

## **LCG-Finance and Private Sector Development Subgroups Observation on National Strategy for Economic Growth, Poverty Reduction and Social Development**

### **Overview**

1. The iPRSP document discusses major issues of economic development. The strategy emphasizes the role of private sector as the engine of growth. The strategy revolves around creation of employment in rural and urban areas through appropriate policy and regulatory measures, institutional strengthening, reform in public sector, encouragement of private sector, infrastructure development (roads, port and telecommunication in particular) and maintaining proper macroeconomic conditions. It is appropriate that the document specifically emphasizes small and medium enterprises, the agriculture sector, the Information and Communication Technology sector as “major thrust areas” for pro-poor economic growth. But the implementation of the strategy via well-coordinated and rapid set of actions, including those to systematically address governance-related “pitfalls” (p.7) will have a major influence on the attainment of the laudable goals stated by GOB. This requires more emphasis on generating a genuine dialogue on private sector development that can translate and prioritize the many ‘whats’ in the documents into more concrete ‘hows’ with time frames, sequencing and specific agendas.
2. The document promises much in terms of the private sector being the ‘engine of growth’, but many of the policy prescriptions are not included in the policy matrix for national poverty reduction.
3. In terms of private and financial sector development the document makes inconsistent statements about the role of Government in the strategy. In places it stresses that the role of Government as pivotal - “the coalition builder, pace setter, strategy formulator and driver of reform and renewal” (page x). At others it talks about the role of the role of Government being restricted to a ‘facilitator’, that primarily aims to create a positive enabling environment. At others its talks of Government as a major provider - providing credit (despite the failure of many schemes), delivering training, creating linkages etc (see page 89 in the case of agro-processing and agribusiness development). The key issue is that the Government is not good at everything, and what will be critical for the strategy is Government recognizing where it has a role, and more importantly a core competence, to play, and where it does not. This is especially true in private sector development and reform of the financial sector, where there are many examples of the state taking up a private sector role, where this has resulted in negative effects on the private sector. For the strategy to have a realistic chance of success, the Government needs to take a long and hard look at its optimal role in implementing or facilitating the strategy.
4. The role of NGOs in bringing about private sector development needs to be further analyzed, with ‘social entrepreneurship’ not equating to crowding out private sector investment (page 51, 5.80).
5. We are concerned that the process of consultation was not very deep for private sector actors, especially SMEs. We hope that the development of the document into a fully-fledged strategy will address this issue.

The following sections address additional issues that need to be addressed and/or given further emphasis.

### **Specific Issues**

6. Finance Sector – reforming the NCBs is critical for the country, as this will reduce the relatively high interest rates the private sector has to pay for capital. The reform of these institutions will leverage competitiveness considerably. However, the lessons from the past suggest that Government needs to

- State operation of BSCIC is not that of a facilitator, but as a provider (page 41);
  - The focus on BEPZA and BOI as institutions for reform ignores the plethora of problems in the enabling environment, which are more fundamental in attracting FDI (5.45 page 40).
14. One of the key problems that the private sector faces is the lack of reliable infrastructure. Preliminary analysis suggests that businesses operating generators (due to irregular electricity supply) can erode competitiveness severely. The Government should be doing more to leverage in private sector investment into infrastructure in all forms, and it should be looking to increasingly improve basic infrastructure provision. Infrastructure has been shown to be a critical factor in a positive investment and enabling environments for FDOI and growth.
  15. The focus on improving the enabling environment, made at points in the strategy, is dependent upon the Government taking a more backseat role as a regulator / facilitator, not as a direct market participant. For these aspects to really work the Government needs to be more cognizant about its role away from provision, and towards improving regulation.
  16. The section on the environment (H pages 51-52) should mention the need for private sector emission and pollution standards. It should also aim to strengthen the role of Government in this regard, or look for proxy regulators outside of Government to police their implementation.
  17. For many markets to work effectively the Government needs to unlock the potential of the land market (e.g. as collateral) to fully function by simplifying procedures and regulations regarding land administration. This is mentioned only in passing (page 50) but could be a key and 'doable' reform. This should link up with financial sector reforms.
  18. Growth in agricultural sector: The document also appropriately puts emphasis on diversification of the agricultural sector and growth in the agro-processing subsector to help spur economic growth and poverty reduction. Bangladesh needs to urgently address the 'image and quality problem' of its agricultural exports, including (and most prominently) its number two export: shrimp. The GOB and private sector should join hands, recognize the problems and proactively address them. In case of shrimp (as well as other products), introduction of an independent quality certification system that embraces international food safety, environmental and social welfare standards is expected lead to consistently higher quality exports and also alleviate doubts from buyers' and consumers' minds. Otherwise, Bangladesh will lose market share to other countries, which export similar products to the same markets.
  19. Trade issues: The export issue has been mentioned in different sections. The potential challenges of RMG sector in post-MFA era need further attention. The document should address several issues more clearly such as diversification of Bangladesh export, impact of foreign remittance on BoP, and institutional strengthening of trade related GOB and private bodies/institutions. See Annex 1 for detailed discussion of trade issues prepared by EU Delegation.

31.12.2004 and unless there are dramatic changes in the rules of origins (like the “Canadian” example) – external factor-, Bangladesh’s RMG sector is in serious jeopardy unless it improves its productivity, quality and reduce turn around times – internal factors. The “National Strategy” further mentions “employment-intensive” sectors to be pursued but fails to name any.

To encompass the trade dimension in the “National Strategy” the following changes should be envisaged:

- recognise the role of the export oriented sectors and especially the RMG in the sustained growth registered in the last ten years and its links in poverty alleviation (emphasise and analyse more that element in the “building on achievements” section);
- look into the work done in the future of the RMG and textile sector after 2004 to take their conclusions into account their optimistic and pessimistic approaches and integrate the two scenarios in the strategy;
- precise the export diversification initiatives;
- ensure coherence with the macroeconomic framework and the trade projections;
- emphasise the role of migrant workers (remittances) in sustainability of BoP;
- include DDA considerations in the strategy (challenges and opportunities), including issues such as trade in services;
- take into account regional trade issues (SAPTA/SAPTA as well as potential FTAs)
- indicate the willingness to revise the policies in the making (Export-Import, Industrial, Textile) that are directly linked to these negotiations besides the need to revise the shipping regime (Flag Vessels Protection Ordinance);
- mention the institutional trade capacity needs as currently advocated to donors (WTO cell (that appears in annex 5), Bangladesh Foreign Trade Institute (that appears nowhere although it is presented as the Government’s top priority), strengthening of Chambers etc. as well as other projects submitted to the Integrate Framework for LDC);
- include any other issues to be looked at from a trade or BoP angle (gas sector, attraction of FDI etc).