

BANGLADESH DEVELOPMENT FORUM, MAY 8-10, 2004

Statement on behalf of the Local Consultative Group

Delivered by

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1. Minister Saifur Rahman, Honorable Ministers, the Bangladesh Delegation, Development partners, ladies and gentlemen. On behalf of the Local Consultative Group in Dhaka and as its Chair, I am grateful for this opportunity to lead off tonight's discussion. We are pleased to be holding the BDF in Dhaka again.

2. The Heads of Delegation dinner ahead of the Development Forum, traditionally allows an exchange of views with the senior leaders most responsible for Bangladesh's development programs. In this closed-door session, we can be more open with each other than in our formal sessions; I would like to encourage this tradition of constructive candor tonight.

Focus & agenda of BDF 2004

3. The Donor Forum this year focuses on themes in the government's poverty reduction strategy, addressing especially governance and human security; the trade and investment climate; human development and infrastructure for growth; the NGO/Government partnership and effective implementation of aid-funded programs. My remarks this evening touch on most of these and aim to provoke our discussions tonight.

Donor support for Government's Poverty Reduction Strategy

4. Let me start with the PRSP. Donors appreciate the hard work and stakeholder consultations now going into the PRSP and support the **thematic approach**, since development solutions are found in multiple sectors. We believe the PRSP-in-process reflects strong **Government ownership** and are prepared to follow Government's lead using the PRSP as the frame of reference for our assistance programs.

5. But a poverty reduction strategy is only as good as its **implementation** and we urge real determination in its implementation. This means good *monitoring and evaluation* - modifying approaches if expected outcomes are not being achieved, and it requires that budgets and the medium term expenditure framework (MTEF) fully reflect PRSP priorities.

Multi-party support for the PRSP & "ring-fencing" key reforms.

6. Given its time frame, the PRSP will have to bridge the electoral cycle, and multi-party support for it is essential. Both parties should agree to cordon off, or "ring-fence," important reforms from the realm of confrontational politics. They should agree that certain key policy areas are "off limits," and not to be used as destructive political cannon-fodder. Police reform, health, education and power, or other areas where there is broad policy consensus, would be priorities for "ring-fencing". Donors wish

to learn how GOB will promote national ownership of the PRSP, including ownership by the main Opposition party.

Continued good macroeconomic performance

7. Bangladesh has come far since its dire situation in the 1970's. Combining growth-oriented policies with progressive human development efforts and micro-credit to support social development and inclusion, Bangladesh has substantially reduced the depth and severity of poverty, has increased life expectancy, reduced infant mortality, lowered birth rates, spread immunization and become an example for other countries in girls' education. Indeed, Bangladesh has achieved more social progress than most countries at its income level.

8. **Stable economic growth** has been a hallmark of Bangladesh's development and a key factor in poverty reduction. Bangladesh is one of the few countries in the developing world to have avoided even a single year of negative growth in the 90's – a real achievement given weather-related external shocks. This years 5.5% growth rate will likely exceed that of 2003. These outcomes are the result of good policies and the courage to 'stay the course' with them.

9. **Macroeconomic performance** has been impressive, as reflected in low inflation, a stable real exchange rate, and comfortable reserves. Efforts to control spending, including SOE losses and to mobilize revenues, have improved public finances.

Progress on structural reforms

10. We also recognize that your Government has moved ahead with some difficult **structural reforms**. SOE reforms have reduced the public sector's role in production, creating a better environment for private entrepreneurs. Retrenched workers have been given support and training, and to create jobs, Government is improving access to credit for **small and medium enterprises**'. Going forward, we urge GOB to prioritize divestment of SOEs causing the largest fiscal drain and to clarify responsibility for privatization between the Privatization Commission and the relevant line ministries.

11. Bangladesh Bank has tightened banking **supervision** and is **bringing down lending rates**. We are encouraged by your plans to introduce private management contracts in the NCBs, and to bring three of them to the point of divestment within this government's term in office.

12. In **energy**, system loss continues to fall and we are pleased that the Energy Regulatory Commission has been established and staffed. Government now needs to implement its energy pricing policy, to commercialize the sector and attract investment. Policy reforms to attract private investment into petroleum and a master plan for gas are also needed to prioritize investments in gas infrastructure. In **telecoms**, steps were taken to improve performance and competition. We urge a transparent inter-connection framework be gazetted soon.

"Growth that could have been:" reforms with a high growth payoff

13. While Bangladesh's achievements are impressive, formidable development challenges remain. Looking back on Bangladesh's growth performance, a recent study found that Bangladesh's growth could have been 2 to 5 percentage points higher if its performance on key policies had equaled that of some comparator countries. In terms of growth forgone --'the growth that could have been' --

Bangladesh has paid a very high price for its poor political and economic governance, criminalized law and order institutionalized corruption, weak financial institutions and poorly managed infrastructure.

14. A huge “growth dividend” could come from better policies and institutions, with the highest payoffs from: (i) better rule of law and order; (ii) reducing the cost of doing business due to administrative corruption, regulatory bottlenecks, confrontational politics, hartals etc; (iii) a more competitive financial sector; and (iv) improving health, education and the quality of infrastructure, so the economy can benefit more from FDI.

A better investment climate has a high “growth dividend”

15. In one way or another, these all add up to improving the investment climate. We all hear firms, large and small, complaining about failing law and order, a politicized and corrupt bureaucracy, ad hoc policy change and failing infrastructure – all regrettably a part of the “cost of doing business” in Bangladesh. The world is moving quickly; so are countries in the region. Bangladesh needs to move faster just to stay in the same place. Concrete, coherent and immediate actions to improve the investment climate are urgently needed.

Urgent Need for a Post-MFA strategy

16. Beyond improving the investment climate, Bangladesh needs to open its economy to survive in a post-MFA world. Bangladesh is now the most protectionist economy in South Asia, and the ready made garments industry (RMG) is being hurt by high tariff protection and prohibitions on FDI outside the EPZs. We are encouraged by the newly-established Committee in charge of developing a post-MFA strategy – and urge them to examine not just price competitiveness, but lead time-to-market, and the “cost of doing business”- lest a shock run deep throughout the economy, hurting workers, and especially women.

Consolidating human development gains

17. We have highlighted Bangladesh’s human development gains, but they should not be taken for granted: We have two concerns: first is the **increasing inequality** that has been associated with Bangladesh’s recent growth pattern; second are the **plateau-ing of the total fertility rate**, the stubbornly high levels of malnutrition, compared even to much poorer Sub-Saharan Africa and continued high maternal and child mortality. Renewed efforts are needed in the gamut of women’s health and empowerment programs to prevent slippage in these most important MDGs.

Progress in education, but miss-governance deprives children of their due

18. In education, **improving sector governance** lies at the heart of all aspects of the Sector-Wide approach, from education quality to teacher performance, corruption in teacher hiring and appointments, in examinations and leakage in student stipends, to name just a few. “Expenditure tracking” studies, measuring whether spending actually reaches its intended target, and performance-based budget allocations for schools are examples of governance-reinforcing mechanisms we plan to support. We strongly endorse GOB’s decision to support NGO-run educational institutions to reach marginalized and out-of-school children, a holistic approach that we will share with development

practitioners at the Shanghai Conference in May, as a good-practice example of combining public and NGO efforts to provide *Education for All*. At the secondary level, GOB is implementing parallel reforms to enhance governance and improve the quality and relevance of secondary education.

Better health-sector governance is needed to prevent slippage in MDGs

19. In health, design of HNPSP -- the second Swap—is just beginning. Major sector governance changes will be required to ensure that poor people have access to affordable health service and to secure progress in MDGs. Even Bangladesh's much-touted reduction in total fertility is at risk unless health sector policy is improved. Corruption in procurement, in hiring and appointments, selling drugs meant for poor patients in the open market, using public facilities for private gain -- and countering the vested interests that support these bad practices, are just some of the challenges facing this Government --and the major political parties, to promote better health outcomes. The role of NGOs and the private sector are also key, and we expect their continued strong involvement.

Faster growth is linked to political and economic governance improvements

20. Important as the macro and structural/sector reforms are, we all know that they are not enough. *For Bangladesh to prosper economically, across-the-board political and economic governance changes are needed.* Without them, growth will be less -- Bangladesh will not reap the full benefits of recent reforms -- and could even fall behind in the society of nations.

21. We want to signal a positive and constructive approach in this discussion about governance -- an approach that moves beyond rhetoric to a commitment of concrete support for governance reforms, including those outside the traditional realm of donor support. There are four cross-cutting governance areas to discuss tonight: (i) justice and law and order, (ii) corruption, (iii) democratization and local government, and (iv) safeguarding autonomy of NGOs.

Police and criminal justice reforms are key to improving human security

22. Improving law and order is critical. The climate of confrontation, violence and the 'culture of impunity' is cited by households and businesses as their prime concern. We learn daily of businessmen and traders killed for refusing to pay protection money, and journalists falling victim to threat, violence and even murder. Women and children fall victim to abuse and violence, gang rapes and acid-throwing. Some ethnic and religious minorities are abused and pressured to give up their land and livelihood. Mob justice, and gruesome killings of presumed culprits, is highly disturbing.

23. Law and order has been the # 1 message in PRSP consultations thus far. Criminalized politics threaten the rule of law and undermine democratic institutions, transparency and accountability. Poor law and order is also a major drain on the economy.

24. The links **between crime, police and criminalized politics** -- the violence and extortion associated with the police themselves, protected and patronized by both political parties -- were discussed last year. We are obliged to voice the same concern today: *Both* major political parties in Bangladesh have a responsibility to break these links. *Both* parties should work together to eradicate corruption in the police, showing their commitment to prosperity, democracy and human security in Bangladesh. And both parties must ensure basic democratic rights as freedom of the press, association, and opinion. We are concerned about abuse of the *Special Powers Act* and deplore the

mass arrests taking place in the last weeks, just as we deplore the anti-democratic and extra-constitutional tactics of the Opposition Party played out in the streets and by political threat these last weeks. Yesterday's tragic events are a sobering reminder of the cost to country and family, of continued violence.

Making human security a priority

25. **This government** could – indeed should -- make its mark on history by reversing the worsening climate of law and order. Decisive leadership, breaking the links between criminals and their political patrons, making the streets, the schools, and the business establishments safe for living, and for making a living, could be the most popular measure that this Government could take, for the citizens of Bangladesh.

26. Government should make human security a priority. We urge the Police Reform proposal under discussion be agreed by July. It should address such issues as police recruitment, transfers and promotions, as well as a review of the police expenditure budget. While some headway has been made to improve prison conditions, prison reform remains a priority. We urge the Opposition party to collaborate with GOB in strengthening human security and police reform.

27. The creation of an independent Human Rights Commission and appointment of an Ombudsman would also strengthen the protection of human rights in Bangladesh and we urge the Government to observe its obligations under international human rights conventions. We acknowledge the positive steps that have been taken to promote peace, stability and development in the Chittagong Hill Tracts. We urge Government to accelerate the implementation of the Peace Accord and to discourage any actions jeopardizing inter-ethnic cooperation.

Regarding judicial reform...

28. Separating the judiciary from the executive is key to the effective functioning of Bangladesh's legal system. Establishing the Judicial Service Commission for recruitment of entry level judges was an important step. However, action is overdue in other key areas; we urge you to move forward rapidly to create the Bangladesh Judicial Service and to respond pro-actively to the Supreme Court ruling on the separation of judiciary from executive.

29. The recent introduction of Money Loan Courts for financial disputes, and the Alternative Dispute Resolution Mechanism (ADR) in rural areas are positive steps. We urge that the legal aid system for the poor, especially women, be further developed, so that access to justice improves. We would like to know more about Government plans to establish a Special Tribunal for land-grabbing cases.

(ii) A Comprehensive anti-corruption strategy is needed.

30. Corruption is a long-standing, deep-seated problem that will take sustained political commitment over an extended period to root out. Pervasive corruption in Bangladesh is a huge drain on public resources -- including ours, as donors. It undermines the social fabric and saps people's confidence in their country's future. Bangladesh's best-educated elites prosper abroad and despair of change at home.

31. We commend recent initiatives to reduce leakages in food aid and to strengthen public financial management and procurement; these now need effective implementation. We urge that the **Anti-Corruption Commission** become operational soon, beginning with the appointment of Commissioners – selected for their integrity and their independence – within 6 months. A full timetable for implementation of the Anti-Corruption Commission Act is needed by the end of the year.

32. But, let us all recognize that this will not be enough: A **comprehensive national anti-corruption strategy**, backed by both parties, is needed. A broad consultative process to develop this strategy, improving law and order and giving up patronization of criminalized politics and should be the # 1 priority of this Government. We urge the Opposition to join this effort. This comprehensive anti-corruption strategy should not shy from addressing corruption in the top-most reaches, including the Ministerial level, and in the political parties, if, in some sectors, that is where problems lie.

33. On our side, donors are ‘harmonizing’ our approach to strengthen institutions and their governance. We are shifting from a “rule-based” focus, to capacity building; from ring-fenced implementation arrangements, to reliance on Government systems; and from a transactional approach, to supporting reform of country-wide systems.

(iii) More effective Parliament & stronger local government encouraged

34. An **effective Parliament** is a pillar of democracy, and we regret that, midway in this Government’s tenure, the Opposition still remains on the margins of Parliament. We recognize an effective Parliament needs cooperation from Government and the Opposition, and we urge *both* to cultivate political tolerance, to give up violence, and to play by democratic rules enshrined in the Constitution. Bangladesh pays a high economic and social price for its present politics. We urge both major Parties to find a way out of this impasse and we assure you of our support.

35. More **effective local government** has been another strong message in PRSP consultations thus far. This Government can leave an important legacy by devolving more authority to local bodies. Donors welcome learning when, and how, GOB will strengthen local government, and give them the resource base to undertake meaningful activities. We are also keen to learn your plans for elected representation at the Upazila level.

(iv) Safeguarding NGO autonomy and creating an effective GOB-NGO partnership

36. A strong Government-NGO partnership is key to meeting the MDGs, and Government and NGOs have a responsibility to work together effectively for the people of Bangladesh. Yet it appears that Government is again considering inappropriate and restrictive legislation for NGOs. We also take good conduct and accountability seriously, and recognize Government’s legitimate right to ensure that NGOs work within the national policy framework and in line with their approved mandates.

37. At the same time, we believe NGOs must be allowed to operate free of political interference and undue bureaucratic control. We strongly urge consultations with NGOs, experts, and donors *before* any regulations are finalized. We endorse as a model, the process for preparing the guidelines on micro credit – direct stakeholder involvement, an effective and expert chair, and a fully participatory approach. Since consistency between NGO and micro credit regulations is key; a similar GOB committee could be charged with preparing draft NGO legislation.

38. Regarding micro-credit NGOs, we emphasize that Government should *not* interfere with or set ceilings on micro credit interest rates. **We are also concerned about alleged corruption** in the selection of NGOs by some government departments, for implementation of donor funded projects. If true, this could irreparably pollute the development environment and damage values and ethics that GOB and NGOs jointly hold dear. Transparency in selection of NGOs, involving third party scrutiny, may be required to ensure that the cancer of corruption does not infect this important area of procurement and service delivery.

39. We endorse the new NGO Foundation as a positive step responding to NGO resource concerns. Establishing it as an independent body, with transparent governance and effective leadership is a must, and your development partners will be watching its development closely.

40. Finally, we urge **transparency, due process**, and an early conclusion to the investigation of certain NGOs, that is holding up service delivery to thousands of poor beneficiaries.

“Ring-fencing” key reforms from politics

41. Honorable Ministers, distinguished Secretaries, I want to end on a positive note: We do recognize the significant progress this Government has made in economic reform. Staying the course -- sustaining the momentum of these reforms -- even in this difficult political context -- and broadening the agenda to include the economic and political governance reforms we discussed earlier will be the challenge.

42. We challenge the Opposition to join in “ring-fencing” key policy areas, to keep them out of confrontational politics. We challenge both parties not to play politics in these key agreed areas, so that these reforms do not become political footballs. Both should “agree to agree” on a few key issues most important for Bangladesh’s future.

43. I hope you note the changed tone in this BDF discussion about governance – one that moves beyond emphasizing its importance, to a commitment of concrete support from us, for governance reforms, including those outside traditional realms of donor support.

44. We recognize that these governance reforms are no easy matter. In fact, they are both difficult and costly, because they strike at the heart of vested interests, inside and outside the government, and the political parties. But as friends of Bangladesh, indeed precisely *because* we are friends of Bangladesh, we urge you to be bold. We believe you, as the leaders of this nation, can make your mark on history as the Government that reversed the governance malaise, and provided the foundation for Bangladesh to join the middle income ranks. We challenge the Opposition to join its support in “ring-fencing” key areas, so that Bangladesh becomes a better and more prosperous place for its citizens.

Donor support for national development goals.

45. I hope you also recognize the large reservoir of donor goodwill and support, which you can tap as you go forward. Your poverty reduction strategy addresses most of the issues raised tonight. But, a strategy is only as good as its implementation -- translating the strategy’s intentions into credible actions and pursuing them consistently – this still lies ahead. These initiatives, especially those on

governance, must come from the Government, but you will have our support as Development Partners, in all of them.

Thank you.