by business. Increasing the limited ability of enterprises to absorb technology is essential. These are special challenges for Bangladesh as it attempts to diversify its exports and compete in global markets. The World Bank will support the Government in assessing the public vocational education and training system, which is characterized by outdated modes of delivering learning and ineffective links to industry and the labor market. The World Bank plans to support vocational education and training through a sectorwide program for secondary education. The objective will be to find ways of improving efficiency and developing links between the public system and industry. The World Bank will also assess the incentive regimes for absorption of technology by enterprises, with a focus on commercializing pro-poor innovations.

63. In higher education, recent policies and legislation have set some new directions, but there is a need to develop a clear overall strategy for the future of the system, which includes both public and private universities. A strategy for the long-term public and private funding of the sector is also needed. Without these, the rapid growth in the number of private universities is taking place in a policy vacuum.

64. The World Bank is providing technical support through its analytical work and policy dialogue for the

development of a strategic, long-term plan. In this work it is assisting the Government's recently established Strategic Planning Committee, comprising representatives from key stakeholder groups. The strategic plan will suggest options for resolving policy concerns, such as improving the governance and management of the sector, including revisions to the legal framework if necessary. The World Bank also plans to provide support through a higher education project.

C. PILLAR 2: EMPOWERING THE POOR

65. For all groups in Bangladesh to benefit from higher growth requires empowering poor people, especially women, through better education, health, and nutrition and through safe water and sanitation and clean living environments. More important, higher growth requires poor people's effective participation in the country's governing process through social inclusion and transparent and accountable government, including at the local level.

66. Despite Bangladesh's progress in delivering basic public services to the poor, often through innovative partnerships with NGOs and local communities, the unfinished agenda is more challenging as the country seeks to improve the quality of these services while attaining the ambitious MDGs it has set itself. Improving quality requires improving institutional accountability and incentive structures, which are still very weak in Bangladesh.

67. A key reason for weak accountability is the country's poorly functioning, overly centralized bureaucracy, operating within a very centralized state structure, which undermines the accountability of service providers to service users. Bangladesh is regarded as one of the world's most centralized countries in terms of functional and fiscal assignments, political decisionmaking, and the limited discretion granted to lower-level organs of government in service delivery. This centralized structure limits the ability of citizens to participate in decisions on local service priorities, prevents citizens from holding service providers accountable for their performance, and leads to higher operational costs for delivering basic services to communities.

68. A second reason for weak accountability is that systematic mechanisms to ensure some degree of community voice and participation and to bring service users closer to service providers are largely missing. NGOs and community-based providers, however, have been effective in amplifying the voice of the poor and creating parallel channels of service delivery.

69. Strengthening accountability for better services is made even more difficult by the deteriorating quality of the civil service and the inability of the existing deconcentrated system to formulate policy, follow up on implementation, and monitor outputs and performance.

70. Further improvements in the quality of service delivery will not be possible

Table 4. Empowering the Poor: Targeted Results	
Strategic longer-term country outcomes	Indicators of Bangladesh's success that the CAS aims to affect
<i>Improve the quality of health services for the poor</i>	<ul style="list-style-type: none"> ■ Increase in the utilization rate for the package of essential services from 55 percent to 65 percent among the two lowest quintiles of the population.
<i>Improve the quality and relevance of primary and secondary education</i>	<ul style="list-style-type: none"> ■ Quality assurance mechanisms established for monitoring student learning and carrying out impact assessments. ■ Teachers selected through transparent, merit-based process. ■ Public subsidies to schools linked to learning outcomes. ■ Incentives for girls to attend and stay in school continued.
<i>Improve water and sanitation</i>	<ul style="list-style-type: none"> ■ Surface water quality in and around Dhaka improved. ■ Coverage of solid waste collection and adequate disposal in selected towns increased. ■ Three hundred rural communities switching from shallow tube-well water to community-run piped water schemes.
<i>Strengthen local governance</i>	<ul style="list-style-type: none"> ■ Increased capacity for resource mobilization, planning, and management through training and direct support for local bodies.
<i>Rationalize safety net policy and programs</i>	<ul style="list-style-type: none"> ■ Introduction of targeting based on proxy means testing and event-linked benefits that ensure more effective protection of the poor and vulnerable.

without improvements in local governance structures. The recent move to strengthen lower-level local governments deserves attention as a promising avenue for improving the accountability framework for service delivery and ultimately for a potential diffusion of political power that may build effective checks and balances in Bangladesh's governing process.

71. *Assistance by the World Bank and its development partners will focus on improving relations of accountability for better service delivery and local governance while also emphasizing issues of human security and risk management.* Table 4 summarizes the results that the World Bank aims to influence in this area during the CAS period.

Improve Access to Quality Services for the Poor through Better Accountability

Improving Service Delivery in Health

72. *Despite Bangladesh's progress toward health-related MDGs, challenges in the health sector remain enormous.* In child malnutrition and maternal mortality Bangladesh is a "good performer" compared with India or Pakistan, but the region as a whole ranks among the weakest in the world. While polio has been eradicated in Bangladesh, tuberculosis remains problematic. The gap in health conditions between rich and poor remains large, with for example, children in the poorest households are twice as likely to be moderately malnourished and four

times as likely to be severely malnourished as children in the richest households. Finding cost-effective ways of delivering essential health services to the poor is critical.

73. The Government is only partially prepared to respond to these critical challenges. Public health service providers depend entirely on a centralized ministry in Dhaka for their career development, and there is no accountability to service users. Absenteeism is rampant (almost 45 percent according to a World Bank study, similar to rates found in India and Pakistan). Facility managers lack professionalism and independence in decision-making. Support services such as drug supply are managed by a centralized bureaucracy that has little interface with service users. And overlapping functions and lack of coordination in the health administration result in the deterioration of services.

74. The Government's Health, Nutrition, and Population Strategic Investment Plan (2003-10) confirms its commitment to pro-poor health service provision, including reappraisal of core functions of the public sector. The PRSP gives special importance to reducing maternal mortality, highlighting it as one of the key objectives relating to the MDGs. The PRSP also emphasizes improving equity by better targeting resources to the neediest, and by restructuring service provision to ensure efficiency by guaranteeing free provision of emergency services and expanding health, nutrition, and population services in urban areas.

75. The World Bank and its development partners support a sectorwide program, the Health, Nutrition, and Population Sector Program, which finances an important part of the Government's health budget and focuses assistance on making service providers more accountable to service users. The package of essential health services is to be revised and nutrition made an integral part, helping poor women and children. Measures to improve service delivery will introduce a variety of instruments, such as vouchers (for maternal health and prenatal care) and the contracting out of health services, with women and children expected to be major beneficiaries. The contracting approach will reinforce accountability through a greater reliance on communities and union parishads (see section below on strengthening local governance) for monitoring. To complement the sectorwide program, the World Bank Institute is developing capacity in health sector reform, focusing on health financing and collaboration between the public and private sectors. A dedicated component of the sectorwide program focuses on emerging problems of HIV/AIDS. The IFC will look for opportunities to support investments in innovative health sector projects sponsored by the private sector.

Improving Service Delivery in Primary and Secondary Education

76. While Bangladesh has made impressive gains in access to education, especially primary education, quality remains a difficult challenge. The gross enrollment ratio is about 97 percent at the primary level, but only 43.7 percent at the

secondary level and even lower at the college and university level. The quality has deteriorated at all levels, leading to a substantial waste of resources through low pass rates. Only about 5 percent of primary school entrants pass the examination at the end of the primary school cycle, grade 5.

77. Several factors account for the problems, including poor teaching quality, high student-teacher ratios, high teacher absenteeism, lack of adequate learning materials, and overcrowded classrooms, often operating in two shifts. Above all, weak management and supervision impede efforts to improve quality. The primary education system remains highly centralized, and school management committees and parent-teacher associations have not yet become effective. Management also remains weak at the secondary level, particularly in the nongovernment institutions that make up the majority of secondary schools.

78. The PRSP emphasizes the importance of education and learning for poverty reduction. It also emphasizes the significant improvements needed in quality and in access for the very poor. Among its objectives are to make available early childhood development and preschool, not currently part of publicly provided education; ensure 100 percent completion in primary education; extend education coverage; support modernization of and quality improvements in madrasah curricula and effectively implement quality standards; and expand secondary education by improving access and increasing its relevance to the needs of society. The PRSP

also proposes actions to improve the effectiveness and reduce the politicization of technical and vocational education and higher education.

79. The World Bank's support for education reform is strongly focused on improving sector governance and accountability. In primary education the World Bank is part of an ADB-led donor group that, through the Primary Education Development Project II, supports the Ministry of Primary and Mass Education's 6-year program to expand access to education and strengthen its quality and effectiveness. In secondary education the World Bank is supporting improvements championed by the Ministry of Education through dialogue and a series of policy-based loans. The objectives are to increase the accountability of secondary schools to government and to the community by linking school subsidies to objective criteria and measures of school performance, build capacity in the ministry to monitor performance through expenditure tracking surveys and program evaluation and monitoring so as to guide policy, improve teacher quality by establishing an independent teacher accreditation authority to certify eligible applicants, and enhance transparency in textbook production through privatization. The World Bank plans to follow up in these areas with a sectorwide program on secondary education, which, as noted, will include support for the vocational education and training programs. In addition, the IFC will explore opportunities to support investments in education projects sponsored by the private sector, including universities.

Improving Water and Sanitation

80. Bangladesh has made good progress in improving access to safe water, moving toward the Millennium Development Goals.

The country stands out in the developing world for having access to pathogen-free drinking water sources about 97 percent of its villages, thanks to earlier government programs partnering with NGOs. But the recent discovery of arsenic contamination in some aquifers indicates that this impressive achievement is at risk. Arsenic contamination of groundwater has affected an estimated 25 percent of the shallow tube-wells in rural areas, reducing safe water coverage to around 76 percent of the rural population. In urban areas deterioration in solid waste management similarly poses a serious problem for water quality. Lack of access to safe drinking water in both rural and urban areas, particularly for the poor, has thus become a major emerging issue in water and sanitation services. Others are institutional inefficiency due to lack of clarity on the roles and responsibilities of government and the service providing agencies, inequitable service distribution, financing and cost recovery, and poor sector coordination.

81. The World Bank will continue to help address rural water supply delivery through the Bangladesh Water Supply Program Project. This project focuses on increasing access to safe water and on developing an innovative service delivery mechanism by involving NGOs and private entities in rural piped water supply schemes. In addition, the project is piloting a new approach to pourashava water supply. Only about half of all pourashavas have piped

water supply systems, leaving the rest to supply their urban population through private hand pumps. Other development partners also are developing municipal water supply projects. Efforts by the World Bank and its development partners in water supply and sanitation are geared toward supporting the Government's agenda of strengthening decentralized service delivery and empowering lower-tier levels of government. By putting service delivery in the hands of communities, union parishads, and pourashavas, the Government is effectively shifting decisionmaking, responsibility, and accountability for investments to these levels, increasing transparency and incentives to improve service delivery and expanding options for scaling up.

82. The major emerging issues in urban water and sanitation will be addressed during the CAS period through a variety of approaches. These will include programs to increase the quality and quantity of water resources around Dhaka; improve the water supply, sanitation, and drainage systems in Dhaka and Chittagong; improve solid waste collection in selected towns; develop a model to provide carbon finance support for urban solid waste management; and support conditions for private sector investment in solid waste management in selected towns.

Improve the Effectiveness of Safety Nets

83. The large number of poor people and the depth of poverty in Bangladesh call for exploring how to mitigate poverty and vulnerability through safety net systems. Bangladesh has a range of formal and

informal instruments to mitigate and cope with poverty, but only about 8 percent (4-5 million) of its 63 million poor people receive some form of social assistance. The country's patchwork of safety net programs-cash transfers and food and in-kind safety nets-all with large administrative overheads, target different risk groups, from the disadvantaged to the elderly poor. Consistent with Bangladesh's low income level, however, these programs are limited in scale and coverage. Coupled with inefficiencies, their limited size means that these programs are not adequate for addressing poverty or mitigating vulnerability to poverty. Moreover, the programs are administered by a number of ministries, with gaps, overlaps, and inadequate coordination. And the country's pension system is likely to face fiscal constraints as the base pay and the average age of the workforce rise.⁴

84. There is a need for short- and long-term safety nets, and community-based approaches offer special attractions. These will require an integrated approach, rationalizing programs and developing uniform targeting mechanisms. One such mechanism is proxy means testing, which scores households on easily observed poverty characteristics (such as location, quality of the house, ownership of durable goods, and the education and livelihood of household members) to determine eligibility. The World Bank, working with DFID, will initiate studies on safety nets and pensions, with follow-on support for social protection assistance programs as an integral component of development policy lending, education-based lending (e.g., in the areas of

training and conditional cash transfers), and standalone support as appropriate.

Strengthen Local Governance

85. Efforts to build accountability and improve service delivery are unlikely to succeed without significant improvements in local governance. Intergovernmental relationships need to be clarified while the institutions of community accountability are strengthened. This is necessary to allow citizen voice and participation in development decisions and building of the capacity of local government structures to ensure the provision of basic local services.

86. Rather than a formal tier of government, Bangladesh's local government structures at the district level (upazilas) are little more than the sum of individual central line ministries and other service delivery structures. The lower elected levels of government (union parishads and pourashavas) have limited resources and little authority to raise revenues and are dominated by higher tiers. More important, there is a continued lack of clarity in the assignment of political and administrative accountability in local governance and service provision. Local governments also have no meaningful financial accountability: they have very limited financial and budget authority and are not audited regularly or comprehensively.

87. The centralized arrangements of governance restrict the formal avenues for community participation in local decision making and for citizen oversight of local service delivery systems. There are also limited opportunities for participation in and

oversight of local government activities. Seats are reserved for women in local government bodies, but female members are elected from a larger constituency than male members and do not have a clear mandate and role. While the mere election of women may not in itself improve governance, it does allow for enhanced voice and participation of a group formerly left out of decision-making structures.

88. Operational accountability for local service delivery is undermined by unclear allocation of responsibility between levels of government and by unclear division of roles between elected local policymakers and service providers. This leads to extensive political interference and the fragmentation of responsibilities for actual delivery of services across agencies outside a clear contracting framework. Local government structures have little strategic and technical capacity to ensure the delivery of basic local infrastructure and services, further undermining their accountability to communities.

89. The Government's PRSP focuses on expanding the scope for pro-poor economic growth by expanding income and employment opportunities for the poor and supporting participatory governance by strengthening accountable and inclusive institutions of local governance. The Government and development partners agreed at the recent Poverty Reduction Strategy Implementation Forum to take concrete steps to strengthen local governance, including by ensuring that reasonable untied resources are available at the local level to respond to community priorities.

90. **The World Bank's strategy will focus on strengthening the accountability of the lowest tiers of government to the citizens who elect them by institutionalizing the interface between communities and elected local governments.** This requires redefining the intergovernmental compact between central and local government, strengthening the voice and client power of citizens so that they can hold local governments accountable for their performance, and enhancing the technical capacity of local governments to ensure the delivery of basic local services and of provider organizations to actually deliver them.

91. Over the joint CAS period the World Bank will support the strengthening of local governance through dialogue and project lending by helping to clarify the assignment of roles, responsibilities, and resources to local governments to allow them to respond to community priorities; support the strengthening of the capacity of communities to hold local governments to account, through institutions and forums of citizen accountability at the ward level, community monitoring, and awareness building; support the development of local governments' core technical, financial, and administrative capacities to expand and enhance the delivery of basic local services; and provide policy advice on strategies and approaches to strengthen accountable local governance and service delivery systems.

92. On the basis of this strategy, the World Bank will work with development partners to develop a common platform of support to local governance through the CAS period. The joint CAS partners are well

placed to assist the Government in taking practical steps to redefine the assignment of accountabilities for service delivery, to strengthen the technical capacity of local governments and service delivery agencies to provide services, and to support communities in engaging local government structures to enhance their accountability. The potential for future initiatives in different sectors to support the strengthening of local governance also will be explored.

Enhance Voice and Participation through Community-driven Development and Other Initiatives

93. Enhancing voice and participation as a way of strengthening accountability and governance will be an important underlying theme of the World Bank Group's strategy during the CAS period. This theme will be reflected in the initiatives to enhance the role of communities in making formal structures of local government more accountable (as described in the previous section) and in initiatives to support communities directly. The design of selected projects throughout the portfolio will also reflect this approach of using community participation to shift and institutionalize the responsibility for delivering and monitoring services from an external party such as the World Bank to the beneficiaries (examples include community fisheries, rural water and sanitation, and education, health, and social protection).

94. Bangladesh is well known for its success in using NGOs and other forms of community organization to deliver services

to poor people. But the lack of people's institutions at the village level makes it difficult for citizens at the grassroots to ensure that their development priorities are reflected in national policies and plans. Poverty and social assessment studies show that many nationally implemented poverty reduction programs (for example, microcredit and safety net programs such as food for work and development programs for vulnerable groups) have achieved little sustained success in reducing poverty among the poorest and most vulnerable. The Social Development Foundation, established by the Government as a nonprofit organization in 2001, is designed to promote and institutionalize community-driven development initiatives.⁵

95. The World Bank will expand its support to the Social Development Foundation as one of the channels for enhancing voice and accountability and reducing vulnerability among the excluded poor. The ongoing Social Investment Program Project is using new ways of delivering critical small-scale infrastructure services, providing social assistance, and promoting income-generating activities for the rural poor while also addressing institution and capacity building at the village level. An important objective is to enhance poor people's voice and participation in development issues at the local level. The project has focused on direct financing at the village level, to support inclusive community organizations and build downward accountability. Its scope has recently been expanded to address poverty in districts affected by famine (monga). The pilot project will be

implemented in partnership with the Palli Karma-Sahayak Foundation (PKSF), the apex funding organization for microfinance, and will be aimed at improving the immediate income of affected families during the famine season.

96. Further strengthening community-driven development (CDD) in Bangladesh requires ensuring the sustainability of the participatory and service delivery approaches that have been implemented.

That means building and broadening the scope of local governance by improving the capacities of local governments and institutionalizing relations between local communities and local governments, which in turn will improve accountability and empowerment. The next phase of the Social Investment Program Project will therefore use the CDD approach more comprehensively, focusing on strengthening village institutions, improving the livelihoods of marginalized and vulnerable people, and building trust and accountability between community groups and local governments. Results have already shown that the CDD approach can improve service delivery and give voice to poor women and the most marginalized people. These initiatives, along with the direct funding to communities, will ensure decentralized management of development programs at the village level and enable poor people to expand their role in local governance.

D. CORE GOVERNANCE

97. Much of the agenda addressed in the two pillars is about improving sector

governance. Improving the investment climate involves, for example, strengthening the regulatory environment for industry and finance and removing governance impediments to investments in infrastructure. Similarly, empowering the poor involves making government more accountable for service delivery or infrastructure provision and strengthening local governance to bring government closer to the people. The World Bank, through its various instruments and in collaboration with development partners, will attempt to strengthen key institutions responsible for ensuring good governance under these two pillars. It will also attempt to strengthen demand for good governance by encouraging public participation in policymaking and policy and program monitoring across different levels of government. This agenda will be advanced through all World Bank activities in Bangladesh, including analytical and advisory activities, projects, and strategic partnerships with the private sector, academia, and civil society. This mainstreamed approach means that World Bank operations, whatever the sector, will be as much about governance as they will be about infrastructure provision or service delivery.

98. But there are clear limits to the gains from improved sector governance without corresponding improvement in key core governance functions. Development outcomes depend as much on addressing a set of governance issues that cut across all sectors as they do on improving governance at the sector level. Unless revenue administration is improved, the

Government's revenues will not increase as projected in its Poverty Reduction Strategy to fund pro-poor expenditures. As noted the low revenue effort also prevents the Government from paying civil servants a living wage and allocating adequate resources for operations and maintenance, creating huge incentives for corruption and poor service delivery. Similarly, a failure to address weaknesses in Public Financial Management systems erodes the effectiveness of the rather modest resources Bangladesh deploys through public expenditures to fight poverty (about 13.3 percent of 2004 GDP), by encouraging waste and corruption. Equally important is the need for better oversight and transparency and improvements in the way public administration is managed so as to ensure an efficient, clean, and accountable civil service.

99. Strengthening key institutions of accountability-including the legal and judicial sector, which provides a check on the executive-will also help restrain abuse of office and reduce the risk of corruption. Reform of the justice sector-the courts, public prosecutors, and the police-will be crucial in improving the investment climate, by providing predictability in the enforcement of contracts, supplying the means to settle disputes in an orderly and timely fashion, and maintaining law and order. Such reform is equally important to ensure access to justice for the poor and to protect the poor, especially women, and the weak from human rights abuse and other violations of their personal dignity. Finally, success in improving the investment climate and improving service delivery will depend

on whether citizens and investors can hold government accountable for the services it provides. As stated in the PRSP, "freeing up information itself can act as a powerful driver for building accountability pressures and improving the governance process."

100. The World Bank, together with its development partners, will help the Government address these core governance issues. Reforms in these areas will take considerable time to have an impact. But the Bank will support some clear, measurable steps, explicit and implicit in the PRSP, that will send a strong signal on the direction of change and create a momentum for further governance reforms in public financial management and procurement and the legal and judicial sector (see table 5).

Improve Public Financial Management And Procurement

101. Bangladesh has developed a reasonable track record in managing its fiscal balances. The overall fiscal deficit has been steadily reduced, with the FY04 level of 3.2 percent of GDP representing a big improvement on the peak of 5 percent in FY00 and FY01. With revenue efforts at a low 10 percent of GDP, the decline in the fiscal deficit primarily reflects a successful containment of public expenditures, particularly on the annual development plan. The decline in the fiscal deficit has been accompanied by a secular decline in concessional foreign financing over the years, from 4.8 percent of GDP in FY90 to 1.1 percent in FY04; it has also permitted a substantial reduction in net domestic financing, particularly bank financing,

which fell from 1.6 percent of GDP to 0.4 percent in FY04.

102. Without a strategic budget planning process, however, this strong

Table 5. Core Governance: Targeted Results	
Strategic longer-term country outcomes	Indicators of Bangladesh's success that the CAS aims to affect
Enhanced revenue effort and stronger, transparent, and more efficient tax administration	<ul style="list-style-type: none"> n Tax revenue increased by at least 1.5 percentage points of GDP; and exemptions rationalized. n Customs clearance time and number of approvals reduced. n Greater satisfaction of taxpayers, importers, and exporters in periodic surveys.
An efficient, accountable, and transparent system of public financial management at all levels of government and in all state-owned enterprises	<ul style="list-style-type: none"> n Expanded tax base. n Improved ratings on Public Financial Management (PFM) performance indicators based on implementation of agreed action plan in key areas—focusing particularly on enhanced accountability, transparency, and reduced fiduciary risk—including: <ul style="list-style-type: none"> l Systematic follow-up by the Government on audit findings and recommendations of the Public Accounts Committee. l Procurement regulations continuing to be implemented and new procurement act passed. Oversight, procurement audit, and appeal mechanisms made functional and effective. l E-procurement introduced.
Key guardians of accountability functioning as an effective check on the executive	<ul style="list-style-type: none"> n Measures taken by the Government to ensure the independence and operational effectiveness of key agencies by: <ul style="list-style-type: none"> l Creating a transparent, fair, and independent process for selecting the leadership and senior management of key agencies. l Ensuring the financial and administrative independence of these agencies. l Ensuring adequate salaries and other compensation for their leadership and senior management commensurate with their responsibilities and special status.
A transparent, open government conscious of its obligation to disclose information to the public, and citizens made conscious of their right to	<ul style="list-style-type: none"> n The Government's development and implementation of an information policy strategy, including e-governance n Key government processes made open to the public, including Public Accounts Committee (PAC) hearings, the procurement process*, and disclosure on the Web of periodic financial statements and audit reports.
A service-oriented, accountable, and efficient public service	<ul style="list-style-type: none"> n Personnel management system developed and implemented, including improved merit-based recruitment and promotions, a posting and transfer policy, and a senior service pool.

* The Government's annual procurement plans and schedules, bidding documents and requests for proposals, shortlists of consultants and lists of pre-qualified contractors and suppliers and contract award information for all large contracts will be made available to public. Summaries of bid evaluations will be made available to all other bidders/consultants submitting proposals after the successful bidder is notified. Representatives of beneficiaries would be allowed to attend bid openings.

performance in maintaining aggregate fiscal discipline has come at the cost of undermining the effectiveness and efficiency of public expenditure. Expenditure reductions have often been ad hoc and arbitrary, driven by unforeseen revenue shortages and by the poor ability of the public expenditure management systems to properly manage such adjustments. Heavily populated countries tend to have less government spending as a share of GDP, reflecting economies of scale in lower per capita costs of providing services. But coverage of public services in Bangladesh is low in many areas, and despite the relatively modest size of the civil service, the wage bill (broadly defined to include subventions) tends to crowd out other expenditures, such as operations and maintenance and other nonwage public spending.

Modernizing the National Board of Revenue

103. The revenue effort of Bangladesh has been weak and, for the past several years, stagnating. With a population of 140 million, the country has only 1.4 million registered income tax payers and 300,000 businesses registered for the value added tax (VAT). Total tax revenue amounts to 7.4 percent of GDP. This low level reflects in part the low elasticity of revenues with respect to income growth due to a heavy dependence on import taxes (27 percent of total tax collections) and numerous exemptions, tax holidays, and preferences. It is also due in part to poor tax administration. The revenue authority and customs have a reputation for corruption, reflecting the lack of

accountability and weak incentives characterizing the rest of the civil service (see para. 113). While some progress was made in customs, taxpayers still face cumbersome processes, such as a large number of approvals required for customs clearance, and many opportunities for face-to-face contact with revenue officials, which lead to the extraction of rents.⁷ The management structure is weak, reflecting a lack of clear organizational direction and leadership. It also reflects an organizational structure based on type of tax, which tends to duplicate functions (such as audits and collection) and undermine the exchange of information. More important, this structure is inconvenient and burdensome for taxpayers, who must deal with different units on similar issues.

104. The World Bank is engaged in an effort to reform the National Board of Revenue. The Government has taken measures to improve tax collection in the short term by establishing the large taxpayer units for income tax and VAT. It has recently approved a strategic development plan aimed at increasing revenue collection, developing a more effective organizational structure along functional lines, developing legal and regulatory systems to facilitate rather than hamper trade flows, fostering a culture of taxpayer service, and ensuring that all businesses are treated uniformly and equitably. The initial stages of the plan have been supported by a DFID grant and IDA, through the Economic Management Technical Assistance Project. The plan will also be supported through policy-based

lending (DSCs) and IMF programs. A fully fledged tax administration modernization project is also being planned.

105. The modernization of the National Board of Revenue will include developing new functional areas such as taxpayer services, audit functions to detect underreported income, and collection enforcement. The Large Taxpayer Units for Income Tax and VAT will pilot test this modernization, including through reengineering processes supported by automation. The composition of the National Board of Revenue is to be strengthened and based on functional lines, with human resource management policies and procedures improved to ensure more professional and competitive recruitment and promotion policies, training, compensation, and career development. The World Bank and its partners will encourage the board to work with exporters' and taxpayers' associations to ensure that the quality of service improves. Surveys of taxpayers, exporters, and the general public will monitor perceptions of the board's progress in improving its performance.

Strengthening Public Financial Management and Accountability

106. Bangladesh's public expenditure institutions need to be significantly strengthened, as revealed by The World Bank's recent Review of Institutional Arrangements for Public Expenditure, Financial Management and Procurement. Key links in the chain of public financial accountability are weak. One of the most serious weaknesses is the lack of a strategic planning process, reflected in the

overprogramming of the annual development plan. This lack facilitates discretionary behavior, creates opportunities for rent seeking, and leads to too many underfunded projects, delays in implementation, and chronic underexpenditure. Budget planning is fragmented between revenue (recurrent) and development (investment) budgets and preoccupied with the inputs rather than outputs and outcomes, undermining any performance orientation. Moreover, weaknesses in budget execution related to accounting, reconciliation with the World Bank, and reporting delays hinder transparency and create opportunities for mismanagement of public funds. Failure to use international accounting standards in state-owned enterprises conceals the real value of contingent liabilities in the budget. Internal and external controls remain weak, as reflected in the lack of accounting information in line ministries, delays in the publication of audited reports, unsatisfactory quality of the external audits function, and ineffective parliamentary oversight of the entire budget process.

107. The Government has begun to address these weaknesses systematically as part of a program of reforms supported by DFID, the IMF, and the World Bank. The PRSP calls for strengthening planning processes to avoid overprogramming, including through better project preparation and approval processes. The Government has taken solid steps toward introducing a Medium-Term Budgetary Framework, pilot testing it in four ministries in FY06 and planning to extend it to six additional ministries in FY07.

Expenditure tracking surveys are being carried out in three ministries to study the extent to which the amounts allocated in budgets reach the spending authorities and beneficiaries. The Government has also rolled out a custom computerized accounting system to 20 of 58 district accounts offices and 7 of 49 chief accounts offices. While the introduction of this system was not preceded by a redesign of business processes, it has considerably increased the speed with which accounts are generated and allowed the Government to produce monthly fiscal reports. In addition, the Government has eliminated a major conflict of interest by separating the external audit and internal accounting functions. It now needs to make the Comptroller and Auditor General a truly independent body, with no reliance on the Government for its budgetary allocations and administrative decisions. The Public Accounts Committee of Parliament, reestablished with IDA support in DSC II, has begun to reduce the backlog of audited accounts for discussion, and its deliberations are beginning to be followed by the press in Dhaka.

108. Progress in improving the quality of public financial management (PFM) and accountability will be crucial for Bangladesh to meet the goals set out in its PRSP. The PRSP sees such progress as a critical element in its anticorruption agenda. The World Bank is working with the Government to develop a detailed action plan for raising many of the C ratings it has received on PFM indicators to B ratings by the end of the CAS period (see annex 4). The focus will be especially on improving

performance on the indicators with a direct bearing on transparency, financial accountability, and performance. These include indicators relating to comprehensiveness and transparency of the budget, such as provision of information on budgetary allocations and performance standards to enable project and program beneficiaries to monitor the delivery of resources and services, the effectiveness of internal control and audit functions, payroll controls, improvement in the quality and relevance of external audit reports, systematic follow-up of key audit findings, and enforcement of public sector ethics codes and asset declarations.

109. Progress in implementing the agreed financial management and accountability action plan aimed at improving PFM ratings will be a **key indicator in judging the appropriateness of the use of Development Policy Credits** as an instrument in the World Bank's program. The World Bank will work with its development partners to assist the Government in meeting the PFM standards. A Public Expenditure and Institutional Review is planned for FY07. Technical advice is being planned for integrating the PRSP into the budget through the Medium-Term Budgetary Framework and for finalizing the system requirements of an Integrated Financial Management Information System (MIS). And potential project investments in Treasury computerization are being explored. Finally, the World Bank Institute will provide targeted training interventions on fiscal sustainability analysis and debt management for the Ministry of Finance

and support to the Ministry of Planning in poverty data analysis and MDG monitoring to better align with the PRSP goals and indicators.

Achieving Transparent and Competitive Procurement

110. Public procurement is a key source of corruption in many countries, and Bangladesh has been no exception. Before reforms in recent years, procurement was subject to considerable delays, lacked transparency, was poorly managed, and was seen as the single most important source of leakage of public funds. But the Government has made good progress through the initial reforms. For the first time it issued uniform procurement regulations that apply to all public sector entities across the country, consistent with international procurement practices. It has introduced new standard bidding documents and significantly reduced the layers in the procurement approval processes. It has put into place a unique procurement tracking and monitoring system through an integrated MIS now being pilot tested in a few agencies. The Government is committed to placing soon before Parliament for enactment a new procurement law satisfactory to IDA, which covers infrastructure concessions and build-operate-transfer arrangements. This progress has enabled Bangladesh to secure B ratings in three of the four PFM indicators on procurement. Further progress cannot be taken for granted, however, since there is considerable resistance to these reforms from powerful vested interests.

111. The World Bank will, therefore, support a deepening of the initial procurement reforms, including through policy-based lending (DSCs) and a second Procurement Reform Project that will support implementation of the new law once it has been passed by Parliament. The project will also support an e-procurement system aimed at enhancing transparency and efficiency for both government and bidders. An e-procurement readiness survey will be launched shortly to help prepare an implementation program.

112. Key to successful implementation of a satisfactory new procurement law and full realization of its intent will be strong compliance monitoring by the Central Procurement Technical Unit and by civil society and NGOs through procurement watch activities. The approach to procurement reforms will include efforts to encourage behavioral change and social accountability; mechanisms to better manage complaints from bidders, civil society, or beneficiaries; extension of the MIS beyond the pilot agencies to the entire government; and systematic publication and tracking of procurement performance indicators. Systematic outreach to the business community, including contractors, suppliers, and consultants, will be crucial to explain the new regulations and encourage its full participation in and support for these reforms. The World Bank will support capacity building in the Central Procurement Technical Unit and in line ministries to address this large agenda and provide training in managing government procurement and encouraging behavioral change and social accountability.

Reforming Public Administration

113. An underperforming, inefficient, and weak civil service remains a constraint on service delivery and implementation of reforms. Numerous commissions and reviews have been undertaken, and a fairly comprehensive agenda awaits implementation. Yet progress has been slow. As a 1996 World Bank report states,

"there are many individuals in the Civil Service who are highly competent, but cannot render their best because of the Government's compensation policies, working environment, restrictive cadre practices and its practice of deploying the available personnel without trying to match their skills to the requirements of the job. The pay is too flat, with severe below market salaries at the top and above market salaries at the bottom, scarcity of skills at the top, and redundant staff at the bottom. Any reform of the civil service has to address these anomalies⁸."

114. Several factors explain the lack of political will to address these issues. The unhealthy competition between the major political parties leads to a highly politicized civil service and means that reforms are unsustainable when power shifts from one party to the other. The systemic corruption is self-reinforcing, even to the point where political parties become partly dependent on funding from routine corruption in the civil service. Moreover, there are powerful internal vested interests: the cadre system creates vertical stovepipes of competing interests that distort departmental and ministerial structures and restrict staff

movements. Class 4 employees, at the bottom of the rung, are a powerful political lobby strongly resistant to more ambitious reforms.

115. Even so, a number of public administration reforms have been implemented in recent years. The size of the public service and the growth of the wage bill have been successfully contained. The Career Planning Wing was created in the Ministry of Establishment to focus on career planning and effective deployment of class 1 officers. A training policy has been issued, and training is now one of the criteria for promotion of officers. Emphasis on merit in promotion and career development has increased. And the Government is considering the reestablishment of a senior civil service or management pool.⁹ These gains are laudable, though much more needs to be done to improve the civil service. It would nevertheless be unwise to expect much in the way of civil service reform until the forthcoming elections are over.

116. The World Bank will support the Government's efforts to build on these recent modest but important steps. The PRSP calls for improving incentives, motivation, and capacity within the administration, particularly through a strengthened process of recruitment (including from outside the administration for senior-level positions), a stronger system of rewards and punishment, and oversight and monitoring mechanisms. Through its analytical and advisory services, the Bank will work with the Government to improve the caliber, effectiveness, and efficiency of

the civil service. The World Bank will help establish a senior civil service.¹⁰ While developing such a senior service may take time, in the interim the World Bank will undertake preparatory work with the Government and its partners and help strengthen the Government's personnel management system, including through merit-and performance-based promotions, improved postings and transfers, revised compensation, and enhanced training. In addition, the World Bank will help the Government manage its wage bill through analytical work to review civil service pay and compensation policy.

Strengthen Institutions of Accountability to Strengthen Restraints on the Executive

117. Strengthening the key guardians of accountability in Bangladesh, with a view to enhancing their quality, efficiency, and independence, is a World Bank priority. IDA has been supporting Bangladesh Bank through technical assistance and policy-based lending, strengthening its ability to hold financial institutions accountable. It is also providing assistance to the Securities and Exchange Commission to enhance its enforcement and regulatory capabilities in financial markets. And it will continue support to the Supreme Court through a follow-on project planned for legal and judicial reform. The World Bank has also supported the establishment and operationalization of the Anti-Corruption Commission through policy-based lending (DSCs), while the ADB is providing support to help the commission start its work. In addition, the World Bank is providing

support to strengthen the office of the Comptroller and Auditor General and may support the Public Accounts Committee. And it has been requested to support the Public Service Commission as part of its work on civil service reform.

Support Legal and Judicial Reform

118. An effective legal and judicial system is critical to create effective checks and balances and to help enforce contracts and settle disputes. Bangladesh's justice sector suffers from many of the weaknesses common in developing countries. While the Constitution and laws are generally sound, the justice system is seen as corrupt and subject to excessive delays. There is no code of conduct governing the judiciary, and court staff allegedly indulge actively in rent seeking. The higher courts perform better, however, and the Supreme Court has remained a relative island of integrity, showing its willingness to stand up to governments. The delays in the justice system seriously compromise its ability to enforce contracts and property rights: resolving a civil case takes 5 years on average, from filing to the decision of a district court. These delays lead to a huge backlog of pending cases. Among other things, the delays reflect a lack of modern case management, weak court administration, and deliberate delays by litigants, tolerated by cooperative judges, to avoid resolution when their cases are weak. The system often lacks transparency and accountability and encourages impunity. Access to justice for women is particularly weak and there is a growing perception that violence against women is on the rise.

119. The police are also at the heart of the poor administration of justice. They have been described as a reactive force with a philosophy of public control rather than community service. The police are seen by average Bangladeshis as corrupt and brutal and are a source of internal and external concern about human rights abuses. They are also one reason for the deterioration in law and order that has contributed to the weak investment climate.

120. **The Government has made formal commitments to reform its legal and judicial system.** In 2000 the Government developed a long-term strategy for legal and judicial capacity building that has guided the World Bank's initial support to the justice sector. The PRSP identifies criminal justice reform and affordable justice for the poor as high priorities. In addition, the Government commits itself in the PRSP to "meaningful progress on the separation of the judiciary from the executive" to implement a Supreme Court judgment of 2001, which calls for such a separation in line with the Constitution of Bangladesh. This separation requires removing the judicial functions of local magistrates, who now carry out both executive and judicial functions, and developing a cadre of judges to take on these judicial functions.¹¹ With support from the World Bank, the Government has initiated a pilot program to increase the efficiency, effectiveness, and accountability of the civil justice system and to increase access to justice for the poor.¹² Elements of the reform include strengthening court administration and reducing delays by improving case management through an

automated MIS, strengthening judicial training, and upgrading facilities and other human resource needs in five pilot districts and the Supreme Court. The Government also aims to improve access to justice through a newly institutionalized alternative dispute resolution mechanism, which allows quicker resolution of cases outside the courts by improving access to legal aid and promoting legal literacy and public awareness at the grassroots level. A midterm review of this project is under way and will be used to help evaluate ways of making faster progress in judicial reform.

121. Given the lack of public demand for reforms, however, progress on this front will prove difficult. While pilot reform programs to improve judicial administration are important initial steps, they are not enough to address the weak incentive structure at the root of many dysfunctions of the justice system. The rule of law is not in the interests of clientelist politics because it reduces the need for clients to seek the help of patrons in resolving disputes or enforcing contracts. The World Bank, with its development partners—particularly the Canadian International Development Agency (CIDA), Danish International Development Agency (Danida), and the European Community—will work on ways to strengthen the demand for legal and judicial reforms and help build a broad national consensus on the need for such reforms and on priorities for justice sector reforms. This effort will center on encouraging and facilitating a dialogue within the justice sector and between the justice sector and civil society, academia, and politicians. One of its aims

will be to develop a road map of concrete technical steps required to extract the executive branch at the local level from its judicial responsibilities. The exercise will complement the work of development partners in the broader criminal justice sector, which includes work by DFID, Japan, and the United Nations Development Programme (UNDP), to improve the effectiveness and efficiency of the Bangladesh police by supporting key areas of access to justice, human resource management and training, and prevention, investigation, and prosecution of crime.

Strengthen Demand for Reform and Enhance Access to Information

122. Experience in other countries suggests that governance reforms succeed best when society demands them, not when the reforms are imposed by external actors. A central focus of the World Bank's energies (and those of its development partners) will be to help strengthen voice, empowerment, and participation in a country where civil society has made huge strides in a very short time. The World Bank will increasingly work with civil society, academia, and think tanks to help build consensus around governance reforms and to monitor progress in governance. It will increasingly partner with civil society and academia in analytical work on issues of governance and in the production and dissemination of high-quality information on the extent, incidence, and consequences of corruption. Over time this engagement will help strengthen the public's perception of the need for governance reforms and increase the pressure on governments to undertake such reforms.

123. For civil society to engage with government on the quality and efficiency of public institutions, it will be important to address the relatively limited formal access to information held by public authorities in what is otherwise a very open society. This access remains limited because there are few institutional mechanisms through which citizens can obtain such information. The PRSP sees addressing this issue as "the most important entry point" for enhancing accountability and transparency. It sees a freedom of information law as an important long-term goal. Such a law would provide citizens with a legally enforceable right to obtain, through clearly defined procedures, information held by government on matters of public concern. It would also encourage government to publish information about its activities. As in other jurisdictions, a freedom of information law should explicitly supersede the Official Secrets Act where there are any inconsistencies. The work of the National Law Commission on the proposed Right to Information Act 2002 was a first step toward such a law.

124. The World Bank's analytical work will explore how the public's access to information can be enhanced and how greater transparency can be brought to the budget, public procurement, and the public policymaking process as a means of stimulating demand for reforms in governance, including through watchdog NGOs. The World Bank will support government efforts to strengthen ICT and apply e-governance initiatives in key sectors. The World Bank will also work with its partners to help bring about

attitude changes among civil servants so that they see themselves as "servants of the people" and are encouraged to be open and transparent in their work. Participatory analytical work in this area, undertaken with development partners, will feed a national debate on the role of information in development, contribute to a national information policy, and potentially lead to a freedom of information act. The World Bank Institute, through its Media, Information, and Governance Program, seeks to build the capacity of Bangladesh's Public Information Department to manage and disseminate information and the capacity of the media to access government information, with a focus on excluded groups such as rural women, indigenous populations, and char-land dwellers.¹³ This work, in conjunction with the work of development partners active in governance and transparency, will help strengthen the capacity of the media and civil society to access and analyze greater information flows, enabling them to better educate the public. The work will also help beneficiaries at the local level monitor access to budgetary information on resources available and service delivery. The World Bank Institute also plans to strengthen the capacity of the Government's National Institute of Mass Communications to continue training and capacity development activities in governance and transparency over the long term.

125. **The roots of many of Bangladesh's current problems of governance lie in areas outside the World Bank's mandate—that is, in political governance.** The cost of getting

elected in Bangladesh is said to be among the highest in the world relative to income, and campaign financing is thus thought to be a major source of corruption. One contributing factor is the limited enforcement of laws and regulations relating to the declaration of assets and liabilities of high public officials and the failure to make such declarations public. Recognizing this, the Government has agreed to review the implementation of the relevant legislation and policies, recommend necessary actions, and make the review public. There are also major issues of intraparty democracy, which lie at the root of the present confrontational politics. Unless and until these issues are addressed, other reforms cannot fully succeed. It is in these areas of political governance reform, including strengthening political competition and ensuring free and fair elections that the World Bank intends to rely on its bilateral development partners to engage the Government in dialogue and provide support. With this in mind, the World Bank is in active dialogue with these partners on strengthening their efforts to support such governance reforms.

E. LONGER-TERM STRATEGIC ISSUES

126. The CAS touches on a number of longer-term issues. Upgrading agricultural research, evaluating future directions for higher education, strengthening local governance, and strengthening institutions of accountability are among the issues with long-term implications for Bangladesh's development. As Bangladesh enters its election cycle, there is a significant risk that

many such important policy issues now at the top of the development agenda will take a back seat.

127. This potential fallow period for the World Bank's policy dialogue also creates an opportunity to take an integrated view of some of the development challenges that Bangladesh's economy will face over the next several decades. High among these will be environmental issues. Natural resources have provided the platform for much of Bangladesh's economic development and growth. The wetlands sustain abundant fisheries that provide 60 percent of the country's protein consumption, while forests and natural vegetation remain the primary source of cooking fuel for the bulk of the country's population. But there are growing signs of declining natural resource and ecosystem productivity, threatening the country's poverty reduction efforts and longer-term growth prospects. In addition, rapid urbanization—including the high population concentration in Dhaka, likely to become one of the world's most populous cities—has generated a litany of environmental problems that accentuate poverty through environmental health risks associated with deteriorating air and water quality and sanitation problems. Indiscriminate discharge of industrial effluents to ground and surface water and weak enforcement of environmental regulations pose a significant threat to ecological balance as well as serious health risks, particularly

among the vulnerable and the urban poor. Developing a strategy to deal with environmental problems (including the eastern rivers) and an understanding of the drivers of urban growth would enable Bangladesh to better cope with its projected population of 250 million in 2050.

128. Diversification of Bangladesh's economy from its current export dependence on garments will also be a major issue and is the subject of an ongoing World Bank study on constraints to long-term growth. On the social side maintaining progress toward the MDGs and looking beyond 2015 to progress over the next 25 years will determine the policy priorities over the next decade. And above all, building the institutions that will guide and shape the politics and economy of Bangladesh in the 21st century will be at the heart of any long-term development perspective.

129. The World Bank will work with its development partners and with leading academic and policy research institutions in Bangladesh to revisit the challenges of longer-term development in the country. It will use the inevitable interlude imposed by the political calendar to encourage a debate in Bangladesh society on key long-term development issues and help shape directions for future work that would influence the policy and development directions in future PRSPs. The World Bank also plans to prepare policy notes for the incoming government—an agenda for its future support.

IV. THE WORLD BANK GROUP PROGRAM

A. LESSONS LEARNED

130. The strategy during the last CAS (FY01-03) was one of a graduated response to Bangladesh's development challenges, operating mainly in a low case and shifting into the base case as the pace of reforms accelerated with the new government that came to power in 2001. A strategic shift began in FY03, when the first development policy loan—after several years of low-level engagement—was approved by the Board of Executive Directors following significant progress on public expenditure, financial management and procurement, banking, and state-owned enterprise reforms. Good policy performance has continued and has been supported through follow-up DSCs. The World Bank has pursued a more strategic, policy-level engagement since then, and its relations and level of dialogue with the country have improved as a result.

131. On the outcomes outlined in the FY01 CAS, the World Bank effectively supported human development and economic growth but was less successful in helping to promote governance improvements and rural development. Delivery of the World Bank's assistance was affected by its limited engagement in several key sectors, including infrastructure. Moreover, poor understanding of country conditions and the political economy of reforms constrained the World Bank in developing a responsive country program, with the result that a disconnect emerged between the lending program and analytical

work. The Quality Assurance Group viewed the lending program as not sufficiently broad based, while at the project level the Operations Evaluation Department found that outcomes had been mostly satisfactory.

132. Indeed, disengaging from such critical sectors as banking, power, and water hindered achievement of CAS outcomes and development of the country program. And despite the focus on governance, the World Bank was unable to support the country in key areas of public administration reform, decentralization, and anticorruption. The World Bank's strategy might have appeared appropriate at the time, given governance challenges and the policy stance in some sectors. In retrospect, however, the extent of disengagement envisaged during the last CAS appears excessive considering Bangladesh's overall economic and social performance.

133. Lessons were also learned for the World Bank's analytical work. The Quality Assurance Group found the quality of individual tasks to be consistently good, a conclusion confirmed by the 2004 Client Survey, whose respondents said that the World Bank was effective in producing knowledge. Respondents were less positive about the World Bank's ability to adapt its knowledge to Bangladesh's needs, however. On this aspect the Quality Assurance Group found that the analytical and advisory activities program lacked client input on its scope and that preparation of reports lacked client participation. It also faulted the

analytical and advisory activities program for poor dissemination.

134. Similar messages consistently emerged from the World Bank's extensive CAS consultations with different segments of Bangladesh society, the Government, the private sector, academia, civil society, and the donor community (see annex 5). All emphasized the need to pay attention to the political economy of reforms and country-specific circumstances to support the design of more effective interventions. They also strongly expressed the need for the World Bank to strengthen its own fiduciary requirements and to minimize possibilities for corruption in its own projects.

135. Going forward, the country strategy will incorporate the lessons learned from the last CAS and more recent experience (see box 5). The World Bank Group will need to operate differently in the face of the challenges it confronts. First, it will need to pay better attention to local conditions and realities, avoiding routine solutions to country-specific challenges and helping to promote a common view and approach around critical policy issues, especially on governance. Second, the Bank Group will need to recognize the fiduciary risk environment in which it operates and take adequate measures to mitigate the risk, which is a particularly difficult challenge in Bangladesh.

Box 5. Lessons from the Last CAS and Recent Experience

- n To enhance the development impact, it is important to remain engaged and able to respond as opportunities arise even when the reforms appear difficult to achieve. A more positive and constructive level of engagement has proved more effective in pushing reforms. Moreover, reengaging in a sector after years without dialogue and lending is usually more difficult and costly than maintaining engagement.
- n Development policy lending has effectively supported the Government's reform agenda and helped to deepen policy dialogue across several critical sectors.
- n There is a need to pay close attention to the political economy of reforms and develop realistic expectations about their scope and pace. CAS implementation showed that, given country conditions, reforms cannot always be advanced comprehensively and at an even pace. Nevertheless, the Government's commitment to reform resulted in measurable progress in key areas even though the reform agenda could not be pursued equally across all sectors.
- n Governance is an area where a positive and constructive approach—moving from rhetoric to concrete, practical support—would likely yield improved results. In practical terms, this means unbundling governance issues to implementable levels, gaining more in-depth understanding of these issues, and going beyond traditional areas of past engagement.
- n The country program supporting CAS outcomes should be especially responsive to client capabilities and institutional capacities. Simultaneously, the program needs to be selective while maximizing partnerships with development partners. "Good local fit" based on a thorough institutional analysis should be particularly emphasized.
- n The World Bank needs to develop a more strategic and, when relevant, programmatic view of analytical and advisory activities, linking the analytical and advisory activities program clearly to the CAS outcomes and focusing on governance in everything the World Bank does. Sector work should be better aligned with lending development, while analytical work should be developed in parallel to support the reform agenda, focusing particularly on how to implement specific, difficult reforms. Involvement of the client should be enhanced, and opportunities for partnerships with other donors actively sought.

B. WHAT THE WORLD BANK WILL DO DIFFERENTLY?

136. The key lessons from recent experience and the results of the CAS consultations call for the World Bank Group to do a number of things differently:

n First, the World Bank will ensure that the results focus of the CAS is reflected in everything it does in Bangladesh, from lending and analytical and advisory activities to the way it manages fiduciary risks.

n Second, the World Bank will make governance a central focus of its work, influencing decisions about sectoral priorities, the composition of Bank lending and analytical and advisory activities, and the type of instruments deployed.

n Third, the World Bank will attempt to systematically involve beneficiaries and affected communities in the design and implementation of all its activities.

n Fourth, the World Bank will seek to build strong partnerships with academia, civil society, and the international donor community.

n Fifth, the World Bank will become increasingly open and transparent in the way it does business, enhancing disclosure and reaching out to all sections of Bangladesh society and thus positioning itself to become a reliable long-term development partner of Bangladesh.

n Finally, the World Bank will step up its efforts to strengthen fiduciary safeguards in the projects and programs it funds and

reduce fiduciary risk even as it continues to proactively manage the portfolio and improve implementation (see chapter IV, section E).

137. A governance-oriented CAS will require new ways of doing business to ensure effective implementation, with shifts in staffing, institutional processes, and culture (see following sections). Staffing adjustments will start with key members of the Bangladesh country team. A governance adviser will be hired in FY06, a Dhaka-based legal and judicial reform adviser has been hired, and Dhaka-based positions for an operations adviser and lead economist with a strong focus on governance will be advertised in FY06/07. New sector team members with strong governance experience will also be sought.

138. Institutional processes will be reoriented to ensure a governance dialogue throughout project and analytical and advisory activities preparation. Following good practice in other world Bank regions, an operations risk management team is being established to provide peer advisory services on core and sector governance issues, allow greater knowledge sharing across teams, and institute early warning systems for high-risk projects (see chapter IV, section E). Country-specific policies already in place require early inception notes for all projects and analytical and advisory activities before formal allocation of budgets. The inception notes require teams to outline governance risk issues early in the concept stage. A series of sector-specific political economy and governance

studies have been initiated, such as the one for the Chittagong port and an upcoming study of the power sector.

139. Feedback from clients and from other donors points to the need for more transparent business practices in Bangladesh to ensure effective partnerships, reduce perceptions of corruption, and encourage voice and participation. The World Bank's program has recently benefited from a more strategic external affairs engagement. A new external affairs manager has been hired, and outreach efforts are being scaled up. A new "Bangladesh Development Series" capturing all Bangladesh-related analytical work is being distributed to a broad list of donors, government, and civil society. Similarly, the World Bank is expanding its program-specific dialogue with civil society, academia, parliamentary bodies, and the private sector through an enhanced World Bank Institute program. And to ensure maximum voice and participation, many of the World Bank's new programs have a strong focus on community involvement. These include local governance, urban development, and social protection.

140. The most difficult change will be cultural. The country team will hold a retreat soon after approval of the CAS to internalize the priorities and governance orientation. This CAS will require greater cross-sectoral work, stronger country team alignment on acceptable risks, and a clear understanding of expectations relating to governance within projects and analytical

and advisory activities. The process of cultural change will be continuous, with follow-on activities including workshops with other development partners and the Government. The country team will discuss incentives for promoting good governance in project design and best-practice monitoring during supervision. Similarly, an effort is being undertaken to forge team synergies among key governance sectors, such as between urban development and local governance or between legal and judicial reform and work on growth and economic management.

C. A STRATEGY OF ENGAGEMENT: WORLD BANK GROUP INSTRUMENTS

World Bank Lending

141. Under the 14th replenishment of IDA resources (IDA14) Bangladesh's performance-based allocation for FY06 is \$750 million. A similar annual average has been assumed for the CAS period. This volume of lending takes into account the governance ratings for Bangladesh built into the Country Policy and Institutional Assessment as well as portfolio performance. It also reflects the "governance factor" integral to the performance-based allocation formula, so that governance factors weigh heavily in Bangladesh's IDA allocation. This level of lending will allow the World Bank Group sufficient resources to follow a strategy of strong engagement to address Bangladesh's key development constraints through a range of instruments. These will include development policy lending, investment lending, and

interventions that transfer resources directly to the poor, including CDD-based or local government capacity building operations, positioning the World Bank as a long-term partner in supporting Bangladesh's poverty reduction agenda.

142. The strong governance filter on the Bank's Country Assistance Strategy will have significant implications for the lending program (see annex 8). The World Bank will continue to engage the Government on policy and institutional reforms supported by DSCs and Poverty Reduction Support Credits, planned to comprise about 30-40 percent of total lending. These instruments have proved highly effective in supporting strategic reforms across a range of sectors and institutions and have given the World Bank access to the highest levels of decision making (see Box 1). But it will increasingly focus these budgetary support operations on improving sector and core governance. Moreover, access to these credits and to any sector policy operation will be conditioned on four economic management and governance-related benchmarks that are key to enabling more effective use of the Government's budgetary resources and World Bank-financed budgetary support:

- n Maintaining macroeconomic stability, including adhering to the targets established under the agreed macroeconomic framework supported under IMF programs.

- n Meeting the revenue targets established under the PRSP's macroeconomic

framework, as revised under the Government's agreements with the IMF.

- n Achieving satisfactory progress on the annual benchmarks to be established under the agreed Public Expenditure and Financial Accountability framework, which would be aimed at improving Bangladesh's Public Financial Management ratings over the medium term.

- n Enacting a new procurement act satisfactory to IDA and satisfactorily implementing procurement reforms as agreed in the Public Expenditure and Financial Accountability framework and past development policy lending operations.

The World Bank's support for Bangladesh's investment operations will also have a strong governance filter. All support to investments in a sector will address the key governance and institutional constraints to that sector. In particular, infrastructure operations will attempt to enhance the transparency and accountability of private provision of infrastructure.

143. All new projects and programs will attempt to systematically involve beneficiaries and local communities in their design and implementation. Beneficiary monitoring of outcomes will be key in ensuring a strong focus on results in the World Bank's program. In addition, as noted, the World Bank will increasingly rely on CDD-type operations or projects with CDD components to deliver rural infrastructure and social services, relying on communities to prioritize needs. To reduce the risks of leakage of funds, World Bank-funded

programs will institutionalize a shift in the responsibility for holding public officials accountable from external third parties such as the World Bank to local communities, which stand to lose the most from a failure to deliver on program and project objectives.

144. If a deterioration in policy performance or governance failures should make it difficult to reach agreement on the policy program underlying Development Support Credits or, through lower Country Policy and Institutional Assessment ratings, lead to a reduction in resources available to Bangladesh, the World Bank will rely increasingly on CDD-type projects to reach poor communities in Bangladesh to ensure that lower resource transfers do not adversely affect its poor.

World Bank Analytical and Advisory Activities

145. The World Bank's analytical and advisory activities will also be managed more strategically, to support and inform policy and governance reforms, feed into World Bank lending operations, and reach out to key constituencies in Bangladesh by widely disseminating major analytical products translated into Bengali. In its analytical and advisory activities the World Bank will attempt to focus systematically on the political economy of reforms, address governance constraints in the sectors and thematic areas covered, carry out governance assessments of key institutions that it may wish to support, position itself on key development and governance issues, and help build consensus for reforms. The World Bank will also use analytical and advisory

activities to provide technical and advisory support through focused policy notes, particularly to the new government. In addition, the Bank will increasingly use analytical and advisory activities to work with local policy think tanks and academic institutions to foster debate and dialogue in Bangladesh, particularly on sensitive governance issues, and to build local capacity for policy analysis. Given the cross-cutting nature of the development agenda, the Bangladesh country team will establish cross-sectoral thematic groups that collectively prioritize and manage analytical and advisory activities work and take accountability for delivering genuinely cross-sectoral work (see the Summary of Analytical and Advisory Services in the Key Indicators section).

146. The World Bank's analytical and advisory activities is expected to play an especially important role in FY07, when the policy dialogue with the Government could slow as the country heads toward an election and the related political uncertainty and policy vacuum. The World Bank intends to use this period to undertake joint studies with local institutions aimed at developing a better understanding of longer-term issues in danger of being neglected by policymakers—issues in such areas as the environment (including the impact of global warming), governance, higher education, urbanization, and cross-border regional integration (see chapter III, section E).

The IFC Program

147. On December 31, 2005, the IFC's held portfolio in Bangladesh stood at \$132.5 million in nine projects. Of this, \$102.9

million is for the IFC's own account and \$29.6 million for B-loan participants. The projects span a range of sectors, including power, telecommunications, cement, and financial markets. The IFC will continue to provide equity, long-term debt, and guarantees in support of local and foreign private investment. The IFC will also continue substantial programs of technical assistance through SEDF and FIAS, focusing on developing SMEs, improving the investment climate, and promoting foreign direct investment.

The MIGA Program

148. MIGA's outstanding portfolio in Bangladesh consists of five contracts of guarantee in the manufacturing and telecommunications sectors with a gross exposure of \$112.1 million (about 2.3 percent of MIGA's total exposure). MIGA recently underwrote an investment by an

Egyptian investor in the telecommunications sector totaling \$79.2 million. During the CAS period MIGA plans to support foreign investors in the telecommunications, infrastructure (power), and natural resources sectors. It will focus its technical assistance program on helping to build the capacity of the main government institutions focusing on private sector development, principally with the Board of Investment. MIGA will deliver a range of technical assistance services designed to enhance the board's capacity to promote Bangladesh as a location for foreign direct investment, to address investors' needs during the investment process, and to develop effective investor aftercare and policy advocacy functions. MIGA will also work with the World Bank and IFC to build the capacity of the Bangladesh Export Processing Zones Authority.

Table 6. Portfolio Performance for Bangladesh and Selected Comparator Groups, FY05

Indicator	Bangladesh	South Asia	IDA-only countries
Disbursement ratio (%) ^a	23	26.2	24
Projects at risk (%)	11.5	12	19
Commitments at risk (%)	14	10	19
Realism Index ^b	100	89	73
Proactivity Index ^c	100	89	84
Projects exiting with satisfactory outcomes (%) ^d	100	85	85
Net Disconnect ^e	0	8	4

a. Ratio of disbursements during the fiscal year to the undisbursed balance at the beginning of the fiscal year. Refers to investment credits or grants only.

b. Actual problem projects as a percentage of actual and potential problem projects.

c. Percentage of projects rated as problem projects 12 months previously that have since been restructured, upgraded, suspended, or partially canceled.

d. Includes projects that closed or have disbursed all funds. Not all projects that existed in FY05 have been evaluated by the Operations Evaluation Department.

e. Represents the difference between the development objective ratings in the final project summary report or implementation summary report and those in the Operations Evaluation Department evaluation of the project.

D. PORTFOLIO MANAGEMENT AND PERFORMANCE

149. Bangladesh's portfolio performance, much weaker in the recent past, is now broadly in line with the average for South Asia and for all IDA-only countries. In FY05 the disbursement ratio for Bangladesh's portfolio, at 23 percent, was similar to the IDA average and substantially higher than the 10 percent disbursement ratio for the ADB's broadly similar portfolio. The share of projects at risk is lower than the IDA average, and project outcomes are broadly satisfactory (see table 6).

150. Despite recent progress, however, project implementation continues to be slow, and the country portfolio continues to have a large undisbursed amount, totaling \$1.5 billion at the end of FY05. The average project implementation period has continued to increase, growing from 2.8 years in FY02 to 3.6 in FY05.² This increase is to some extent a result of the growing number of project extensions. In FY05, for example, Bangladesh had 10 project extensions, out of a total of 35 in South Asia.

151. The main factors influencing portfolio performance have been inadequate government ownership of and commitment to project objectives and project design, which have often been overambitious and thus difficult to achieve; delays in project start-up due to, among other things, weak preparatory work, particularly on the recruitment of project consultants and government approval of projects; weak implementation capacity; poor procurement management and

inadequate public sector accountability; insufficient attention to the political and institutional context of projects; lack of realism and weak quality of reporting in supervision; and poor monitoring and evaluation systems.

152. Portfolio performance has also been affected by decisions to extend several at-risk projects (some of them actual problem projects), or to postpone partial credit cancellations, in order to support program development objectives. For example, \$200 million in emergency financing for 2004 post-flood rehabilitation was reallocated from three at-risk or problem projects whose remaining balances would otherwise have been canceled.

153. On the World Bank's human resource side, the departure of key staff from the Dhaka office, and the consequent loss of mentoring and senior expertise, may have weakened the ability of the Country Office to play its expected role in project implementation and supervision. Reconstituting the staffing pattern, including posting to the Country Office senior international staff with responsibility for key sectors of engagement, will be an important human resource feature of the strategy.

154. The Government and the World Bank have responded to these issues, achieving some initial positive results. Besides the overall efforts to improve procurement and financial management, as agreed after the FY04 Joint Country Portfolio Performance Review, the Government, supported by development partners including the World Bank, has

taken several initiatives to improve project implementation. These include establishing a more streamlined project approval process, including the new "Development Project Proposal"; ensuring better recruitment of consultants by introducing a consultant recruitment monitoring system, adopting an action plan to expedite recruitment of consultants in two key line ministries, and requiring early preparation of complete consultant invitation documents; and strengthening monitoring and evaluation, with a special focus on the Internal Monitoring and Evaluation Department, the agency responsible for monitoring and evaluation of development projects. While progress has been made on each of these fronts, critical issues remain, largely due to the limited delegation of authority to line ministries and implementing agencies that still prevails.³

155. At the same time the World Bank has been working with line ministries and implementing agencies in developing and maintaining systems for monitoring and evaluation of project performance and in using the available data to identify areas of lagging performance. In addition the Bank has been closely monitoring project and portfolio progress and regularly providing the Government with a consolidated list of coming due dates and deadlines.

156. **Fiduciary issues have also been prominent concerns across the portfolio.** Indeed, with governance weak and corruption levels high, there are considerable risks to the World Bank's portfolio in Bangladesh. Delays occur in implementation as documents and

decisions are reviewed and re-reviewed at various levels within government, since government budget and human resource management systems include layers of formal sign-offs and other types of protection against malfeasance but relatively few incentives to achieve real results. Tracking studies suggest evidence of leakage, generally, from the social sector programs financed by the World Bank and other donors. Procurement post-reviews, a recently completed independent procurement review of selected projects and investigations by the Bank's Department of Institutional Integrity have indicated irregularities under some World Bank operations. In addition, the World Bank has assessed of the country's financial management and procurement systems through various studies (see para. 158) and paid particular attention during the last CAS period to strengthening the Government's own systems.

157. Learning from these efforts and cognizant of recent cases under investigation or scrutiny, the World Bank will again give this area particular attention during the upcoming CAS, as described in the following section.

E. MANAGING THE WORLD BANK'S FIDUCIARY AND IMPLEMENTATION RISK

158. The World Bank's efforts during the last CAS period to help strengthen the Government's fiduciary risk management began with the Country Financial Accountability Assessment carried out in 2001 and the Country Procurement

Assessment in 2002. These led to World Bank support for government procurement and financial management reforms, resulting in considerable progress on procurement and modest but systematic progress on financial management. As discussed (in chapter III, section D) the CAS will further strengthen the Bank's support for these reforms. These institution-building efforts will take time to have an impact; however, and in the meantime the Bank needs to significantly deepen its own fiduciary risk management.

159. Recognizing this, the World Bank recently completed a retrospective review of independent audits of procurement under eight projects, undertaken for the World Bank by external consulting firms during the past 4 years and a sample of external audit reports of Bank-financed projects. The review revealed frequent instances of probable collusion in bidding, made possible by poor procurement practices—such as insufficient time allowed for bidding, delays in tender evaluation, lack of transparency in bidding, and inadequate bid securities. Other findings included poor record keeping and documentation by project entities, including inadequate documentation to support variation from the contract amount during implementation or to support claims against statements of expenditures. The World Bank responded by declaring misprocurement in some cases and by taking other actions that were mainly project specific.

160. While the Government has a set of sound regulations that will soon be reflected in procurement law,

implementation of the intent of the new law will be key. The World Bank, through its lending and dialogue, will support such implementation, but achieving progress on this and on financial management is likely to remain a challenge for some time. Under the new CAS the World Bank is developing and will begin to implement a rolling operational risk mitigation plan that will strengthen its capacity to manage risk systematically throughout its portfolio, including through retrofitting ongoing operations as feasible. This strategy will comprise the following key building blocks:

n Systematic analysis of corruption risk through analytical and advisory activities and in project preparation. The World Bank will integrate a corruption focus in assessing the capacity of the country and project authorities to manage procurement and financial management, including agency information and documentation management practices; the quality of governance in key institutions in the sector or program being supported; the World Bank's past experience with these agencies; and the incentives and disincentives for corrupt behavior among the key stakeholders. This enhanced knowledge should assist the World Bank in better addressing corruption risks (see below). It will also result in the World Bank staying away from institutions unwilling to address the issues raised in such diagnostic work. Diagnostics in other countries suggest that community-driven programs bolstered by social accountability measures may be less susceptible to corruption. The World Bank accordingly plans to direct an increasing share of new lending to such programs,

where the onus of responsibility for holding public officials accountable is institutionalized in local communities and the beneficiaries of such programs, facilitated by Bangladesh's strong NGO sector.

n **Smart project design.** If the corruption risk assessment shows that the ministry or agency managing a project would, with some help in addressing its weaknesses, be an appropriate partner for the World Bank, the next step would be to design the World Bank-supported intervention so as to reduce corruption risks. Supply-side measures that address institutional weaknesses and ensure implementation of the Government's new procurement policies-including making systematic use of e-procurement, improving procurement planning, and ensuring that the outside members on bid evaluation committees hold the process to appropriate standards of integrity-will need to accompany demand-side measures that allow adequate oversight of procurement, financial management, and project outcomes by beneficiaries, NGOs, and civil society in general. The World Bank will work to systematically improve procurement practices by promoting the use of e-procurement and improved procurement planning. And whenever appropriate, it will use the dynamic Procurement Risk Model in project preparation.

n **Stronger supervision.** Beyond the regular project supervision that addresses policy and institutional issues, the Bank will undertake each year, beginning in FY06, an integrated, in-depth technical, procurement,

and financial management review of projects with high fiduciary risk. This review can include sampling contracts, visually inspecting the actual delivery of work, following up on audit findings and recommendations, and reviewing interim financial management reviews. The Country Portfolio Performance Review will sharpen its focus on corruption issues. The country team will work with the Department of Institutional Integrity to develop a procedure for more effectively addressing complaints relating to corruption.

n **More systematic pursuit of remedies.** The World Bank will be more rigorous in identifying red flags indicating corruption and will pursue misprocurement and other remedies when appropriate. It will agree with the Government that the Government will take firm action against officials who should be held accountable and will build greater awareness of the consequences of corruption among government staff. The World Bank will enhance the follow-up on audit objections, including remedies in the case of material, systemic issues.

n **Enhanced information disclosure.** The World Bank will agree with the Government to the release of certain documents that will help enhance the transparency and accountability of World Bank-financed projects. These would include aide-mémoires of implementation review missions, audit reports and the Government's formal responses to these reports, procurement plans and schedules, bidding documents and requests for proposals, shortlists of consultants, and

summaries of bid evaluations that do not reveal confidential commercial information provided by bidders. The World Bank will work with civil society to help monitor project implementation.

161. Managing a risk mitigation program of this intensity will require that the World Bank organizes itself better to do so. The operations adviser in Dhaka will be empowered to guide the entire process on behalf of the country management team. A cross-sectoral Operations Risk Mitigation Team has been established, to be chaired by the operations adviser, with a mandate to implement the Operational Risk Mitigation Plan and advise task teams in the design and preparation of projects, share and disseminate information on risks, advise the country management team on strategy for mitigating governance risks, and interface with the Department of Institutional Integrity on complaints received about corruption in World Bank-financed operations.

F. PARTNERSHIPS, AID COORDINATION, AND HARMONIZATION

162. To maximize the effectiveness of its programs, the World Bank Group is developing a strong partnership with key development partners in Bangladesh. As a first step the World Bank Group prepared this CAS jointly with the ADB,⁴ DFID, and Japan. These four development partners together deliver \$1 billion to \$1.5 billion a year in aid to Bangladesh: well over 80 percent of all its development assistance. An effort has been made to ensure that the

joint CAS process is fully transparent and open and that the joint strategy has the full support of development partners in the Dhaka-based Local Consultative Group.⁵ The process has used an inclusive approach to bring other development partners into the discussions on different sectors, consistent with mutual interests. The Local Consultative Group has also been involved in the ongoing consultations on the joint CAS (see annex 6).

163. The objectives in having a joint CAS include ensuring better coordination and greater complementarity across the project pipelines of the four donors, giving consistent messages to the Government, and reinforcing one another's efforts in supporting specific sector reforms. The joint CAS is thus also expected to facilitate the development of sectorwide approaches beyond those in health and education, for example, in one or more infrastructure sectors.

164. The joint CAS implies a common assessment of the PRSP, agreement on a common set of broad outcomes, and a common understanding of the strategies needed to deliver these outcomes. The joint work has led to broad agreement on areas of relative emphasis for both analytical work and investments. Under the joint approach each institution maintains its own business plans and project and analytical and advisory activities pipelines, and each has its own documentation, consistent with its requirements. However, a joint results matrix shows outcomes and benchmarks for the CAS period, together with all the interventions by the four CAS partners

supporting a given outcome (see annex 1). Implementing a joint approach implies higher transaction costs for all parties, and the need to achieve the desired complementarity or collective approach may impose additional constraints on the composition and delivery of a partner's program.

165. Partnerships with other donors will continue. The World Bank is involved in sectorwide approaches in health and education. It has initiated sector-specific consultations in the context of the CAS with the aim of bringing in the larger donor community, and joint work and cofinancing are expected in sectors of mutual interest.

166. The World Bank's program will build on Bangladesh's strengths in other partnerships- a vibrant civil society, strong intellectual and research tradition, and dynamic private sector-to maximize impact. Partnerships with local communities, for example, can help shift the onus of enforcing accountability from the World Bank to the beneficiaries. They can also strengthen checks and balances and encourage diffusion and decentralization of power and decision making. The World Bank will also build strong partnerships with civil society, academic institutions, and the private sector, inviting them, as appropriate, to contribute to and participate in project design, implementation, and monitoring as well as the World Bank's analytical work and consensus building on policy reforms.

167. All four CAS partners are committed to supporting harmonization around government systems in their

interventions to the extent possible. Through the Local Consultative Group, donors are working on a harmonization action plan, which follows on the Paris Declaration on Aid Effectiveness, where governments and development institutions committed to far-reaching and monitorable actions to increase aid effectiveness.

168. An important first step in the Bangladesh Harmonization Action Plan took place recently, as the Government took the lead in coordinating the annual donor forum. The Poverty Reduction Strategy Implementation Forum in November 2005, chaired by the Government, is now part of an annual high-level process to monitor implementation of the PRSP. At the forum the Government announced its intention to also chair sector-level aid coordination working groups involving Local Consultative Group donors and to chair a midterm review of progress on implementation with such donors. The World Bank will support the transition to a Government-led aid coordination process consistent with the Paris harmonization principles, as well as implementation of the Government's Harmonization Action Plan. Actions to do so will include strengthening the Government's leadership of the aid coordination process, ensuring that harmonization principles and Government leadership are incorporated into key activities supported by the World Bank and development partners (such as sectorwide approaches and joint analytical and advisory activities) and participating in the Government-led donor working groups to track implementation of the PRSP.

V. RISKS

A. PRS IMPLEMENTATION RISKS

169. The last CAS, completed on the eve of the 2001 elections, identified three potential risks to the Government's development goals: the election could result in a weak coalition or in a new government unwilling to reform, there could be macroeconomic slippages, and the country's vulnerability to natural disasters could divert attention and resources from development. None of these risks materialized in any significant way. Elections produced a landslide victory for the BNP and its allies, which initiated a number of reforms. Macroeconomic risks were managed well, and Bangladesh continued to enjoy economic growth and macroeconomic stability despite intense confrontational politics and violent incidents. And as demonstrated in the serious floods of 2004, the country's ability to manage disasters has greatly improved, reducing loss of life and economic disruption. All this suggests that Bangladesh's resilience to political and economic shocks should not be underestimated. Even so, a look ahead to the remaining years of the decade reveals severe risks that will require managing.

170. **The political risks appear the most severe, with inevitable consequences for the economy.** The past 2 years have seen a significant worsening in the political climate and a marked deterioration in law and order. Increased

political violence, including political assassinations, has intensified the confrontational politics and fed the deepening distrust between the two major political parties. With elections approaching, in January 2007, there is a distinct risk that violence may increase and that the key institutions charged by the Constitution with ensuring fair and peaceful elections—the Election Commission and the neutral caretaker government, which will assume power 3 months before elections—will come under severe pressure in Bangladesh's confrontational political environment. An election result not accepted by one political party or the other could lead to a prolonged political crisis, distracting attention from Bangladesh's poverty reduction agenda. Thus less than a year into this CAS, a deepening political crisis may greatly hamper its implementation. There is little that the World Bank can do to mitigate such a political risk. The World Bank's bilateral CAS partners are actively engaged in a dialogue with the Government and opposition parties aimed at mitigating this risk. The World Bank itself will, together with its partners, try to engage Bangladesh's political elite and civil society with a view to developing a consensus on the development agenda across the political divide and enhancing awareness of the serious economic costs of confrontational politics. The World Bank will also monitor the situation and use the midterm review of the CAS to adjust the assistance strategy as appropriate.

171. A related risk is that in a period of intense political activity there will be little political appetite to address the reforms in governance that are central to successful implementation of the Government's Poverty Reduction Strategy. Vested interests may continue to hamper attempts to implement reforms. The World Bank will work with its partners to engage key reformers in a close dialogue to try to mitigate this risk. If these risks materialize, the World Bank will focus its energies on progress in one or two key areas where reforms appear both feasible and highly beneficial. It will also support donor-led efforts to strengthen the demand for reforms from civil society and the private sector.

172. Another related risk is weak implementation capacity. Even if the political will for reform exists, the steady deterioration in the quality of the civil service and weak incentives due to low public sector salaries and poor management of the civil service could contribute to slow progress in implementing the Government's Poverty Reduction Strategy. The World Bank will attempt to mitigate this risk through strategic interventions in support of improved capacity building in key areas and support for a merit-based promotion and recruitment system, including a senior service pool providing strong leadership to the civil service.

173. Risks to the growth assumptions underlying the CAS come from the increased competition that Bangladesh's garment and textile exporters are facing following the end of the Multifibre Arrangement after January 1,

2005. While there has been no serious disruption of exports in the initial year since the Arrangement ended, the Bank will support efforts to reform the tax administration and regulatory environment and improve infrastructure provision with a view to reducing the high cost of doing business in Bangladesh (see para. 53). These efforts will help restore competitiveness, remove impediments to foreign and domestic investment, and (thus) facilitate greater diversification of the sources of growth. The World Bank Group will also provide policy advice and dialogue on competitiveness issues relating to the garment and textile sector after the end of the Multifibre Arrangement. In addition, SEDF will continue to help the ready-made garment industry adjust to the changing market that it is facing.

174. Finally, Bangladesh's economy remains highly vulnerable to the risk of natural disasters. The Bank will continue to support the improvements Bangladesh has made in disaster mitigation, which have greatly reduced the size of the shocks imposed by natural disasters on the economy. Working with its partners, the Bank will support efforts to mainstream disaster management in relevant government institutions.

B. COUNTRY STRATEGY IMPLEMENTATION RISKS

175. Pervasive corruption in Bangladesh exposes the World Bank's portfolio to high risk. Failure to address this risk carries high development effectiveness, fiduciary, and reputational risks for the World Bank. The

World Bank will mitigate this risk by working with the Government to strengthen its fiduciary controls and by engaging with the Government in efforts to prevent reversal of its recent reforms in procurement policy. Recognizing that progress in this area may take time, however, the World Bank also will take measures to strengthen its own fiduciary controls in operations that it finances (see

chapter IV, section E). While these measures are unlikely to eliminate the risks of corruption in World Bank-financed operations, they should, if properly implemented, significantly reduce the risks over time. They will also greatly mitigate the associated reputational risks as the World Bank is increasingly seen to be moving decisively to curb corruption in its operations.

END NOTES

CHAPTER I: THE COUNTRY CONTEXT

1. This unique caretaker government system was instituted following passage of the 13th Constitutional Amendment, on March 26, 1996. Under this system the president, who is elected by Parliament, remains the supreme commander of the armed forces.
2. Bangladesh's growth volatility over 1981–2000 is the lowest in a sample of 151 countries for which at least 15 annual observations were available. See World Bank. "Bangladesh: Development Policy Review, Impressive Achievements but Continuing Challenges" (Report 26154-BD. pp. 7–8 and box 1.1) Washington, DC. December 14, 2003.
3. See World Bank. "Bangladesh: Development Policy Review, Impressive Achievements but Continuing Challenges." (Report 26154-BD) Washington, D.C. December 14, 2003.; and Sen, Binayak Sen. "Operationalizing Pro-Poor Growth: A Country Case Study of Bangladesh." Dhaka: Bangladesh Institute of Development Studies. 2004. The entire set of country case studies can be found on www.worldbank.org.
4. The fiscal deficit, contained at less than 5 percent of GDP, was steadily reduced to around 4 percent in FY05 despite large flood-related expenditures. Inflation averaged around 5 percent in 1990–2003.
5. The unweighted mean tariff was reduced from 106.5 percent in 1989 to 16.6 percent in 2004, and many non-tariff barriers have been removed.
6. Sen, Binayak. "Operationalizing Pro-Poor Growth: A Country Case Study of Bangladesh." (p. 38). Dhaka: Bangladesh. October 2004. Sen points out that although the 1998 flood was far more severe than that of 1988, GDP growth only decelerated to 3 percent in 1998/99, while GDP actually shrank in 1988/89.
7. Government of the People's Republic of Bangladesh. 2005. "Unlocking the Potential: National Strategy for Accelerated Poverty Reduction." (p. 169). Dhaka. October 2005.
8. This would be the case, for example, in the appointment of unusually effective individuals to head key institutions, such as the Bangladesh Bank, or the creation of the Rapid Action Battalion to bolster a weak police force.

CHAPTER II: UNLOCKING BANGLADESH'S POTENTIAL A STRATEGY FOR ACCELERATED POVERTY REDUCTION

1. World Bank. "Joint IDA-IMF Staff Advisory Note on the Bangladesh Poverty Reduction Strategy Paper." 2005.
2. The rural sector is home to 80 percent of the total population of 140 million.
3. Government of the People's Republic of Bangladesh. *Unlocking the Potential, A National Strategy for Accelerated Poverty Reduction*. (p. 5) Dhaka. October 2005.
4. In per capita income the country ranks 174th of 201 countries; India ranks 154th.
5. Government of the People's Republic of Bangladesh and United Nations. *Millennium Development Goals: Bangladesh Progress Report*. Dhaka. 2005; and World Bank. *Attaining the MDGs in Bangladesh*. Washington, D.C. 2005.
6. Meanwhile, the share of public investment fell from 7 percent of GDP to 6 percent.
7. Sensitivity analysis by Bank and IMF staff suggest that Bangladesh's debt-to-GDP ratio is more vulnerable to a shock to reform-contingent liabilities of state-owned enterprises and a potential large real depreciation of the exchange rate than to other factors, including lower long-run GDP growth, would have an impact of up to 2 percentage points on the debt dynamics.
8. The ratio of the net present value of future debt service obligations to goods and non-factor services exports stands at about 150 percent.

CHAPTER III: THE WORLD BANK GROUP'S ASSISTANCE STRATEGY

1. The United States Agency for International Development (USAID) is focusing on rural electrification within the common framework above. Until recently the ADB had been the lead donor in the sector.
2. The container terminal handles only 100–105 lifts per berth a day, well below the United Nations Conference on Trade and Development (UNCTAD) productivity standard of 230. Ship turnaround time is 5–9 days (more efficient ports report 1-day turnaround). Handling charges are almost three times those of Colombo and twice those of Bangkok.
3. The "Bangladesh Investment Climate Assessment" (World Bank. 2003. Washington, D.C.) reports that firms receive about 17 visits a year on average from government agencies, compared with fewer than 7 a year in India (World Bank. "India Investment Climate Assessment." Washington, D.C. 2003.).
4. In recent years the Government has introduced a pay-as-you-go, means-tested old age

payment scheme that supports more than a million beneficiaries. The scheme seems to be well targeted but because of limits on the number of beneficiaries, many who qualify are excluded.

5. Modeled on the Palli Karma-Sahayan Foundation (PKSF), Bangladesh's renowned microfinance wholesaler, the Social Development Foundation is an autonomous organization designed to support community-driven development, local infrastructure, and livelihoods.

6. Government of the People's Republic of Bangladesh. "Unlocking the Potential: National Strategy for Accelerated Poverty Reduction." (p. 169). Dhaka. October 2005.

7. The establishment of the ASYCUDA ++ system reduced clearance times and opportunities for face-to-face interactions between customs officials and traders.

8. World Bank. "Government that Works: Reforming the Public Sector. Dhaka. 1996.

9. The Senior Service Pool was created in 1979 to "permit the best and the brightest" from all occupational groups to rise to the top of the civil service. It comprised all civil service grades above the deputy secretary level (grade 5). The pool was abolished in 1989, but a quota system remains for entry into posts at the deputy secretary level and above.

10. Notwithstanding some recent relaxation of controls on recruitment at the support staff level, the Government has been able to contain growth of support staff employment at class 3 and 4 levels by maintaining a freeze on the creation of new posts and control over the filling of vacant positions. In addition, in May 2005 the Government announced a revised compensation package for public sector employees. The Government has done well to award a smaller pay increase than was recommended by the Sixth Pay Commission, containing the budgetary impact to a level consistent with fiscal sustainability.

11. Separation of the executive and judiciary is not an issue for the higher or lower courts, both of which are administratively under the Supreme Court, not the executive branch. By contrast, the local magistrates, who carry judicial as well as executive responsibilities, report to the executive branch. About 600 judges need to be identified, hired, and trained to replace the current magistracy, a task that will take some time. The Judicial Service Commission was recently established as a first step.

12. A \$30.6 million Legal and Judicial Capacity Building Project financed by IDA was approved by the Board on March 29, 2001. Amendments to the Civil Procedure Code relating to court-facilitated mediation and others aimed at reducing delays in case processing by imposing sanctions for dilatory tactics and modernizing and expediting service of summons have done much to help reduce the number of cases going to trial and shorten case processing times. A limited computer management system introduced in the pilot courts has helped to increase transparency and improve court administration. The project also

supported implementation of the New Money Loan Court Act 2003, which has vastly improved loan recovery mechanisms by providing for summary procedures, empowering banks to sell the collateral of defaulters in public auctions, and empowering courts to enforce judgments. The Canadian International Development Agency is supporting legislative drafting and legal reform. By 2006 it is expected that there will be a database containing all of Bangladesh's primary legislation of general application, accessible to the public from the Ministry of Law's Web site.

13. Char lands are islands in floodplains, highly prone to inundation.

CHAPTER IV: DELIVERY OF THE WORLD BANK PROGRAM LEARNING FROM RECENT EXPERIENCE

1 . IDA allocations for the outer years are indicative and will be subject to Bangladesh's performance every year as well as to overall IDA resources.

2. The average implementation period is measured by the World Bank as the average age of projects in the country portfolio.

3. Project approval remains highly centralized, and there are strict limits on deviations from approved plans. Moreover, changing or replacing consultants financed by external resources is still beyond the authority of line ministries and agencies.

4. The ADB's Country Assistance Program was approved in October 2005.

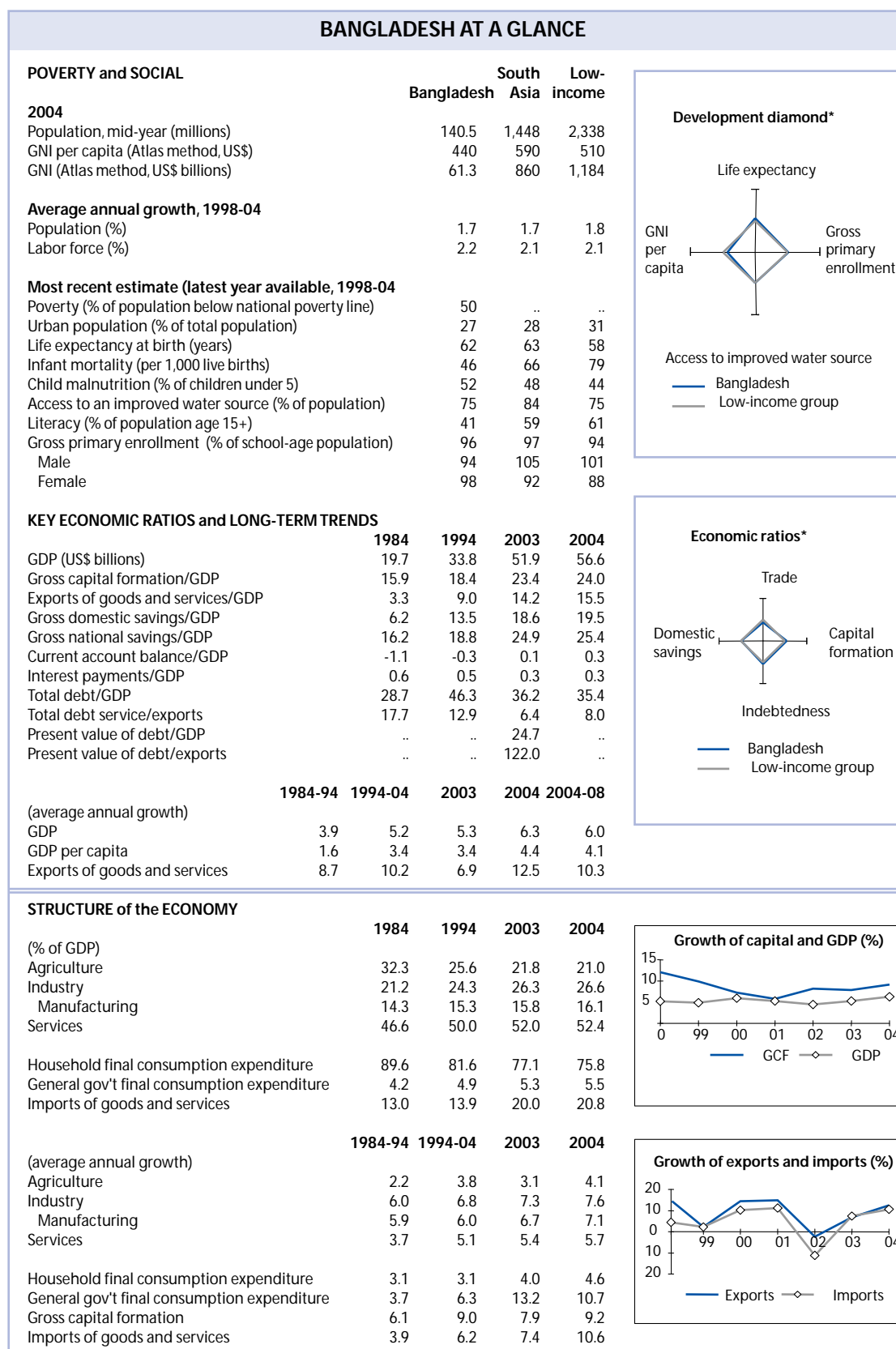
5. Thirty-two countries, bilateral agencies, and multilateral organizations are members of the Local Consultative Group. In addition, there are 24 technical subgroups on sectors ranging from agriculture to governance to HIV/AIDs. Most subgroups serve as a channel for coordination and dialogue among donors, to forge common understandings and integration of policies, approaches, and efforts. The subgroups are generally chaired by the agency with a primary program in the sector.

BANGLADESH

COUNTRY ASSISTANCE STRATEGY



KEY INDICATORS



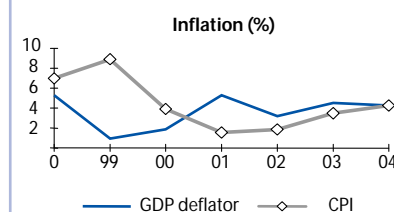
Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

BANGLADESH AT A GLANCE (cont.)

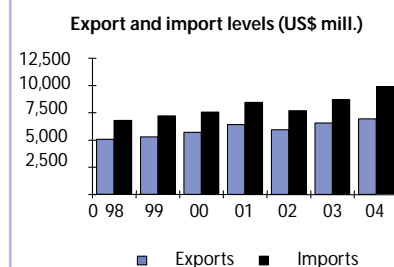
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices (% change)				
Consumer prices	..	3.3	3.5	4.3
Implicit GDP deflator	14.0	3.8	4.5	4.2
Government finance (% of GDP, includes current grants)				
Current revenue	6.2	9.3	10.3	10.1
Current budget balance	1.1	2.5	2.2	2.4
Overall surplus/deficit	-7.3	-4.5	-3.4	-3.2



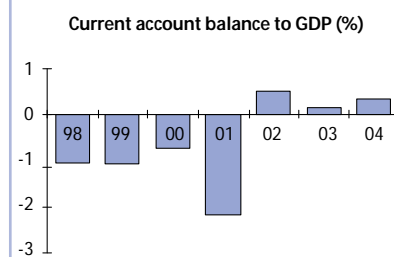
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	823	2,524	6,549	6,959
Raw jute	117	57	82	..
Leather and leather products	85	192	191	..
Manufactures	389	2,026	6,086	6,529
Total imports (cif)	2,353	4,191	8,707	9,871
Food	485	151	581	..
Fuel and energy	355	168	950	1,077
Capital goods	616	1,299	3,439	3,865
Export price index (2000=100)	23	80	107	115
Import price index (2000=100)	40	81	125	130
Terms of trade (2000=100)	57	98	86	89



BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	1,033	3,057	7,379	8,445
Imports of goods and services	2,543	4,693	10,285	11,638
Resource balance	-1,510	-1,636	-2,906	-3,193
Net income	-64	-31	-458	-374
Net current transfers	1,361	1,578	3,440	3,743
Current account balance	-213	-89	76	176
Financing items (net)	568	881	811	59
Changes in net reserves	-355	-792	-887	-235



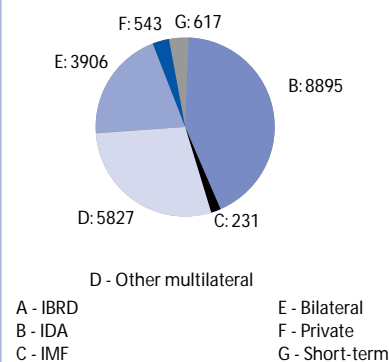
Memo:

Reserves including gold (US\$ millions)	..	2,746	2,471	2,714
Conversion rate (DEC, local/US\$)	24.9	40.1	57.9	58.8

EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	5,654	15,622	18,778	20,019
IBRD	50	58	7	0
IDA	1,677	5,378	8,062	8,895
Total debt service	286	556	672	945
IBRD	3	7	7	8
IDA	16	71	180	208
Composition of net resource flows				
Official grants	595	379	428	319
Official creditors	489	705	461	557
Private creditors	..	..	-18	-16
Foreign direct investment (net inflows)	-1	16	376	385
Portfolio equity (net inflows)	0	53	2	6
World Bank program				
Commitments	339	597	554	827
Disbursements	249	405	519	615
Principal repayments	3	36	130	148
Net flows	246	369	388	467
Interest payments	16	42	56	68
Net transfers	230	327	332	399

Composition of 2004 debt (US\$ mill.)



SOCIAL INDICATORS: BANGLADESH					
	Latest single year*			Comparator group	
	1975-80	1985-90	1998-2004	South Asia	Low-income
POPULATION					
Total population, mid-year (millions)	85.4	110.0	140.5	1,447.7	2,338.1
Growth rate (% annual average for period)	2.4	2.5	1.7	1.7	1.8
Urban population (% of population)	14.9	19.8	24.6	28.3	30.7
Total fertility rate (births per woman)	6.3	4.1	2.9	3.0	3.6
POVERTY (% of population)					
National headcount index	..	..	49.8	..	..
Urban headcount index	..	..	36.6	..	..
Rural headcount index	..	..	53.0	..	..
INCOME					
GNI per capita (US\$)	210	280	440	590	510
Consumer price index (1995=100)	..	76	146	..	..
Food price index (1995=100)	36	90	140	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	31.8	..	..
Lowest quintile (% of income or consumption)	..	..	9.0	..	..
Highest quintile (% of income or consumption)	..	..	41.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	0.8	1.3	1.5
Education (% of GDP)	..	1.5	2.4	3.1	3.2
Social security and welfare (% of GDP)	..	..	..	..	..
Net primary school enrollment rate (% of age group)					
Total	..	71	84	87	78
Male	..	76	82	89	82
Female	..	66	86	85	76
Access to an improved water source (% of population)					
Total	..	71	75	84	75
Urban	..	83	82	93	89
Rural	..	68	72	80	69
Immunization rate (% of children ages 12-23 months)					
Measles	..	65	77	67	66
DPT	..	69	85	71	67
Child malnutrition (% under 5 years)					
	..	66	52	48	44
Life expectancy at birth (years)					
Total	47	55	62	63	58
Male	47	55	62	62	57
Female	46	55	63	64	59
Mortality					
Infant (per 1,000 live births)	129	96	46	66	79
Under 5 (per 1,000 live births)	205	144	69	92	122
Adult (15-59)					
Male (per 1,000 population)	383	322	262	249	317
Female (per 1,000 population)	388	308	252	199	266
Maternal (modeled, per 100,000 live births)	..	..	380	534	538
Births attended by skilled health staff (%)	..	..	14	36	38

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

* Latest single year for which data is available.

(.) means that data are incomplete or unavailable or there are differences in definitions across countries that do not allow regional aggregation.

KEY ECONOMIC INDICATORS : BANGLADESH										
Indicator	2000	Actual			Estimate			Projected		
		2001	2002	2003	2004	2005	2006	2007	2008	2009
National accounts (as % of GDP)										
Gross domestic product ^a		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture		24.1	22.7	21.8	21.0	20.5	19.8	19.2	18.6	18.0
Industry		25.9	26.4	26.3	26.6	28.0	28.3	28.6	28.9	29.2
Services		50.0	50.9	52.0	52.4	51.5	51.9	52.1	52.5	52.8
Total Consumption		83.0	81.6	82.4	81.3	82.1	83.3	83.2	82.9	82.7
Gross domestic fixed investment		23.1	23.1	23.4	24.0	24.4	24.8	25.0	25.2	25.2
Government investment		7.2	6.4	6.2	6.2	5.9	6.8	6.8	6.9	6.9
Private investment		15.8	16.8	17.2	17.8	18.5	18.0	18.2	18.4	18.3
Exports (GNFS) ^b		15.4	14.3	14.2	15.5	16.1	17.2	17.4	17.4	17.4
Imports (GNFS)		21.5	19.0	20.0	20.8	22.6	25.3	25.6	25.6	25.3
Gross domestic savings		17.0	18.4	17.6	18.7	17.9	16.7	16.8	17.1	17.3
Gross national savings ^c		21.4	23.7	23.8	24.6	23.9	23.3	23.4	23.6	23.8
Memorandum items										
Gross domestic product (US\$ million at current prices)		46997	47563	51914	56585	60017	62156	67188	72942	79220
GNI per capita (US\$, Atlas method)		370	370	400	440	450	460	480	510	540
Real annual growth rates (% calculated from 1990 prices)										
Gross domestic product at market prices		5.3	4.4	5.3	6.3	5.4	6.0	6.0	6.5	6.5
Gross Domestic Income		4.5	3.9	4.6	6.5	4.5	5.7	5.2	6.1	6.1
Real annual per capita growth rates (% calculated from 1990 prices)										
Gross domestic product at market prices		3.5	2.6	3.4	4.4	3.6	4.2	4.2	4.7	4.7
Total consumption		3.0	-0.8	2.8	3.2	0.8	4.8	2.9	3.7	4.0
Private consumption		3.0	-1.8	2.2	2.8	0.7	4.8	2.8	3.6	6.9
Balance of Payments (US\$ millions)										
Exports (GNFS) ^d		7178	6794	7379	8445	9640	10712	11684	12679	13773
Merchandise FOB		6419	5929	6492	7521	8573	9580	10520	11507	12575
Imports (GNFS) ^d		10103	9061	10285	11638	13560	15733	17214	18643	20041
Merchandise FOB		8430	7697	8707	9840	11485	13272	14606	15874	17191
Resource balance		-2925	-2267	-2906	-3193	-3920	-5021	-5530	-5964	-6268
Net current transfers		2171	2826	3440	3743	4245	4728	5178	5588	5922
Current account balance		-1018	240	76	176	-316	-933	-1066	-1178	-1146
Net private foreign direct investment		174	65	376	385	540	567	595	623	676
Long-term loans (net)		449	921	878	919	837	1046	720	602	558
Official		385	220	428	391	1038	1238	1048	970	975
Private		64	701	450	528	-201	-192	-328	-368	-417
Other capital (net, incl. errors & omissions)		69	-951	-443	-1245	-902	-526	30	439	248
Change in reserves ^d		326	-275	-887	-235	-160	-153	-279	-485	-336

KEY ECONOMIC INDICATORS (cont.)										
Indicator	2000	Actual			Estimate			Projected		
		2001	2002	2003	2004	2005	2006	2007	2008	2009
Memorandum items										
Resource balance (% of GDP)		-6.2	-4.8	-5.6	-5.6	-6.5	-8.1	-8.2	-8.2	-7.9
Real annual growth rates (YR90 prices)										
Merchandise exports (FOB)		10.0	-9.8	7.8	-0.8	11.8	8.5	13.2	10.3	10.2
Primary	
Manufactures	
Merchandise imports (CIF)		3.6	-15.1	5.0	9.0	10.1	10.1	9.0	7.8	7.5
Current revenues		9.0	10.1	10.3	10.1	10.5	11.2	11.4	11.6	11.8
Current expenditures		7.7	8.0	8.1	7.8	8.4	8.3	8.6	8.5	8.6
Current account surplus (+) or deficit (-)		1.4	2.1	2.2	2.4	2.1	3.0	2.8	3.1	3.2
Capital expenditure		6.4	6.8	5.6	5.6	5.5	6.8	6.8	6.9	6.9
Foreign financing		1.9	1.6	1.0	1.4	2.3	2.6	2.2	1.9	1.7
Monetary indicators										
M2/GDP		34.4	36.1	37.9	39.0	39.7	40.0	40.8	41.6	42.4
Growth of M2 (%)		16.6	13.1	15.6	13.8	12.8	12.8	13.2	13.0	13.0
Private sector credit growth / total credit growth (%)		67.6	76.1	156.9	78.0	127.1	81.5	81.2	81.4	83.1
Price indices (YR90 = 100)										
Merchandise export price index		120.3	123.2	126.2	135.2	149.0	153.5	148.9	147.7	146.5
Merchandise import price index		136.2	146.4	157.8	164.1	173.4	182.1	183.9	185.4	186.7
Merchandise terms of trade index		88.4	84.1	80.0	82.4	85.9	84.3	81.0	79.7	78.5
Real exchange rate (US\$/LCU) ^f		99.2	96.6	92.6	0.0	0.0	0.0	0.0	0.0	0.0
Real interest rates										
Consumer price index (% change)		1.6	1.9	3.5	4.3	5.9	6.5	5.8	4.4	4.4
GDP deflator (% change)		5.3	3.2	4.5	4.2	5.0	5.5	4.9	4.0	4.0

Notes

- GDP at factor cost
- "GNFS" denotes "goods and nonfactor services."
- Includes net unrequited transfers excluding official capital grants.
- Includes use of IMF resources.
- Consolidated central government.
- "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

BANGLADESH: PROPOSED IDA LENDING FY06-FY09

Fiscal Year	Project Name	US\$ million
2006	Development Support Credit III	200.0
	Education Sector Development Support Credit II	100.0
	Local Governance Support	106.0
	Investment Promotion Financing Facility	50.0
2007	Development Support Credit IV	200.0
	Siddhirganj Power Project	150.0
	Dhaka Chittagong Sewerage & Drainage	100.0
	Public Procurement Reform Project II	7.0
	Private Sector Development	85.0
	National Agricultural Technology	75.0
	Educational Development Support Credit III	100.0
	Avian Flu Preparedness	30.0
2008	Poverty Reduction Support Credit I	300.0
	Social Investment Program II (including Rural Livelihoods)	100.0
	Export Infrastructure Development	120.0
	Technical, Vocational, Higher Education	100.0
	South Zone Power Distribution Company	150.0
	Tax and Customs Administration	60.0
	Dhaka Environment & Water Resources	22.5
2009	Poverty Reduction Support Credit II	300.0
	Governance and Accountability	100.0
	Inland Water Transport	70.0
	Urban Development and Services	70.0
	Padma Bridge	300.0
	Air Quality	70.0

The projects are purely indicative and this list is subject to ongoing review.

BANGLADESH: PROGRAM OF ANALYTICAL AND ADVISORY ACTIVITIES

FY05

RECENTLY COMPLETED

Major Reports

Bangladesh Competitiveness Study
 Bangladesh Millennium Development
 Goals (MDG) Assessment
 Bangladesh - Housing Finance
 Economics & Governance of Non Government
 Organization (NGOs) in Bangladesh
 Water Country Assistance Strategy

Policy Notes

NGO Contracting & Comparative Advantage
 Bangladesh Integrated Nutrition Program
 Evaluation Strategy
 Agriculture Technology
 Bangladesh - Governance Policy Notes
 Improving Quality of Teachers
 Links between Vocational Education & Labor Market
 Multi Fibre Agreement (MFA) Phase Out Policy Notes
 Public Expenditure Notes
 Teacher Absenteeism
 Safety Net Review

UNDER WAY

Major Reports

Operationalizing Millennium
 Development Goals (MDGs)
 Strategy for Growth and Employment
 Post-Multi Fibre Agreement (MFA) Study
 Rural Finance Study
 Urban Development Strategy
 Country Gender Assessment

FY06

Policy Notes

Country Economic Update
 Governance Policy Notes
 Procurement Capacity Building
 Behavioral change and social accountability
 Urban Poverty Assessment
 Vocational Education Higher Education
 Country Environmental Analysis
 Policy Support on Local Governance
 Agribusiness Opportunities & Constraints

Non-Lending Technical Assistance

Procurement Monitoring and Evaluation

FY07

Major Reports

Public Expenditure & Institutional Review
 Poverty Assessment (including Poverty
 and Social Impact Analysis)

Employment Generation & Role of Migration
 Investment Climate Assessment 2

Policy Notes

Freedom of Information Act
 Country Economic Update
 Policy Notes for New Government
 Regulatory Commission & Institutions of
 Accountability
 Legal and Judicial Review
 Political Economy of Power Sector
 Inland Water Transport Note
 Fisheries Policy Note
 Urban and Indoor Air Quality

FY08-09

Multisectoral Nutrition Review
 Bangladesh Regional Issues
 Country Economic Update
 Public Administration Note
 Governance Policy Notes
 Urban Transport Financing & Management Study
 Urban Industrial Pollution
 Improving Competitiveness of Pharmaceutical Sector
 Country Economic Update
 Agriculture/Rural Sector Update

Non-Lending Technical Assistance

Social Protection Technical Assistance
 Technical Assistance for Poverty Monitoring

Other

Doing Business Indicators

The analytical and advisory activities are purely indicative and this list is subject to ongoing review.

KEY EXPOSURE INDICATORS: BANGLADESH									
Indicator	Actual				Estimate			Projected	
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding (TDO) and disbursed (US\$m) ^a	15,255	17,061	18,778	20,019	21,180	22,296	23,086	23,673	24,186
Net disbursements (US\$m) ^a	557	217	337	543	907	1,116	790	587	514
Total debt service (TDS) (US\$m) ^a	676	727	672	945	1,105	1,081	1,123	1,134	1,111
Debt and debt service indicators (%)									
TDO/XGS ^b	166.6	182.6	178.8	168.5	156.1	147.2	139.4	131.8	124.8
TDO/GDP	32.5	35.9	36.2	35.4	35.3	35.9	34.4	32.5	30.5
TDS/XGS	7.4	7.8	6.4	8.0	8.1	7.1	6.8	6.3	5.7
Concessional/TDO	93.4	92.8	93.2	..	..	..	..	..	..
IBRD exposure indicators (%)									
IBRD DS/public DS	1.0	0.9	1.1	0.8	0.0	0.0	0.0	0.0	0.0
Preferred creditor DS/public DS (%) ^c	51.9	55.2	63.9	39.5	39.4	44.1	48.7	51.3	55.7
IBRD DS/XGS	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
IBRD TDO (US\$m) ^d	17	13	7	0	0	0	0	0	0
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	6,439	7,063	8,062	8,895	9,624	10,392	11,091	11,805	12,545
IFC (US\$m)									
Loans	91	88	94	116	98	..	..	..	..
Equity and quasi-equity ^e	13	13	13	12	12	..	..	..	..
MIGA									
MIGA guarantees (US\$m)	64	64	61	46	..	..	..	..	..
Notes:									
a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.									
b. "XGS" denotes exports of goods and services, including workers' remittances.									
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.									
d. Includes present value of guarantees.									
e. Includes equity and quasi-equity types of both loan and equity instruments.									

BANGLADESH: ACTIVE WORLD BANK PROJECTS
(as of May 2006)

Fiscal Year	Project Name	Amount (US\$ million)
1998	Private Sector Infrastructure Development	200.00
1999	Arsenic Mitigation Water Supply	32.40
1999	Municipal Services	138.60
2000	Financial Institutions Development	46.90
2000	Fourth Fisheries	28.00
2000	National Nutrition Program	92.00
2001	HIV/AIDS Prevention	40.00
2001	Legal and Judicial Capacity Building	30.60
2001	Post - Literacy and Continuing Education	53.30
2002	Female Secondary School Assistance Project II	120.90
2002	Financial Services for the Poorest	5.00
2002	Public Procurement Reform Project	4.50
2002	Renewable Energy Development	8.20
2002	Rural Elect. Renewable Energy Development	190.98
2003	Telecommunications Technical Assistance Project	9.12
2003	Central Bank Strengthening Project	37.00
2003	Rural Transport Improvement Project	190.00
2003	Social Investment Program Project	18.24
2004	Economic Management Technical Assistance Program (EMTAP)	20.00
2004	Enterprise Growth and Bank Modernization	250
2004	Power Sector Development Technical Assistance	15.50
2004	Primary Education Development Program II	150.00
2004	Reaching Out of School Children Project	51.00
2004	Bangladesh Water Supply Program Project	40.00
2005	Health Nutrition and Population Sector Program	300.00
2006	Investment Promotion and Financing Facility Project	50.00

IFC'S HELD AND DISBURSED PORTFOLIO: BANGLADESH									
<i>(as of 02/02/2006 in US\$ millions)</i>									
		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2001	BRAC Bank	0	1.63	0	0	0	1.6	0	0
1997	DBH	2.1	0.65	0	0	2.1	0.65	0	0
1991	Dynamic Textile	0	0	0	1.48	0	0	0	1.48
2004	GrameenPhone Ltd	27.00	0	0	0	27.00	0	0	0
1998	IPDC	3.75	0	0	0	3.75	0	0	0
1998	Khulna	11.27	0	0	13.19	11.27	0	0	13.19
1998/2000	Lafarge/Surma	35.00	10.00	0	15.00	35.00	10.00	0	15
2003	RAK Ceramics	8.40	0	0	0	8.40	0	0	0
2000	United Leasing	0	0	0	0	0	0	0	0
Total Portfolio		87.52	12.28	0	29.7	87.52	12.25	0	29.67
APPROVALS PENDING COMMITMENT									
FY Approval	Company	Loan			Equity		Quasi	Partic	
2006	GTFP Dhaka Bank	0			0		0	0	
2006	GTFP Eastern Bank	0			0		0	0	
2006	Grameen Phone III	70			0		0	0	
Total Pending Commitment		70			0		0	0	

BANGLADESH

COUNTRY ASSISTANCE STRATEGY



ANNEXES

COUNTRY ASSISTANCE STRATEGY OUTCOME MATRIX

This matrix represents a set of outcomes that are being targeted by the four development partners in the context of their planned programs. Milestones/indicators in bold represent those that will be targeted by the Bank’s program of support.

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
Pillar 1: Improve Investment Climate				
1. A. Maintain Macroeconomic Stability				
Strengthen macroeconomic stability and competitiveness (Poverty Reduction Strategy Paper—PRSP)	<ul style="list-style-type: none"> n A good record on macro stability, but vigilance required against emerging vulnerabilities in the public and external sectors n Improved revenue collection 	Improve fiscal sustainability		
		<ul style="list-style-type: none"> n Consistency of fiscal deficits and their financing patterns with requirements of macro stability and sustainability maintained n Continued liabilities accounted for and all new public borrowing restricted to above the line 	<ul style="list-style-type: none"> n State-owned enterprise losses and public utilities' arrears reduced n Tax administration strengthened (see Governance section for details) n Greater satisfaction of taxpayers, importers, and exporters in periodic surveys 	<p>WORLD BANK: Ongoing IDA Lending : Enterprise Growth and Bank Modernization (Closes FY09) Proposed IDA Lending: DSC IV (FY07); PRSC I (FY08); PRSC II (FY09) Proposed AAA: Strategy for Growth and Employment (FY06); Employment Generation and Role of Migration (FY08) ADB Strengthening Capacity for Poverty Monitoring ; Efficiency Enhancement of Fiscal Management II; Support for Financial Management and Monitoring DFID: Support to BFTI & Trade Strategy process; Financial Management Reform Program; Governance Budget Support Instrument; SOE Losses—contribution to EGBM</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
1. B. Remove Trade Restrictions and Reduce Administrative Barriers				
Create a regulatory environment conducive to enhanced competition and more efficient private sector participation	Substantial liberalization needed in highly restrictive trade regime	Remove trade restrictions		
		Trade structure rationalized and an integrated trade strategy formulated across the Government	<ul style="list-style-type: none"> n Average nominal trade protection rate reduced and para-tariffs on nonluxury items phased out n Trade Policy Cell in the Government established 	<p>WORLD BANK GROUP: Ongoing IDA Lending: Economic Management Technical Assistance Program (closes FY09) Proposed IDA Lending: DSC IV (FY07); Private Sector Development (FY07) SEDF: Trade Promotion TA Ongoing AAA: Post MFA Study Proposed AAA: Doing Business Indicators (FY06–FY08); Investment Climate Assessment 2 (FY08)</p>
	<ul style="list-style-type: none"> n High cost of business arising from: <ul style="list-style-type: none"> l Policy uncertainty and reversals l Corruption and inefficient application of business regulations l Poor law and order and human security for doing business l Costly delays at customs 	Reduce administrative barriers		
		<ul style="list-style-type: none"> n The approval process in Board of Investment, Bangladesh Export Processing Zone Authority, and Register of Joint Stock Companies, streamlined and made transparent n Reliable and up-to-date business information made available n Efficiency of customs and ports admin. increased by streamlining procedures n Enforcement of contracts and property rights improved and commercial justice mechanism streamlined 	<ul style="list-style-type: none"> n Time required and formal cost of business entry and exit and contract enforcement reduced n Business regulations streamlined and an appropriate competition law prepared n Time required and cost of customs clearance reduced 	<p>WORLD BANK GROUP: SEDF: Business Enabling Environment TA; TA on subsectors (agribusiness, RMG, light engineering) IFC: Loans/equity to support private investment as opportunities arise ADB: Support to SEDF (non-lending); SME sector development program I&II DFID: SMEs—Subsector, service development, local regulatory reform; support to Katalyst Program and SEDF; Governance Budget Support Instrument JAPAN: Human Resource Development in EPB and other trade/investment-related organizations; PSD subsector-related assistance JOINT: Private Sector Development Program, including RISE (World Bank Group, Japan, DFID, ADB, CIDA, EU)</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
1. B. Remove Trade Restrictions and Reduce Administrative Barriers				
<p>Improve access to and quality of infrastructure services, by strengthening sector governance and encouraging greater private sector participation</p>	<p>Large unmet demand for critical infrastructure services—power, transport, water supply, and telecom</p> <p>Infrastructure provision dominated by state monopolies with low quality service and weak financial positions</p> <p>Weak regulatory and distorted price environment that deters private investment</p> <p>Urban congestion and over-concentration in Dhaka, leading to high transaction costs and negative productivity</p>	Improve governance and efficiency in infrastructure services		
		<p>A regulatory and pricing framework more conducive to greater private sector participation established</p> <p>Progress toward the corporatization and commercialization of public utility agencies, and publicized service delivery standards and performance targets in power, telecom, and water sectors</p> <p>Private sector participation in infrastructure provision increased</p> <p>Dhaka-Chittagong Transport Corridor improved</p> <p>Urban planning and management improved</p>	<p>Progressive alignment of domestic energy prices with international prices and power prices adjusted to reflect changes in underlying costs</p> <p>Bangladesh Power Development Board restructured and successors corporatized</p> <p>Conclude at least two deals for new privately financed base-load power plants following competitive and transparent procurement and applying the generation financing strategy</p> <p>New Mooring Container Terminal in Chittagong Port completed and concessioned to the private sector</p> <p>Increased quality and number of urban municipal investments implemented</p>	<p>WORLD BANK GROUP: Ongoing IDA Lending: Private Sector Infrastructure Development (closes in FY07); Rural Electrification Renewable Energy Development (closes in FY08); Bangladesh Telecommunications TA (closes in FY08); Rural Transport Improvement TA (closes in FY09); Power Sector Development TA (closes in FY09)</p> <p>Proposed IDA Lending: Road Sector Reform (Reserve); "Crash Power Rehab." (Incl. Siddhirganj (FY07); South Zone Power (FY08); Bangladesh Railways (Reserve); Dhaka Chittagong Sewerage & Drainage (FY07); Export Infrastructure Development (FY08); Inland Water Transport (FY09); Rural Electrification and Renewal Energy II (Reserve); Padma Bridge (FY09)</p> <p>IFC: Loans/equity investments and advisory services as opportunities arise</p> <p>Proposed AAA: Urban Strategy (FY07); Inland Water Transport (FY07); Legal & Judicial Review (incl. Land Policy and Admin. (FY07); Urban Transport Financing and Management Study (FY08)</p> <p>ADB: Dhaka Clean Fuel; Gas Sector Dev't Project I; Gas Sector Development Project II; Dhaka Power System Upgrade; West Zone Power Development; Power Sector Development Program II; Power Sector Development Program III; Southwest Road Network Development; Road Network</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
1. B. Remove Trade Restrictions and Reduce Administrative Barriers				
see above	see above	see above	see above	<p>Improvement & Maintenance II: Development of Transport Corridor for Trade Facilitation; Institutional Support for Transport Sector Reforms; Chittagong Port Trade Facilitation; Port Sector Development program; Development of National Involuntary Resettlement I; Development of National Involuntary Resettlement II</p> <p>DFID: Support to Transport Sector Program; Support to gas sector (SCADA); Rural Roads & Infrastructure; Road Maintenance (C/IDC3); Infrastructure elements within PSDSP.</p> <p>JAPAN: Jamuna Access Road; Capacity Development of Power Sector Management (Power Sector TQM); Support for power generation facilities in line with sector reform (BPDB Power Plants Rehab, O&M); Support for reforms in power transmission and distribution; Road Maintenance and Capacity Development (RHD and LGED); Rural Development Engineering Center; Railway Track and Locomotive Rehabilitation; Chittagong Port and Inland Water Dredging; Dhaka Circular Waterway; Urban Transport (Rehabilitation of road in Dhaka and Chittagong, Maintenance of Dhaka Road, Dhaka City Link Road); Pontoons in Inland River</p> <p>JOINT: Road Sector Development Project (Dhaka Chittagong Highway) including 4 laning) (ADB, DFID, Japan); Railway Sector Development program (ADB, DFID, JICA, WB); Rural Electrification (ADB, DFID); Portable Steel Bridge (DFID, Japan); Rural Infrastructure Dev't (DFID, Japan); Road Maintenance Budget Support (DFID, Japan)</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
1. C. Private Sector Friendly Finance, Land, and Labor Markets				
<p>Deepen and make more efficient financial intermediation</p>	<p>Weak institutional capacity and a deficient legal framework facing the banking sector.</p> <p>Nationalized commercial banks (NCBs) plagued with high levels of nonperforming loans</p> <p>Underdeveloped capital and insurance markets. Access problem especially severe for micro, small & rural enterprises -- problem of the "missing middle"</p>	Enhance financial intermediation		
		<p>Supervision of banking sector strengthened</p> <p>Progress toward divestment of remaining NCB and improved debt recovery</p> <p>Enforcement of bankruptcy and default legislation made stricter</p> <p>Regulation for improved governance of MFIs enacted</p> <p>Regulatory and supervisory frameworks for capital and insurance markets (Securities and Exchange Commission, Insurance Commission strengthened)</p>	<p>Bangladesh Bank prudential norms brought in line with international best practice</p> <p>Privatization of Rupali Bank completed</p> <p>Corporate governance standards for microfinance institutions adopted</p> <p>Market placement of securitized issues increased</p> <p>Secondary markets for government securities developed and reliable yield benchmarks established</p>	<p>WORLD BANK GROUP:</p> <p>Ongoing IDA Lending: Enterprise Growth and Bank Modernization (closes in FY09); Central Bank Strengthening (closes in FY08)</p> <p>Proposed IDA Lending: Investment Promotion Financing Facility (FY06)</p> <p>SEDF: T A to Partner Financial Institutions, generic training and support to Bangladesh Bank.</p> <p>IFC: Investments to support financial sector development as opportunities arise</p> <p>ADB: Financial Markets Governance Improvement</p> <p>DFID: Reform in Revenue Administration; Support to the EGM project on banking modernization & reform; Remittance Partnership Project with Central Bank to expedite and reduce costs of remittances; Prosper program (regulation outputs)-led ; Income III project (urban lending); Ultra Poor Finance & Innovation - Prosper Project; contributions to the BRAC CFPR project; Chars Livelihood Project; Economic Empowerment of the Poorest</p>

Longer term development agenda for Bangladesh-PRSP	Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators
1. C. Private Sector Friendly Finance, Land, and Labor Markets			
<p>Increase productivity and income growth; improve living conditions for the rural poor</p>	<p>Low agricultural productivity and limited potential for productivity growth in rice</p> <p>Weak land administration and unsustainable land use management.</p> <p>Poorly functioning agricultural input and output markets</p> <p>Lack of enabling rural investment climate</p> <p>Limited access for rural small and medium-size enterprises to markets & market information</p>	<p>Strengthen policies for rural growth</p> <p>Agricultural extension and research progressively more responsive to market needs</p> <p>Initial steps taken to improve the system of land administration and land use planning</p> <p>Functioning of agricultural input and output markets improved</p> <p>Rural business climate improved</p>	<p>WORLD BANK: Proposed IDA Lending: PRSC I & II (FY08-09) National Agriculture Technology (FY07); Rural Finance (Reserve) Ongoing AAA: Agriculture Technology Policy Note (FY06) Proposed AAA: Agribusiness Opportunities and Constraints (FY06); Rural Finance Study (FY07); Fisheries Policy Note (FY07) SEDF: Agribusiness TA, incl. value chain analysis ADB: Rural Infrastructure Improvement I; Jamuna Meghna River Erosion; Command Area Development II; Small-Scale Water Resources Development II; Small-Scale Water Resources Development III (nonlending); Support for Private Public Partnership in Command Area Development (nonlending); Support for Private Public Partnership in Command Area Development; Agribusiness Development I; Agribusiness Development II DFID : Rural Electrification; Katalyst project working in rural markets (to be up-scaled); Contribution to SEDF (agribusiness and agriculture components); Land Administration—Land pilots as part of PSDSP & support to Samata (land rights); Chars Livelihoods Project; Rural Livelihoods Project with Care; BRAC CFPR project & new Economic Empowerment of the Poorest Project);</p>
			<p>Demand-responsiveness of agricultural research and extension increased</p> <p>A strategy to modernize land administrations procedures and records developed and implemented</p> <p>Agricultural input subsidies reduced, rationalized, and selectively eliminated</p> <p>Regulatory environment for agro-business improved</p>

Longer term development agenda for Bangladesh-PRSP	Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	World Bank Group, ADB, DFID, Japan
1. C. Private Sector Friendly Finance, Land, and Labor Markets			
Strengthen policies for rural growth			
			<p>Comprehensive Disaster Management Program; Prosper Project (rural finance & micro-enterprise (window))</p> <p>JAPAN: Poultry Management and Capacity Building; Crop Sector Development and Diversification Study; Rural Development Engineering Centre; Rural Development in Char & Haor; Master Plan on Small Scale Water Develop.; Integrated Rural Development Project; Participatory Rural Development Project; Local Development Coordination Program;</p> <p>AGRICULTURAL TECHNOLOGY TRANSFER BY BARC: Road Maintenance and Capacity Development (RHD and LGED)</p> <p>JOINT: Rural Infrastructure Development Projects (DFID, Japan); Rural Infrastructure Improvement II (ADB, DFID); Potable Steel Bridge (DFID, Japan)</p>
Upgrade business-related skills and capacity for technology absorption			
<p>▫ Mismatch between worker skills and market requirements</p> <p>▫ Limited capacity for technology absorption</p>	<p>▫ Progress toward alignment of skills and technology absorption with market needs</p>	<p>▫ Vocational Education Training and higher education systems reviewed and action plan prepared</p> <p>▫ Incentive regime for technology absorption by enterprises reviewed and action plan prepared</p>	<p>WORLD BANK</p> <p>Proposed IDA Lending: Technical, Vocational, Higher Education (FY08)</p> <p>Proposed AAA: Vocational Education (FY06); Higher Education (FY06);</p> <p>ADB: Skills Development</p>

Longer term development agenda for Bangladesh-PRSP	Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators
1. C. Private Sector Friendly Finance, Land, and Labor Markets			
	Upgrade business-related skills and capacity for technology absorption	see above	see above
	see above	see above	<p>DFID: Catalyst & SEDF programs; Chars Livelihoods Program; Support to UCEP & possible programming in vocational education; English Language Training for employment; Environmental & Socially responsible business outputs of Katalyst & SEDF; Governance Instrument; Possible support to CSR & compliance issues, esp. in relation to Post-MFA challenges</p> <p>JAPAN: Human Resource Development in Private Companies (RMG&IT); Export Promotion Support; Higher Education Scholarship</p>
	Strengthen adherence to international social and environmental standards	Adherence to social and environmental regulations increased	Improve private sector compliance with workplace safety, security, and environmental regulations

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
Pillar 2: Empowering the Poor				
2. A. Improve Access to Quality Services Through Better Accountability				
Greater access to quality services for the poor, particularly women and other disadvantaged groups	Improve service delivery that meets the needs of poor people, especially women			
	<ul style="list-style-type: none"> n Ensure that services reach the poor n Improve provision n Strengthen accountability framework n Address financing issues n Improve incentives to serve the poor n Address rent seeking by service providers n Fill information gaps n Address inefficient water resource management 	<p>Health</p> <ul style="list-style-type: none"> n Access and quality of the poor to health services improved n Shorter and more direct accountability links established between the health service providers and beneficiaries <p>Education</p> <ul style="list-style-type: none"> n Access enhanced and quality and relevance of pre-primary, primary and secondary education (especially for girls) improved 	<ul style="list-style-type: none"> n Utilization rate for essential service delivery package of the two lowest quintiles rises from 55% to 65% n Further diversification of service delivery through contracting arrangements with NGOs in partnership with union parishads. n Tuberculoses detection and treatment improved according to HNPSP action plan n Quality assurance mechanisms for monitoring student learning and carrying out impact assessments established n Teachers selected through merit-based transparent process n Public subsidies to schools linked to learning outcomes n Competition in Textbook procurement at the secondary level increased n Incentives for girls to attend and stay in schools continued 	<p>WORLD BANK:</p> <p>Ongoing IDA Lending: Health, Nutrition, and Population Sector (closes in FY10); Primary Education Development Project II (closes in FY10); Reaching Out of School children (closes in FY10)</p> <p>Proposed IDA Lending: Dhaka Chittagong Sewerage & Drainage (FY07); Education DSC III (FY07); Technical, Vocational, Higher Education (FY08); Avian Flu Preparedness (under the global APL) (Reserve); HIV/AIDS (Reserve); Water Management Improvement (Reserve); Ongoing AAA: Operationalizing MDGs (FY06); Urban and Indoor Air Quality (FY07); Urban Industrial Pollution (FY08)</p> <p>ADB: Secondary Education Sector Improvement I; Teaching Quality Improvement in Secondary Education; Secondary Education Sector Development Program; Skills Development Program; Primary Education Sector Development Program; Institutional Support for Nonformal Education (nonlending); Support for Private Public Partnership in Madrasah Schools (nonlending); Urban Primary Health Sector Development Program.</p>

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>Milestones/Intermediate Indicators</p>
<p>Pillar 2: Empowering the Poor</p>			
<p>2. A. Improve Access to Quality Services Through Better Accountability</p>			
<p>see above</p>	<p>see above</p>	<p>Water and Sanitation n Water resource management improved n Coverage of solid waste collection and adequate disposal in selected towns increased</p>	<p>Improve service delivery that meets the needs of poor people, especially women</p>
<p>see above</p>	<p>see above</p>	<p>n Surface water quality in and around Dhaka improved n 300 rural communities switching from shallow tube-well water to community run piped water schemes. n Coverage of solid waste collection and adequate disposal in selected towns increased</p>	<p>DFID: District based Maternal and Neonatal Program; CARE's HIV/AIDS Program; ICDDR,B-knowledge building about poverty and health; Rural Hygiene, Sanitation and Water Supply Program through UNICEF and GOB; Advancing Sustainable Environmental Health through WaterAid JAPAN: Strengthening Primary Teacher Training for Science and Mathematics; Safe Motherhood Promotion; Infectious Diseases Control; Arsenic Mitigation Support (Mitigation and Testing Technology); Participatory Rural Development Project; Local Development Coordination Program JOINT: Quality Education for All through PEDP II (DFID, Japan-UNICEF); Support for Nonformal Education (DFID, Japan) through BRAC; Support for Post Literacy and Continuing Education (ADB, DFID); Primary Education Development Program II (ADB, DFID, Japan, WB); HNPS (WB, DFID, Japan); Urban Primary Health Care II (ADB, DFID); HIV/AIDS Prevention Project (DFID, WB); Polio Eradication (DFID, Japan); the Government Arsenic Policy Support Unit (DFID, Japan) OTHER DONORS: CIDA, EC, GTZ, KfW, The Netherlands, Sida, USAID, UNFPA, UNICEF, WHO</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
2. B. Strengthen Local Governance				
Effective and accountable local government bodies	<ul style="list-style-type: none"> n Centralized control of basic services n Institutional capacity n Political interference n Resources/financing n Women members of union parishes and municipalities have token rather than realistic power 	<ul style="list-style-type: none"> n Improved capacity of local government bodies to successfully implement efficient service delivery schemes on behalf of their constituents 	<ul style="list-style-type: none"> n Sustained increase in discretionary resources (own revenue and transfers) available to elected local governments n Increased capacity for effective, accountable, and transparent generation and use of public resources n Powers and responsibilities of elected women members of local governments increased through allocation of specific subjects to them 	<p>WORLD BANK: Ongoing IDA Lending: Municipal Services (closes in FY07); Social Investment Program Project (closes in FY07) Proposed IDA Lending: Local Governance Support (FY06); Social Investment Program II (FY08); Community Fisheries Projects (Reserve); Proposed AAA: Local Governance Notes (FY06, 07); Public Expenditure and Institutional Review (FY07) ADB: Supporting Urban Governance Reform (nonlending); Urban Governance and Infrastructure Improvement; Urban Governance and Infrastructure Improvement II JAPAN: Participatory Rural Development Project; Local Development Coordination Program</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
2. C. Improve Human Security				
Effective, equitable, and predictable social protection system including safety nets	<ul style="list-style-type: none"> Coordinate and improve targeting of various safety net programs and address the issue of leakage. 	Rationalize social protection systems		
		<ul style="list-style-type: none"> Safety net policy rationalized and better targeted 	<ul style="list-style-type: none"> A national social protection strategy developed Proxy-means-test-based targeting and event-linked benefits to the poor and vulnerable introduced 	<p>WORLD BANK: Proposed AAA: Pensions Study (FY07); Safety Nets (FY07); Poverty Assessment and Social Impact Analysis (FY07); Country Gender Assessment (FY07); Child Welfare and Youth (FY08) ADB: Flood Early Warning System; Emergency Flood Damage Rehabilitation DFID: BRAC CFPR; Char Livelihoods; CARE Livelihoods; Comprehensive Disaster Management and Climate Change Awareness Program (CDMP); WFP partnership and Food security JAPAN: Grassroots Grant Projects for Human Security; Capacity Development for Disaster Management (Radar Installation, Cyclone Shelter Expertise); Dhaka Rainwater Drainage Plan; Earthquake and Tsunami Early Warning System</p>
Freedom from violence, intimidation, abuse, and crime for communities and individuals	<ul style="list-style-type: none"> Improve police behavior to solve problems for poor people but rather than compound them 	Strengthen security and public order		
		<ul style="list-style-type: none"> Police reform effectively pursued in the interests of the poor and vulnerable, especially women and girls Increased effectiveness in reduced human trafficking 	<ul style="list-style-type: none"> Increased effectiveness in reducing human trafficking Improved awareness of rights and services, especially among women, girls, and other vulnerable groups 	

Longer term development agenda for Bangladesh-PRSP	Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators
2. C. Improve Human Security			
Strengthen security and public order			
<p>n Inferior status of women leading to high levels of gender violence</p>	<p>n Improved awareness of rights and services, especially among women, girls, and other vulnerable groups</p>	<p>n Continue with police reform initiative leading to improved rights-based service that protects the interests of poor people through explicit accountability structures</p>	<p>see above</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
3. Governance at Center Stage				
3. A. Improving Implementation Capacity				
<p>Improve public financial management (PFM) and procurement systems and institutions</p>	<ul style="list-style-type: none"> n Strengthen the currently weak revenue effort (10% of GDP) n Improve leakages of funds from budget due to flawed procurement regime, poor financial management, and weak controls, including ineffective internal audits and inadequate impact of external audits n Lack of transparency and weak information flows 	<ul style="list-style-type: none"> n Enhanced revenue effort (targets agreed and achieved) and strengthened and more transparent tax administration n Progress toward attaining higher standards in PFM based on agreed PEFA-based benchmarks, including: <ul style="list-style-type: none"> l Improved expenditure management l Budgets much more transparent and accessible to the public l Improved credibility and timeliness of the Government financial statements l Strengthened auditing and enhanced audit impact l Improved quality of Comptroller and Auditor General's audit reports l Transparent procurement systems (including concessions) 	<ul style="list-style-type: none"> n Tax revenue increased by 1.5 per cent of GDP, and exemptions rationalized; tax base expanded n NBR reengineering initiated including increased flexibility to manage human and financial resources more effectively and strengthened Board structure n Improved ratings on PFM performance indicators based on implementation of agreed action plan in key areas, focusing particularly on enhanced accountability, transparency, and reduced fiduciary risk, including: <ul style="list-style-type: none"> l Strategic budget management for a closer alignment of the budget with PRSP priorities through the institutionalization of the medium-term budget framework l Improved quality of financial statements for the central Government 	<p>WORLD BANK: Proposed AAA: Public Expenditure and Institutional Review (FY07) ADB: Financial Management Support for Dhaka WASA (nonlending) DFID: Financial Management Reform Program JAPAN: Financial Management Support for Chittagong WASA OTHER DONORS: CIDA, UNDP.</p>
	<p>Improving public financial management</p>			

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
3. Governance at Center Stage				
3. A. Improving Implementation Capacity				
see above	see above	Improving public financial management		
		see above	<ul style="list-style-type: none"> i Improved quality of audits according to the international standards and systematic follow up by the Government on audit findings and recommendations of the Public Accounts Committee (PAC) i New procurement law enacted and implemented and e-procurement introduced; compliance with regulations monitored through independent annual procurement review and civil society 	see above
Transformation of public administration	Take strategic steps to reform public administration			
	<ul style="list-style-type: none"> n Deterioration in quality and quantity of public services n High levels of corruption in the civil service n Lack of professionalism and specialization; top-down culture 	<ul style="list-style-type: none"> n Measurably improved service delivery and public perception of service delivery (based on service delivery surveys and using 2001 survey as benchmark and integrating sector program targets) 	<ul style="list-style-type: none"> n New personnel management system, including extended merit-based promotions; transfers within clusters, revised compensation and enhanced training; steps to reestablish the Senior Service Pool agreed on 	<p>WORLD BANK: Proposed IDA Lending: Tax and Customs Administration (FY08) Proposed AAA: Public Administration Policy Notes (FY06); Local Governance Notes (FY07) ADB: Good Governance; Governance Management (nonlending) DFID: Financial Management Reform Program; Managing at the Top</p>

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>World Bank Group, ADB, DFID, Japan</p>
<p>3. Governance at Center Stage</p>			
<p>3. A. Improving Implementation Capacity</p>			
<p>Take strategic steps to reform public administration</p>			
<p>n Lack of incentives and professional development, training, and capacity in range of specialized skills</p> <p>n Weak citizen demand for improvements in public administration</p>	<p>n Progress in implementing plan to be agreed with the Government to develop a professional merit-based civil service which upholds principles of honesty and integrity and sees itself as accountable to the public</p>	<p>n Pay and employment policy consistent with macro-economic stability introduced; incentives linked to performance, including through decompressed pay scales; skill mix issue addressed</p>	<p>JAPAN: Strengthening of BPATC</p> <p>OTHER DONORS: CIDA, UNDP</p>

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>Milestones/Intermediate Indicators</p>
<p>3. Governance at Center Stage</p>			
<p>3. B. Tackling Corruption</p>			
<p>Operationalize Anti-Corruption Commission (ACC)</p>	<p>Accelerate the proper functioning of the ACC</p> <p>Impunity largely prevails for corruption related offences.</p> <p>Build the ACC as a credible and effective organization</p> <p>Bangladesh still ranks low in global anti-corruption indexes with its scores worsening in recent years.</p>	<p>Greater public confidence in government's ability to curb corruption as measured in corruption surveys</p> <p>Reduced opportunities for corruption through simplifying procedures/clearances, and where appropriate removing controls and restrictions with improved scores in Doing Business Surveys</p> <p>Increased public awareness of the costs of corruption and of how to fight corruption as measured in surveys</p>	<p>The ACC fully operational</p> <p>Initiate dialogue between the ACC and civil society on a strategy to fight corruption</p> <p>The ACC catalyzes development of a coherent and practical strategy to fight corruption including through strengthened prevention, enforcement, and education</p> <p>National Integrity Strategy developed and agreed with the Government</p> <p>Civil society activated to raise voice against corruption and monitor public finances</p>
<p>WORLD BANK: Ongoing IDA Lending: Development Support Credit IV ADB: Good Governance; Governance Management (nonlending)</p>			

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
3. Governance at Center Stage				
3. B. Tackling Corruption				
Strengthen Oversight Agencies	Strengthen the guardians of accountability			
	<ul style="list-style-type: none"> n Weak guardians of accountability (such as Election Commission, Parliamentary Corruption Commission, Comptroller and Auditor General, Bangladesh Bank, Securities and Exchange Commission) encourage impunity 	<ul style="list-style-type: none"> n Public perception of increased independence and effectiveness of key oversight agencies as measured in anti-corruption surveys n Increased effectiveness of parliamentary committees 	<ul style="list-style-type: none"> n Technical support unit of PAC established and fully operational and PAC proceedings opened to the media. n Government takes measures to ensure the independence and operational effectiveness of key agencies by: <ul style="list-style-type: none"> l Creating a transparent, fair, and independent process for the selection of the leadership and senior management of key agencies l Ensuring financial and administrative independence of these agencies l Ensuring adequate salaries and other compensation for the leadership and senior management commensurate with their responsibilities and special status. <p>World Bank will focus on BB, CAG, PAC, SEC</p>	<p>WORLD BANK: Proposed IDA Lending : Governance and Accountability (FY09); Public Sector Management (reserve) Proposed AAA : Governance Policy Notes (FY06); ADB : Good Governance: Governance Management (nonlending) DFID : Financial Management Reform Program; Managing at the Top</p>

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>Milestones/Intermediate Indicators</p>
<p>3. Governance at Center Stage</p>			
<p>3. C. Legal And Judicial Reform</p>			
<p>Laying the foundation for a comprehensive reform of the justice sector</p>	<p>Develop consensus on reform priorities and initiate key reforms</p>		<p>WORLD BANK: Ongoing IDA Lending : Legal and Judicial Capacity Building (FY07) Proposed IDA Lending : Governance and Accountability (FY09) Proposed AAA : Governance Policy Notes (Public Admin., Legal & Judicial, Asset Declaration) (FY06) ADB : Support to Good Governance Initiatives JOINT : Police reform (DFID, UNDP, Japan)</p>
<p>n The overall performance of the judiciary remains a source of concern; at any given time, approximately 800,000 cases are pending at different levels of the judicial system</p>	<p>n Court case backlog reduced and increasing resort to alternative dispute resolution</p>	<p>n Supreme Court and selected district courts implement case management and court administration reforms</p>	<p>n Alternative dispute resolution systems introduced</p>
<p>n Inherited colonial system of justice ensures "certainty of expense but uncertainty of results"</p>	<p>n Broad consensus on strategies for reform of key justice sector agencies, including the courts and the police and measurable improvements against agreed priorities</p>	<p>n Independent panel of eminent jurists and lawyers established in consultation with the Government which carries out broad consultations and initiates debate on priorities for justice sector reforms and recommends key actions and next steps</p>	<p>n Detailed reform agenda and action plans for the key justice sector agencies developed including police</p>
<p>n While the Supreme Court continues to be held in high regard, perceptions about the integrity of the lower judiciary are a major concern</p>	<p>n Better understanding of the obstacles to reform in the sector, including political economy constraints</p>	<p>n Availability of commercial justice for corporate sector at least in Dhaka and in selected regions</p>	<p>n</p>

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>World Bank Group, ADB, DFID, Japan</p>
<p>3. Governance at Center Stage</p>			
<p>3. D. Strengthen Voice/Empowerment/Participation</p>			
<p>Freedom of information law and e-governance.</p>	<p>Improve access to information</p>		
<p>n Bureaucratic culture thrives on secrecy and control over information</p>	<p>n Greater flow of information from government via Poverty Reduction Strategy monitoring and achievement of sector program commitments to information and accountability</p>	<p>n Government develops and implements an information policy strategy including potential enactment of a freedom of information act and implementation of information dissemination strategies, while also addressing underlying financial and human resource requirements</p>	<p>WORLD BANK: Proposed IDA Lending : Public Procurement Reform Project 2 (FY06) Proposed AAA : Legal & Judicial Review (incl. Information and Transparency Note & Land Policy and Administration) (FY07)</p>
<p>n Freedom of information is seen by PRSP as a powerful driver for building accountability</p>	<p>n Measurably increased use of public information to hold government accountable</p>	<p>n Key business processes redesigned and e-governance introduced to enhance information flows and reduce opportunities for corruption</p>	
	<p>n Better informed media monitoring of government performance</p>	<p>n Key public institutional processes made open to the public including PAC hearings, procurement process, disclosure on the web of periodic financial statements and audit reports</p>	

<p>Longer term development agenda for Bangladesh-PRSP</p>	<p>Outcomes influenced by the CAS Program during the 4-year period</p>		<p>World Bank and Development Partners' Assistance</p>
<p>Development Outcomes (PRSP)</p>	<p>Issues and Challenges</p>	<p>CAS Outcomes</p>	<p>World Bank Group, ADB, DFID, Japan</p>
<p>3. Governance at Center Stage</p>			
<p>3. D. Strengthen Voice/Empowerment/Participation</p>			
<p>Strengthening civil society and participation</p>	<p>Strengthen participation</p>		
<p>n Civil society needs to adapt itself to its enhanced role by increasing its professionalism and accountability, and becoming stronger in its advocacy functions</p>	<p>n Measurably more effective advocacy on governance reforms by civil society, media</p>	<p>n Mechanisms in place reviewed and publicized, and incorporated into future planning</p>	<p>WORLD BANK: Ongoing IDA Lending : Municipal Services (closes in FY07); Social Investment Program Project (closes in FY07) Proposed IDA Lending : Local Governance Support (FY06); Social Investment Program II (FY08); Community Fisheries Projects (Reserve); Proposed AAA : Local Governance Notes (FY06, 07); Public Expenditure and Institutional Review (FY07); Behavioral Change and Social Accountability (FY06)</p>
<p>n There is a need for greater clarity of roles as service providers and contractors, versus advocacy and accountability</p>	<p>n More responsive service provision and improved customer satisfaction in priority sectors as measured in surveys</p>	<p>n Gender budget analysis carried out; results published and incorporated into financial management reforms</p>	<p>ADB : Supporting Urban Governance Reform (nonlending); Urban Governance and Infrastructure Improvement: Urban Governance and Infrastructure Improvement II JAPAN : Participatory Rural Development Project; Local Development Coordination Program</p>
<p>n Measurably increased participation by, and accountability to, beneficiaries in the design and implementation of government development programs</p>	<p>n Civil society becomes measurably more accountable</p>	<p>n Government- and donor-funded projects systematically require participation by and accountability to targeted beneficiaries, facilitated by civil society</p>	<p>NGOs commission annual audits of their activities and budgets and publish them</p>

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
3. Governance at Center Stage				
3. F. Political Governance				
Election process reform	<ul style="list-style-type: none"> n PRSP recognizes that high cost of elections and the nature of party finance is a major cause of corruption 	<ul style="list-style-type: none"> n Code of conduct for elections monitored and adhered to, and sanctions imposed on code breakers 	<ul style="list-style-type: none"> n Code of conduct developed and accepted 	see above

Longer term development agenda for Bangladesh-PRSP		Outcomes influenced by the CAS Program during the 4-year period		World Bank and Development Partners' Assistance
Development Outcomes (PRSP)	Issues and Challenges	CAS Outcomes	Milestones/Intermediate Indicators	World Bank Group, ADB, DFID, Japan
4. Long-Term Strategic Issues				
<p>Improve disaster management capacities</p>	<p>Improve disaster response to become more proactive than reactive</p> <p>Disaster management focused on familiar disaster such as floods and cyclones only</p> <p>Inadequate focus on long-term climate change impacts</p>	<p>Improved natural disaster response systems and preparedness at community level, backed by official support</p> <p>Improved surveillance and disaster management in public health</p> <p>Increased information sharing and joint planning at regional level encouraged</p>	<p>A public health surveillance system established to track diseases that affect the vulnerable, such as HIV/AIDS</p> <p>Disaster management mainstreamed throughout relevant government structures and donor programs</p> <p>Increased emphasis on mitigating climate change effects mainstreamed in donor programs to protect interests of the poor</p>	<p>WORLD BANK: Proposed IDA Lending : Disaster Management TA (Reserve); HIV/AIDS (Reserve); Water Management Improvement (Reserve) Ongoing AAAA : Country Environmental Assessment (FY06); Proposed AAAA : Urban and Indoor Air Quality (FY07); Urban Industrial Pollution (FY08)</p>
<p>Strengthen Environment and Water Resource Management</p>	<p>Inefficient water resource</p>	<p>Water resource management capacities including flood control improved</p>	<p>Strengthen Bangladesh Water Development Board</p>	<p>WORLD BANK: Proposed IDA Lending : Disaster Management TA (Reserve); HIV/AIDS (Reserve); Water Management Improvement (Reserve) Ongoing AAAA : Country Environmental Assessment (FY06); Proposed AAAA : Urban and Indoor Air Quality (FY07); Urban Industrial Pollution (FY08)</p>

ASSESSMENT OF PROGRESS TOWARD ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

1. A mixed picture emerges for Bangladesh from two recent Millennium Development Goal (MDG) studies, conducted by the World Bank, the United Nations (UN), and the Government of Bangladesh (GOB). On the one hand, the country has made remarkable progress on several MDGs, such as gender parity, consumption poverty, and child mortality. Several other MDGs are also within reach, but will require special attention and concerted effort. A last group of MDGs will challenge the country for some time.

2. Bangladesh has already attained (or nearly so) the goal relating to elimination of gender disparity in schooling opportunities. Bangladesh is the only country in South Asia other than Sri Lanka to have achieved parity in male and female enrollments not just at the primary level but also at the secondary level. This is an impressive achievement for one of the poorest countries in the world, with a per capita gross national income in 2002 of only \$1,770 (in purchasing power parity [PPP] terms).

3. The analysis in the report further suggests that attainment of two other

MDGs—in particular, the reduction of consumption-poverty and under-five mortality—is also feasible with a combination of interventions, including sector-specific interventions (such as expanding immunization coverage and reducing pupil-teacher ratios), economic growth, improved coverage of infrastructure, and social safety-net programs (such as the Education Stipends Program and the Vulnerable Group Development programs).

4. However, it will be challenging for Bangladesh to attain the MDG related to child malnutrition and the education MDGs relating to universal net primary enrollment and primary completion. In the case of child malnutrition, the projections suggest that Bangladesh could come very close to—within 5 percentage points of—the MDG of having no more than 34 percent of its children underweight. However, it will be very challenging for the country to attain rates of net primary enrollment and primary completion exceeding 83–86 percent by 2015. This assessment is based on household survey data. Other studies (UN-GOB) using administrative data show

that the primary net enrollment target will be met.

5. According to the UN-GOB MDG assessment, another goal that will be difficult to achieve is that related to improving maternal health, indicators of which remain among the worst in the world. The maternal mortality ratio, for example, falls in the range of 320 to 400 per 100,000 live births in 2001. For Bangladesh to meet the target for maternal mortality, this figure must be reduced to 143 per 100,000 live births, which will require the inducement of major behavioral changes in mothers, far greater access to quality reproductive health services, and a generally improved socioeconomic situation.

6. With respect to water, the UN-GOB assessment observes that arsenic contamination has reduced the percentage of people with access to safe water from nearly 100 percent to roughly 80 percent in urban areas and 70 percent in rural areas. This presents a major challenge to improve outcomes by changing ingrained behaviors leading to the use of contaminated water from ground tube wells and/or by providing safer technologies to affected villages. In the case of sanitation, an emerging set of challenges to MDG attainment is driven partly by urbanization, as only 14 percent of slum dwellers in metropolitan areas have access to sealed latrines. Given that the urban population is projected to nearly double to 50 million people by 2015, adequate provision of water and sanitation to urban dwellers will be crucial for reaching these MDGs.

7. Being located on a flood plain with very limited natural resources, Bangladesh experiences acutely the effects of environmental degradation. Detrimental environmental conditions are also exacerbated by poverty, with many millions of poor people turning to the extremely limited forest products (Bangladesh has one of the lowest forest cover per capita of any nation) for their biofuel and energy needs. Reversing the trend of deforestation and increasing energy efficiency, therefore, weigh heavily on the MDG agenda of ensuring environmental sustainability. The financial and institutional resources necessary to accomplish these objectives pose significant challenges to attainment of this MDG.

8. What accounts for the extraordinary progress in improving social indicators in Bangladesh? The country's better performance may be because public expenditure on health as a proportion of gross domestic product (GDP) is almost twice as high in Bangladesh (1.5 percent) as in, say, India (0.9 percent). This was not always so. In 1990, Bangladesh spent only 0.7 percent of its GDP on health—less than the 0.9 percent that India spent (UNDP 2004). Thus, Bangladesh saw public spending on health increase very sharply during the 1990s, while India's public spending on health stagnated (in relation to GDP growth).

9. Public education expenditures in Bangladesh and India may also be usefully compared. In 1999–2001, India's public spending on education was 4.1 percent of its GDP—considerably greater than public

spending on education in Bangladesh, which was only 2.3 percent of GDP (UNDP 2004). However, as in the case of health, public expenditure on education in Bangladesh increased, from 1.5 percent of GDP in 1990 to 2.3 percent of GDP in 1999–2001—an increase of more than 50 percent. In contrast, public spending on education as a share of GDP increased by merely 5 percent over the same period in India—from 3.9 percent to 4.1 percent of GDP. Another important difference between Bangladesh and India is the composition of public spending on education. While Bangladesh spends 45.1 percent of its total public expenditure on education at the pre-primary and primary level, India spends 38.4 percent. At the other extreme, India spends 20.3 percent of its total public spending on education at the tertiary level, in contrast to Bangladesh’s 11.1 percent (UNDP 2004). Thus, the rapid growth of public spending on education and health in Bangladesh, combined with its better balance of educational spending across the primary and tertiary sectors (relative to India), are likely to be important factors in explaining the significant progress the country has made in its social indicators during the 1990s.

10. Another factor that is likely to be important in explaining Bangladesh’s relative success in attaining positive social outcomes is the work of its nongovernment organizations (NGOs). Bangladesh may well be the world’s leader in using NGOs as vehicles of development. NGOs are involved in virtually every activity in the country—relief and rehabilitation, poverty alleviation, health, education, social

protection, and environmental protection, to name a few. A villager in Bangladesh can send his or her child to an NGO school, have family planning and basic health services delivered by an NGO health worker, obtain microcredit financing from a choice of several NGO banks, sell milk and other dairy products to an NGO dairy cooperative, and make a telephone call on an NGO telephone. Secondary education in Bangladesh is almost entirely provided by the nongovernment sector—viz., the NGOs, for-profit schools, and religious schools (madrasas). Likewise, many of the family planning programs of the 1970s and 1980s, which set the stage for the subsequent decline in child mortality, were primarily delivered through NGOs. And several studies suggest that microcredit programs, which were pioneered by one of the best-known NGOs in the world—the Grameen Bank—have had a significant effect on reducing poverty, especially among females.

11. Yet another factor in explaining Bangladesh’s success, especially its ability to eliminate gender disparity in enrollment even at the secondary level, is the use of targeted public interventions, such as the Female Secondary School Stipend Program. The program is essentially a conditional cash transfer or a demand-side intervention for rural girls (the majority of whom are poor) to attend secondary school. By all indications, the program has been hugely successful in increasing female secondary school enrollments, especially since secondary schooling in Bangladesh is not free and parents are often unwilling to invest in the secondary schooling of their daughters.

12. However, Bangladesh's progress on the MDGs during the 1990s does not mean a lack of problems going forward. Indeed, several areas of concern remain. First, there are very large regional disparities in virtually all of the Millennium Development Indicators (MDIs) in Bangladesh. Districts such as Chittagong, Noakhali, Pathuakali, Rajshahi, and Sylhet have generally not performed well on several of the MDIs. Even if Bangladesh as a whole attains some of the MDGs, several areas of the country will remain distantly behind. The analysis in the World Bank report suggests that poor performances on many of the MDIs are geographically concentrated in a few regions. This in turn means that targeting interventions, central government resources, and economic growth opportunities to the lagging divisions and districts will speed up attainment of the MDGs.

13. Second, the problem of governance—in particular, poor service delivery—is widespread in the social sectors in Bangladesh. Doctors, health workers, and teachers are typically absent from their assigned posts at government health centers and schools. Membership of school management committees is highly politicized, and teacher recruitment is often subject to personal influence. Procurement of textbooks and essential drugs is rife with corruption. The quality of health and education services offered at most government health facilities is generally very poor. Yet the evidence presented in this report indicates the tremendous importance of service delivery in influencing outcomes toward the MDGs.

Infant and under-five mortality rates have fallen most in areas where effective programs for family planning and maternal and child health are delivered to rural women with low schooling; female school enrollments have increased thanks to the well-designed and well-delivered secondary stipend program that reaches its intended beneficiaries; and public transfer programs that deliver food supplies to the vulnerable in rural areas (such as Food-for-Work, Vulnerable Group Feeding, and Vulnerable Group Development) are associated with large reductions in child malnutrition among the poorest children. This suggests that better governance, and improved delivery of social services in particular, would be very important to attaining the MDGs.

14. Better delivery of public services—whether in health, schooling, nutrition, or infrastructure—is a complex and difficult task that entails creation of the right institutions and incentives, including devolving responsibility for service delivery to local governments and communities, contracting out certain types of service delivery to the nongovernment sector, empowering consumers to demand better services from government health facilities, introducing competition among public providers, and ensuring the motivation of front-line workers (World Bank 2003).

15. Some other findings from the World Bank report are useful to reiterate. The report notes evidence of significant synergies among the MDGs. For instance, a reduction in the proportion of underweight children is strongly associated with a

reduction of child mortality. Although maternal mortality as an MDI has not been analyzed in this report, interventions that reduce maternal mortality, such as tetanus immunization, expansion of antenatal care coverage, and an increase in the ratio of professionally-attended deliveries, clearly will also bring about large reductions in infant (especially neonatal) mortality. Likewise, reducing child malnutrition is likely to result in improved quantity and quality of schooling, as better nourished children are more likely to attend and perform well in school. Thus synergies among the MDGs will help in their attainment, which implies that proceeding with simultaneous action on all the measures will have the greatest impact on attaining the MDGs.

16. The simulations carried out in the World Bank's MDG assessment also suggest that economic growth that brings about an improvement in household living standards is strongly associated with virtually every MDI. For example, real per capita GDP growth of 4 percent per annum in Bangladesh could alone bring down the under-five mortality rate by about 8 deaths per 1,000 live births and the incidence of poverty by 21 percentage points between now and 2015. In addition, this growth could bring about an increase in the net primary enrollment rate of 5 percentage points by 2015. In other words, rapid economic growth could make significant contributions to an improvement in all the MDIs between now and 2015.

MEDIUM-TERM MACROECONOMIC FRAMEWORK

A. MACROECONOMIC PERFORMANCE DURING THE LAST CAS

1. Growth of gross domestic product (GDP) has performed well. GDP growth averaged 5.4 percent per annum over the FY01–05 period, the highest 5-year average since independence. Growth has been underpinned by a resurgence of private investment; which grew at an annual average rate of 10 percent, increasing its share in GDP from 16 percent in FY01 to 18.5 percent in FY05. The share of public investment in the meanwhile fell from 7 percent to 6 percent. While benefiting from continued strong export growth (about 8 percent per annum), with garment exports being the mainstay, growth has also been fairly broad based. Construction and services sectors in particular have grown strongly, fueled by large remittance inflows. Agriculture sector growth has been rather anemic, averaging just 2 percent over the period.

2. Containment of the fiscal deficit at around 3.5 percent of GDP, partly through curbs on wasteful expenditures, has

improved the prospects for fiscal sustainability. The fiscal deficit has been lowered from around 6 percent in FY00 to 3.5 percent in FY05 and its financing patterns made more prudent, with increased emphasis on concessional external financing. Benefiting from good growth and fiscal prudence, public sector debt has been contained at under 50 percent of GDP and appears on a sustainable path, although there are potential risks. A particular concern is the growing liabilities of the Bangladesh Petroleum Corporation as the recent increases in global oil prices have not been fully passed through to consumers; consequently Bangladesh Petroleum Corporation losses equaled 0.7 percent of GDP in FY05.

3. Monetary policy has broadly supported growth while doing a good job of containing inflation. Inflation remained below 5 percent during the FY01–03 period, rising to 6 percent in FY04 and further to 6.5 percent in FY05. Bangladesh Bank was slow to respond to the exogenous pressures on inflation arising from global commodity price increases and the 2004 floods, but has

tightened monetary policy considerably since March 2005.

4. The external sector has benefited from strong growth in exports and remittances, which supported equally robust growth of imports, including of capital goods. Exports increased by 40 percent and remittances doubled during the FY00–05 period while imports increased by 50 percent. The current account recorded small surpluses in fiscal years 2002, 2003, and 2004 before slipping into a deficit equaling 0.9 percent of GDP in FY05. The sharply rising cost of oil and other commodity imports contributed to the current account deficit in FY05. Benefiting also from a pick-up in concessional and other long-term capital inflows, foreign exchange reserves increased from their precarious level of \$1 billion (or 1 month of import cover) at end-2001 to a more comfortable \$3 billion by end-FY05.

5. Authorities floated the exchange rate in May 2003. The exchange rate has been relatively stable since, with the taka losing about 15 percent of its value against the dollar, although exceptionally strong import growth has put it under some stress since the beginning of 2005. Import growth has been fueled by a sharp rise in oil imports (oil imports exceeded forecast levels by about \$500 million in FY05), increases in demand for intermediate goods and capital machinery due to increased domestic activity, and higher rice and wheat imports to cover shortages caused by floods. Early in 2005, Bangladesh Bank used its reserves to support the taka almost to the limit specified in the

macroframework agreed with the International Monetary Fund, but has subsequently allowed the taka to depreciate and tightened monetary conditions to stem further pressures.

6. Although external debt is relatively low—at about 33 percent of GDP and that mostly on concessional terms—because of modest export levels (14 percent of GDP in FY05), the country faces some medium-term liquidity risks: the ratio of the net present value of future debt servicing obligations to goods and nonfactor services exports stands at about 150 percent. A good record on macro stability has led to renewed interest by foreign investors. Bangladesh is close to completing an agreement with the Tata Group of India which would bring in foreign direct investment worth \$2.5 billion in production plants for energy, steel, coal, and fertilizers. If the agreement does go through, it will be the single largest foreign investment deal for Bangladesh. Further, the Abu Dhabi Group recently announced a decision to invest \$1 billion in telecommunications, pharmaceuticals, and hotels.

B. MACROECONOMIC PROSPECTS OVER THE NEXT CAS

7. The Government's medium-term macroeconomic framework commits the Government to fiscal and monetary prudence and deepening structural reforms. The framework envisages acceleration in GDP growth from 5.4 percent in FY05 to 6.0 percent in FY06 and 6.5 percent in FY08. Such faster growth will require a significantly higher level of investment and

more efficient investment decisions than in the past. Achievement of these, in turn, assumes acceleration in the pace of structural reforms to tackle supply-side bottlenecks. As suggested by a recent World Bank report, growth rates of around 7 percent would be feasible if the Government scales up its efforts to improve economic governance and reduce regulatory costs, address infrastructure constraints (especially in ports and power), deepen and improve the efficiency of the financial sector, improve labor quality, and further lower trade barriers. Investment rates would need to rise substantially to a level unlikely to be covered by higher private savings alone: this will require fiscal prudence (cutting budget deficits, lowering losses of state-owned enterprises, etc.), continued donor support, and significant increases in foreign capital inflows.

8. The Government's fiscal policy aims to finance social development and key public investment while containing the deficit and maintaining debt sustainability. The level of public expenditure, at nearly 14 percent of GDP, is low by global standards, reflecting weak revenues and low implementation capacity. Total tax and revenue collection rates remain among the lowest in the world at 8 and 10 percent of GDP, respectively. The medium-term framework envisions improvements in these. The revenue-to-GDP ratio is projected to increase to 12 percent by FY09 as a result of modernization of the National Board of Revenue, and the expenditure to GDP ratio to 15.5 percent. Fiscal deficits would need to be contained at or under 4 percent of GDP and domestic financing of these limited to

under 2 percent of GDP, to ensure continued fiscal sustainability. Fiscal sustainability will further depend on the Government's ability to contain the emerging contingent liabilities being generated as a result of the growing losses of the Bangladesh Petroleum Corporation. Pass-through of international price increases to domestic consumers will be important to contain that risk. Continued monetary prudence will be necessary to contain inflation at the targeted rates of 7 percent in FY06 and under 5 percent by FY08, especially in the face of rising commodity prices.

9. Export performance faces considerable risks and some opportunities from the dismantling of the Agreement on Textiles and Clothing from January 2005, which exposes Bangladesh to competition from garment exporters previously restricted by quotas. This poses a considerable challenge for the economy, because the garment sector accounts for over three-quarter of total exports, and directly employs about 2 million workers, of whom 90 percent are women. Woven garment exports seem to have already been adversely affected by the removal of the quota system, recording -4 percent growth during the January-June period: knitwear exports grew at 26 percent during the same period, keeping overall garment export growth at 7 percent. It may still be too early to assess the long-run impact of the quota removals. A hopeful sign is that new investment and market orders continue to be received. Also, Bangladesh is competitive in the high-volume, low-margin segment of the world market and retains preferential access to the

European Union and Canadian markets due to its status as a developing country. At the same time, some opportunities are available for Bangladesh since the expiry of the Agreement on Textiles and Clothing, as exemplified in the more-than-doubling of knitwear exports to the United States during the January–June 2005

period—knitwear exports to the United States were previously constrained by quotas. The invoking of World Trade Organization (WTO) safeguards on China by the European Union and the United States should also benefit Bangladesh during the next 2 years.

PUBLIC FINANCIAL MANAGEMENT INDICATORS BASED ON THE PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY FRAMEWORK: BANGLADESH

The Public Expenditure and Financial Accountability (PEFA) Program is a partnership of the World Bank and other development partners, including the Department for International Development (DFID) of the United Kingdom, the European Union (EU), the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, and the Swiss State Secretariat for Economic Affairs (SECO). The International Monetary Fund (IMF) and the Strategic Partnership with Africa (SPA) are also partners. The goals of the PEFA Program are to strengthen recipient and donor ability to diagnose the condition of country public expenditure, procurement, and financial accountability systems, and develop a practical sequence of reform and capacity-building actions, in a manner that: (a) encourages country ownership, (b) reduces the transaction costs to countries, (c) enhances donor harmonization, (d) better addresses developmental and fiduciary concerns, and (e) leads to improved impact reforms.

ASSESSMENT AND RATING OF PUBLIC FINANCIAL MANAGEMENT INDICATORS

PEFA Indicators	Assessment	Rating
A. Public Financial Management (PFM) Out-Turns: Credibility of the Budget		
PI-1 Aggregate expenditure out-turn compared to the original budget	Actual primary expenditures were more than 10 % lower than the budgeted primary expenditures in all the three years (FY03–05). The consistent undershooting of the budget target largely reflects the over-programming of the Annual Development Program (ADP), driven by a development philosophy that views projects as the building blocks of development and the size of the ADP is seen as an indicator of the government's development effort. This encourages a tendency for the original size of the ADP to be larger than in the previous year, with reductions in the ADP size made at the preparation of the revised budget in the third quarter of the fiscal year. Typically, the revised ADP is also over-programmed, although to a lesser extent than the original ADP. For the recurrent primary expenditure, actual expenditure deviated from the budget by more than 5 % in only 1 of the last 3 years.	C
PI-2 Composition of expenditure out-turn compared to original budget	Changes in overall level of expenditure naturally translate into changes in spending for functional budget lines. However, measured as the extent to which reallocation between budget lines contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditures, the changes in the composition of expenditure out-turns have been relatively small in recent years. Variance in expenditure composition exceeded overall deviation in primary expenditures by more than 5 percentage points in only 1 of the last 3 years.	B
PI-3 Aggregate revenue out-turn compared to original approved budget	Actual domestic revenue collection was consistently below 94%, but above 92%, of budgeted domestic revenue estimates in all 3 years. Forecasting of non-tax revenue is generally weaker than forecasting of tax revenue.	C

PEFA Indicators	Assessment		Rating
A. Public Financial Management (PFM) Out-Turns: Credibility of the Budget			
PI-4 Stock and monitoring of expenditure payment arrears	There are no reliable data on the stock of expenditure payment arrears and accumulation of new arrears from the last 2 years. Under the existing cash-based budgeting and accounting system, assessment of the existence and completeness of arrears is difficult. Fragmentary evidence suggests that the stock of arrears could be significant. The stock of government arrears to power companies alone at the end of May 2005 amounted to 0.2% of total FY05 recurrent expenditures.		D
B. Comprehensiveness and Transparency			
PI-5 Classification of budget	The existing classification structure is a 13-digit structure consisting of four separate code dimensions covering analysis for legal, organizational, operational unit or project, and economic dimensions. The classification is not consistent with Classification of the Functions of Government (COFOG) definition of the functions of the Government. This impedes external reporting because of the additional functional analysis required and reworking into the COFOG standards that takes place. The budget formulation and execution is based on administrative and economic classification using Government Finance Statistics standards.		C
PI-6 Comprehensiveness of information included in budget documentation	Detailed budgets covering ministries' activities within their responsibilities are prepared annually and these budgets are further broken down by individual agencies within each ministry. The budget document discloses the main fiscal aggregates for the budget year and the preceding year's original and revised budget estimates. The Budget Speech lays out the key macroeconomic assumptions and provides a brief account of the budget implications of new policy initiatives, with broad estimates of the budgetary impact of major revenue and expenditure policy changes. No estimate of the debt stock and financial assets, even for the beginning of the fiscal year, are provided.		C
PI-7 Extent of unreported government operations	No estimates of tax expenditures, contingent liabilities, or the extent of quasi-fiscal activity are presented in the budget documents. A proportion of spending is off budget, but this is relatively small. Not all aid is captured because of the practice of donors opening special bank accounts in commercial banks that are outside the government accounting system. The budget documents show aggregate spending on subsidies and transfers but no summary of subsidies by purpose nor any discussion of subsidy policy is provided, so the extent to which policy objectives have been achieved is not monitored or reviewed.		D

PEFA Indicators	Assessment	Rating
A. Public Financial Management (PFM) Out-Turns: Credibility of the Budget		
PI-8 Transparency of inter-governmental fiscal relations	Bangladesh has a unitary form of government with no subnational governments. The only local government institutions that exist are municipal corporations/municipalities in urban areas and union parishads in rural areas. Data on their budgets and accounts are provided by local authorities to the Local Government Division, but there is uncertainty about whether this information is complete and the extent to which it is analyzed. Local governments are funded by grants from the central Government and limited authority to raise revenue through local property taxes and fees.	D+
PI-9 Oversight of aggregate fiscal risk from other public sector entities	State-owned enterprises (SOEs) and autonomous government agencies are a major source of fiscal risk. The standard of accounting records and the treatment of accounting issues in many government-owned commercial entities does not meet internationally recognized standards. The methodology and approach adopted in funding these entities tend to hide the true extent to which they are using public resources. The SOEs submit their accounts every 6 months and submit audited accounts annually. The difference between pre- and post-audit accounts generally tends to be large. The central Government does not usually consolidate overall fiscal risk issues into a report.	C
PI-10 Public access to key fiscal information	The budget speech and budget summary tables are posted on the Finance Division's website immediately after the presentation of the budget to the Parliament. The public cannot easily have access to the complete set of budget documents given to the members of Parliament. The Monthly Accounts produced by the Controller of General Accounts (CGA) are compiled into monthly fiscal reports and are posted on the website with a 5-month lag. Year-end financial statements are not available to the public. The Comptroller and Auditor General publishes every year five audit reports with considerable time lags, covering appropriation accounts for civil defense, railway, and post, telegraph, and telephone departments and one financial account covering all government receipts and expenditure under each head of accounts. Major issues are generally reported in the media. Competition and award notices for all contracts exceeding \$160,000 are advertised on the central website operated by the Central Procurement Technical Unit. Information on resources available to primary service units is generally not publicized.	C
C. Budget Cycle		
Policy-Based Budgeting		
PI-11 Orderliness and participation in the annual budgeting process	Budget preparation is historically done with limited involvement of senior officials. The central ministries, i.e., the Finance Division and Planning Commission, are perceived to make major decisions about the revenue and development budgets respectively, and about budget management. The recent introduction of the medium-term budget framework (MTBF) in selected ministries and the accompanying development of budget monitoring committees in these ministries provide	B

PEFA Indicators	Assessment	Rating
C. Budget Cycle		
	<p>expanded opportunities to foster greater participation of line ministries in the budget process. The annual budget cycle runs from July 1 to June 30. The existing budget calendar, which is now being revisited, does not allow for a strategic phase consisting of evaluating the financial constraints, setting up aggregate fiscal objectives, and making strategic choices in accord with policy priorities prior to issuing the budget circular. The timetable does not allow the Parliament to effectively scrutinize the budget. However, during the last 3 years, the legislature has approved the budget before the start of the fiscal year.</p>	
<p>PI-12 Multi-year perspective in fiscal planning, expenditure policy, and budgeting</p>	<p>The government is in the process of introducing an MTBF to replace the traditional inputs-based approach to budget planning. New policy proposals are distinguished from existing commitments in submissions to the revenue budget as are new projects from ongoing projects in the development budget. Since 2002 the Government has been preparing forecasts of fiscal aggregates on the basis of the main categories of economic classification for 3 years on a rolling annual basis as required under the Poverty Reduction and Growth Facility. A debt sustainability analysis has been done by IMF, but the Government does not yet have the capacity to undertake debt sustainability analysis on its own. The Government started articulating sector strategies with the preparation of the interim Poverty Reduction Strategy Paper in 2003 and the finalization of the paper in November 2005. However, the strategies are not costed yet.</p>	D+
Predictability and control in budget execution		
<p>PI-13 Transparency of taxpayer obligations and liabilities</p>	<p>The legal framework for taxation has become progressively fragmented over the past decade by numerous amendments and decrees by various administrations, and compliance rates have diminished. Tax administration is seriously flawed. The National Board of Revenue (NBR) has few guidelines and procedures in place to ensure that its field offices and personnel engage in activities that are consistent, uniform, and impartial. Management makes little attempt to monitor these activities, and the field offices and tax officials are not held accountable by the NBR. Tax evasion is widespread. What tax is paid appears to reflect the outcome of negotiations between the tax officer and tax payer and bears little relationship to the true tax liability. Taxpayers have access to some information on tax liabilities, but the usefulness of the information is limited due to lack of comprehensiveness and not being up-to-date. A tax appeals system of administrative procedures exists, but it has too many loopholes that encourage too many fraudulent appeal cases.</p>	D+
<p>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</p>	<p>Taxpayers are registered in database systems for individual taxes, but these are not fully and consistently linked. Linkages to other registration/licensing functions are also weak. Penalties for noncompliance generally exist, but are not always effective due to inconsistent administration and corruption. Tax officers are unable to check the increasing number of tax</p>	D+

PEFA Indicators	Assessment	Rating
C. Budget Cycle		
	<p>due to the absence of coordination between different tax departments. Taxpayers have access to independent review of tax decisions and can go to tax appellate tribunals to get redress for their grievances, but the process is regarded as ineffective. Tax audits and fraud investigations are undertaken on an ad hoc basis.</p>	
PI-15 Effectiveness in collection of tax payments	<p>Statistics on the average debt collection ratio are not available. Since there are few effective enforcement mechanisms, compliance is largely voluntary and the compliance rates appear to be very low. This presumably results in accumulation of significant tax arrears, although precise figures are unknown because there is no comprehensive system of tax assessment. Reporting on tax collections is done monthly by the NBR (with 3–4 weeks lag) and a system exists to reconcile the cash balances with collection reports on a monthly basis. However, there is no system in place to reconcile the tax assessments, collections, arrears, and transfers to the Treasury.</p>	C
PI-16 Predictability in the availability of funds for commitment of expenditures	<p>An effective fund management and control system is in place. The Ministry of Finance (MOF) monitors cash availability closely on a regular basis. Generally, once the budget is approved, the budget allocations for the first three quarters are released by the MOF. However, the scope for virement within line ministry budgets is limited and must be pre-approved by the MOF. The MOF conducts an internal midyear review of the budget, which serves to moderate unrealistic expectations particularly in regard to ADP targets. The midyear review, usually completed by end-March, provides the basis for preparing revised budget estimates once a year. Revised budget estimates are only disseminated annually, when the next year's budget is presented.</p>	C
PI-17 Recording and management of cash balances, debt, and guarantees	<p>The Economic Relations Division compiles and disseminates comprehensive annual data on external government debt. Data for domestic debt are compiled by Bangladesh Bank and the National Savings Directorate for internal government use. Data on domestic borrowing and debt are published in Bangladesh Bank's Annual Report and made available on its website about 9 months after the end of the fiscal year. Public debt information is not included in the audited final accounts of the Government. The Government's entire cash balance with Bangladesh Bank is treated as one entity, although separate "windows" for each chief accounting officer are maintained within this balance. Shortcomings in cash management cause large month-to-month fluctuations in government borrowing from Bangladesh Bank. No estimates are made of contingent liabilities, such as government guarantees on debt contracted by SOEs. In addition, the impact of quasi-fiscal operations is not systematically reviewed in the context of the budget, nor are any official estimates of potential costs provided.</p>	C

PEFA Indicators	Assessment	Rating
C. Budget Cycle		
PI-18 Effectiveness of payroll controls	Payroll controls are overly complicated and opaque. Payroll rules are not transparent. An accurate staff register linked to an appropriate human resources management system is currently not in place. Key balances such as the Provident Fund are not within the operational control of one agreed ministry, and key systems including Payroll and Pensions have a number of problems which produce only a limited assurance of the accuracy of Public Account balances on an ongoing basis. There are persistent reports of irregularities in the pension system including lack of information on the number of pensioners, the number of dependents, and how much money is actually paid out.	C
PI-19 Competition, value for money, and controls in procurement	The Public Procurement Regulations in Bangladesh are relatively new and, although an on-line reporting mechanism is currently being designed to collect and analyze the required data, little such data is currently available. Nevertheless, the new procurement regulations are a significant improvement over what existed before. A legal framework is now being established which, if properly implemented, would ensure competition and value for money. The reformed legal framework provides for open competition above appropriate thresholds: above \$16,000 for goods and services and above \$40,000 for works. Competition and award notices for all contracts whose value exceeds \$160,000 are advertised on the central website operated by the regulatory authority, the Central Procurement Technical Unit. The regulations provide for a series of internationally accepted procurement methods with a preference for open tendering. Alternative methods (restricted tendering, direct procurement, two-stage tendering, and request for quotations) may be used only where the conditions of the regulations have been met. The regulations also provide for a complaints mechanism which, in terms of procedure, is largely consistent with international practice. However, the system is yet to be functional and has not yet dealt with complaint.	B
PI-20 Effectiveness of internal controls for non-salary expenditures	Internal control is weak, with implications for increased fiduciary risk in a more decentralized budgeting environment. Expenditure commitment control procedures exist and are partially effective. Rules are complied with in a significant majority of transactions, but use of emergency procedures in several unjustified situations is an important concern. The Finance Division has allocated funds to MTBF ministries to engage contractors to undertake internal audits of MTBF ministries and has issued a government-wide Internal Control Manual.	C
PI-21 Effectiveness of internal audit	Existing internal audit functions in the Government are inadequate largely because few of the staff have had professional training and traditionally the demand for strengthening internal controls has been limited. Currently an internal audit arrangement is absent in almost all ministries, divisions, and departments except the Ministry of Works, Ministry of Land, Ministry of Roads and Highways and Ministry of Education. Reporting is very irregular and internal audit recommendations are usually ignored.	D

PEFA Indicators	Assessment	Rating
C. Budget Cycle		
Accounting, Recording, and Reporting		
PI-22 Timeliness and regularity of accounts reconciliation	<p>The CGA accounting information is usually available 5 weeks after the end of the month. All government computerized accounting is done at the aggregate level, there are no transactions stored in the system as these are all in manual ledgers at district and upazila accounting offices. There is a documented system for bank reconciliation, but its use is not producing satisfactory outcomes. In most cases reconciliation with the accounts offices and Bangladesh Bank at the source level agrees, but at the aggregate level CGA and Bangladesh Bank figures often differ, which CGA officers attribute to Bangladesh Bank errors. There is a lack of procedures for ensuring that Suspense Accounts and Remittance Accounts are reconciled and cleared on a regular basis, resulting in build-up of large unexplained balances in the Public Accounts. Audited financial statements are not yet available within 1 year despite ongoing efforts to meet the target.</p>	C
PI-23 Availability of information on resources received by service delivery units	<p>All public spending in the central Government is subject to the budget, which is expressed in appropriations and authorized through the allotment process under the responsibility of the MOF. For the Revenue Budget, there is good information on what resources are received by the service delivery units. Information on the receipt of resources by service units from the Development Budget is often lacking. Also, communities do not have information on budget implementation outside of the aggregated reporting available in government publications. The Government has commissioned three expenditure tracking studies for primary and secondary education and primary health care to track the impact of public expenditure.</p>	C
PI-24 Quality and timeliness of in-year budget reports	<p>Producing accounting information on a timely basis is constrained by the geographical distribution of the Treasury functions under the control of the CGA and the lack of supporting infrastructure (including electricity and telephone lines) to enable computerization. The CGA has begun the process of installing software to enable recording transactions within the accounting system across all sources of data. Currently distribution of the budget across geographic units from aggregate organizational and functional line allocations is weak and there are no effective systems to disclose/distribute budget lines across geographical units.</p>	C
PI-25 Quality and timeliness of annual financial statements	<p>A clear set of rules, procedures, and formats must be observed by line ministries and implementing agencies, as laid out in the recently issued Public Expenditure Management Manual. In addition, the CGA is required to produce consolidated revenue and expenditure statements every 6 months and annually. The year-end Monthly Account, the Finance Account, and the Appropriation Account have never conformed to their official timetables for publication. To date, due to computerization of accounts, the year-end Monthly Account and the Finance Account have performed better as regards timeliness than have the Appropriation Accounts. International Public Sector Accounting Standards are not applied even in the central Government's cash-based accounting.</p>	C

PEFA Indicators	Assessment	Rating
C. Budget Cycle		
PI-27 Legislative scrutiny of annual budget law	The budget is presented to the Cabinet in the first week of June for the fiscal year starting 1 July for approval on the same day it is presented to the Parliament. Parliamentary committees do not get the opportunity to review and discuss budget proposals before they are tabled in the full house. This falls short of OECD Fiscal Transparency Guidelines, which recommend that the budget be presented 3 months ahead of the start of the fiscal year to provide sufficient time for debate and revision, as necessary.	D
PI-28 Legislative scrutiny of external audit reports	The PAC discusses the external audit reports and questions responsible parties about findings of the report with considerable time lags. Lack of adequate technical and financial support has constrained the PAC from further scrutinizing and monitoring follow-up actions. This has resulted in huge audit backlogs awaiting PAC discussion. Hearings on key findings take place with responsible officers from audited entities. The PAC usually issues recommendations on action to be implemented by the executive but these are rarely acted upon.	C
D. Donor Practices		
D-1 Predictability of direct budget support	Direct budget support has been a relatively recent phenomenon in Bangladesh and has been largely limited to support from the World Bank's Development Support Credit (DSC). The direct budget support out-turns have been pretty much in line with the forecast during last 3 years. All three DSCs disbursed so far have been single tranche operations. There have been disbursement delays due to delays in implementing the agreed prior actions and, as a result, the Government had to temporarily borrow sizable amounts from the domestic banking system.	B
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	There is no effective reconciliation between the Economic Relations Division, project directors, the CGA, and special bank accounts to ensure completeness of foreign aid reporting in accounts. Donors do not always provide any or full details of direct project aid spending to project directors—although this is improving. There is no consistent monitoring of budget against actual direct project aid and reimbursable project aid spending by chief administrative officers to ensure completeness of reporting of foreign aid.	C
D-3 Proportion of aid that is managed by use of national procedures	All the aid-funded local procurement is managed through national procedures. Only international procurement is managed through donor procedures. Cardinal data on the proportion of aid used for local and international procurement are not available.	B

SUMMARY OF CAS CONSULTATIONS

1. The Country Assistance Strategy (CAS) of Bangladesh has benefited from extensive consultations with various segments of the Bangladeshi society. These consultations have taken place in three stages beginning in early 2004. The latest took place in October 2005, in partnership with the four joint strategy partners: the Asian Development Bank (ADB), the Department for International Development (DFID) of the United Kingdom, and Japan. The objectives of this extensive process were to: solicit views of the Bangladeshis on issues and development challenges facing them in their daily lives, before the conceptualization of the CAS; and receive feedback on the strategy, priorities, and development programs that the World Bank and development partners aimed to support.

A. FIRST STAGE OF CONSULTATIONS

2. The *first stage*, which took place in February 2004, included 10 rounds of consultations with various stakeholder groups. Three of the consultations were organized in two divisional towns, Khulna and Rajshahi, and the others were in the

capital, Dhaka. Cross-sectional, mixed, and theme-based stakeholder groups were invited for these 3–4 hour consultations. In December 2004 a consultation meeting with indigenous people’s representatives was organized jointly with the ADB at Rangamati, in the Chittagong Hill Tracts (see box).

3. Given the initial goal of the CAS team to listen to the various viewpoints in the society, the process was designed to be simple, participatory, and interactive. After the initial welcome and introductions, the World Bank team provided a brief presentation on the background and the CAS process. The participants were then asked to reflect on the successes and achievements of Bangladesh followed by their views on its problems and failures. The discussion then focused on what could be done and how to address these issues in the context of growth and development and the role of the World Bank as a development partner.

4. Within the wide spectrum of views expressed at the consultations, the achievements and successes of the country

Regional Consultations

The first CAS consultations, held at Rajshahi on February 14, 2004, included a mixed group of 42 participants comprising academics and researchers, local leaders, private sector representatives, activists and staff from NGOs, and organizations working on human rights and gender issues. This was followed by a discussion with 24 rural participants in a village in Charghat *upazila* of Rajshahi. Then four meetings were organized in Dhaka with various stakeholder groups—NGO representatives, urban poor, academia and think-tanks, and private sector representatives. The next public consultation for the CAS was held in Khulna on March 18 with a mixed group drawn from cross-sections of this city. Another consultation with the small and medium-size enterprises and business community was organized jointly with the South Asia Enterprise Development Facility and the IFC in Dhaka. After a gap of 5 months, the next series of consultations was held in August with four meetings in Dhaka with different thematic groups—disadvantaged youth, retrenched garments workers, representatives from organizations for disabled persons, and university students.

were overshadowed by the participants' negative perceptions of the current state of affairs in Bangladesh. These included the deteriorating law and order situation, poor governance, increase in corruption and politicization at all levels of the executive and judiciary, prevalence of a confrontational political culture, and lack of access to basic services (such as timely and adequate health care, quality education, arsenic-free safe drinking water, and proper sanitation facilities). Problems mentioned during most consultations also covered the want of income-generating activities and employment opportunities, lack of investment opportunities and lack of security for investments and investors, and bottlenecks in infrastructure (transportation, ports, power, and information technology) as well as the adverse effects of inadequate policy directions and absence of timely decisions on national issues (such as gas exports, ports, finance, and stock markets).

5. Given the post-conflict situation in the Chittagong Hill Tracts, local participants in the Rangamati consultations underscored the need for implementing the 1997 Peace

Accord fully, with the streamlining of various legal problems and ensuring that all development activities in the region take into account the preferences of the indigenous peoples.

6. Among achievements and successes of Bangladesh, participants mentioned the increase of enrollment in primary and girls' education; greater awareness on health, immunization, and family planning; significant developments in transports and communication; the role of nongovernment organizations (NGOs), such as schooling for urban slum dwellers; more press freedom; the increased coverage of sanitation and water supply; and the assistance of microcredit to income generation.

7. The feedback from the consultations was generally aimed at changing the existing scenario of more negative aspects, where the Bank was to be a facilitator rather than providing prescriptions and could contribute much more to the development process. The areas for which suggestions were made included facilitating the improvement of Government-NGO relations, helping decentralization in

different spheres, exploring the export markets for Bangladeshi products since the end of the Multifibre Agreement, and emphasizing gender and social protection issues. Most participants also indicated the important role of the Bank in human resource development and capacity building, improvement of infrastructure, exploration and utilization of natural resources, and promotion of reforms and improved governance in the country.

8. Two CAS-related brainstorming sessions were organized for the Bank's Dhaka office staff. The CAS team maintained regular liaison with the Government's team, which was then in the initial stages of preparing the full Poverty Reduction Strategy Paper (PRSP). As the CAS would cover the same period as the PRSP, it was envisaged that the main thrust of both documents will be synchronized—both the CAS and the PRSP aim to address the same basic problems and build on the common goal of sustainable improvement in prosperity for the majority of Bangladeshis.

B. SECOND STAGE OF CONSULTATIONS

9. The *second stage* took place in July 2005 after the Bank and the development partners were at a more advanced stage of their preparations. This stage included consultations on the joint strategy of the four CAS partners (in addition to the Bank's specific aims) and evolved around the joint outcome matrix that summarized the country's development goals, issues and challenges to achieve them, outcomes that

the development partners can influence, and their programs of support. This stage of consultations included small focus discussion groups as well as broader audiences, such as a forum of government secretaries, private sector representatives, NGOs and civil society, academics and think-tanks, the media, and the broader donor community represented by the Local Consultative Group of donors,

10. At these consultations, the joint strategy was introduced by the head of one of the agencies as being prepared to have a common approach that would reduce the transaction costs and increase coherence of engagement. After the presentation on the strategy, which was aligned with the longer-term development agenda as outlined in the draft PRSP, participants were invited to provide their comments on the Joint Results Framework (Outcome Matrix) and responses were provided by the representatives of the four partner agencies.

11. Participants endorsed the strategy and the priority areas identified for support by the Bank and other development partners in connection with the PRSP. Governance and related reforms were consistently highlighted as an area of major concern, with participants suggesting the need for a concrete program to address governance issues. Tackling corruption is an important issue but concrete ideas which go beyond stating "government failure" are needed. It was suggested that the joint strategy could focus more on the developments in the political system, which are important for accelerating the country's

economic development. A related question was how the strategy could help improve the negative perception of Bangladesh to outsiders.

12. Decentralization was repeatedly stressed as the way to address development issues in Bangladesh, with a consensus on the need for an increased role of local governments. The development partners were asked to "speak out in one voice" to push decentralization.

13. On issues of economy and poverty alleviation, participants mentioned that "pro-poor growth" was not adequately defined and questions were raised as to how the strategy intended to achieve it. Participants also pointed out that there was insufficient mention of how the strategy would support the achievement of Millennium Development Goal targets.

14. There were queries as to how the CAS proposed to ensure that the opinions of the poor would be voiced and considered, that year-round employment would be available for them, and how it aimed to reach the hard-core poor and ensure that development extends to the remote and vulnerable areas.

15. Participants suggested the identification of an agricultural policy that looked into the issues of small-scale farmers and wage labor. Rather than simple rural development, rural planning and management need to be emphasized. Simultaneously, the issue of rapid urbanization and related urban poverty should be highlighted in the CAS.

16. On human development issues, population growth and adolescent health care were emphasized. Arresting the deteriorating quality of education and enhancing the accountability of teachers was required along with "non-partisan" educational management. Some participants suggested that the CAS should stress human security and speak out strongly against human rights infringements in Bangladesh.

17. Private sector representatives mentioned that the cost of doing business in Bangladesh was becoming high, and the private sector cannot access resources at market cost while there is not much public-private partnership on the ground. The role of the private sector and its development in the then draft PRSP was not adequately highlighted. The private sector development problems highlighted in the consultations include bottlenecks in infrastructure, high-cost economy, access to finance and credit, and the criminalization of the economy. The need for decentralized growth centers and to have the rural economy grow by fostering private sector and small and medium-size enterprises was underscored.

18. The CAS team plans to follow up on these consultations on a regular basis during the implementation of the program. It also plans to undertake a midterm review to assess progress toward the outcomes identified in the results matrix.

JOINT CAS PROCESS-HARMONIZATION IN ACTION

1. Four development partners namely the World Bank (WB), Asian Development Bank (ADB), Department for International Development (DFID) of the United Kingdom, and Japan initiated a dialogue on the preparation of the joint Country Assistance Strategy (CAS). They gathered in a 2-day retreat on March 20–21 in the World Bank offices in Dhaka. Over 40 staff from the four organizations participated. The main objectives of the retreat were to:

- (a) Agree on the main partnership principles and teamwork among the four development partners (see box).
- (b) Understand each institution's processes, requirements, and timetables for the preparation of their country assistance strategies.
- (c) Construct a consistent view of Bangladesh's achievements and challenges on growth and poverty as identified by the analytical work and the results of the consultations with the civil society and other focus groups.
- (d) Agree on the emerging themes/pillars for the strategy.

(e) Initiate the preparation of a joint outcome matrix on the basis of the agreed pillars.

2. Dr. Kamal Siddique, the principal secretary to the prime minister, addressed the first dinner of the retreat and spoke about the Government priorities as outlined in their recently prepared National Strategy for Accelerated Poverty Reduction. Secretary Economic Relations Division, Mr. Ismail Zabihullah, was also invited to attend.

3. The retreat was successful in achieving its objectives and was well received by the participants, who were actively engaged throughout. The four development partners *agreed on the partnership's "guiding principles"* (see box). There was also broad agreement on the main issues and challenges facing Bangladesh's efforts to achieve higher growth and reduce poverty.

4. Participants agreed *on the main pillars of the strategy* as being improving the *investment climate* for generating growth and employment, and *empowering the poor* through better skills, health, and nutrition,

and more transparent government, with governance being a key constraint and the foundation for success in both pillars. Gender also emerged as an important cross-cutting theme. These were consistent with the CAS approach and story line developed by the Bank on February 5 at the concept stage. Participants prepared a joint outcome matrix based on the three themes, which will guide their work and the discussions with the Government on how the development partners will measure progress in the implementation of their programs toward supporting the Government's Poverty Reduction Strategy Paper. Work on the outcomes continued throughout the preparation of the CAS. The CAS outcome matrix (see annex 1) is the result of such consultations and work among the Bank and other development partners.

5. A second retreat with the donors took place in July 2005, to focus on sector-specific issues as well as instruments to deliver the

strategy. The output of these processes was the preparation of a set of sector-specific strategy notes covering the main priority areas, including civil service reform, public financial management and procurement, local governance, rural infrastructure, transport, power, legal and judicial, agriculture, and education. The main objective of the second stage was to agree on a clearer division of responsibilities among donors and especially use this platform to involve and consult with the rest of the donor community. Therefore, in several of the sectors mentioned above, consultations were held with the Local Consultative Group subgroups interested in the sector. As a follow-up to these meetings, development partners will continue to cooperate and coordinate closely with the Government to ensure full support of the Poverty Reduction Strategy Paper.

6. A newsletter on the joint CAS was prepared on behalf of the four development partners.

**Partnership Principles
Toward a Common Strategy to Assist Bangladesh:
ADB, DFID, Japan, World Bank**

- We will invest time and effort into understanding different agency mandates.
- We will recognize our relative institutional strengths and build upon those strengths.
- We will work in partnership, resolving differences openly and constructively and will respect each others' views.
- We will share information in a spirit of openness.
- We commit to mutual respect in the matter of communication.
- We will communicate and maintain agreed common messages to the Government and others.
- We will represent each others' interests to the Government and other development partners whenever possible.
- We commit to ensuring coherence between field offices and our respective agency headquarters.
- We commit to coordinating and harmonizing our activities in support of agreed outcomes.
- We recognize the high transaction costs associated with such partnerships and resolve to ensure that we will always carefully weigh the costs and benefits of all joint activities and avoid imposing unnecessary burdens on each other.
- We aim to build and maintain our understanding of Bangladesh's development context and base our engagement on this knowledge.
- We aim to continue to deepen our understanding of the incentives and institutions in each sector where we provide support.
- We are committed to building the capacity in Government to lead and implement its development agenda.
- We commit to base our dialogue and programs on Bangladesh's development agenda.
- We will work with the Government to identify a manageable number of achievable priorities and align our strategies around such priorities.
- We commit to a participatory approach with the Government, ensuring that commitment and ownership exist before providing support.
- We will be realistic in our expectations, we will be patient, and we will take a long-term perspective.
- Above all, we will ensure that everything we do is in the long-term interests of Bangladesh's poor.

Hua Du
Country Director
Asian Development Bank

Masahiko Kiya
Counselor
Embassy of Japan

David Wood
Head of Office
DFID

Christine Wallich
Country Director
World Bank

**PROPOSED PROGRAM FOR ANALYTICAL AND ADVISORY ACTIVITIES
AND LENDING PROGRAM BY CAS PILLARS (FY 06-09)**

Fiscal Year 2006		
Analytical and Advisory Activity	Lending	IDA (\$M)
Multi-Pillar		
Country Economic Update	DSC III	200
Pillar 1: Improving Investment Climate		
Strategy for Growth and Employment Vocational Education Higher Education Agribusiness Opportunities & Constraints Country Environmental Assessment Post-Multifibre Agreement Study	Investment Promotion & Finance Facility	50
Pillar 2: Empowering the Poor		
Urban Poverty Assessment Operationalizing MDGs Behavioral change and social accountability	Education SAC II	100
Core Governance		
Governance Policy Notes Policy Support on Local Governance Procurement Capacity Building Procurement Monitoring and Evaluation	Local Governance Support	106
Fiscal Year 2007		
Multi-Pillar		
Country Economic Update	DSC IV	200
Pillar 1: Improving Investment Climate		
Policy Notes for the New Govt. Rural Finance Study Urban Development Strategy Inland Water Transport Note Fisheries Policy Note Doing Business Indicators	National Agriculture Technology Private Sector Development Siddhirganj Power Project	75 85 150
Pillar 2: Empowering the Poor		
Multisectoral Nutrition Review Country Gender Assessment Urban and Indoor Air Quality Poverty Assessment (incl. PSIA) Social Protection TA TA for Poverty Monitoring	Dhaka/Chittagong Sewerage & Drainage Educational DSC III Avian Flu Preparedness	100 100 30
Core Governance		
Freedom of Information Act Public Regulatory Commission & Institutions of Accountability Legal and Judicial Review Public Expenditure & Inst. Review Political Economy of Power Sector	Procurement Reform Project II	7

Fiscal Year 2008		
Analytical and Advisory Activity	Lending	IDA (\$M)
Multi-Pillar		
Country Economic Update Bangladesh Regional Issues	PRSC I	300
Pillar 1: Improving Investment Climate		
Employment Generation and Role of Migration	Export Infrastructure Development	120
Urban Transport Financing and Mgmt. Study	South Zone Power Distribution Company	150
Investment Climate Assessment 2		
Improving Competitiveness of the Pharmaceutical Sector		
Doing Business Indicators		
Pillar 2: Empowering the Poor		
Urban Industrial Pollution	Technical, Vocational, Higher Education	100
	Social Investment Program II (incl. Rural Livelihoods)	100
	Dhaka Environment & Water Resources	22.5
Core Governance		
Governance Policy Notes	Tax and Customs Administration	60
Fiscal Year 2009		
Multi-Pillar		
Country Economic Update	PRSC II	300
Pillar 1: Improving Investment Climate		
Doing Business Indicators	Inland Water Transport	70
	Padma Bridge	300
Pillar 2: Empowering the Poor		
Agriculture/Rural Sector Update	Urban Development and Services	70
	Air Quality	70
Core Governance		
	Governance and Accountability	100
The list of projects and analytical and advisory activities are purely indicative and subject to ongoing review.		

World Bank Bangladesh Development Series Publications	
Paper No. 1	Bangladesh PRSP Forum Economic Update-Recent Developments and Future Perspectives (Nov. 2005).
Paper No. 2	End of MFA Quotas: Key Issues and Strategic Options for Bangladesh Ready Made Garment Industry (Dec. 2005).
Paper No. 3	Bangladesh Country Water Resources Assistance Strategy (Dec. 2005).
Paper No. 4	Comparative Advantages of Health Care Provision (Dec. 2005).
Paper No. 5	Targeting Resources for the Poor in Bangladesh (Dec. 2005).
Paper No. 6	Improving Trade and Transport Efficiency-Understanding the Political Economy of Chittagong Port (Dec. 2005).
Paper No. 7	Revitalizing the Agricultural Technology System in Bangladesh (Dec. 2005).
Paper No. 8	Bangladesh Integrated Nutrition Project, Effectiveness and Lessons Learned (Dec. 2005).
Paper No. 9	Social Safety Nets in Bangladesh: An Assessment (Jan. 2006).
Paper No. 10	Bangladesh Country Assistance Strategy (May 2006)
Forthcoming Publications	
Paper No. 11	Economics and Governance of NGOs in Bangladesh
Paper No. 12	Evaluation of Recent Health Decentralization Initiatives
Paper No. 13	Dhaka Urban Poverty Strategy