



# WB draft on BDF points to weak economic governance

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The quality of economic governance in Bangladesh is quite weak and as a result the country could not achieve spectacular economic growth that many of its competitors did in the recent past, said a World Bank draft prepared for the upcoming Bangladesh Development Forum (BDF) meeting.

Comparing Bangladesh's economic growth to a group of comparators, the BDF draft said there are a number of structural impediments that hurt economic growth in the country.

Among the weaknesses the World Bank (WB) mentioned are policies and institutions to enhance and benefit from global integration, quality of financial intermediation and regulatory and administrative burdens that

directly impact cost of doing business in the country.

The report said Bangladesh has a relatively shallow financial sector. In 2002, bank credit to private sector was just 29 per cent of GDP and broad money was 37 per cent of GDP.

"Not only that, deep rooted institutional weaknesses drastically restrict the efficiency of the banking sector due to weak management, constant political interference, and problems of corruption," the report said.

It is hardly surprising then that instead of contributing to economic growth the banking sector is dragging growth down and posing serious systematic risks to financial stability.

"Reflecting the lack of adequate competition in the banking sector and inefficiencies in the bank operations, the spread between bank lending and borrowing rates is quite high, the average spread was about eight percentage points in 2003 according to IFS data," the draft

said.

The draft said: "Other elements of the financial sector are fairly underdeveloped as well. Micro-finance institutions serve about 13 million (1.3 crore) households and have played an important role in poverty alleviation. However, their total asset base is still quite small (about 1.4 per cent of GDP)."

According to the WB, Bangladesh economic integration with the global economy is very low, by most measures. "The 2004 Globalisation Index prepared by the consulting firm AT Kearney and the Foreign Policy magazine ranks Bangladesh at 56 out of 62 countries," it said.

"Among the 141 countries for which there are comparable data in the WDI database, Bangladesh ranks 137 in terms of average gross FDI inflows to GDP ratio during the 1990s. Only Nepal, Iran, Republic of Congo, and Samoa rank lower. This is despite the fact that Bangladesh has relatively liberal FDI regime."

The report said: "Not only are

the levels of FDI into Bangladesh quite low, its absorptive capacity to benefit from these is also weak due to low levels of human and physical capital."

Commenting on the economic governance, the report further said, "The country has received a lot of negative attention from the development partners lately due to perceptions of widespread corruption in public-private dealings".

However, the WB observes that the blanket indictment by the Transparency International about corruption could be viewed as unjustified since it reflects subjective perceptions that may not be meaningful in a cross-country set-up.

The problem of endemic corruption in Bangladesh is, however, undeniable, the WB said.

Quoting its recent survey, the Bank, which takes the leading role in the BDF meeting, said about 60 per cent of the 1,001 firms surveyed in Dhaka and Chittagong areas viewed corruption as a major constraint to busi-

ness operation and growth.

Lack of access to electricity was the only other constraint, which was viewed as a major one by a higher number of the surveyed firms, the report said.

In addition, extortion and other criminal activities, feeding on an environment of widespread corruption in the police and lower courts, are a major governance problem, the report said.

This has seriously hurt public confidence in enforcement of the rule of law and impartial protection of property rights, vitiating the business environment and harming long-run growth, it added.

It said: "In a benchmark performance of the country against a group of comparator countries like China, Thailand, Vietnam, Malaysia, Indonesia, Chili, India, Sri Lanka and Niger, Bangladesh has lowest real per capita GDP among the group which, ceteris paribus, should have resulted in higher GDP growth."