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COUNTRY ASSISTANCE STRATEGY

FOR

THE PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE PERIOD FY11-14

July 30, 2010

**Bangladesh Country Management Unit
South Asia Region**

**International Finance Corporation
South Asia Department**

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The date of the last Country Assistance Strategy for Bangladesh is April 12, 2006

CURRENCY EQUIVALENTS

(Exchange rate effective May 4, 2010)

Currency unit = Bangladeshi taka (Tk)
Tk 69.27 = US\$1
US\$1.50 = SDR 1

FISCAL YEAR

July 1-June 30

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ACC	Anti-Corruption Commission
ADB	Asian Development Bank
BBBF	Bangladesh Better Business Forum
BDF	Bangladesh Development Forum
BICF	Bangladesh Investment Climate Fund
BoP	Base of Pyramid
BRAC	Bangladesh Rural Advancement Committee
CAS	Country Assistance Strategy
CASE	Clean Air and Sustainable Environment
CDD	Community Driven Development
CMU	Country Management Unit
CPIA	Country Policy and Institutional Assessment
CPFR	Country Portfolio Performance Review
CTG	Caretaker Government
DFGG	Demand for Good Governance
DFID	Department for International Development
DPL	Development Policy Lending
DP	Development Partner
EGPP	Employment Generation Program for the Poorest
ERD	Economic Relations Division
ESW	Economic Sector Work
EU	European Union
GAC	Governance and Anti Corruption
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross National Income
GoB	Government of Bangladesh
CPFR	Country Portfolio Performance Review
GSM	Global System for Mobile Communication
HIES	Household Income Expenditure Survey
HNPSF	Health, Nutrition and Population Sector Program
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IGR	Institutional and Governance Review
IGS	Institute of Governance Studies
ILRT	Investment Lending Risk Team

IMF	International Monetary Fund
INT	Department of Institutional Integrity
IPFF	Investment Promotion and Financing Facility
ISR	Implementation Status and Results
JCS	Joint Cooperation Strategy
JICA	Japanese International Cooperation Agency
JOTAP	Joint Assistance Technical Program
LCG	Local Consultative Group
LGSP	Local Government Support Project
MDG	Millennium Development Goal
MDTF	Multi Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organization
NBR	National Board of Revenue
NLTA	Non-Lending Technical Assistance
NSAPR	National Strategy for Accelerated Poverty Reduction
ORAF	Operational Risk Assessment Framework
ORMAP	Operational Risk Management and Assessment Program
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PPP	Public Private Partnership
PRSC	Poverty Reduction Strategy Credit
PSD	Private Sector Development
RTI	Right to Information
SEDF	South Asia Enterprise Development Facility
SIPP	Social Investment Program Project
SME	Small and Medium Enterprise
SMU	Sector Management Unit
SOE	Statement of Expenditure
SPEMP	Strengthening Public Expenditure Management Program
SWAP	Sector-wide Approach
TF	Trust Fund
WBG	World Bank Group
WBI	World Bank Institute
WSP	Water and Sanitation Program

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THE PEOPLE’S REPUBLIC OF BANGLADESH
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MAP OF BANGLADESH

**COUNTRY ASSISTANCE STRATEGY FOR
THE PEOPLE’S REPUBLIC OF BANGLADESH**

EXECUTIVE SUMMARY

i. ***A peaceful transition to democratic government.*** In 2006, the political system in Bangladesh was shaken by civil unrest that threatened longer-term peace and stability. Ultimately, a caretaker government (CTG) stepped in for two years in early 2007 with the aim of restoring peace and democracy. Elections held in December 2008 resulted in a peaceful transfer of power and the restoration of democracy—a triumph for political governance in a region often fraught with conflict.

ii. ***A strong track record on growth and development.*** Despite political turbulence and frequent natural disasters in recent years, Bangladesh has sustained a surprisingly good track record for growth and development. In the past decade, the economy has grown by nearly 6 percent per annum, accelerating in recent years. This has been accompanied by significant poverty reduction and profound social transformation over the past two decades, with an influx of girls into the education system and women into the labor force to support the burgeoning garment industry. Bangladesh has made laudable progress on many aspects of human development, and is on track to meet Millennium Development Goals for infant and child mortality and gender equality in education. However, with around 55 million people still living in poverty and two-fifths of children chronically malnourished, development needs remain large and pressing.

iii. ***A challenging governance environment.*** Relatively strong progress on development has occurred within a challenging governance environment, characterized by paralyzing political rivalry, weak checks and balances among branches of government, weak accountability, inadequate systems for public resource management and a widespread culture of corruption. This seeming paradox has been much analyzed, with the conclusion that successive governments have nonetheless managed to maintain macroeconomic stability, create adequate space for private sector-led growth and encourage labor migration and workers’ remittances. Indeed, ready-made garment exports and workers’ remittances have been the twin drivers of growth in the past decade.

iv. ***Ambitious aspirations for development.*** Looking ahead, Bangladesh has an opportunity to accelerate growth by taking advantage of its low labor costs relative to other Asian producers. However, the country will need to come to grips with the effects of weak governance, including unchecked urban congestion, insufficient planning and under-investment in basic infrastructure. Annual growth of around 8 percent will be needed for the country to achieve its ambitious aspirations of reaching middle-income status and reducing poverty from 40 percent to 15 percent of the population by 2021. Past performance has been positive, but a significantly higher growth rate in future will require the country to address persistent governance challenges that undermine the effectiveness of the public sector and create disincentives for private sector initiatives.

v. ***Strategic objectives of the CAS.*** The Country Assistance Strategy (CAS) for FY11-14 will support Bangladesh’s ambitions by contributing to accelerated, sustainable and inclusive growth, underpinned by stronger governance at central and local levels.

- ***Accelerated growth.*** Massive infrastructure investment and a more conducive business environment are needed—even to sustain recent levels of private sector growth. The Bank Group will increasingly invest in transport (including logistics and ports) and power infrastructure that can overcome severe infrastructure deficits, transform lagging areas of the country, create agglomeration economies in urban areas and foster broader regional networks. Investment will be accompanied by support for reforms to strengthen sector governance, financial sustainability and

private sector participation in infrastructure provision and maintenance. More generally, the Bank Group will continue to provide strong support for investment climate reform, building on recent progress in this area. The strategic objective to accelerate growth under this CAS is defined as: ***increasing transformative investments and enhancing the business environment***. Among the major Bank interventions will be an exceptional level of support for the Padma Multipurpose Bridge Project in order to unlock the economic potential of the isolated Southwest Region, as well as scaled-up support for power sector development, including financing for an additional 750 MW of power generation. IFC's assistance will focus on access to finance, Economic Zone Development, Public-Private Partnerships (PPPs) and private sector investments.

- ***Sustainable growth***. Bangladesh is among the most densely-populated countries in the world, already vulnerable to natural disasters and now becoming highly-affected by climate change. Water resource management, agricultural adaptation, environmental protection and disaster preparedness will be critical areas for intervention. Given its vulnerability, the country is at the global forefront on climate change policy and interventions, and needs cutting edge technical and financial support from the Bank Group and Development Partners (DPs) to adapt and respond to climate change and natural disasters. The country is also susceptible to external shocks, such as it experienced with the food and fuel crisis in 2008. The strategic objective for more sustainable growth under this CAS is defined as: ***reducing environmental degradation and vulnerability to climate change and natural disasters***. Major interventions in FY11-12 will focus on water resource management through the Bangladesh River Information and Conservation Project and the National Coastal Embankment Improvement Project as well as a Disaster Preparedness Project to build on earlier emergency work in this area. IFC's Sustainable Energy Program will also provide support through its South Asia Enterprise Development Facility (SEDF).
- ***Inclusive growth***. Long-run progress on human development has been encouraging, with some notable exceptions. The country is still struggling to rein in population growth, reduce maternal mortality, effectively combat malnutrition, streamline social assistance and enhance educational quality and learning outcomes. More effective delivery of social services at the local level is needed to address these shortcomings, bring marginalized groups and rural communities more firmly into the development process, and allow Bangladesh to compete in regional and global markets with a healthy and skilled labor force. The strategic objective for more inclusive growth under this CAS is defined as: ***improving social service delivery***. In FY11-12, this will include the Bank's second-generation support for sector-wide approaches with other partners in primary education and health, population and nutrition services, as well as expansion of targeted social assistance through an Employment Generation Program for the Poorest (EGPP). IFC will provide support through promotion of private sector participation in the social sectors.
- ***Stronger governance***. Bangladesh has made slow but steady upward progress in many areas of governance in the past five to ten years, but—as in much of South Asia—governance remains weak by global standards. For example, in the past five years the country has risen from the bottom to the 25th percentile in global rankings of corruption perception. To grow faster and more inclusively, government will need to be more responsive and effective, building on a renewed commitment to private sector-led growth and decentralized service delivery. The Bank Group will build on Government's interest in strengthening the investment climate as an entry point for dialogue on governance reforms, with IFC spearheading advisory work in this area through its Bangladesh Investment Climate Fund (BICF). This will be complemented by an IDA-funded Private Sector Development Project in FY11. On the public sector side, the Bank will support more decentralized service delivery, coupled with strengthening of domestic accountability at central and local levels. Overall, the strategic objective to strengthen governance is defined as: ***enhancing accountability and promoting inclusion***. Analysis under an Institutional and

Governance Review (IGR) will be an input into reform and investments under a second Local Government Support Project in FY12, as well as possible development policy lending.

vi. These four strategic objectives were defined through multi-stakeholder consultations in various locations in Bangladesh, which further identified sixteen outcomes to which the CAS could contribute within these areas. The program will build on an on-going portfolio which is well-aligned with the four strategic objectives, but with a ramping up of investments to accelerate growth (objective 1) and reduce vulnerability to climate change (objective 2). These strategic objectives will be supported by the entire World Bank Group, with initiatives by the IFC, for example, in each area and targeted support from the World Bank Institute (WBI) on governance issues in general and in key sectors.

vii. ***Cross-cutting dimensions.*** Additional dimensions that cut across all four strategic objectives of the CAS include fostering regional cooperation, strengthening gender mainstreaming and partnering for aid effectiveness.

- ***Fostering regional cooperation.*** The political transition in Bangladesh has created an historic opportunity for closer collaboration with neighboring India, which may gradually open the door to wider and deeper regional cooperation. The Bank Group will build on opportunities for enhanced cooperation as they arise in promising areas, including cross-border infrastructure networks and management of common natural resources (e.g. waterways, wildlife).
- ***Strengthening gender mainstreaming.*** The Bangladesh program has a good track record on gender mainstreaming, as noted by the Independent Evaluation Group (IEG) in its review of the previous CAS. This has included a long-term commitment to girls' education and to reproductive health, along with gender-focused community-driven development which has contributed to social transformation. Under this CAS, additional emphasis will be given to women's economic empowerment, in areas such as employment generation for low-income women and a pilot program to support rural women transitioning into labor-intensive manufacturing industries.
- ***Partnering for aid effectiveness.*** Enhancing aid effectiveness in line with Paris Declaration principles and the Accra Agenda for Action will be another cross-cutting feature of the country program. This will build on current donor partnerships in many sectors, including sector-wide approaches in health and education, coordinated co-financing of large infrastructure operations and multi-donor trust funds (MDTFs) in areas such as public resource management and investment climate reform. Sector-based partnerships will be guided by the recent endorsement of a Joint Cooperation Strategy (JCS) by bilateral and multilateral partners (including the Bank) at the Bangladesh Development Forum (BDF) in early 2010 and its subsequent signing by the Government of Bangladesh and eighteen DPs.

viii. ***Lessons learned from the previous CAS.*** The new CAS reflects lessons drawn from the CAS Completion Report, client surveys, multi-stakeholder consultations and an IEG Country Assistance Evaluation which judged outcomes in the most recent CAS period to have been moderately satisfactory. Among the most important lessons relates to the handling of governance concerns. The previous CAS had governance as a unifying theme, and an ambitious set of objectives in areas where political will was notoriously weak. While the Bank contributed to progress in public financial management and in the independence and accountability of local government, impact was negligible with respect to high-profile investigations and prosecutions, as well as judicial and civil service reforms. A longer-term, systemic engagement was needed to promote gradual and incremental change, build demand for good governance as well as greater selectivity in order to take advantage of pockets of political will.

ix. **Strategic repositioning on governance and anti-corruption.** The costs of weak governance in Bangladesh cannot be overestimated, in terms of adequate domestic resource mobilization, underperformance of the annual development program and disincentives for private investment. The FY11-14 CAS will make a deliberate shift to a longer-term and more systemic approach to strengthening governance and anti-corruption by building domestic accountability mechanisms. It will be more selective, focusing on areas with adequate government commitment and/or champions with whom to work, and where concrete results are considered feasible. In addition to a continued focus on core governance (particularly public financial management), this CAS seeks to build on the current political commitment to strengthen local government and local service delivery. A four-pronged approach to strengthening governance and anti-corruption (GAC) will be adopted, including: i) increasing operational selectivity based on sector-specific GAC analysis; ii) promoting systemic prevention of corruption through long-term governance improvements in areas where the Bank can align with political will to effect substantive change; iii) cultivating new entry points for strengthening GAC by engaging in dialogue with a wide range of stakeholders; and iv) fostering greater demand for good governance from civil society. This approach will be mainstreamed across all four strategic objectives, and will engage the entire Bank Group, including continued capacity development support from WBI and investment climate and corporate governance work by IFC.

x. **IDA lending volumes.** IDA commitments to Bangladesh have grown rapidly in the past five years, topping US\$ 1 billion for the first time in FY09. During the upcoming CAS period, new commitments will build on a US\$ 2.9 billion portfolio of two dozen operations. FY11 is expected to be a peak year, with new commitments of over US\$ 2 billion (backloaded from the FY09-11 IDA15 allocation), including US\$ 1.2 billion for the Padma Multipurpose Bridge mega-project. Indicative allocations for FY12-14 (from the IDA16 cycle) are assumed to remain on par with the IDA15 allocation of around US\$ 1.3 billion per annum. In total, the indicative allocation for the FY11-14 CAS is expected to exceed US\$ 6 billion if supported by continued strong country performance. Actual allocations during the CAS period will be determined annually based on: (i) total IDA resources available; (ii) the number of IDA eligible countries; and (iii) performance of all IDA borrowers as well as the terms of IDA assistance.

xi. **Better programming.** The sustained increase in the Bank's lending volume allows and necessitates a move to larger, more strategic interventions in order to maximize development impact, leverage structural reforms and maintain a manageable portfolio in the face of limited implementation capacity. Thus, future programming will encourage consolidation, so that the average size of operations will continue to rise from approximately US\$ 70 million in the earlier part of the decade to US\$ 120 million most recently and a targeted US\$ 150 million or more under the new CAS. Programming will be guided by the following principles:

- *Sequencing* of analytical work to guide policy dialogue on reforms and influence operational design;
- Use of *the full range of instruments*, including a possible resumption of development policy lending in selected areas with sufficient country ownership and capacity to carry forward reforms.
- *Realism* to maintain a manageable portfolio aligned with the client's capacity to implement and the Bank's capacity to supervise;
- Increased engagement where opportunities exist for *larger and more strategic interventions*;
- *Scaling up* of interventions with demonstrable results and high country ownership;
- Within an overall context of consolidation, retaining *flexibility to innovate* and pilot through selected, smaller interventions.

xii. Finally, with emphasis on enhancing the investment climate, IFC will continue to implement its large advisory services program (with UK and EU financing), while the ramping up of infrastructure investments will create opportunities for increased IFC investment and MIGA guarantees.

xiii. **Reducing corruption risk in operations.** The concept of consolidation is also intended to reduce corruption risks to the portfolio through larger operations with fewer and larger contracts subject to appropriate fiduciary oversight. It also will enable meeting government priorities by leveraging Bank resources in support of policy changes for transformative investments. While the CAS embraces a broader governance and anti-corruption agenda focused on strengthening country systems and domestic accountability mechanisms, the Country Team will take special measures to reduce corruption risks within operations as well. Addressing corruption risk is already at center stage in the Bangladesh country program, through the on-going Operational Risk Management Assessment Plan (ORMAP) team put in place under the previous CAS. Measures to strengthen the on-going engagement will include:

- *Modifying the ORMAP methodology to integrate the corporate Operational Risk Assessment Framework (ORAF) and to include risk assessment for both pipeline and on-going operations;*
- *Engaging in quarterly technical portfolio reviews and annual high-level portfolio reviews focused on corruption risk assessment and monitoring;*
- *Increasing diagnostics of political economy and operational risk assessments in key sectors in order to calibrate Bank engagement to the level of government commitment to the GAC agenda;*
- *Using the Bank’s new Access to Information policy and the country’s new Right to Information (RTI) Act to support social accountability mechanisms and third party monitoring in all operations;*
- *Continuing to cooperate with the Department of Institutional Integrity’s (INT) investigations in order to support the client in implementing follow-up action plans, such as the on-going technical assistance to strengthen governance and business processes in the road sector.*

xiv. **Managing for results.** Measures to strengthen governance and reduce corruption within Bank operations are one aspect of a broader effort to manage for better results. Monitoring of CAS implementation will be enhanced to ensure a continuous focus on progress towards results. In particular, the multi-sectoral “results teams” created around each strategic objective during CAS preparation will continue to play a role in periodic monitoring of progress towards the sixteen outcomes. The Country Management Unit (CMU) will play a more active coordinating role across these teams to ensure regular CAS monitoring and reporting on progress towards results, so that the CAS serves as a “live” management tool.

xv. **Risk mitigation.** CAS monitoring will focus on progress towards results, as well as mitigation of risks to results—risks which are deemed substantial in the Bangladesh context. Mitigation will address the main risks identified, which include a possible faltering commitment to reforms, setbacks on governance, corruption and misuse of Bank funds, limited implementation capacity and continued opposition to reforms and important strategic initiatives, particularly related to decentralization/local government and cooperation in the South Asia Region. The democratically-elected government is at a turning point in its tenure. In power for one year, the Government has had sufficient time to determine priorities and outline broad strategies. The challenge now is to translate these into sector-specific action plans and implement quickly and effectively to deliver results on the ground. The Bank Group is poised to provide peak levels of support for implementation of Government priorities, but will calibrate its support going forward in line with demonstrated commitment to structural reforms and good governance.

**COUNTRY ASSISTANCE STRATEGY FOR
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I. COUNTRY CONTEXT AND STRATEGY

A. Introduction

1. Bangladesh, with nearly 160 million inhabitants on a landmass of 147,570 square kilometers, is among the most densely-populated countries in the world. It remains a low-income country, with a per capita income of US\$ 652 (Atlas method) in FY09 and 40 percent of its population living in poverty.

2. Geography is a strong determinant of Bangladesh’s development. The country is bounded by India on the west, north, and north-east, Myanmar on the south-east, and the Bay of Bengal on the south. Eighty percent of its area consists of floodplains created by more than 300 rivers and channels, including three major rivers: the Ganges, the Brahmaputra, and the Meghna. Bangladesh forms only a small part of a large regional hydrologic system—less than 10 percent of the river basin falls within the national territory. Its southern part is nestled in the Bay of Bengal with a 710 km long coastal belt that is home to nearly 35 million people. Bangladesh’s geographical position and very high population density make it extremely vulnerable to natural disasters including floods, droughts, and cyclones. Global climate change has increased these vulnerabilities manifold.

B. Political Evolution

3. Since independence in 1971, Bangladesh has experienced a variety of forms of government, including military rule. A parliamentary system was re-introduced in 1991, and power has alternated between the two major parties, the Bangladesh Awami League and the Bangladesh Nationalist Party, in each of the last four elections. The political system concentrates power in the hands of the party leaders. Political dialogue has been characterized by bitter party rivalry that undermines sustained development during political transition periods. In 2006, the political cycle was broken by civil unrest that threatened longer-term peace and stability in the country. A military-backed caretaker government stepped in for two years in late 2006 with the aim of restoring peace and democracy.

4. ***Democracy restored.*** The caretaker government held elections in December 2008 that were deemed free and fair by international observers and resulted in a peaceful transfer of power to an Awami League government led by Prime Minister Sheikh Hasina Wajed, daughter of slain freedom-fighter and first president of independent Bangladesh, Sheikh Mujibur Rahman. The Awami League won 230 out of a possible 300 seats in the parliament, granting it an absolute majority. This peaceful restoration of democracy was a triumph for political governance in a region often fraught with conflict.

5. ***Regional cooperation.*** The political transition in 2009 paved the way for renewed cooperation between Bangladesh and India which is an important prerequisite to greater regional economic integration. Despite significant labor migration, South Asia remains the least integrated region in the world in terms of trade in goods and services and management of common resources. Institutions for fostering regional collaboration need strengthening. A major study on economic cooperation points out that Bangladesh could gain very significantly in terms of trade and poverty reduction if opportunities for regional integration were more fully exploited, particularly through increased cross-border trade and use of Bangladesh as a transit hub for the sub-region¹. An historic summit between the Bangladeshi and Indian

¹ See Sadiq Ahmed et al (edited), *Promoting Regional Cooperation in South Asia: Beyond SAFTA*, Sage Publications, New Delhi, 2010.

Prime Ministers was held in February 2010 and resulted in the signing of accords on border security, trade, transport, and power interconnections. Implementation of these accords and deepening of dialogue on water resource management could herald the start of an era of improved cooperation with economic benefits for all countries of the region.

C. Recent Economic Development

6. Despite periods of political turmoil and frequent natural disasters, the past decade in Bangladesh has been marked by sustained growth, stable macroeconomic management, significant poverty reduction and rapid social transformation and human development. This positive progress has given rise to problems of severe infrastructure deficiencies, environmental degradation and urban congestion. With governance and institutions weak--and only slowly improving--the ability of the country to manage its growth and confront emerging challenges will be stretched.

7. ***Sustained economic growth.*** During FY01-09, GDP grew by a healthy 5.8 percent per annum (including 6.3 percent per annum in FY06-09), accelerating by one percentage point compared to the previous decade. Despite natural disasters and political volatility, GDP growth has been remarkably stable, with a low standard deviation of 0.7 during this decade (half the volatility of growth in the 1980s). Growth has been led by industry and services sectors, while agriculture - as in other South Asian countries - has performed less well with an average annual growth rate of only 3 percent.

8. ***Sources of growth.*** Remittances and exports have been twin drivers of the Bangladeshi economy as well as the balance of payments. On the demand side, domestic consumption, fed by strong growth in remittances, has contributed to 70-80 percent of the growth in the past decade. Remittances, combined with growth of ready-made garment exports, which now account for over two-thirds of export earnings, have been the major contributors to current account inflows, leading to a positive current account balance in recent years. In FY10, while the global slowdown dampened the growth of exports, remittances continued to be robust, keeping the current account in surplus. Direct investment inflows have remained small but stable. The overall balance of payments remained in surplus equal to 2.3 percent of GDP in FY09, enabling the country to continue accumulating international reserves. By November 2009, gross reserves had crossed US\$ 10 billion. While high reserves are good as an insurance mechanism up to a point, continued high accumulation of reserves indicates that there is pressure on the exchange rate to appreciate; the resultant need for sterilization by the central bank also reduces the flexibility of monetary policy.

9. ***Factor accumulation but limited growth of total factor productivity.*** GDP growth accelerated in recent years largely due to factor accumulation, both capital and labor. Capital accumulation was led by the private sector and financed mainly by gross domestic savings. Meanwhile, accumulation of quality-adjusted labor was largely driven by a surge in the number of entrants into the labor force (because of the demographic transition and greater participation of women) and to a lesser extent by better access to education. Total factor productivity - or the efficiency with which labor and capital are combined to produce output - made a small contribution.² In future, faster economic growth will require a greater contribution from rising total factor productivity. Factor accumulation and the smaller improvements in total factor productivity that helped accelerate growth in the past decade received a boost from macro-stabilization measures and market-oriented reforms.

² See World Bank (2007). "Bangladesh: A Strategy for Sustained Growth."

Table 1: Bangladesh Key Macroeconomic Indicators

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Output and Prices	<i>annual percent change</i>							
Real GDP Growth	4.4	5.3	6.3	6.0	6.6	6.4	6.2	5.9
Investment (% of GDP)	23.1	23.4	24.0	24.5	24.7	24.5	24.2	24.2
CPI Inflation (average)	2.8	4.4	5.8	6.5	7.2	7.2	9.9	6.7
External Performance								
Exports (f.o.b.) (US\$ billion)	5.9	6.5	7.5	8.6	10.4	12.1	14.2	15.6
Annual % change	-7.6	9.5	15.9	14.0	21.6	15.8	17.4	10.1
Imports (c.i.f.) (US\$ billion)	7.7	8.7	9.8	11.9	14.7	15.5	19.5	20.3
Annual % change	-8.7	13.1	13.0	20.6	12.2	16.3	25.6	4.2
Remittances (US\$ billion)	2.5	3.1	3.4	3.8	4.8	6.0	7.9	9.7
Annual % change	32.9	22.4	10.0	14.2	24.8	24.5	32.4	22.4
Current account balance (% of GDP)	0.3	0.3	0.3	-0.9	1.3	1.4	0.9	2.8
Foreign Direct Investment (US\$ million)	391	376	276	800	743	793	748	941
Gross official reserves (US\$ billion)	1.6	2.5	2.7	2.9	3.5	5.1	6.2	7.5
In months of GNFS imports	2.1	2.9	2.8	2.5	2.7	3.3	3.4	3.6
Public Finance	<i>percent of GDP</i>							
Total Revenue	10.1	10.3	10.2	10.5	10.7	10.4	11.4	11.2
Total Expenditures	14.8	13.7	13.3	13.8	14.1	13.5	15.0	14.8
Overall budget deficit (excl. grants)	4.7	3.4	3.1	3.3	3.4	3.1	3.6	3.6
Domestic financing	2.5	1.2	1.8	1.7	2.2	1.9	1.4	1.8
Public debt	52.7	51.1	51.0	50.1	48.3	46.8	46.8	45.3
Money and Credit	<i>end of year; percent change</i>							
Private sector credit	14.4	24.4	14.1	16.8	18.1	15.0	24.9	14.6
Broad money (M2)	13.1	15.6	13.8	16.7	19.3	17.1	17.6	19.2

Source: Government of Bangladesh and IMF-World Bank Joint Debt Sustainability Analysis

10. **Stable macroeconomic management.** Sustained macroeconomic stabilization measures have underpinned GDP growth, and resulted in lower inflation and smaller internal/external balances in the 1990s and the past decade (see Table 1). Responsible fiscal and monetary policies have kept inflation in single digits. Fiscal prudence has also kept public borrowing in check, preventing the crowding out of private investment. Meanwhile, fiscal and monetary discipline along with periodic adjustments in the exchange rate, have helped keep the external sector in balance. On the structural side, wide-ranging reforms have increased the market orientation of the economy. These include easing of trade and exchange restrictions, relaxation of restrictions on private investment, reform of state-owned banks, and deepening of agriculture reforms.

11. **Resilience to global crisis.** The Bangladesh economy has shown remarkable resilience to the effects of the global economic crisis. The impact of the crisis on the domestic economy has been relatively limited thus far, although the country remains vulnerable due to insufficient export diversification and high dependency on migrant workers' remittances. The country has a relatively low risk of debt distress. Continued prudent foreign borrowing amid robust economic growth and recent real appreciation of the taka has put the external debt to GDP ratio on a declining path. However, if domestic public debt is also taken into account, the risk of debt distress is somewhat more elevated, with the ratio of total public debt to GDP projected to remain at around 44 percent of GDP over the medium term. In terms of crisis effects, Bangladesh's direct exposure to toxic assets was almost zero. However, it is still vulnerable to the economic downturn that has followed the financial crisis, since it is highly dependent on garment exports to developed country markets (especially the US and EU). The dollar value of exports has fallen by 7 percent in the first seven months of FY10 (versus the same period of FY09), after growing 10 percent in FY09. Similarly, high dependence on the Middle-East for overseas employment of Bangladesh's surplus labor is another major source of vulnerability, although remittances continued to display robust growth in FY10.

12. ***Vulnerabilities at the micro-level.*** With a large share of per capita expenditures clustering around the poverty line, vulnerabilities are more exposed at the micro-level. Shocks such as the 2007 natural disasters or the early 2008 food/fuel price increases can lead to significant increases in poverty. It is estimated that a 5 percent decrease in consumption, spread equally through the population, would increase the poverty head count ratio by 11 percentage points (simulations based on 2005 HIES data). Similarly, the spike in rice prices from 21 taka per kg. in April 2007 to 35 taka per kg. in April 2008, would have led to a significant decline in consumption and increase in poverty. The magnitude is evident, for example, in spot surveys of nutritional status in 2008 that found acute malnutrition levels (wasting) in children of as much as 25 percent—nearly double the trend rate—in the hardest-hit areas of Bangladesh. In addition, weak coordination and targeting in the social protection system reduces the effectiveness of targeted programs to dampen the poverty impact of such shocks.

13. ***Growth outstrips infrastructure supply.*** Sustained growth in recent years has rapidly increased the demand for energy, transport and telecommunications services. Insufficient planning and investment for future growth have now resulted in severe infrastructure deficits. Electricity supply falls more than 2000 megawatts (MW) short during peak times, fulfilling less than 75 percent of peak demand. Even so, per capita electricity consumption, at 160Kwh, is about one-fourth of India's and one of the lowest in the world. Less than half of all households have access to electricity. In transport, the country is overly-dependent on a network of poorly-managed and maintained roads, which satisfy 88 percent of total transport needs. Only 40 percent of main roads are in good condition, and easy access of the rural population to an all-season road is only 37 percent for Bangladesh versus 69 percent for India. Bangladesh's abundant waterways are underdeveloped as cost-effective transport, particularly for the poor.

14. ***Urban congestion constrains future growth.*** At around 15 million inhabitants, Dhaka is now the eighth-largest city in the world, projected to become the third-largest by 2020. It is also among the ten most-polluted cities in the world. Extreme urban congestion is discouraging investment and economic activity, while pollution levels are undermining the health and well-being of the population. Urbanization, which includes about 25 percent of total population, has been an important catalyst for recent growth. It continues unabated as rural populations compete for scarce land and seek better employment opportunities in cities or abroad. Rising congestion in major urban areas and poor urban services and management raise concerns about the quality and sustainability of growth in Bangladesh.

D. Progress in Human Development

15. In the past two decades, Bangladesh has experienced significant poverty reduction and a profound social transformation with the widespread entry of girls into the education system and women into the labor force to support rapid expansion of the garment industry. On the whole, Bangladesh has made laudable progress on many aspects of human development which has been a foundation for improvements in growth, empowerment and social mobility. Some notable exceptions—particularly malnutrition and maternal mortality—underscore that much still remains to be done to improve health and education outcomes, strengthen social services and address continued gender inequality in many areas, whether it is access to productive assets, voice in community decision-making or widespread spousal violence. Fertility rates were halved in the 1990s, but then stagnated for nearly a decade. Fertility is once again declining, but requires continued attention. At its current growth rate, Bangladesh's population is expected to reach 220 million inhabitants by 2040, posing a daunting development challenge, particularly given the country's vulnerability to the effects of climate change and natural disasters.

16. ***Significant poverty reduction.*** Per capita GDP grew by 4.3 percent per annum in the past decade, contributing to a decline in headcount poverty from 57 percent at the beginning of the 1990s to 49 percent by 2000 and 40 percent by 2005. Despite this progress, Bangladesh still had an estimated 56 million people in poverty in 2005—equivalent to the population of the UK or France. Direct evidence on poverty

trends since 2005 is not yet available. However, based on the association between economic growth and poverty reduction, it is expected that the poverty head count has declined further to around 30 percent by 2009 even after taking into account the setbacks caused by the cumulative impact of natural disasters in 2007 (twin floods and a cyclone), the food-price shock during 2007-08, and the impact of the global recession on exports. On the basis of this expected trend, Bangladesh is on track to meet the MDG poverty targets by 2015. For more on Bangladesh's poverty profile, see Annex 1.

17. **Poverty, growth and inequality.** Poverty reduction in Bangladesh has been driven by growth, and linked particularly to transformations in the labor market and rapid increases in workers' remittances. Economic growth has led to expanded wage employment, wage growth and enhanced labor productivity. Workers moved away from low productivity jobs in agriculture to more productive jobs in the nonfarm private sector, particularly in urban areas and overseas. Increasing flows of workers' remittances, which grew by 20 percent per annum in 2000-2005, were a key factor in poverty reduction. Based on 2005 data, poverty incidence among households receiving remittances from abroad was only 17 percent compared to 42 percent among the population at large. Inequality, as measured by the Gini coefficient of consumption, remained unchanged from 2000 to 2005 at around 0.31.

18. **Better child survival.** Bangladesh has made considerable progress on some health-related MDGs. Over the past two decades, infant and child mortality have declined by around half—46 and 57 percent respectively—outstripping progress in other South Asian countries and setting Bangladesh on track to meet the relevant MDGs (see Table 2). This progress was accompanied by substantial narrowing of the gender gap in neonatal, infant and child mortality. Despite progress, children and adults still face a high burden of communicable diseases. Bangladesh ranks among the top-five countries for incidence of tuberculosis, and diarrheal diseases and acute respiratory infections remain widespread in the absence of clean water and sanitation and in the face of deteriorating air quality.

19. **Persistent maternal mortality and malnutrition.** Maternal mortality rates are high, and even under the most optimistic scenario, the MDG target will not be reached. Prenatal care remains inadequate, with most births in rural areas unattended by qualified health personnel. Chronic and acute malnutrition remain high even as per capita income rises among the poor. Child underweight rates (chronic malnutrition) have fallen just 5 percent to 46 percent between 2000 and 2007. Chronic malnutrition is pervasive across all socioeconomic strata, at 56 percent of all children among the poorest and 32 percent among the wealthiest quintiles. Child wasting (acute malnutrition) fluctuates, but reached 16 percent in 2007, above the 15 percent threshold used to identify emergency feeding situations by the World Health Organization.

20. **Increased access to education.** The gross enrollment rate for primary school increased from 76 percent in 1991 to 98 percent in 2008 (with net enrollment at 91 percent). At the secondary level, gross enrollment was 57 percent in 2008, representing a three-fold increase since 1980. Much of the gain at the secondary level was due to a seven-fold increase in girls' enrolments since 1980. Demand-side interventions since the early 1990s, including a gender-targeted secondary stipend program, have been met with expanded supply, particularly through private channels. The share of girls in total enrollments is now 52 percent in primary and 55 percent in secondary education, compared to fewer than 40 percent in the early 1990s.

Table 2: Bangladesh's Human Development Performance in a Regional Context

	Bangladesh			South Asia	East Asia & Pacific
	1990	2000	2008*	2008*	2008*
GDP (current US\$ billion)	30.1	47.1	79.0	1531	5658
GNI per capita, Atlas method (current US\$)	250	350	520	986	2631
Fertility rate, total (births per woman)	4.3	3	2.4	2.8	1.9
Life expectancy at birth, total (years)	54.4	61.6	66.3	64.7	72
Mortality rate, under-5 (per 1,000)	146.0	90.9	65.0	78.2	27.4
Mortality rate, infant (per 1,000 live births)	92.0	66.4	52.0	58.9	22.3
Maternal mortality ratio (per 100,000 live births)	574	320	...	...	...
Malnutrition prevalence, height for age (% of children under 5)	...	57.2	47.8	47.1	25.6
Malnutrition prevalence, weight for age (% of children under 5)	66.0	48.2	46.3	40.9	12.6
Low-birth weight babies (% of births)	...	...	21.6	26.5	6.1
School enrollment, primary (% net)	60.5	...	91.1	...	93.1
School enrollment, secondary (% net)	...	43.1	40.7	44.7	...
Ratio of girls to boys in primary education	0.83	...	1.08	...	...
Ratio of girls to boys in secondary education	0.52	...	1.08	...	...
Population, total (million)	116	141	160	1543	1931

Note: * Data is for latest available year (2006/2007/2008)

Source: World Development Indicators, and UNDP MDG Monitoring at <http://www.undp.org.bd/mdgs.php>

21. **Weak educational quality and outcomes.** The primary school completion rate is only 52 percent, and only 20 percent at the secondary level. Transition rates are also low, at 44 percent for primary to lower secondary, 27 percent from lower to upper secondary and only 6 percent to tertiary. Learning outcomes are generally poor, especially among low income and disadvantaged groups. Many poor children are still out of school or lack a quality schooling environment. Government recognizes that increased enrolment at the primary and secondary levels is putting additional pressure on the tertiary system, and has acknowledged the importance of developing a quality tertiary and vocational education system to accelerate economic growth, enhance competitiveness in the global economy and provide abundant labor to external markets.

22. **Increasing vulnerability to disasters.** By virtue of its geography, Bangladesh has long been vulnerable to natural disasters, such as cyclones and floods. Anywhere from 30 to 50 percent of the country is affected by floods every year. Of about 250,000 deaths worldwide arising from cyclones during 1980-2000, 60 percent occurred in Bangladesh. In the past decade, the country has become better prepared to deal with weather uncertainty and emergency responses, making recent events less deadly than earlier disasters. However, climate change effects are exacerbating Bangladesh's vulnerability by increasing the frequency and severity of weather events. The long-run impact of climate change is uncertain, but it is estimated that a four degree rise in global temperature would raise the sea level by 100cm by 2100, inundating 15 percent of the country's land area and displacing 20 million people. Adapting to climate change and enhancing preparedness to deal with climate-change-related disasters are policy priorities for Bangladesh.

E. The Governance Context

23. Bangladesh is no exception within South Asia in finding itself at the low end of most global rankings on governance and anti-corruption. In contrast to some countries in the region, however, Bangladesh has managed to maintain peace and political stability, make slow but steady progress in

improving corruption perceptions, and strengthen public financial management in recent years. Economic performance has been relatively strong within this challenging governance environment. Nonetheless, governance shortcomings have led to an inefficient public sector which has insufficiently provided key public goods needed to sustain economic growth. Bangladesh has a low revenue-to-GDP ratio that is less than regional comparators, including Nepal's (at around 12 percent). Revenue use is also inefficient. Only two-thirds to three-quarters of the Annual Development Plan (ADP) is implemented each year. A recent assessment of large value procurements approved by the Cabinet Committee for Government Purchase found that only 18% of contracts for the Roads and Highways Division and 33% of contracts for the Local Government Engineering Division (the major public works entity) were awarded within the initial bid validity period of 90-120 days. An efficient procurement system would expect to award 90% of contracts within the bid validity period. This kind of inefficiency has contributed to a lack of investment, most notably in the power sector. The situation has grown so severe that consumers face load-shedding for as much as sixteen hours a day, and power to key export industries and agriculture is being rationed. Bangladesh will require actions on multiple fronts to improve the governance environment in order to meet its goal of reaching middle income countries status (see Box 1).

Box 1: Growth in a Challenging Governance Context

A weak governance and transparency environment has been an impediment to business investments. Notwithstanding, Bangladesh has managed to achieve relatively good economic outcomes. Some have called this the "Bangladesh Paradox", but it is more understandable when the overall governance environment is unbundled. Such an unbundling reveals at least six areas where Bangladesh has demonstrated capacity for good governance.

- The state created space (at the macro-economic level) for the emergence of a vibrant domestic private sector by maintaining macroeconomic discipline, as evident from low inflation rates, fiscal deficits and external indebtedness, thus preventing the crowding out of private sector investment.
- The state has significantly improved its capacity to manage natural disasters, thus reducing considerably their macroeconomic impact.
- Successive governments have been relatively good at making wise public expenditure choices within a limited fiscal envelope. They have financed rural infrastructure and ensured a sustained injection of public funds for health and education.
- Recognizing its limitations in meeting the strong demand for services, successive governments have created space and forged partnerships with NGOs and the private sector to deliver services.
- Unleashing the development potential of half its population, successive governments have supported family planning, girls' participation in schooling and female entry into the labor force.
- Successive governments have also encouraged the migration of Bangladeshi workers and created a domestic environment and mechanisms to encourage these workers to remit large sums of money.

However, like some of the South East Asian countries in the early 1990s, Bangladesh may discover that it is outgrowing its current governance environment. While the country's relatively weak governance environment may have been adequate to cope with an economy breaking out of stagnation and widespread poverty, it could increasingly prove a barrier to more rapid, inclusive and sustainable growth. For example, accelerated growth will require much more public investment and therefore revenue generation, which will mean overcoming Bangladesh's long-standing obstacles to better tax administration and fiscal policies. It will also require improving the quality of public investments and overall expenditures.

Similarly, mitigating the potential impact of climate change on agricultural output and GDP growth will place a premium on better governance of the adjustment process. In addition, accelerated GDP growth also requires better governance of cities in order that diseconomies of urbanization not dominate over the benefits of agglomeration. Surmounting the energy deficit, perhaps one of the most critical and immediate challenges to accelerating and even sustaining current rates of growth, will require comprehensive reforms in the governance of the energy sector including the energy pricing structure of energy utilities, and an improved regulatory framework for private participation in infrastructure.

24. ***Institutional checks and balances.*** Although Bangladesh has witnessed several largely peaceful transfers of power between its two major parties, political competition has not yielded strong mechanisms for accountability of Government. Political competition has rather created a ‘winner-takes-all’ system which has consistently prompted the ruling party to subordinate state institutions to its own interests rather than building effective institutions with appropriate checks and balances. Public institutions offer little de facto opportunity for opposition to hold Government accountable. Neither Parliament nor the Judiciary provides significant institutional restraint on executive power. Notwithstanding these enduring shortcomings, there has been progress in recent years. The country has adopted a legal and institutional framework for countering corruption although there have been recent developments to dilute institutional independence. It has progressed from the bottom to the 25th percentile in global rankings of corruption perception, despite concerns about the current Government’s commitment. Bangladesh has adopted a RTI Act and is promoting e-governance as a tool for reducing opportunities for corruption. The country has a vibrant—albeit partisan—press and many strong, world-class non-governmental organizations (NGOs), though the NGO community has tended to focus more on service provision than demanding better performance by Government. Uncertainty remains regarding the outlook for better governance, as the Government’s commitment to strengthening governance and anti-corruption has yet to be translated into demonstrable actions. In some cases, as with recent amendments to the framework for the Anti-Corruption Commission (ACC), actions are not encouraging. Many external partners have adopted a ‘wait-and-see’ attitude, while encouraging pro-activity among local stakeholders. A more detailed assessment of the governance context in Bangladesh is provided in Annex 2.

25. ***Public sector management and service delivery.*** Government is among the most centralized in the world, with the central administration responsible for most public service delivery. Local levels of government lack both resources and clear responsibilities. Public administration is undermined by weak policy coordination, a poor incentive structure, inadequate revenues, weak accountability and limited implementation capacity that inevitably lead to underperformance in the delivery of public services. The current government has emphasized the need to improve public sector performance in order to bring services to the doorsteps of the people. Government has continued positive measures to strengthen public financial management, including adopting a Public Money and Budget Management Act, establishing a medium-term budget framework and implementing a sound public procurement law—although recent amendments undermined the transparency of processes for low-value purchases. Government has committed to a comprehensive program to build more effective public financial management, and has outlined priorities to strengthen governance in the Second National Strategy for Accelerated Poverty Reduction (NSAPR-II).

F. National Vision and Strategy

26. The Government has placed elimination of poverty and inequity at the forefront of its development strategy. Government’s long-run vision was first outlined in the Awami League Manifesto, and is now being reflected in a long-term perspective plan for 2010-2021 that is being finalized. This plan sets ambitious goals to reduce poverty from 40 percent to 15 percent and achieve middle-income country status by 2021. Government adopted the NSAPR-II for FY09-11 as the first phase in implementation of the Vision 2021. The NSAPR-II will serve as a transitional poverty reduction strategy until the launch of the Sixth Five-Year Plan for FY11-15. The Five-Year Plan is expected to be a closely-aligned continuation of the NSAPR-II in order to maintain momentum toward longer-term goals.

27. ***NSAPR-II priorities.*** The national strategy calls for “putting Bangladesh into a trajectory of high-performing growth, stabilizing commodity prices, minimizing income inequality and human poverty, creation of employment opportunities, securing health and education for all, enhancing creativity and human capacity, establishing social justice, reducing social disparity, achieving capacity to tackle the

adverse effects of climate change, and firmly rooting democracy in the political arena.”³. The strategy also anticipates the use of information technology to help achieve the above goals, as part of a broad Digital Bangladesh initiative. The NSAPR-II consists of five strategic blocks aimed at maintaining macroeconomic stability for pro-poor growth; bringing vibrancy to lagging rural areas; building essential infrastructure; ensuring social protection for the vulnerable; and consolidating gains in human development. These blocks will be supported by strategies to (i) ensure participation, social inclusion, and empowerment; (ii) promote good governance; (iii) ensure efficient delivery of public services; (iv) care for the environment and tackle climate change; and (v) enhance productivity and efficiency through science and technology.

28. The Bank/Fund Joint Staff Assessment of the NSAPR-II concludes that the national strategy provides a sensible basis for Bangladesh to move forward in tackling its key challenges to growth and poverty reduction. The strategy is comprehensive and addresses the major constraints to accelerated, sustainable and inclusive development. It would benefit from greater prioritization of policy measures and sequencing of investments in light of the array of policy measures identified and the large (US\$ 12.5 billion) resource gap for planned investments. Nonetheless, it accurately assesses the key development challenges facing Bangladesh in coming years, and these are the basis for articulating the Bank Group’s country assistance strategy for FY11-14. Governance remains a central challenge. Among the key challenges highlighted:

29. ***Accelerating growth.*** To move toward eight percent real growth per annum, Bangladesh will need to take advantage of its low-cost labor for faster expansion of labor-intensive manufacturing activities, including continued growth and value-addition in the garment industry. In terms of factors of production, a sustained higher rate of growth will likely require faster increases in investment and (skilled) labor, as well as greater improvements in total factor productivity. To increase foreign and domestic investment, attention must be paid to investment climate reforms to spur private investors and to domestic revenue generation to expand public investment. From the demand side, encouraging growth of workers’ remittances will be critical in sustaining the growth of domestic consumption.

30. ***Closing infrastructure gaps.*** Short-term emergency measures must be combined with long-term planning and investment for least-cost energy solutions for Bangladesh. This will require massive investments in sources of energy and in electricity generation and transmission, along with structural and policy changes. In transport, the country needs a more integrated, multi-modal strategy aimed at supporting export-led growth and enhancing rural access. In energy, roads and multi-modal transport, enhanced cooperation will be essential to build regional infrastructure networks.

31. ***Alleviating urban congestion.*** Urbanization can stimulate growth, but can become a mixed blessing if it is not well-planned, as has occurred in Bangladesh. There is no quick fix for the problems that have emerged. Bangladesh will need to support the building of financial and managerial capacities in all municipalities to enable a better approach. In addition, in congested cities like Dhaka and also Chittagong, special support by the central government will be needed for large investments in sectors such as transport and water. A holistic National urbanization policy would also help to provide a guiding framework for policies, investments and interventions by different agencies.

32. ***Reducing vulnerability to disaster.*** With natural disasters exacerbated by climate change effects, Bangladesh’s food security is increasingly at risk. The agriculture sector is facing rising threats from overpopulation, erratic weather and saline water intrusion in coastal areas. Improving the productivity of

³ Steps Towards Change, the National Strategy for Accelerated Poverty Reduction FY2009-11, Planning Commission, December, 2009, p. xiii.

rice and other crops will be essential, and will require development and dissemination of higher yielding technologies, as well as better price signals for farmers. Food security would also be enhanced by diversification to other crops and to non-farm activities, and by enhanced food storage capacity. Continuing Bangladesh's recent progress in disaster preparedness will be critical, along with greater cooperation among all riparian countries for regional water resource management.

33. ***Absorbing the labor force.*** Nearly two million workers are joining the labor force in Bangladesh every year. Generating employment opportunities will depend on creating an environment conducive to private sector investment, particularly for labor-intensive manufacturing and services. Workers will need to be better trained and educated, to allow improved productivity and higher-skilled jobs, permit increased earnings and remittances per migrant, and enable productivity growth to play a greater part in overall GDP growth. A focus on the quality of tertiary and vocational education will be needed, as well as policies and programs to facilitate labor migration and remittances. Finally, social protection programs that create temporary, labor-intensive employment opportunities can be an effective poverty-reducing intervention.

34. ***Improving health, population and nutrition outcomes.*** Priority must be given to scaling up and enhancing the effectiveness of health services which deliver proven results, such as training skilled birth attendants in order to strengthen prenatal care and reduce maternal mortality. Population growth must also be addressed through reinvigoration of family planning and reproductive health services, including information, education and communications activities. Persistent malnutrition should be addressed through well-known health interventions, but also through analysis and implementation of a multi-sectoral approach addressing pollution control, safe water and sanitation, agricultural practices, intra-household dynamics, etc.

35. ***Strengthening governance.*** Better governance will underpin progress in all sectors and areas. Strengthening governance of the business environment will unleash the potential of the private sector to lead investment and growth. It will also enhance the effectiveness of public resource use and improve public service delivery. Government gives priority to improving governance as an underlying strategy to achieve better development outcomes. The Awami League Manifesto emphasized the need to change State performance in order to bring services to the doorsteps of the people. The national strategy lists ten major areas for governance reform, including parliamentary processes, local government, civil service, judicial system, e-governance, combating corruption, human rights, accessing information, project implementation and sectoral governance. Implementing this wide-ranging set of priorities will be extremely challenging. In many of these areas, governments of the past two decades have not been able to expend the resources and political capital needed to make substantive change. More promising may be a selective and sequenced approach to supporting reform in areas with demonstrated political will and broad consensus on the direction and pace of reform, such as in the area of local governance and domestic accountability.

G. Macroeconomic Prospects and Risks

36. ***Sources of growth.*** Bangladesh has enjoyed robust growth in the past decade, mainly due to expansion of the manufacturing sector and domestic services such as wholesale and retail trade, transport and communications. Given its inherent strengths--especially a vibrant private sector and a large pool of inexpensive labor--the prospects for continuation of such growth are relatively good. Unit labor costs in the dominant garment industry are 50 percent below the nearest competitor and only about one-third of those in China. Not surprisingly, foreign investors are showing interest in large-scale relocation of labor-intensive industries, particularly garments and related textile manufacturing. In addition, sectors such as pharmaceuticals, ceramics, and processed and frozen foods have shown dynamism in recent years. Demand for jute goods grew significantly in FY10. An interesting recent development is private

investment in construction and export of small ships, a segment where Bangladesh appears to enjoy a competitive edge. Based on these potential sources of growth, the CAS is cautiously optimistic that Bangladesh can maintain the growth rates of the recent past—above six percent per annum—going forward. Growth could be accelerated through significantly increased investment and deepening of structural reforms.

37. **Constraints to growth.** Bangladesh faces several challenges in maintaining and accelerating growth, and realizing the full potential of some of the promising sectors highlighted above. The greatest constraint today lies in overcoming the energy deficit, which is affecting current production and could undermine prospects for private sector investment and growth. Improving the business environment is also required in order to encourage greater private investment, a necessary element in accelerating growth. The state owned banking sector remains weak despite ongoing corporatization efforts. Further reduction in the anti-export bias through tariff reforms and improved trade logistics (targeting, for example, the Dhaka-Chittagong corridor, and customs facilitation) will be needed in order to maintain the growth rate of exports. Finally, low tax collections are a major constraint since they affect the government’s capacity to increase public investment in energy and other infrastructure sectors.

38. **Debt Sustainability.** The recent IMF-WB joint Debt Sustainability Analysis shows a low risk of debt distress based on external debt indicators. In fact, all external debt indicators stay below the policy dependent debt burden thresholds in the baseline scenario. The net present value (NPV) of the debt-to-GDP ratio decreases from about 20 percent in 2009 to less than 10 percent during the projection period, while the NPV of the debt-to-exports ratio decreases from 99 percent in 2009 to 25 percent, and the debt service ratio from 6 percent in 2010 to 2.5 percent. External debt indicators do not breach the debt thresholds under various stress tests. However, debt indicators worsen once domestic debt is added. In the baseline scenario, the NPV of the public debt-to-GDP ratio remains steady at about 40 percent of GDP. The decline in the NPV of external public debt to GDP ratio is offset by a rising domestic debt-to-GDP ratio. Concerted and sustained efforts by the Government, supported by the Bank Group (Box 2), could result in tax collection increasing from 11.5 to 13 percent of GDP during the CAS period. Higher-than-expected revenue mobilization would be positive for debt dynamics, not only because of its direct fiscal impact, but also because of its potential effects on investment and growth.

	FY10	FY11	FY12	FY13	FY14
Real GDP Growth (%)	5.5	5.8	6.3	6.4	6.4
Export (f.o.b) Growth (US\$ value) (%)	1.8	12.4	15.7	17.0	18.3
Current Account Balance (% of GDP)	2.4	2.1	1.7	1.3	0.9
Net Foreign Direct Investment (% of GDP)	0.5	0.9	1.0	1.0	1.0
Reserves (in months of GNFS import)	5.1	5.3	5.5	5.8	5.9
Revenue (% of GDP)	11.5	11.6	12.1	12.5	13.0
Public Debt (% of GDP)	43.8	44.0	43.7	43.3	43.1
External Debt (% of GDP)	22.3	21.7	20.8	19.8	19.0

Source: IMF-World Bank Joint Debt Sustainability Analysis and World Bank Staff Estimate

39. **Macroeconomic risks.** Total public debt indicators are sensitive to alternate assumptions and point to sizeable risks, especially given the low levels of revenue mobilization. Any event that raises public debt (such as a rise in world market prices resulting in contingent liabilities for state-owned enterprises that sell underpriced electricity, diesel and imported fertilizer) can increase the debt-service-to-revenue ratio significantly, which can crowd out the private sector and reduce growth. Also, if current constraints to growth remain binding, this can affect the debt dynamics and revenue mobilization. On the external front, a high dependence on garments and remittances renders the current account vulnerable to events that affect

these sectors, such as shocks in Kuwait or Saudi Arabia--which absorb over half of the migrant Bangladeshi population--and/or derailed recovery in the US and Europe--which account for around 65 percent of Bangladesh's exports. Price shocks such as those of 2007/2008 have significant distributional consequences in a country where the poverty ratio is high and where an even larger share of the labor force is engaged in informal activities. Mitigating such shocks, through improved safety nets, will help government manage social risks.

Box 2: BICF Tax Administration Reform Project

The need for tax administration reform is well recognized. According to the Doing Business Report 2010, for instance, it takes a company 302 hours per year to pay required tax in Bangladesh, which ranked 127th out of 174 countries. It has been challenging to build dialogue and support reforms of tax administration.

As part of its Phase II Business Regulatory Reform program, BICF successfully reached an agreement with the new National Bureau of Revenue (NBR) leadership on a tax administration modernization project in September 2009. As the central objective, the project aims to increase tax revenue as a percentage of GDP by 1.5 percent from the current level by improving tax collection, taxpayer service, and institutional capacity. It will help modernize the technology, reform the laws, and improve processes, including lower compliance cost and easy access for taxpayers.

An IDA-funded tax administration strengthening operation is also planned during the CAS period to complement and deepen support for domestic revenue mobilization in Bangladesh.

II. BANK GROUP ASSISTANCE STRATEGY FOR BANGLADESH

A. Lessons Learned from Implementing the Previous CAS

40. The Bank Group's new assistance strategy for Bangladesh is informed by the lessons drawn from implementation of the previous strategy. These lessons derive from the Completion Report prepared at the end of the earlier CAS period as well as a Country Assistance Evaluation done by the Bank's Independent Evaluation Group (IEG). Direct feedback from stakeholders also shapes the new strategy, and was captured through an FY10 client survey and stakeholder consultations conducted as part of the CAS preparation process.

1. Lessons from the CAS Completion Report

41. *CAS results framework.* The Completion Report concluded that the FY06-09 CAS was strategically relevant and produced moderately satisfactory outcomes. It was well aligned with Bangladesh's first National Strategy for Accelerated Poverty Reduction. Pro-poor growth, human development and governance were at the heart of the strategic agenda. However, it was found difficult to assess the Bank group's contribution to the achievement of positive outcomes across the pillars, because indicators and targets were too numerous and too loosely-linked to expected outcomes. This provides an important lesson about defining a manageable set of outcomes to which the CAS will contribute, with fewer and more clearly-linked indicators which can be adequately monitored to assess progress towards results. For this reason, the Country Team has now articulated a set of 16 outcomes, linked closely to only 20 core indicators that will serve as the basis for CAS monitoring.

42. *Monitoring CAS progress.* The monitoring and evaluation system for the overall country program was insufficient to make adjustments during implementation in order to better achieve results. Learning from this, the Country Team has created multi-sectoral results teams during CAS preparation which will

continue during implementation to carry out regular monitoring of progress towards results. The CMU is being strengthened in Dhaka to include staff with specialized skill in managing for results, in order to coordinate and catalyze CAS monitoring across the Country Team, and in collaboration with IFC which is implementing results based management activities through BICF⁴.

43. ***Appropriate skill mix.*** The previous CAS focused dominantly on enhancing governance, but the staff skills needed to manage this complex agenda were not immediately available. On the ground presence of staff with diversified skills and global knowledge was limited in key sectors like energy and local governance, limiting the Bank’s ability to engage in dialogue and support necessary reforms. Ensuring adequate and appropriate staffing and skills mix on the ground—particularly for expected areas of greater emphasis such as infrastructure and climate change--will be critical for the successful implementation of the upcoming CAS. This raises questions about staffing incentives in relatively unfavorable environments.

44. ***Sustained engagement.*** Governance and institutional reforms take significant time to achieve desired outcomes. Change is incremental, and it is important to stay engaged in key sectors, even if performance is weak and progress slow. In these instances, the Bank should use its analytical work to support implementation of reforms in promising sectors and to maintain engagement and foster dialogue on reform in more difficult sectors. During this CAS, for example, an IGR will provide analysis of policy options for local government and local service delivery. At the same time, innovative tools will be used to remain engaged in high-risk sectors such as roads and highways, where corruption has undermined the effectiveness of traditional Bank lending instruments. Technical support is now being provided in the roads sector to strengthen expenditure tracking and pilot performance-based road maintenance work. If successful, these could be scaled up to provide a framework to resume larger-scale investment lending in roads.

45. ***Tackling governance challenges.*** The previous CAS was considered an early “governance CAS” which sought to tackle governance challenges in a comprehensive and high-profile fashion. The relevance of tackling weak governance as a barrier to development was appropriate, but experience has provided lessons on how we might be more effective in addressing this seemingly intractable and pervasive problem in Bangladesh and other countries of South Asia. See Annex 3 for the detailed Completion Report.

2. Lessons on Governance and Anti-corruption

46. Recognizing the systemic nature of governance problems in Bangladesh, the previous CAS established governance as its unifying theme, with modest results. While the governance focus was appropriate, there was need for more selectivity during implementation. Some positive outcomes were achieved with support from the Bank. In particular, public financial management was measurably strengthened, including substantial improvement to the procurement regime, which remains well above the norm for South Asia despite some recent backsliding on rules for low value procurement. The Bank also contributed successfully to greater independence and accountability for local government—an historic breakthrough in Bangladesh’s highly centralized administration.

47. ***Changing the culture of corruption.*** The Bank provided support to the caretaker government’s attempts to break the culture of corruption through powerful signaling from the top, in the form of high-

⁴ BICF is pursuing the monitoring on three tracks: (a) contracting out results monitoring and evaluation to an independent firm, which periodically reports to the donors and IFC management on implementation progress in relation to a well-defined action plan; (b) developing investment climate related M&E capacity in government and some private sector chambers; and (c) pioneering new survey tools, such as quarterly business confidence surveys, and government agency score cards capturing client feedback on Government to Business (G2B) services.

profile investigations, prosecutions, and sanctions. In addition, the Bank supported reforms of the civil service and the judiciary. Outcomes in these areas were negligible due to unrealistic expectations for change within a short timeframe coupled with strong political interests that ran counter to reforms. The challenge in implementing these reforms was underestimated, especially in a politically unstable environment with frequent changes of government. High-profile prosecutions meant to signal zero tolerance for corruption served instead to create a perception that those in power will pursue those who are not for politically-motivated reasons, within a persistently corrupt environment. Moreover, the caretaker government's will to carry through with prosecutions subsided during the latter part of its tenure. While different signaling from the top would have been desirable, it was perhaps not realistic within a relatively short timeframe. Even in areas of success, governance improvements have been slow and incremental. To be effective, the Bank must take a long-term perspective to cultivating a culture of accountability by building demand for good governance from the grassroots up. Governance must remain a cross-cutting theme of the new CAS, with efforts mainstreamed across sectors. Governance focus at the center, local and sector levels will be maintained. However, a more selective approach will be needed to take advantage of entry points in which sufficient political will exists and champion for reforms can be supported.

48. ***Adopting a long-term, systemic approach.*** The country team will make a deliberate shift to a longer-term and more systemic approach to strengthening governance and anti-corruption by building domestic accountability mechanisms. This is based on a realistic assessment of the environment for anticorruption reforms, recognizing that external players have limited ability to counter systemic facilitators of corruption in areas with limited government commitment to reforms. The new CAS will focus on areas with adequate government commitment and/or champions with whom to work, and where concrete results are considered feasible. In addition to a continued focus on core governance (particularly public financial management), this CAS seeks to build on the current political commitment to strengthen local government and local service delivery. A four-pronged approach will be adopted:

- a) ***Increasing operational selectivity.*** In making strategic choices about the Bank's own operations, the country team will strive for increased selectivity based on greater understanding and sensitivity to specific corruption risks in sectors. This will be based on more systematic diagnostics of political economy and operational risk assessments in order to inform project preparation and design and define the extent and nature of risks across different sectors. Cross-sector support to task teams will be enhanced to identify governance and corruption risks through the new ORAF, which builds on the ORMAPP currently in use in the Bangladesh program. The Bank will invest more in using lessons learned from sector governance risk analyses. In sectors where government commitment to addressing corruption is deemed insufficient--and hence risks are too high--the Bank will disengage. Projects which proceed to approval will require rigorous assessments of fraud and corruption risks and corresponding mitigation measures. These assessments and mitigation measures will be monitored closely and updated regularly during project implementation as per the ORAF. The Bank will be decisive in addressing cases of corruption as they may arise in any of its operations, and if problems cannot be properly addressed, the Bank will disengage.
- b) ***Building on sufficient political will.*** The World Bank Group will promote systemic prevention of corruption through long-term governance improvements in areas where the Bank Group can align with Government priorities and political will. This includes continuing our work to increase regulatory transparency and strengthen public financial management, including the oversight functions of Parliament and the Comptroller and Auditor General, implementation of the RTI Act, increased use of e-governance tools as part of the Digital Bangladesh agenda to improve government-citizen or government-business interface and reduce opportunities for corruption. Bank support to build domestic accountability mechanisms will include ramping up support for

local government and decentralized service delivery. A strong push will also continue, particularly through support from IFC's BICF support and engaging with private sector stakeholders, for reforms to streamline regulation of business and trade as well as strengthening tax collection, both of which will decrease opportunities for corrupt behavior.

- c) ***Cultivating entry points on governance and anti-corruption.*** Increased emphasis will be placed on policy dialogue and engagement with a wide range of stakeholders in order to cultivate additional entry points for strengthening governance and countering corruption. In a democratic environment, policy priorities may change, and the Bank will be ready to respond accordingly if new entry points for substantial reforms emerge. To this end, the Bank will maintain a high-level policy dialogue on governance, particularly through implementation of an IGR. The IGR will be a flexible and participatory process to provide timely assessment of policy options and policy advice that is responsive to Government's emerging priorities on governance. The IGR and other analytical work will develop feasible actions that Government can undertake to improve transparency and accountability of the public sector. IFC will complement these efforts through public-private dialogue with the private sector and other stakeholders on governance and transparency issues.
- d) ***Fostering demand for good governance.*** The Bank Group will build on efforts under the previous CAS to promote greater demand for good governance and lower tolerance of corruption over the long term. This will occur through collaboration with civil society organizations on joint research and analysis on governance issues, as well as independent monitoring efforts. Corruption and governance analysis, independent third party monitoring, and demand for good governance in projects and sectors will be conducted to the extent feasible in partnership with Bangladeshi civil society organizations. The country program will also increasingly emphasize governance through strengthening of the lowest levels of government and through community empowerment so that citizens directly demand better services from the public sector. The IFC's advisory assistance through BICF will continue to engage government and other stakeholders in formulation of new business regulations. The Bank and IFC (through BICF) will also increase its outreach and actively engage the media for better understanding and coverage of governance issues. IFC will also strengthen corporate governance of investee companies of the private equity funds in which it has invested and raise awareness on corporate governance issues through various fora.

3. Lessons from the Country Assistance Evaluation

49. The Bank's IEG prepared a country assistance evaluation for Bangladesh in June 2009, which rated the overall outcome of IDA assistance to Bangladesh as moderately satisfactory, and drew the following lessons from past experience:

- a) While macroeconomic governance improved to some extent, progress on public sector reform was disappointing. In particular, initiatives to reform the civil service suffered from insufficient political will. The evaluation concludes that the full range of Bank instruments--development policy operations, investment lending, technical assistance and analytical and advisory services--is required to support complex institutional reforms of this nature.
- b) Monitoring and evaluation of the CAS should be strengthened. The earlier CAS lacked adequate tools to monitor progress. Despite having a long list of milestones and intermediate indicators, the CAS lacked a clear system and capacities to ensure that they would be measured.

- c) Improved coordination and harmonization with DPs was effective in human development sectors. The Bank's coordination was strong in many sectors, but weaker in energy and water supply, contributing to unsatisfactory outcomes in these areas.
- d) Staying engaged over the long-run is deemed critical to getting results, even in sectors where dialogue has proven difficult, like energy and agriculture. Moving out of a sector has proven to be costly due to loss of knowledge and interruption in the Bank-client relationship. While the Bank must be selective about large-scale operations, other tools can be used (e.g. analytic and advisory services, small-scale piloting) to stay engaged.
- e) The design and implementation of analytical and advisory work should involve all the relevant stakeholders including the government, civil society and DPs. Extensive dialogue is needed up front to gain strong political support for future reforms. Better dissemination of analytical works is needed to raise awareness and improve ownership.

4. Client Survey and Stakeholder Consultations

50. The World Bank client survey in Bangladesh, and World Bank Group consultations with various stakeholders throughout the country, have provided important feedback into preparation of the new CAS⁵. Annex 4 provides more details on the findings of both the survey and the consultations.

51. ***Client survey results.*** The FY10 Client Survey was conducted in Bangladesh in August 2009 with a total of 334 respondents. It suggests a perception of the Bank and its work that is far more positive now than when last surveyed in FY04. Governance, power generation, basic infrastructure and employment creation were identified by respondents as the key development priorities in Bangladesh. Respondents valued the Bank most strongly for its investment lending relative to other instruments like development policy lending and technical assistance. Support was particularly high for the Bank's role in the proposed Padma Multipurpose Bridge project, which will be a centerpiece of the Bank's infrastructure engagement under the new CAS.

52. ***Consultation feedback.*** Initial launch consultations were held with government, civil society and DPs in June 2009 to begin the CAS preparation process. More extensive consultations were held in March 2010 to discuss the emerging storyline and results framework for the FY11-14 CAS. The Dhaka-based Bank team divided into cross-cutting, multisectoral teams to lead consultations in four locations (Dhaka, Chittagong, Jessore and Rangpur). Consultation involved a range of stakeholders including top government officials, leaders from civil society organizations, think tanks and academicians, the media, the private sector and other DPs, both bilateral and multilateral agencies. The key messages of the consultations are summarized in Box 3.

⁵ BICF has frequent dialogue with private sector and other stakeholders on the business climate. This includes: quarterly regional dialogue in four different cities of Bangladesh, BICF's Technical Advisory Committee consisting of several private sector members, and quarterly dissemination of BICF's Business Confidence Survey.

Box 3: Multi-Stakeholder Consultations

Participants highlighted a range of development priority areas for the World Bank Group's engagement in Bangladesh. They also identified issues the Bank Group should avoid. There was widespread recognition of **poor governance** as a key constraint hindering public service delivery and rule of law. The key messages are presented below:

Suggestions for Bank Group involvement: Stakeholders recommended the following priority areas: (i) development of the energy sector, particularly gas and power; (ii) climate change adaptation programs with active involvement of wider community; (iii) strengthening local governance through local governments; (iv) good governance on the basis of equity, inclusion, participation with transparency and accountability; (v) programs to increase productivity in agriculture to ensure food security; (vi) promoting and implementing regulatory framework in key sectors like energy; (vii) regional integration within Bangladesh to reduce regional disparities; (viii) management of water resources, including capital dredging; (ix) scaling up investment in transport and communication sectors, particularly in railways and inland water resources; and (x) programs for population planning.

Issues that the Bank Group should avoid: Stakeholders wanted the World Bank to avoid: (i) engaging in activities not aligned with country priorities; (ii) political partisanship; (iii) making the CAS complicated with unrealistic performance monitoring indicators; (iv) imposing its development priorities; and (v) imposing stringent conditions.

Divergent views on Bank Group involvement: Participants had difference of opinion on: (i) investment in infrastructure projects; (ii) use of coal as a source of energy; (iii) issues with labor migration; and (iv) support for the agriculture sector.

B. Proposed Assistance Strategy

1. Strategic Overview

53. Building on Bangladesh's strong track record on growth and development in recent years, the Bank Group will continue to support government's objective of achieving annual growth rates of six percent or higher. Annual growth of around eight percent per annum will be needed for the country to achieve its ambitious aspirations of reaching middle-income status and reducing poverty from 40 percent to 15 percent of the population by 2021. This will require accelerated, sustainable and inclusive growth, underpinned by stronger governance at central and local levels. Past performance has been positive, but a significantly higher growth rate in future will require the country to address persistent governance challenges that undermine the effectiveness of the public sector and create disincentives for private sector initiatives.

54. **Accelerated growth.** Massive infrastructure investment is needed--along with a more conducive business environment--even to sustain recent levels of private sector growth. Power deficits remain the binding constraint to growth, with current power generation shortages of approximately 2000 MWs at peak periods. As one of the country's largest DPs, the Bank will increasingly invest in transport and power infrastructure that can transform lagging areas of the country, create agglomeration economies in urban areas and foster broader regional networks. In the power sector, this will include support for new generation, rehabilitation, expansion of transmission capacity and enhancing the natural gas supply for power and other applications. Complementing the Bank, IFC will explore investment opportunities in transport (logistics and ports), power (including renewable energy) and Information and Communication Technology (ICT) infrastructure that are identified with strong partners and transparent process. The Bank Group will also continue to provide strong support for investment climate reform, building on recent progress in this area.

55. **Sustainable growth.** Bangladesh's geography offers a unique opportunity to accelerate growth through regional collaboration, but requires dynamic adaptation to climate change effects at the same time. Bangladesh is one of the most densely-populated countries in the world, already vulnerable to natural disasters and now becoming highly-affected by climate change. Not surprisingly, the country is at the global forefront on climate change policy and interventions, and needs cutting edge technical and financial support from the Bank Group to adapt and respond to climate change and natural disasters. Annex 5 provides more details on Bangladesh's vulnerability to climate change and natural disasters.

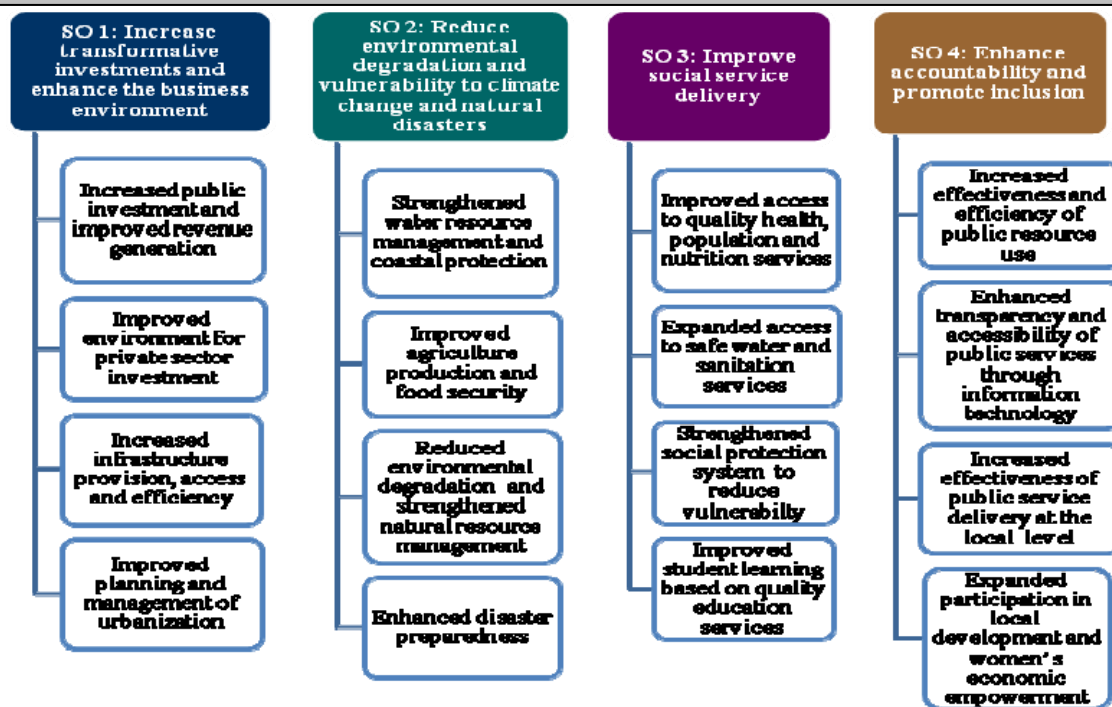
56. **Inclusive growth.** Dramatic social transformation has occurred with female entry into the education system and labor force in the past twenty years. Long-run progress on human development has been encouraging, with some notable exceptions. Improved delivery of social services at the local level is needed to address these shortcomings, bring marginalized groups and rural communities more firmly into the development process, and allow Bangladesh to compete in regional and global markets with a healthy and skilled labor force. Complementing IDA's support, IFC will seek to support inclusive growth especially focusing on the base of the economic pyramid, supporting projects with potentially high socio-economic impact such as microfinance, mobile banking, health care and education sector.

57. **Stronger governance.** The Bangladeshi economy has performed reasonably well within a challenging governance environment. With the peaceful restoration of democracy in 2008 following a two-year interim Government, the country has avoided major conflict. This was a triumph for political governance, but—as in much of South Asia—governance remains weak by global standards. Bangladesh has made slow but steady upward progress in most areas of economic governance in the past five to ten years. To grow faster and more inclusively, government will need to be more responsive and effective, building on a renewed commitment to private sector-led growth and decentralized service delivery. The Bank Group will support this commitment to improving both the business environment and service delivery, coupled with strengthening of domestic accountability at central and local levels.

58. Within this overall World Bank Group Strategy, as well as IFC's regional strategy in South Asia, IFC's Bangladesh strategy centers on three cross-cutting areas: (i) promoting inclusive growth which focuses on the base of the economic pyramid, rural areas, infrastructure development and improved access to finance for micro, small and medium enterprises (MSMEs); (ii) addressing climate change, especially adaptation and mitigation (including renewable energy, cleaner production and energy efficiency financing); and (iii) supporting global and regional integration via South-South investments, investment climate reforms, trade financing, logistics and financial infrastructure development. On the investments side, IFC will seek opportunities that are likely to have stronger development impact, especially in banking, non-bank financial institutions (including micro-finance, housing finance, Small and Medium Enterprise (SME) finance, agro-finance, and sustainable energy finance), private equity funds, transport (logistics and ports), ICT, power (including renewable energy), agribusiness, manufacturing, health and education. On the advisory side, IFC will contribute to these three strategic areas by assisting government with regulatory reforms to improve the business environment, building financing institutions' capacity to expand access to finance, accelerating PPP projects, raising the corporate governance standards, and supporting SMEs.

59. **Results Framework and Core CAS Indicators.** The Bank Group strategy outlined above gives rise to a results framework based on four strategic objectives (See Box 4). To achieve these four objectives, the Bank Group will seek to contribute to sixteen development outcomes discussed briefly below. The core indicators for assessing progress towards CAS outcomes are presented in Box 5 on Page 20. Annex 6 summarizes the results framework matrix, including mid-term milestones, outcome indicators and targets. Annex 7 presents the existing and indicative program, trust funds (TFs) and analytical/advisory work that supports the strategic objectives and development outcomes.

Box 4: CAS Results Framework



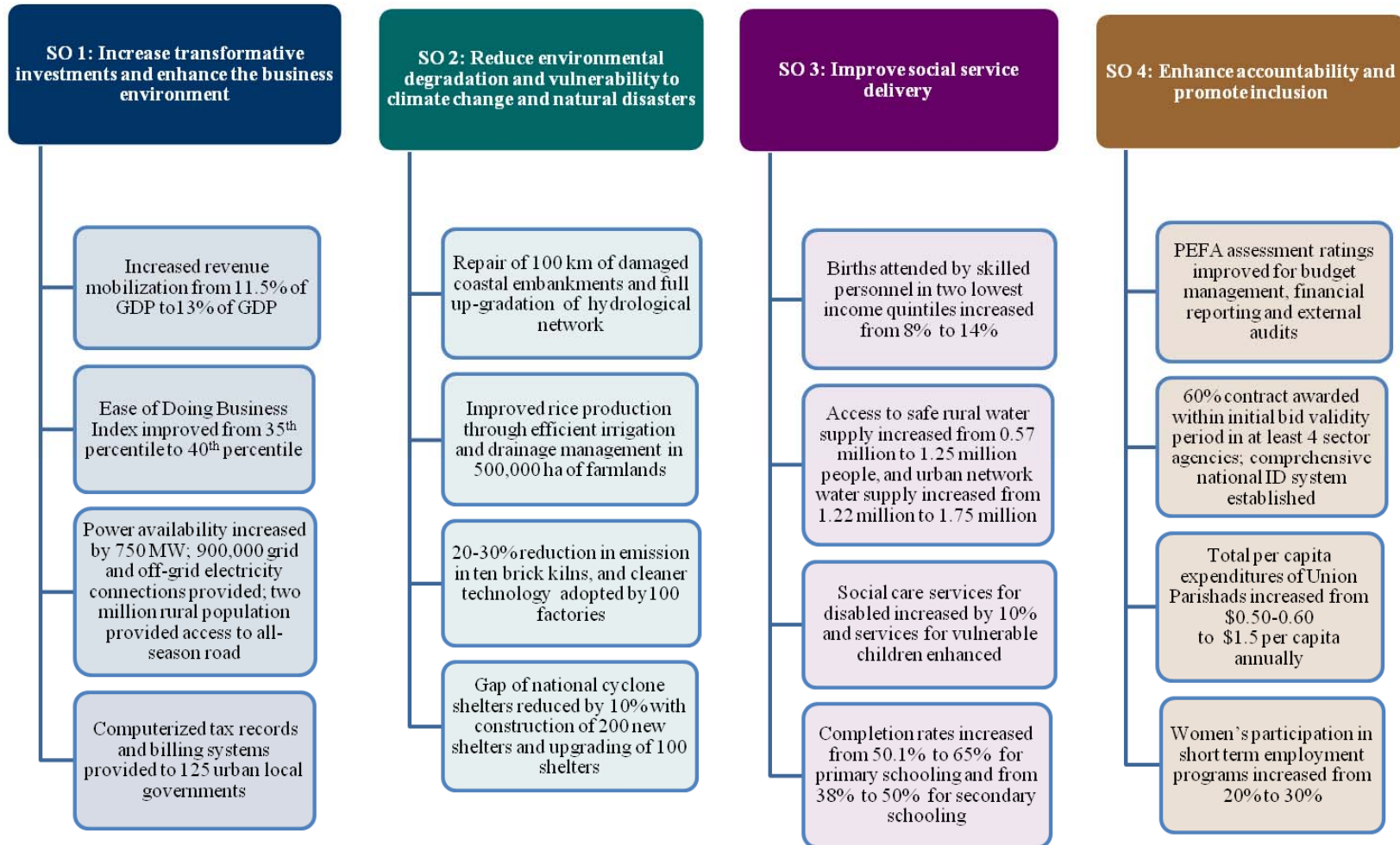
2. Summary Results Framework

Strategic Objective 1: Increase Transformative Investments and Enhance the Business Environment

60. **Accelerated growth.** Growth of the Bangladesh economy has been laudable over the past decade at 5.8 percent per annum in real terms, despite political turmoil and frequent natural disasters. Maintaining such growth will be challenging, and yet the country will need to grow significantly faster—by an average of eight percent per annum—if it is to achieve its goals to reduce poverty to 15 percent and reach middle-income status by 2021, as outlined in Government’s Vision 2021 and the NSAPR II. Economies that have grown at this pace or better have typically been accompanied by significantly higher public and private investment fueled by domestic savings and robust tax generation. At 10-11 percent, Bangladesh has one of the lowest tax collection rates in the world, and this is not conducive to a sustainable increase in public investment.

61. Increasing revenue generation needs to be accompanied by improvements in the quality and execution of public investment. Massive investment by both the public and private sectors is needed in economic infrastructure, even to sustain Bangladesh’s current growth rate. The power deficit, currently estimated at 2000 megawatts during peak season, is cited as the biggest constraint to doing business in Bangladesh. It is too large to be amenable to quick fixes, and will need a sustained, broad-based investment program that includes conventional new capacity, rehabilitation of older capacity and additional natural gas supply. This will require approximately US\$1.2 billion proposed Bank financing with US\$600 million phased in during the early years of CAS. Transport is overly-dependent on a weakly-managed and highly-congested road network, with under-developed water and rail links. The CAS proposes over US\$2 billion in infrastructure investments with the proposed Padma Bridge at US\$1.2 billion planned in the early CAS period. Unplanned growth of major urban areas has choked the capacity of urban infrastructure, negating much of the growth benefits of agglomeration. Providing more infrastructure through increased public investment will likely crowd in private investment and promote public-private partnerships. Private investment, however, is also constrained by regulatory obstacles and land shortages, as well as inadequate access to long-term finance, especially for SMEs and long term agriculture projects.

Box 5: CAS Results Framework - Core CAS Indicators



62. **Country strategy.** Through the NSAPR II, Government outlines an ambitious plan to tackle these issues. It aims for an increase in total investment from 24 percent of GDP in recent years to nearly 30 percent over the next few years, facilitated by a decline in the cost of borrowing and an improvement in productivity. It recognizes the challenge of increasing revenue generation, articulates the need for an improved business and investment climate, seeks planned urban development, outlines policies to ensure optimal use of land, lays out a vision to supply quality and reliable power to all by 2021 and seeks to develop all modes of transport, including roads, rail, ports and waterways. The Bank Group will seek to contribute to selected results under this scenario, building on its on-going analytical work, advisory services and portfolio in the following areas:

<p>Strategic Objective 1: Accelerated Growth: Increase Transformative Investment and Enhance the Business Environment</p>
<p>CAS Outcomes: Outcome 1.1: Increased public investment and improved framework for revenue generation Outcome 1.2: Improved environment for private sector investment Outcome 1.3: Increased infrastructure provision, access and efficiency Outcome 1.4: Improved planning and management of urbanization</p>

63. **Outcome 1.1: Increased public investment and improved framework for revenue generation.** Bangladesh will need increased fiscal space for priority development spending, while maintaining the sound macro-economic management that has benefitted growth in the past decade. The Bank will continue to work with the IMF providing analytical support on macroeconomic and fiscal issues. In particular, the Bank will support participatory analytical work aimed at deepening the understanding of future sources of growth, especially through trade diversification and regional integration. To achieve desired growth rates in Bangladesh, it is projected that public investment would need to rise from less than 5 percent of GDP today to 7-8 percent in future, sustained by improved revenue generation. The Bank Group will encourage initial tax policy reforms and seek to accelerate improvements in tax administration. IFC advisory services to improve business environment will be complemented by IDA investment in tax administration systems and potential policy lending, if dialogue on fiscal reform and decentralization deepens. On the public expenditure side, the Bank will focus on improving the quality of public investment and accelerating implementation of the Government’s ADP. One instrument for this will be the Strengthening Public Expenditure Management Program (SPEMP) supported by a Bank-administered multi-donor trust fund (MDTF). Government’s continued commitment to sound macroeconomic management and improved public sector governance will also be a determining factor in future development policy lending for Bangladesh. Thus far, macro-management appears solid, but signals have been more mixed on public sector governance in the past year. Through a participatory IGR, the Bank is working with Government to identify and build consensus around priority areas for public sector reform that could form the basis for renewed development policy lending in the FY12-14 period.

64. **Outcome 1.2: Improved environment for private sector investment.** Private investment in Bangladesh, at less than 20 percent of GDP, is significantly lower than high-growth countries such as India or those in East Asia. Much can be done to make the business environment more conducive to private investment, as reflected in the country’s ranking (119th out of 183 countries) on the international Doing Business index. The Bank Group will support regulatory reform, promotion of public-private partnerships and vibrant economic zones, expanded access to finance and land as well as skills development for a more competitive labor force. Regular investment climate assessments coupled with support from the IFC’s BICF will identify and build support for regulatory reform aimed at streamlining and making more transparent the government-business interface, and building capacity in the field of competition policy. A scaled-up, IDA-funded Investment Promotion and Financing Facility (IPFF) will build on demonstrated results in introducing a public-private partnership model for power generation. Together with IFC’s technical services, IPFF will support the establishment of adequate capacity and a sound policy, legal and

institutional framework to expand and implement public-private partnerships for infrastructure. The IFC and the Bank are also working together to support further development of a modern Economic Zone regime in order to accelerate and diversify export-led growth.

65. The Bank Group will continue its engagement in the financial sector, supporting further enhancement of regulatory standards and the independence of the Central Bank, enhancing corporate governance of banks and listed companies, enacting a movable collateral law, and strengthening risk assessment in banks. To promote private sector investment, the Bank Group will continue to help improve the financial sector for all sizes of companies. IFC support will also be offered to other banks to raise their corporate governance standard or risk assessment capability. To promote access to finance, especially for MSMEs, the Bank Group will assist the Central Bank to modernize the Credit Information Bureau, including setting up a privately-owned Credit Information System. The IFC's SEDF will help develop banks' capacity for MSME finance and trade finance, complementing its value chain analysis and other programs for SMES. IFC's technical assistance to the financial institutions and the Central Bank in the area of SME banking will complement the World Bank's activities. IFC will explore new opportunities to support non-bank financial institutions in a variety of areas including: housing finance, microfinance, sustainable energy finance, agro-finance and insurance sector. IFC's ongoing dialogue with the Central Bank on development of its local currency instruments is expected to enhance IFC's investment opportunities.

66. Inadequate access to land is also cited as a major constraint to private investment in this densely-populated country. Building on IFC's work in this area, the Bank Group will support development, testing and implementation of a modernized deeds registration system and land records modernization program. Lack of a policy for resettlement of displaced people is another land-related issue affecting investment decisions, particularly for infrastructure. The Bank will assist the Government of Bangladesh in the formulation and implementation of a National Resettlement Policy and in simplifying process to acquire land for infrastructure developments. Finally, the Bank Group will focus on skills training for a more competitive labor force. Continued support for higher education will be coupled with a new focus on vocational and technical education to build skills appropriate for both domestic and external labor markets.

67. **Outcome 1.3: Increased infrastructure provision, access and efficiency.** Bangladesh's people and economy suffer from severe shortages of reliable electricity and natural gas. Peak system deficit (during warmer months) is more than 2,000 MW, arising partly from a gas deficit of at least 200 million cubic feet per day (mmcf/d). In the absence of investment, these deficits are expected to more than double in the next ten years. Only 45 percent of households are electrified and perhaps 5 percent have access to gas. An estimated US\$1.5 billion per annum in investment is needed to close these gaps and keep pace with rising demand. As a strategic priority for Government, transformative investments in the energy sector will be a prime focus for the Bank during the CAS period. Working with other partners in the sector, like the Asian Development Bank (ADB), the World Bank's support will be three-pronged. First, the Bank will adopt a programmatic approach to domestic generation and transmission that will combine support for sector reforms with large-scale investments in generation capacity and transmission systems. Sector reforms will enhance financial sustainability, strengthen regulation, build institutional capacity and encourage private investment. From a corporate governance perspective, a key focus will be on improving cash management at the distribution end of the business for example with the South Zone Power Distribution Project, and bolstering procurement transparency and efficiency in large investments such as the Bibiyana power station. Second, the Bank will encourage integration with regional electricity networks and with the global gas market through strategic infrastructure investments. Third, the Bank will scale up the positive results of the IDA-funded Rural Electrification and Renewable Energy Development Program which has successfully connected 600,000 households to the national grid and another 320,000 households to solar systems, bringing affordable and reliable energy to rural populations. IFC will

complement Bank's efforts and will seek to support power and gas sectors, including public-private partnerships (PPP) and investments where there are strong partners and transparent processes.

68. Maintaining and extending transport networks is vital, but difficult in such a densely-populated country with weak governance structures and vulnerability to natural disasters. Bank strategy will focus on investments with expected transformative effects and/or demonstrated past results. Most notably, just as completion of the Jamuna Bridge in 1998 transformed economic and social development in the Northwest Region (with faster growth and greater poverty reduction among communities linked to the bridge), the Bank will now invest in the Padma Multipurpose Bridge Project to unlock the economic potential of the Southwest Region. This assistance will be provided in partnership with ADB, JICA and the Islamic Development Bank. Large-scale investment in the bridge, planned in the early years of the CAS period, will be coupled with analytical work on sequencing future investment for optimal development of the Southwest, including road, rail, port and energy linkages to neighboring countries. Rehabilitation and maintenance of rural roads is another area where the Bank has contributed to demonstrable results, and will scale up through a follow-on Rural Transport Improvement Project during the CAS period. Additional investments in major roads, railways, ports and waterways will depend on momentum to implement sector reforms and strengthen accountability. Road and railway reforms have been slow to materialize, and the Bank has stopped supporting major road construction due to governance risks to the portfolio. Technical support is now being provided to improve governance in roads and highways institutions as a pre-requisite to re-engagement in the sector. Such re-engagement could pave the way for multi-modal transport investments under the North-East Regional Program (including India, Nepal and Bhutan) as regional cooperation moves forward. IFC would consider investment opportunities in the transport sector (logistics and ports), a potential area for IDA-IFC collaboration.

69. **Outcome 1.4: Improved planning and management of urbanization.** Bangladesh's recent urbanization has been fueled by, and is a key contributor to, the strong growth of industries and services. Agglomeration economies of its cities have helped firms achieve efficient scale and become internationally competitive, providing jobs for migrants from the countryside. Economic and demographic growth is highly concentrated in the Dhaka and Chittagong metropolitan areas, overwhelming the capacity of existing urban infrastructure and institutions. This has resulted in a rapid deterioration in services and the environment, which has increased the cost of living and doing business, thereby offsetting the benefits of urbanization. Indeed, urban congestion and pollution now threaten future economic growth, and call for a holistic, long-range approach to urban planning and management. The Bank has been supporting urban infrastructure and building financial and managerial capacity in over 100 municipalities, and intends to scale up this support through a follow-on Municipal Services Project. The Bank will also begin extending its focus on urban water supply services from Dhaka to secondary cities. To deepen the urban engagement, the Bank is providing analytical and advisory support to enhance understanding of urbanization processes and options, and formulate effective national policies and programs to guide future urban growth. Building on this analytical work and IFC's work on economic zones and industry clusters, the Bank would support a Major Cities Improvement Project within the CAS period.

Strategic Objective 2: Reduce Environmental Degradation and Vulnerability to Climate Change and Natural Disasters

70. ***Sustainable growth.*** Bangladesh is ranked as the most climate-vulnerable country in the world, and is among the most densely-populated as well. Climate change is a central development challenge for the country. The Bank Group will significantly increase investments in this area, with a proposed Bank lending program of US\$1.2 billion. Frequent natural disasters - cyclones, storm surges and floods - adversely impact on the country's growth and development targets. In most years, between 30 to 50 percent of the country is affected by floods. Tropical storms originating from the Bay of Bengal recur with daunting and damaging frequency. Investments in water management infrastructure made over the past 30

years-- worth more than US\$10 billion--are vulnerable due to frequent and extreme weather events. The regional dimension of water resource management is also critical for the future transformation of Bangladesh. As the lowest riparian country, occupying only 7% of the Ganges-Brahmaputra-Meghna river basin, but receiving water from 57 international rivers, Bangladesh faces numerous challenges associated with the greater watershed beyond its borders. Achieving sustainable water resources management in Bangladesh requires moving beyond historic obstacles toward enhanced regional cooperation with all riparian countries.

71. It is projected that climate change effects will raise temperatures, leading to rapid snow melt in the Himalayas with a high risk of sea level rise covering a significant portion of the country’s land mass. The agriculture sector is increasingly threatened by overpopulation, natural disasters and climate change effects leading to erratic weather patterns, frequent drought, exhaustion of natural resources and saline intrusion along the coast. Adaptation in agriculture will be a key element in strengthening food security in future. The country’s climate vulnerability is made more severe by the multiple inter-related environmental challenges, accounting for economic losses equivalent to 4 percent of GDP according to the Bank’s Country Environmental Assessment. High population density, rapid urbanization and strong economic growth have exacerbated air, land and water pollution to dangerous levels. Forest cover is the second lowest and protected areas coverage is the smallest share of any country in South Asia, creating pressure on biodiversity. The Sundarbans (or ‘beautiful forest’) are one of the world’s great mangrove forests, shared between India and Bangladesh and home to the endangered Bengal tiger.

72. **Country strategy:** Bangladesh is at the forefront of global climate change advocacy and action. “Caring for the Environment and Tackling Climate Change” is a focus area of the NSAPR II, which aims to achieve poverty-free environmental sustainability in Bangladesh. The NSAPR II presents “food for all” as a national goal, promoting food security through agriculture growth and sustainable management of water resources. Government is already active in addressing the climate challenge by investing heavily in adaptation measures and adopting policies to address climate change impacts. The national Climate Change Strategy and Action Plan adopted prior to the Copenhagen Summit is recognized as global ‘best practice’. It outlines the country’s strategy to scale up its resiliency to climate change. Government has already committed about US\$100 million in budgetary resources to establishment of a climate change fund to address the priority adaptation needs of the most vulnerable sectors. Government has also recently reached agreement with DPs to establish a Bangladesh Climate Change Resilience Fund. The Bank will support Government’s strategies on environmental protection and climate change resiliency through a stronger focus on the following expected outcomes:

<p>Strategic Objective 2: Reduce Environmental Degradation and Vulnerability to Climate Change and Natural Disasters</p>
<p>CAS Outcomes: Outcome 2.1: Strengthened water resource management and coastal protection Outcome 2.2: Improved agriculture production and food security Outcome 2.3: Reduced environmental degradation Outcome 2.4: Enhanced disaster preparedness</p>

73. **Outcome 2.1: Strengthened water resource management and coastal protection.** Bangladesh’s 310 rivers are the lifeblood of this densely-populated landmass (1,200 inhabitants per square kilometer). In the face of high vulnerability to water-related events, Bangladesh must increase information, infrastructure and institutions related to water management. The water challenge is most complex and acute along the coastline due to the multiplicity of hazards (sea level rise, cyclones, rain storms, water logging, and surges) requiring both rapid and strategic responses. The diffused and overlapping institutional mandates for coastal development add to the challenge. While the existing coastal embankment network is large with more than 6,000 km of embankments and over 130 polders,

effectiveness has been impaired by poor maintenance, weak management, and repeated storms. The Bank will support a two-pronged strategy: (i) reinforcing coastal embankments and river conservation; and (ii) strengthening capacity of water-related institutions. Already the Bank is active in these areas under various emergency operations for restoration of embankments and livelihoods recovery. During the first two years of the CAS, this support will be enhanced through the Bangladesh Rivers Information and Conservation Project in collaboration with DPs like the Netherlands, which will include a regional component to upgrade and harmonize hydrological networks in cooperation with India. The Bank will make major investment in strengthening and developing coastal embankments during the same period. The Bank's support will complement DPs' ongoing assistance in water resource management. IFC will explore opportunities to engage with the private sector in the climate change area, complementing the Bank's assistance through the public sector.

74. In this regard, the Bank will also continue to support the South Asia Water Initiative (on-going regional Abu Dhabi Dialogue) on water cooperation. Learning lessons from the previous CAS period about disaster preparedness, the Bank Group will seek to enhance Bangladesh's capacity to protect coastal embankments, upgrade and modernize the water information system, expand water infrastructure for more reliable and productive water uses, strengthen and scale up early warning system for floods and tidal surges, and support institutional reforms and capacity building in key water resources areas. As part of its climate change mitigation strategy, IFC would support private sector-managed projects in these areas.

75. **Outcome 2.2: Improved agriculture production and food security.** The agricultural sector is a major driver of economic growth and poverty reduction, employing about 62 percent of the labor force and providing the main sources of livelihood for more than 70 percent of the rural population. The Bank Group strategy will support increased production and protection of the agriculture sector: increasing production and productivity of rice and others crops, and concurrently protecting against disasters and extreme weather events. On-going operations support rural water management and agricultural research and extension aimed at enhancing crop resiliency. During the CAS period, these operations will be complemented by support to increase food storage capacity and enhance rural livelihoods, particularly in the fisheries and dairy sectors. Analytical work, in collaboration with DPs, will further examine climate change impacts on agriculture and possible mitigation measures, including in the highly-affected Southwest Region as part of broader analytical work to unlock the potential of this lagging area of the country. Complementing the Bank's efforts, IFC's support will include ongoing advisory assistance for a small enterprise that has innovated weather stress tolerant seeds and flood, drought and saline resistant seeds, and other possible investments and advisory services in agribusiness companies.

76. **Outcome 2.3: Reduced environmental degradation and strengthened natural resource management.** The concentration of key air pollutants in Dhaka and other major cities in Bangladesh has been steadily increasing, with annual averages far higher than World Health Organization safety guidelines. Environmental factors account for as much as 22 percent of the national burden of disease, principally in the form of respiratory infections and diarrheal disease⁶. Environmental degradation in the Dhaka urban watershed is driven by the rapid growth of export-oriented industry, inappropriate technology, inadequate treatment processes, and unplanned, un-serviced urbanization. The river system in the watershed is being severely degraded by effluents flowing from domestic sources and industries. The Bank group is supporting the government's efforts to reduce environmental pollution and strengthen natural resource management through the recently-launched Clean Air and Sustainable Environment (CASE) Project, as well as analytical work in the field of indoor air pollution (on improved cook stoves) and outdoor air pollution (on introducing clean technologies for brick manufacturing). Additional financing for the CASE project will be considered during this CAS period in order to implement a Bus Rapid Transit system and scale up clean technology in the brick sector to reduce transport based CO₂ and

⁶ Bangladesh Country Environmental Analysis (2006).

air pollution emissions. The Bank Group will also continue to develop its operations in carbon finance in Bangladesh. IFC's SEDF will continue its Sustainable Energy Finance Program which aims to enhance the Energy Efficiency/Renewable Energy finance portfolio of financial institutions and encourages the financial sector to proactively consider environmental risk in its lending. As part of the Bank's intensified focus on urban management in the next CAS period, support will be provided to tackle industrial pollution and strengthen institutional capacity for improving the quality of the Dhaka watershed. On the rural side, technical analysis and advice is being provided on conservation challenges of the Sundarbans reserve forest while increasing the quality of life of the nearby populations. Work on the Sundarbans offers an opportunity for regional cooperation with India, with Bank analytical and financial support, including through the Global Tiger Initiative aimed at protecting Bengal tigers and doubling their population over the next 12 years.

77. **Outcome 2.4: Enhanced disaster preparedness.** The country's ability to manage disaster risks, in particular floods and cyclones, has improved as a result of a gradual shift from a reactive, response-based approach to a pro-active strategy that incorporates elements of greater emergency preparedness and risk mitigation. Significant gaps remain in the implementation of the national disaster risk management policies and local risk reduction action plans, as was evidenced in the 2009 SIDR cyclone response. Learning the lessons from the past CAS, the Bank will try to avoid ad hoc responses in favor of investing in disaster preparedness aimed at (a) further strengthening and institutionalizing preparedness, especially at the sub-national level; (b) mobilizing resources for improved local preparedness and response management; (c) mainstreaming disaster risk reduction and mitigation across sectors and down to lower levels of government, and (d) extending key risk mitigation infrastructure such as shelters and coastal and river embankments. Ongoing projects and initiative such as the Emergency Cyclone Rehabilitation and Restoration Project and the South Asia Water Initiative are strengthening the country's capacity in disaster management. Technical advice will be provided through the Global Facility for Disaster Reduction and Recovery (GFDRR) and the recently initiated Social Dimensions of Climate Change in the Ganges Basin initiatives, which will assess local adaptation responses in highly flood-prone areas of the Ganges Basin in Bangladesh. Technical and analytical work will be coupled with investments in coastal and river bank protection, cyclone shelters and food storage facilities in order to enhance disaster preparedness.

Strategic objective 3: Improving social services delivery

78. **Inclusive growth.** Bangladesh has made impressive progress on many human development indicators at an accelerating pace in recent years. Progress in Bangladesh has out-stripped progress in many other South Asian countries, setting Bangladesh on track to meet MDGs related to infant and child mortality and gender equality in education. The country has also experienced profound social transformation with the education of girls and rapid entry of women into the labor force, particularly into the dominant garment export industry. Despite these gains, areas of persistent weakness remain, particularly with respect to maternal mortality and childhood malnutrition. An important part of the solution lies in improved access to clean water and sanitation. Educational enrolment is quite high, but educational quality and learning outcomes must be improved if the country is to remain competitive in future. With 40 percent of the population still in poverty, fragile food security and a tendency toward natural disasters, the country needs effective social safety net policies and programs. Addressing these concerns will require a systemic approach to increasing the efficiency of social services delivery. In particular, it will be necessary to strengthen planning capacity, decentralize decision-making, improve the regulatory framework and enhance voice and accountability to accelerate progress on human development. Strengthening of supply-side service delivery combined with demand-side approaches will be required to increase use of essential services. Systemic governance issues will need to be addressed in order to raise the quality and cost-effectiveness of service delivery, and improve equity of access to services.

79. **Country strategy:** The NSAPR II summarizes Government’s commitment to improving human development and improving access and quality of health, education, and water services. It sets out highly ambitious targets, including attaining full literacy by 2014, ensuring the supply of pure drinking water to the entire population by 2011, reducing maternal mortality to 1.5 % and child mortality to 15 per 1000 live births by 2021. Social protection is also a core element of the poverty reduction strategy, by expanding social safety nets to protect the poor and vulnerable, especially women, from natural disasters, economic shocks and poverty. The Bank Group will build on its long-standing engagement in the social sectors in Bangladesh, where important contributions have been made to progress in health and education. The Bank will continue to work in the social sectors through harmonized approaches with other DPs, while also linking to Bank analytical work and possible development policy lending to promote decentralization, empower local government and enhance local service delivery. Specifically, Bank support will contribute to four main outcomes:

<p>Strategic Objective 3: Improve Social Services Delivery</p>
<p>CAS Outcomes: Outcome 3.1: Improved access to quality health, population and nutrition services Outcome 3.2: Expanded access to safe water and sanitation services Outcome 3.3: Enhanced and more systematic social protection Outcome 3.4: Improved student learning based on quality education services</p>

80. **Outcome 3.1: Improved access to quality health, population and nutrition services.** Despite positive progress on many aspects of health status, maternal mortality and childhood nutrition remain alarmingly poor. Fragmentation, inefficiency and weak sector governance remain constraints to provision of effective health, population and nutrition services. The Bank has had a long and productive engagement in the health sector in Bangladesh. Today, the Bank, in collaboration with DPs, is supporting Government’s Health, Nutrition and Population Sector Program (HNPSP) through a sector-wide approach. The Bank is supporting analytical work for a Health Sector Review which will inform the next phase of the HNPSP. The Bank is engaged with other DPs in preparing the next phase, capitalizing on the achievements of HNPSP, with a stronger focus on results and greater attention to service delivery at the district and local levels. In particular, the Bank will support Government efforts to expand access, ensure availability and improve the quality of maternal and child health services. Joining the Bank’s efforts, IFC will explore opportunities to support private sector effort to expand access to quality healthcare services. With respect to population growth, the total fertility rate has been halved since 1990, but progress has slowed in recent years. Population growth remains a serious development challenge, and the fertility rate will need to decline further to avoid a doubling of the population within the next 40 to 50 years. This requires reinvigorated attention to reproductive health and family planning services, and their integration into health service provision at all levels of the system. In light of persistent and widespread malnutrition, the effectiveness of nutrition interventions will also be assessed, and program design will be adjusted for greater impact on the nutritional status of mothers and children. However, addressing the problem of malnutrition effectively requires more than strengthening targeted health services interventions. A broader multi-sectoral approach is also needed. Analytical work will be carried out to better understand the key constraints to achieving better nutritional outcomes through multi-sectoral approaches, and to identify high-impact interventions across all sectors that would benefit from Bank support.

81. **Outcome 3.2: Expanded access to safe water and sanitation services.** The Bank program seeks to support the government target of supplying safe drinking water to the entire population by 2011 and bringing each household under hygienic sanitation by 2013.⁷ In rural areas, an ongoing Bank supported

⁷ According to the 2008 Joint Monitoring Program (JPM) of WHO and UNICEF, 80% of the population is using improved water sources and 53% of the population is using improved sanitary facilities.

operation is seeking to increase sustainable access to safe services through an increased number of piped rural water supply systems, including an arsenic mitigation option, with local Public-Private Partnerships in financing and operations. In urban areas, the Bank Group, in collaboration with DPs, is supporting Government to improve the delivery of safe water, sanitation and drainage services through extension of network water, sanitation and wastewater facilities in municipalities. This includes the extension of water networks (including to urban slums), drainage improvements to reduce flooding in Dhaka, and improvements in the commercial performance and service accountability of urban utilities in Dhaka. This will be extended first to Chittagong, and then to Khulna during the CAS period. Trust funds will support water utility performance benchmarking networks and peer-to-peer learning of local government institutions that seek to identify, validate and replicate best practices in improving access to safe water and sanitation services. IFC will also explore options of supporting private sector engagement in provision of infrastructure for drinking water.

82. **Outcome 3.3: Strengthened social protection system to reduce vulnerability.** A sizeable number of Bangladesh's population remains in extreme poverty and clustered around the poverty line. This implies that even a small shock can cause large movements in poverty rates. Historically, Bangladesh has implemented an array of social safety net programs to reach the ultra poor. At present, the country has 31 social protection programs in operation. This includes 13 cash transfer programs, 7 food transfer programs and 11 social protection funds. Nonetheless, coverage is low, targeting is weak and government's planning and delivery capacity needs significant strengthening. The programs have a food support bias, adding to administrative costs and increasing leakage possibilities. Overall, social protection and social empowerment programs accounted for 15 percent of the national budget and about 2.5 percent of GDP in FY10. The World Bank will support the Government to improve the social protection system through a combination of analytical work and IDA credits. The proposed analytical and advisory activities (AAAs) will build on existing work to improve targeting, strengthen program governance, strengthen institutions, promote micro-insurance for the extreme poor, and develop capacity to scale up safety nets effectively during shocks including natural disasters. The on-going lending program supports services for the most vulnerable population groups: disabled and street children. In the first year of the CAS period, the Bank will also support Government's Employment Generation for the Poorest Program to address seasonal poverty in rural areas, with a special focus on vulnerable women. If policy dialogue advances sufficiently, the Bank will also support streamlining of diverse safety net programs through a more efficient and effective model to deepen and broaden coverage of the most vulnerable. Additional grant financing will be used to pilot innovative approaches to address vulnerability in partnership with local governments.

83. **Outcome 3.4: Improved student learning based on quality education services.** While Bangladesh has attained the gender parity MDGs in primary and secondary education, considerable challenges remain in the sector. These include high drop-out rates, low completion rates, poor learning outcomes, lack of accountability and poor governance in schools. Government strategy in the sector has moved from an initial focus on primary education to a more holistic approach including non-formal, secondary, higher and technical education. The NSAPR II reinforces this, and sets out specific goals and targets to meet the lagging MDGs and improve quality across the education system, thereby producing a more skilled and market-relevant labor force. The Bank's on-going operations reflect this holistic approach, with support for primary (under a multi donor supported program), secondary, and higher education, as well as a targeted operation for reaching out-of-school children. During the CAS period, the Bank will support an education sector review as well as an impact evaluation of the long-running secondary stipend program. Continued support will be given to a second phase of the sector-wide approach for primary education development. The Bank will also scale up results achieved in the reaching-out-of-school-children program. A programmatic series will continue to support reforms and the successful stipend program at the secondary level, while a new technical and vocational education operation will be implemented, drawing on the recommendations of earlier analytical work. IFC will also

explore investment opportunities to support centers of excellence or chain networks that can branch into rural and under-served regional areas.

Strategic Objective 4: Enhance Accountability and Promote Inclusion

84. ***Strengthened governance.*** Avoiding prolonged conflict and restoring democracy in Bangladesh in the 2006-2008 period was an important step forward for political governance in an otherwise challenging environment. Strengthening political and economic governance remains an uphill struggle for the country as also demonstrated by recent moves to weaken the independence of accountability and regulatory institutions, such as the ACC and the Telecom Regulatory Commission. Long-term efforts are needed to eliminate a culture of corruption in favor of performance and accountability in both the public and private sectors. Global indicators of corruption perception have improved significantly in recent years, although this has moved Bangladesh up to only the 25th percentile in worldwide rankings in 2009. Entrepreneurs consider corruption and political instability second only to power shortages as obstacles to doing business in Bangladesh. IFC investment opportunities have also been constrained by this weak governance environment. Addressing these governance shortcomings will be important to ensure a public sector better able to promote economic and human development at the pace needed to reach the country's poverty reduction and middle-income status goals. Under the NSAPR II, Government intends to address governance through, inter alia, strengthening local government, reforming the civil service, and increasing transparency and accountability through enhanced access to information and e-governance.

85. The World Bank Group's strategy to strengthen governance will be informed by the modestly encouraging reform record to date, targeting support to areas where Government has shown commitment and where the potential for positive outcomes is high. Our strategy will focus on supply side reforms as well as building demand for good governance through greater inclusion. We will seek to broaden the base for governance by promoting mechanisms to include all segments of society, with a particular focus on empowering women. Sustained improvements in governance depend on creating an environment where the public sector faces scrutiny from a broad spectrum of society to perform more effectively. In addition to assistance to public entities to improve governance practices and interface with citizens, the Bank will continue to foster demand for better governance through collaboration with civil society organizations, media and academia on research, analysis, policy discussion and constructive engagement with the Government. (See Box 6).

Box 6: Stimulating Demand for Good Governance (DFGG)

The World Bank Group will promote demand for good governance through its analytical work and operations. It will support initiatives to increase the provision of information about the public sector, and assist in developing tools for instituting feedback, participatory, and monitoring mechanisms which empower citizens.

The Bank will support improvement of information flows from the Government through capacity building of civil society and public officials in the use of the Right to Information Act and monitoring of its implementation. Feedback mechanisms will also be strengthened through the promotion of community driven development and the establishment of stakeholders' groups that allow civil society groups to engage with Government on public sector performance, such as through the recently formed Public-Private Procurement Stakeholders' Group.

Through Trust Funds and technical assistance, the Bank Group will foster mechanisms that allow for citizen monitoring of government performance, including public procurement. The Bank will build on the pilot review of DFGG under its operations and will conduct a comprehensive DFGG review of its entire portfolio in FY 11 to promote good practices for citizen engagement in all of its projects. Based on this review, operations will be selected under each pillar of the CAS to pilot more extensive third-party monitoring arrangements.

86. Since the political transition in early 2009, the Bank has been gauging the extent of the new Government's commitment to deepening governance reforms. Worrisome amendments to the public

procurement law led the Bank to scale back its policy-based lending until greater clarity was reached on the nature of future reforms. To move the dialogue forward, Government has agreed to prepare jointly with the Bank, an Institutional and Governance Review aimed at identifying and building broader consensus around priority governance reforms. With sufficient country ownership, such reforms could pave the way for a resumption of development policy lending by the Bank during this CAS period. Such lending would likely continue Bank support for core governance in areas like public financial management, as well as extending support for decentralized institution-building and accountability at local levels. A focus on strengthening governance will be integrated across all strategic objectives of this CAS to underpin the achievement of development results. Support will also be targeted under this pillar specifically to strengthen public sector accountability and promote inclusion in the development process, as summarized by the outcomes below:

<p>Strategic Objective 4: Enhance Accountability and Promote Inclusion</p>
<p>CAS Outcomes: Outcome 4.1: Increased effectiveness and efficiency of public resource use Outcome 4.2: Enhanced transparency and accessibility of public services through information technology Outcome 4.3: Increased effectiveness of public service delivery at the local level Outcome 4.4: Expanded participation in local development and women’s economic empowerment</p>

87. **Outcome 4.1: Increased effectiveness and efficiency of public resource use.** Support for strengthening of public financial management (PFM) will build on progress which occurred during the last CAS period, notably the adoption of a medium term budgetary framework approach, the passage of the Public Money and Budget Act 2009, the initial computerization of accounts, and strengthening of the audit process. It will address areas where substantial challenges for satisfactory performance of the public financial management system persist: the weak framework for accountability and internal control environment including the powers and culture of formal public accountability entities, inadequate capacity for strategic budget and debt management, and limited access to financial information. The primary vehicle for support will be the Strengthening Public Expenditure Management Program financed by an MDTF administered by the Bank. In addition to continued support for the Ministry of Finance, the SPEMP would strengthen system and human capacity for line ministries, the Comptroller and Auditor General and Parliamentary committees (the Public Accounts, Public Undertaking, and Estimate Committees).

88. Through the on-going second Public Procurement Reform Project, the Bank will continue to support strengthening of the public procurement system. Bangladesh’s 2006 Public Procurement Act and 2008 Public Procurement Rules were an important step forward, establishing a procurement regime with most features of international good practice, including introducing a procurement management capacity development program and piloting a procurement performance monitoring system. The 2009 amendments to the law were unhelpful, undermining the transparency of some provisions, but still leaving Bangladesh far ahead of most South Asian countries. Going forward, the Bank will focus support on implementation and monitoring of the procurement law in key sector ministries, electronic bidding (e-procurement), and social accountability mechanisms, including operation of a recently-established Public-Private Stakeholders Committee. Both public financial management and public procurement processes could be further supported by development policy lending if reform commitment is strong.

89. **Outcome 4.2: Enhanced transparency and accessibility of public services through information technology.** Lack of transparency and inefficient procedures tend to insulate public officials from their obligations in delivering services, hinder responsiveness, and provide opportunities for abuse and corruption. The interface between Government and citizens in Bangladesh could benefit from reforms to promote greater transparency and efficiency. Government has recently undertaken two important

initiatives to address this, passing the RTI Act in 2009 and promoting the use of ICT under the so-called Digital Bangladesh agenda. The Bank Group will support implementation of both initiatives during the CAS period. The joint IGR will assess how best to facilitate implementation of the RTI Act. On this basis, the Bank will support capacity building for public institutions to proactively and reactively provide information, formulate policy, and handle appeals. Already, the Bank is supporting pilots on the use of ICT in 500 village councils under the Local Government Support Project, and this would be scaled up during the CAS period. The Bank will also incorporate transparency requirements mandated by the RTI Act and the Bank's new Access to Information Policy in its operations in Bangladesh. The Bank and IFC will further the Digital Bangladesh agenda by promoting e-governance applications. This will include developing a coherent framework for the use of ICT in the public sector, including provision for interoperability of information systems among different agencies and standards to secure and ensure reliability of data. IFC will continue to assist in the automation of various government-business interfaces. Building on its work for establishing an electronic registry of business rules and regulations, IFC will provide further support to government for enhancing the supply of regulatory information and engaging stakeholders when formulating new regulations. It will also mainstream the recently piloted client satisfaction score-card for private sector related government agencies. The Bank will also support the upgrading of the country's national identification system to provide an electronic platform for better service delivery by multiple public entities.

90. **Outcome 4.3: Increased effectiveness of public service delivery at the local level.** Bangladesh is among the most centralized countries in the world, with line agencies undertaking most public service delivery functions and accounting for the bulk of public expenditures. Despite poor service delivery outcomes, resistance to decentralization and local service delivery remains significant. The election platform of the current Government called for a new paradigm to 'bring services to the doorsteps of the people', and steps have already been taken to decentralize some powers and strengthen local government. The World Bank will build on this renewed Government commitment to local service delivery and on the experience gained through the ongoing Local Government Support Project (LGSP), which has shown that efficiency and responsiveness of local services can significantly improve through provision of adequate resources and strengthened accountability at the local level. The Bank will continue to provide support through a combination of lending operations and analytical support to enhance local government capacity and accountability. Through the IGR and other advisory support, the Bank will foster a policy dialogue with Government on strengthening the institutional framework for government and public service delivery at the local level. A multi-sectoral approach will be adopted in order to link efforts on local government to core interventions for social services delivery. Implementation of the on-going LGSP, and a follow-on operation, would be the main vehicles to support this agenda, which build capacity at the village council level by enhancing the fiscal transfer system, institutionalizing accountability mechanisms, improving financial management and establishing effective monitoring systems. The LGSP model will also be supported for city corporations and urban municipalities under the next phase of the Municipal Support Project. Analytical work will be conducted in parallel with these proposed operations to assess local governments' financing, financial management and service delivery capacity for scaling up. Development policy lending may also provide a vehicle for supporting multi-sectoral reforms aimed at strengthening local government and decentralizing service delivery. IFC will expand and deepen its program of regional dialogue between local governments (including city corporations and district administration) and the private sector. Currently being piloted in four district towns, these dialogues have proven useful in identifying business issues at the local level and catalyzing actions to resolve them.

91. **Outcome 4.4: expanded participation in local development and women's economic empowerment.** Bangladesh's poorer, rural populations have not shared sufficiently in the benefits of the country's recent growth. Lack of voice and participation in decision making, especially allocation of public funds by local governments, underlies this exclusion, leading to unequal opportunities and limited ability to negotiate better terms and services and to access assets that would reduce poverty. Addressing this is

critical for more inclusive growth and poverty reduction. Recognizing the need to enhance voice and participation in development, the Government introduced a community driven development (CDD) approach in 2003 and continues to advocate this approach under the NSAPR II. The Bank's engagement in CDD in Bangladesh began with the Social Investment Program Project (SIPP), which was piloted in the two poorest districts of Jamalpur and Gaibandha. The project has demonstrated that a CDD approach is an effective mechanism to enhance poor people's voice and improve local governance. The Bank will continue to support SIPP during the CAS period, and expand its scope through a SIPP-II Empowerment and Livelihoods Program in a larger number of districts. As one element of the planned IGR, an assessment will be made of other avenues for increasing voice and participation, as well as creating social accountability mechanisms at the local level.

92. Bangladesh has made strong progress on certain aspects of gender equality, especially in childhood health and education. At the same time, women's empowerment remains weak in terms of access to paid employment and assets, as well as voice in the household and in the public sphere, in spite of a growing women's movement. The NSAPR II emphasizes the inclusion of women in all dimensions as an important strategy for accelerating growth and ensuring long-term sustainability of the development process. For its part, a significant portion of the Bank-funded portfolio and analytical work in Bangladesh has supported mainstreaming gender, particularly in human development, microfinance and community-driven development. The Bank-sponsored analysis "Whispers to Voices" is regarded as a milestone for empirical work on gender, while the Bangladesh portfolio was recognized by the Bank's IEG as 'best practice' in gender mainstreaming. The CAS will build on this track record of gender mainstreaming while going a step further by including women's economic empowerment as an expected CAS outcome. To contribute to this outcome, the Bank will pilot training and transitional support for women living in lagging areas to work in burgeoning export industries, including the dominant garment industry. The planned EGPP will also encourage women's empowerment by targeting 30 percent of the jobs created. IFC's Economic Zones program will continue to support government in improving the working conditions of women employed in the zones, with a view to replicating the results outside the zones.

C. Cross-Cutting Dimensions

93. Several areas with specific CAS outcomes outlined above also have cross-cutting dimensions. Governance and gender, most notably, cut across all pillars and will be mainstreamed throughout the Bank's program. On governance, this will involve greater attention to strengthening sector institutions, implementing key sector reforms and enhancing sector-specific accountability mechanisms. On gender, this will involve gender-disaggregated analysis and gender-sensitive design and monitoring to ensure that both sexes are equally participating in, and benefitting from, the development process. In addition to governance and gender, the CAS will have two other cross-cutting dimensions, regional integration and aid effectiveness, discussed below.

94. ***Strengthening gender mainstreaming.*** Bangladesh has made impressive gains in gender equality against great odds. Perhaps its most spectacular achievement has been in education where girls' secondary enrollment rates are higher than those of boys. Education seems to have brought a virtual revolution in the Bangladeshi countryside. In health too, the achievements have been impressive. Bangladesh halved its fertility rates between 1971 and 2004, the gender gap in infant mortality has been closed and overall child mortality rates have rapidly come down. Despite these significant achievements, women continue to have very poor access to reproductive health services, and maternal mortality remains unacceptably high. Only a little over 10 percent of pregnant women give birth in medical institutions and a large proportion are malnourished during pregnancy and lactation. In the economic sphere, the micro-credit revolution continues to boost women's earning potential and economic empowerment. The thriving garment industry employs mostly young women and vast numbers of young women leave their villages to work in factories where, in earlier generations, young women were rarely seen outside their homes. However, overall

female labor force participation rates are low and women's access to wage work is limited. Women also face high levels of violence in the home and outside, and threats to their security could jeopardize their gains. In the arena of political participation, Bangladesh, like other South Asian countries, has elected female heads of government. The current cabinet has women members heading ministries traditionally regarded as men's domain. It also has quotas for women in national parliament and local government.

95. The Bank has been a longstanding partner in supporting Bangladesh's gender achievements. In operations, the Bank has integrated gender both within the traditional human development sectors and others sectors such as rural development and livelihoods. The Bank has supported the highly successful female secondary stipend program, primary education programs, health SWAps and community livelihood projects that have all contributed to gender gains. The Bank's analytical work mainstreams gender effectively. The Bank report "Whispers to Voices" is regarded as a milestone on empirical work on new and emerging gender issues. A portfolio review of gender mainstreaming in projects in Bangladesh found good integration of gender in the Bank's operations. During the CAS period, the Bank will strengthen gender mainstreaming with an increased focus on women's economic empowerment. Among the instruments, will be employment generation targeted at low-income women and an innovative pilot program to support low-income women in transitioning into labor-intensive manufacturing.

96. **Promoting regional integration.** The political transition in Bangladesh brought with it a new impetus to strengthen cooperation with India in particular, allowing more optimism about broader regional efforts to improve economic integration. The economic benefits of enhanced integration are clear and considerable for Bangladesh, with some estimates of annual growth rates increasing by as much as two percentage points. For this reason, the CAS will support opportunities for regional integration across all four strategic objectives. This includes, inter alia, support for regional transport networks and power pools (objective 1); management of common natural resources, especially rivers, coastlines and forests (objective 2), facilitation of labor mobility and enhanced regional response to malnutrition (objective 3); and regional knowledge-sharing on decentralization and empowering local government (objective 4). It is recognized that the extent of Bank support in many areas will depend on the evolution of the political dialogue and the opportunities that emerge for enhanced regional cooperation. The country program will build in sufficient flexibility to respond to emerging regional opportunities, and will seek to leverage additional resources from the regional IDA envelope as appropriate. As emphasized in its third strategic component, IFC will continue its support via South-South opportunities, trade finance, transport infrastructure projects (as materialized), and through BICF's advisory services to improve business regulations and processes.

97. **Enhancing aid effectiveness.** The effective use of aid resources is rooted in the broader issue of public resource management, which will continue to be a core focus of the Bank's support on governance (objective 4). Aid effectiveness also has specific determinants related to Government leadership on aid management and the behavior of development agencies. In Bangladesh, the Economic Relations Division of the Ministry of Finance has responsibility for coordinating aid management on behalf of Government. The formal mechanism for macro-level coordination is the Local Consultative Group (LCG), with multiple sector and thematic working groups. As a prominent development partner, the Bank is a standing member of the LCG Executive Committee, and takes the rotating lead on several sector/thematic working groups (e.g. public financial management). The Bank has worked with other DPs to support Government preparation of the NSAPR II in 2009 and hosting of a BDF in early 2010 after a hiatus of five years.

98. The Bank was also a core member in the drafting of a Joint Cooperation Strategy to serve as an action plan aimed at strengthening adherence to aid effectiveness principles summarized in the Paris Declaration and the Accra Agenda for Action. The JCS was endorsed at the BDF, and was signed by Government and eighteen DPss in June 2010. Among the actions agreed in the JCS will be adoption of a harmonized development results framework based on the NSAPR II, which can serve as a basis for

common performance assessment by development agencies. The DPs will support the NSAPR II and the results framework under their respective assistance strategies, and through operational partnerships as deemed necessary. The Bank will play a leading role in working with Government to define this results framework, which would pave the way for more harmonized, programmatic approaches among DPs. The Bank itself will make greater efforts to adhere to aid effectiveness principles, by simplifying instruments and processes under the on-going sector-wide approaches in health and education, identifying other opportunities for sector-wide and/or pooled approaches, supporting joint analytical work and joint operations with other partners, administering MDTFs in support of Government-led programs, and using the Bank's portfolio to strengthen country systems and capacity to monitor progress and manage for results.

99. **Partnerships.** The Bank Group works closely with other DPs across a range of sectors, and has been instrumental in developing sector wide approaches in health and education. In the health and nutrition program, the Bank is the coordinating agency to manage the program among the eight DPs that pool their funds. They include the EU, Canada, Germany, Sweden, Netherlands, UK and UNFPA. In the primary education development program, ADB manages the program on behalf of eleven partners which includes the Bank, Australia, Canada, EU, Japan, Netherlands, Norway, Sweden, UK, and UNICEF. The Bank is also engaged in parallel and co-financing operations in energy, infrastructure, water resources management, environment protection and local government, among others. During the CAS period, the Bank, as the coordinating donor, will finance the Padma Bridge in partnership with ADB, Japan and the Islamic Development Bank. In addition to project and program-based financing, the collaboration with DPs extends to analytical work and technical assistance. The Bank collaborates with the IMF on macroeconomic assessments. MDTFs such as SPEMP, financed by UK(DFID), European Union (EU), Denmark and Netherlands, have emerged as good practice of donor collaboration and have strengthened the partnership between the Bank and DPs. Several non-lending technical assistance (NLTA) programs are under implementation including the Swiss financed NLTA that aims to strengthen local governance. In private sector development, IFC has taken a leading role through its two facilities, SEDF and BICF, which are largely donor-financed by the EU, Norway and UK(DFID). In the area of governance, UK(DFID) is financing a TF which has provided analytical support for a range of sectors. The Bangladesh Climate Change Resilience Fund is an upcoming partnership currently supported by UK(DFID), Denmark, Sweden and EU. Besides partnerships on operations and analytical work, the Bank Group is also engaged in regular dialogue with all DPs through the LCG mechanism and through bilateral contacts. The Bank Group is committed to building on these arrangements under the proposed lending and analytical program during the CAS period. See Annex 8 for more details on aid effectiveness and existing partnerships.

III. IMPLEMENTING THE STRATEGY

100. The Bangladesh CAS for FY11-14 builds on a strong on-going portfolio which is well-aligned with the strategic objectives of the new CAS. Relative to the previous CAS period, the new CAS will place greater emphasis on investments to accelerate growth and reduce vulnerability to climate change. In terms of CAS implementation, efforts will be made to improve programming for greater impact, through larger, more strategic operations, more operationally-relevant analytical work, better integrated TF resources and a stronger focus on managing for results.

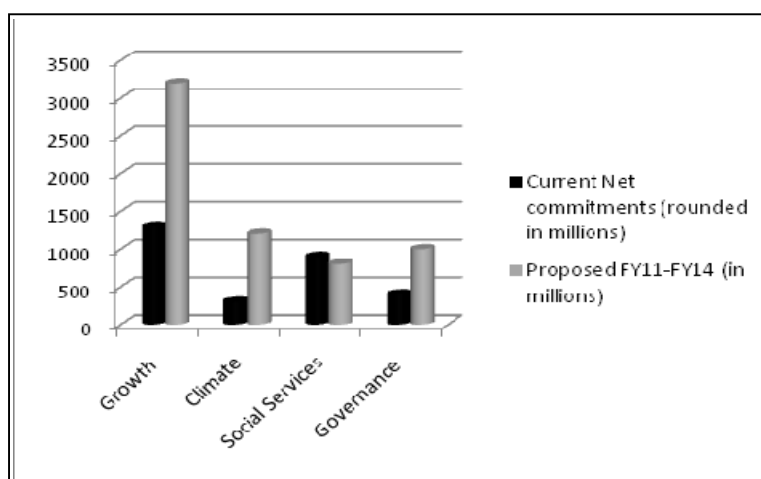
A. Building on the Portfolio

101. **The volume of annual commitments increased during the last CAS period.** In 2006 and 2007 annual new commitments averaged US\$420 million, rising to US\$753 million in 2008 and US\$1.1 billion in 2009, the highest ever for Bangladesh. At the end of the CAS period in July 2009, the portfolio consisted of 26 active operations with a total loan commitment of US\$2.9 billion. Out of this, US\$1.7

billion was undisbursed. Twenty nine operations (including ten DPLs) totaling US\$2.7 billion (with DPLs' share at 46%) were approved during the last CAS period.

102. **The ongoing portfolio is well positioned to support CAS outcomes.** It covers operations across the four pillars, with a larger share supporting operations falling under strategic objectives 1 and 3. This CAS builds on the portfolio while significantly ramping up assistance for infrastructure and climate change (see Table 4), and scaling up in sectors showing results. There have been visible results in bringing poor children to schools, increasing livelihoods for the vulnerable, creating access through rural road networks and expanding provision of renewable and solar energy to rural households. These successes will be consolidated through larger interventions.

Table 4: Portfolio and Proposed Commitments by Pillar



103. **Portfolio performance improved during the previous CAS.** Disbursements were better than the regional average, and a significant reduction occurred in portfolio at risk and problem projects. The proactivity index showed visible improvement towards the end of the CAS period. Twenty one projects exited from the portfolio during FY06-FY09. Out of these, two projects received unsatisfactory and four received marginally unsatisfactory ratings from IEG. In terms of portfolio risk flags, an average 20% of the portfolio faced two risk flags – fiduciary and project management - demonstrating the inherent institutional, governance and capacity weaknesses in public sector ministries and weak financial management and internal controls. Due to these and related constraints, implementation delays occur, also affecting faster disbursements of investment projects. In future, use of fast disbursing instruments (such as programmatic performance based investment lending) and more active monitoring have the potential to improve disbursements.

104. **Analytical work has been a central part of the country program.** It has informed future operations, and carried forward the dialogue with government and civil society. Major Economic and Sector Work (ESW) has included a Country Environment Assessment, the Bangladesh Strategy for Sustained Growth, a Country Gender Assessment, and a Poverty Assessment. Key AAA was made widely available through a new Bangladesh Development Series. Reports on emerging issues like climate change and disaster management were also prepared. Policy notes were intended to provide just in time advice to policy makers and were demand responsive. The FY11-FY14 CAS will build on this experience and further strengthen AAA work using a range of analytical and advisory instruments for core ESW, demand-based policy notes and reports.

105. ***Bangladesh is a recipient of large Trust Funds (TFs).*** Trust Funds are well integrated in the country program through AAA, co-financed operations and capacity building activities. The current TF portfolio consists of a total commitment amount of over US\$450 million and is well aligned with the CAS pillars. Major TFs are the multi-donor financed SPEMP, the UK (DFID) funded Joint Technical Assistance Program (JOTAP) on Governance, and the multi-donor financed Health SWAp. SPEMP is a comprehensive program which supports the Government in implementing financial management and budget execution reforms. JOTAP delivers an enhanced level of analytical work and policy dialogue on governance across key reform areas and sectors. The Health SWAp is the largest TF which provides co-financing to the Government's health, nutrition and population program. In addition, other TFs, such as for decentralized governance and rural water supply, have significantly contributed to enhancing policy dialogue in operations like LGSP and improving local level peer to peer learning through the Water and Sanitation Program.

106. ***During the last CAS period IFC delivered a strong program.*** Since early 2006, IFC delivered investment commitments amounting to US\$334 million (for IFC's own account), with over three quarters supporting the financial sector. All the financial market projects, except two, provided guarantees for trade transactions of SMEs. As of April 2010, IFC's portfolio had 14 projects amounting to US\$124.1 million, including US\$8.9 million for syndications. On the advisory side, IFC made significant strides since SEDF was established in 2002 and BICF was established in 2007 in partnership with UK (DFID) and the European Union. IFC's advisory services focus on: (i) investment climate, and identifying and addressing key private sector investment constraints in the country; (ii) access to finance; and (iii) SMEs' and financial institutions' capacity building. In this context, BICF promotes better business regulation; enhanced economic zones and capacity building; more business friendly policies, laws, and regulations; and strengthening of implementing institutions. BICF focuses on priorities identified through extensive consultations with various stakeholders including the private sector, government and other DPs. As IFC's largest investment climate facility devoted to a single country, BICF complements other advisory teams in Bangladesh including SEDF, Access to Finance (A2F), and Infrastructure Advisory which provides advice on PPPs.

107. ***MIGA's strategy is informed by the strategic directions of the World Bank Group.*** The Agency's current portfolio consists of one project, financed by Egyptian investors, in support of the country's telecommunications sector. The project involves the acquisition, operation and maintenance of a national mobile telephone network based on GSM technology, and aims to address the acute shortage of reliable telephone services in the country. The Agency is also providing cover for a joint venture banking facility in Afghanistan, operated by a UK investment company, ShoreCap, and a large Bangladeshi microfinance business, the Bangladesh Rural Advancement Committee (BRAC). MIGA's strategy will continue to be guided by the overall direction of the World Bank Group to support new openings anticipated during the CAS period.

B. Improving Programming

108. The IDA resource envelope for the FY11-FY14 CAS, estimated at over US\$6 billion, covers the last year of IDA 15 and the full IDA 16 cycle. The indicative allocation for the IDA 16 period is assumed to be SDR 2560 million, the same as for IDA 15. Actual allocations during the CAS period will be determined on a yearly basis and will depend on: (i) total IDA resources available at the time; (ii) the country's performance rating; (iii) the performance and assistances terms of other IDA borrowers; (iv) the terms of IDA's assistance to Bangladesh (whether credit or grants); and (v) the number of IDA-eligible countries.

109. ***The lending program will be prepared and monitored around the sixteen outcomes.*** The strategic link between proposed operations and CAS outcomes will be strengthened to ensure that Bank financing is well aligned, and the new operations and on-going portfolio lead to accomplishment of desired results. With this in view, all proposed operations and AAA link directly to the anticipated outcomes. This will be further backed by sector specific frameworks developed by government ministries in collaboration with DPs. A series of SWAPs and programmatic investment lending will support these frameworks, for example in health, education and water supply, jointly with other DPs.

110. ***The Bank will diversify instrument choices.*** The indicative program includes Standard Investment Loans, additional financing for well-performing projects, programmatic performance-based Specific Investment Loans, and the flexibility to use Development Policy Lending if credible reform measures by government warrant policy lending. A clear shift already initiated is towards performance-based investment lending, currently proposed in social protection, education and rural roads. These instruments can reduce risks as disbursements will be linked to actual performance. The Bank will also deliver increased volume by leveraging sector reforms through large-scale infrastructure operations (e.g. the Padma Bridge) and significantly scaled up operations to reduce vulnerability to climate change.

111. ***Learning lessons from experience, this CAS will seek to consolidate and innovate for results.*** All new operations and AAA entering the work program will be guided by the following principles:

- a) *Sequencing* of analytical work to guide policy dialogue on reforms and influence operational design;
- b) Use of the *full range of instruments*, including a possible resumption of development policy lending in selected areas with sufficient country ownership and capacity to carry forward reforms;
- c) *Realism* to maintain a manageable portfolio aligned with the client's capacity to implement and the Bank's capacity to supervise;
- d) Increased engagement where opportunities exist for *larger, more strategic intervention*;
- e) *Scaling up* of interventions with demonstrable results and high country ownership;
- f) Within an overall context of consolidation, retaining *flexibility to innovate* and pilot through selected, smaller interventions.

112. ***Sustaining a record level of IDA resources.*** The program for FY 11 is fairly well advanced and is expected to commit the highest-ever level of annual IDA to the country, assuming continued strong performance. The FY11 commitments, reflecting significant back-loading of IDA 15, are expected to exceed the US\$2 billion mark, including US\$1.2 billion for the proposed Padma Multipurpose Bridge Project. From FY12-FY14, indicative annual allocations under IDA 16 are maintained at approximately US\$1.3 billion, on par with the IDA 15 annual allocation. The total allocation during the four-year CAS period is estimated at over US\$6 billion, contingent on country performance and progress in sector policies. The annex on Proposed IDA Lending lists the range of possible operations. A mid-cycle CAS Progress Report will provide an assessment of implementation and proposed shifts based on actual delivery.

113. ***More strategic interventions and increased average size.*** This will leverage Bank resources to meet government priorities and support reforms for transformative investments leading to better development impact. It will also enable better portfolio monitoring by the Bank while reducing the capacity strain on the client for managing scattered small projects. The average size of operations is expected to continue to rise from the US\$70 million in the earlier part of the previous decade to US\$120 million in the last year of the FY06-09 CAS to US\$150 or more million during the upcoming CAS. While

pursuing these larger interventions, the Bank will selectively include a few small operations to test innovative approaches for potential scale up. Increased use of large scale projects (such as the Padma Multipurpose Bridge Project) coupled with greater use of performance based lending is also expected to reduce risks.

114. Delivering on this increased level of financing will require strong performance on the part of the Government and the Bank. Actual financing amounts will depend on the extent to which sectoral policies and governance arrangements are conducive to effective IDA investments. In a number of areas, particularly related to infrastructure investment (such as energy and transport), key policy and institutional actions are required before expanded investment can take place. Government reform momentum and priorities may evolve, opening up new opportunities or requiring the Bank to scale back where commitment and ownership is weakened. Recognizing this, the CAS reflects engagement across the four pillars while retaining the flexibility to allocate resources based on sector and country developments.

115. ***AAA work will be sequenced to support key sector and cross-sector priorities.*** The Bank's key value added pertains to the quality of its analytical work to inform policy development and operations. AAA work will be linked to policy needs of the lending program and will also assist in enhancing the research and knowledge base in the country. Analytical work will be used flexibly to resolve issues that arise during the planning and implementation of sector reforms and large-scale investment programs, such as in infrastructure. In addition to ESW and high visibility studies, non-lending technical assistance and TFs will support policy notes on a demand basis, as well as diagnostic and operational reviews to improve operational effectiveness. Internal scrutiny of AAA tasks will mirror that for operations, with the CMU and SMUs implementing a well-coordinated mechanism for supporting demand driven analytical work. The Bangladesh Development Series will continue with a more comprehensive dissemination and outreach strategy making greater use of print and electronic media, and extending dissemination activities to different geographic locations. The Bank's new Access to Information Policy will enable easier dissemination of analytical work. WBI will provide support as a global facilitator of capacity development. It will facilitate global offerings and flagship courses linked to the CAS pillars including on governance, climate change, urban development, health, and growth.

116. ***Trust Funds will support AAA work, advance policy dialogue and pilot innovations for potential replication.*** The current robust TF portfolio will be augmented according to sector and cross sector priorities. The TFs will continue to be subjected to similar internal quality and management approval processes to those employed for standard Bank operations. The large TFs, such as SPEMP, have similar supervision processes as used for IDA credits. This focus on quality at entry and during implementation will be maintained for all upcoming TFs. TF monitoring will continue to be included in country portfolio monitoring to ensure that Task Teams are kept abreast of required actions. The CMU, through its enhanced operational capacity, will maintain quarterly monitoring updates for all TFs.

C. Reducing Corruption in Operations

117. Learning lessons from the last CAS and recognizing the governance, corruption and low capacity risks, Bank operations will be strengthened through the following measures which will be systematically employed across the portfolio and at all stages of the project cycle. Annex 9 provides further details.

118. ***Corruption and governance risks will continue to be assessed for all lending operations.*** During project preparation, teams agree on safeguards with governments including institutional reform, fiduciary controls, and procurement risk mitigation plans. This practice will further be strengthened and more rigorously monitored.

119. ***New lending development will have increased sensitivity to specific corruption risks in sectors.*** In sectors where government commitment to addressing corruption is deemed insufficient and hence risks are too high, the Bank will reduce engagement. The Bank will invest more in conducting diagnostics of corruption through political economy and operational risk assessments in key sectors to inform project preparation and design and to define the extent and nature of risks across different sectors. So far three such analyses have been conducted which have contributed to sector teams' enhanced understanding of the drivers of corruption in their sectors.

120. ***The ORMAP team will operate under a modified methodology.*** The ORMAP will shift from its earlier focus on lending to overseeing risk assessments and risk monitoring for both pipeline and portfolio. This will ensure that sufficient attention is given during implementation when the need is greatest. The ORMAP work will dovetail and be integrated with the roll out of the ORAF beginning FY 11. Cross-sectoral technical support and managerial oversight will be provided to task teams in identifying governance and corruption risks under the new ORAF. The in-country team will work in close collaboration with corporate level Investment Lending Risk Team (ILRT). There will be capacity challenges in handling risk assessment and risk monitoring based on the upcoming ORAF and the specific requirements of the Bangladesh portfolio. To address this, CMU and sector teams' capacity is being strengthened, including through appropriate training, to effectively implement these changes.

121. ***Monitoring and review processes.*** More specialized monitoring of high risk projects will be led by CMU in coordination with sector units. Quarterly portfolio reviews will focus on high risk operations, and annual high level Country Portfolio Performance Reviews (CPPR) will specifically include review of progress on governance and anti corruption plans.

122. ***Engagement with government on governance and corruption risks will be maintained during both project preparation and implementation.*** The risk assessment and mitigation measures will be monitored closely and updated annually during project implementation as per the ORAF, and progress against the agreed actions plans will be reflected in the Implementation Status Reports (ISRs). The Bank management will be quick and decisive in addressing cases of corruption as they may arise in any of its projects and develop systems to reduce opportunities for the subsequent re-emergence of the problem, and, if deemed necessary disengage from projects.

123. ***Projects in the Bangladesh portfolio have been the subject of INT investigations.*** So far four INT investigations have been completed with follow up action plans agreed with the client. In sectors, where the Bank is no more providing operational support, extensive technical engagement is ongoing to improve business processes, as currently underway in the roads sector. The Country Team will also proactively engage with INT during project preparation to benefit from INT's technical guidance on high risk operations. Earlier experience of such upfront engagement with INT led to much more robust institutional risk assessment and mitigating measures for projects with high corruption risks.

124. ***Decentralized service delivery and CDD operations will be scaled up to generate greater local level accountability.*** The experience with CDD operations in Bangladesh demonstrates the high development impact of participatory planning and monitoring that has also helped to reduce corruption at the local level. The good experience of the Local Governance Support Project in improving service delivery will be expanded under a second phase. The IGR will assist in defining decentralization policy options, especially for enhanced local level accountability.

125. ***The Bank will make use of the new Access to Information policy.*** Information on Bank operations will be made more accessible and will be in public domain. Information on contracts, with grievance mechanisms - established through the Procurement Act - will be more actively posted on

websites. Information on performance of projects and results of third party monitoring will also be made available.

126. ***Trust funds will support core governance and sector governance activities.*** This will include improving the planning, budgeting and executing capacity of ministries. Other TF supported activities will include operational risk assessment for sectors; operational review of demand for good governance; third party monitoring; impact evaluations; and surveys of public perception of the overall governance environment.

127. WBI will maintain its support for the implementation of the RTI Act, and its assistance in establishing a South Asian Network for Social Accountability anchored by the Institute of Governance Studies (IGS) at BRAC University. WBI's Parliamentary program will continue with ongoing capacity building support to key oversight committees.

D. Managing for Results

128. A lesson from the previous CAS which was highlighted in the independent Country Assistance Evaluation was the need to maintain momentum on results during CAS implementation, so that the CAS becomes a tool to manage for results, rather than a static document. This requires something of a shift in mindset among Bank task teams, Government counterparts and other stakeholders to focus not only on inputs and processes, but increasingly on progress towards expected outputs and outcomes.

129. ***Results monitoring during CAS implementation.*** The starting point for a continuous focus on results is in developing a shared vision around a well-articulated results framework with measurable mid-term milestones and outcome indicators. During CAS preparation, multi-sectoral "results teams" were established around the four strategic objectives to articulate CAS outcomes and lead multi-stakeholder consultations. These results teams will be maintained through the life of the CAS, with responsibility for monitoring progress towards expected outputs and outcomes and modifying strategy as needed to manage for better results.

130. ***Catalyzing and coordinating a focus on results.*** The CMU in Dhaka will be strengthened through recruitment of a Results Specialist Operations Officer responsible for catalyzing and coordinating regular CAS monitoring and reporting on results. The CMU will also build capacity and encourage results-oriented supervision among task teams as the building block for broader portfolio reviews and CAS monitoring. This will include promoting the use of core sector indicators in portfolio monitoring. Equally important will be planned efforts by the CMU to raise awareness and strengthen capacity among implementing agencies to manage for results.

131. ***Reinvigorating Country Portfolio Performance Reviews.*** The independent evaluation also recommended reinstating regular CPPRs with the client. The CMU has already initiated quarterly technical portfolio reviews with Government, and agreed on an annual high-level portfolio review involving other DPs and stakeholders. This annual review will be broadened into an annual forum for CAS monitoring, with a particular focus on progress towards results. Results-oriented supervision by task teams will underpin portfolio reviews and CAS monitoring, but will also encourage greater proactivity for poorly-performing operations, including options such as restructuring at any point (not only at mid-term review).

132. ***Enhancing domestic accountability mechanisms.*** Ultimately, strengthening domestic accountability mechanisms will create sustained incentives to achieve better results. It is therefore important that such strengthening be mainstreamed across all CAS objectives and activities. To this end,

the Demand for Good Governance (DFGG) within the Bank's portfolio will be systematically assessed, building on an assessment of a sample of operations already undertaken. Recommendations of the portfolio assessment will lead to mainstreaming of DFGG mechanisms in new operations, as well as retrofitting as appropriate in on-going operations. Third-party monitoring has also been successful in enhancing accountability for resources and results in some on-going operations in Bangladesh. A new TF proposal will support the introduction of third-party monitoring in signature projects across all strategic objectives of the CAS, to provide an independent perspective on progress towards results.

133. ***Strengthening country capacity to manage for results.*** The Bank's own efforts to manage for results across the country program are built on Bangladeshi systems and capabilities for measuring and monitoring progress. Strengthening the country's capacity to manage for results is paramount as a foundation for sustained development. Such efforts must be incorporated across the country program and portfolio, through diverse support for planning and budgeting, institutional strengthening, statistical capacity building, sector monitoring and evaluation systems and reform of incentives to achieve results. Beyond the portfolio, the Bangladesh program will rely on sizable on-going TFs for good governance and public financial management to strengthen country capacity to manage for results.

134. ***Improving communications and outreach.*** The Bank has an interest in both achieving results and better documenting them. On both counts, an increase in the quantity and quality of communications and outreach in Bangladesh is warranted. This will be accomplished by increasing specialized communications staff, as well as empowering the CAS results teams--and every task team--to engage more extensively with civil society, the media and research institutes and think tanks. Implementation of previous communications and outreach strategies has consistently fallen short of expectations due to inadequate staffing and resources devoted to this vital area.

IV. MANAGING RISKS

135. Risks to the achievement of results (and to the reputation of the Bank) under this CAS are substantial, as they have been in previous CAS periods. Strenuous efforts are underway to appropriately mitigate these risks. Mitigation efforts have been described throughout the CAS document, but it is worthwhile to reiterate the major risks, as follows:

- ***Faltering commitment to reforms.*** After a year in power, Government has reached a turning point at which a stated commitment to structural reforms and good governance will need to be translated more directly into actions on the ground. Performance to date is mixed. In the governance arena, efforts to promote e-governance, right to information, a public-private stakeholder committee for public procurement, and some local government strengthening have proceeded well, while the independence of the judiciary and the ACC were weakened, and the quality of the public procurement law was diluted. This mixed performance is unsurprising, but requires a more selective approach by the Bank to successfully support reforms. The Bank, and IFC (especially BICF) in providing advisory services, will engage in investments, reforms and advisory services in sectors and areas where political commitment is sufficient, while engaging in dialogue across multiple stakeholders to identify additional entry points for meaningful reform.
- ***Weak institutional capacity.*** The poor quality of public administration continues to be a significant obstacle to effective public sector performance as manifested in weak service delivery. Civil service weaknesses have contributed to insufficient policy co-ordination and implementation capacity, ineffective public financial management, and widespread corruption. This has led to underperformance in implementing ADPs, which undermines the achievement of development outcomes. The Bank Group recognizes that institutional capacity development is a long term

agenda, and will address these concerns through: (i) support to systemic improvements in cross-cutting areas such as financial management, internal government processes and monitoring systems; (ii) support for decentralization and local service delivery, including for local municipal governments; (iii) promotion of PPPs, especially in infrastructure and social services; and (iv) more systematic knowledge transfer and use of AAA and TFs for institutional support and capacity development. At the portfolio level, the Bank will adhere to strong institutional ‘readiness filters’ for new operations and consolidate the pipeline to reduce the burden of multiple transaction costs for a client with capacity limitations.

- ***Corruption and misuse of funds.*** Although reforms in recent years have led to improvements in corruption perception in Bangladesh, the country continues to suffer from pervasive corruption according to both domestic surveys and international indicators. Corruption is having a major impact on the efficiency and transparency of service delivery, particularly for the poor. It has been a key factor in the public sector’s insufficient provision of infrastructure to sustain economic growth. Corruption also has had a direct effect on Bank-financed projects, as highlighted in several investigations into allegations of corruption. At the systemic level, Government has committed to a comprehensive program to build a more effective public financial management system over the next five years with World Bank support, and other efforts are underway to strengthen core governance. At the same time, the Bank will strengthen existing measures to reduce corruption risks in Bank-supported operations. The Bank will integrate right to information and other transparency measures such as third party monitoring of procurement and execution of projects and instituting demand for good governance in projects. The Bank will also invest more in conducting diagnostics of corruption through political economy and operational risk assessments in key sectors in order to inform project preparation and design and to define the extent and nature of risks across different sectors. These assessments and mitigation measures will be monitored closely and updated regularly during project implementation and included in high level portfolio reviews with the client. The Bank will be decisive in addressing corruption as it arises, by developing systems to reduce opportunities for re-emergence of the problem, or--if problems cannot be properly addressed--disengaging from operations.
- ***Opposition to strengthening local government.*** Local governance and service delivery reforms could be threatened by political and bureaucratic opposition to changing power relationships. Bangladesh remains one of the most centralized countries in the world, with central bureaucracy responsible for most public service delivery at all levels of government. Although the intergovernmental legal framework was recently improved and the lowest tier has instituted mechanisms for accountability, local governments are constrained by lack of resources, unclear responsibilities, and insufficient staffing. Parliamentarians exercise significant power through influence over the centralized bureaucracy and budget, and they also exercise formal ‘advisory’ authority over some levels of local government. The Bank will support government efforts to empower and strengthen local governments, promote fiscal decentralization, and local accountability and community empowerment. Widely disseminated and discussed analytical work will identify options and best practices world-wide, helping to forge consensus and strengthen public opinion against entrenched interests. Investment lending will provide continued financial and technical support to local government to directly empower communities, while development policy lending may be a tool to leverage reform if sufficient consensus and commitment exists.
- ***Obstacles to regional cooperation.*** Significant progress has been made on regional cooperation with the recent signing of cooperation agreements with India. However, the opposition party raised concerns, and has the potential to tap into public fears of a dominant India. The historic rapprochement has the potential to create regional opportunities for water resource managements,

transport, trade and energy. The Government's dialogue with Bhutan and Nepal is an opening to improve cooperation on energy and multi-modal transport. Despite promising progress during this government's tenure, further progress on regional cooperation and implementation of existing agreements hinges on maintaining strong political will and support in Bangladesh as well as across the regional country governments. The Bank Group will work across the South Asia Region, leveraging its financial and technical resources to advocate for regional cooperation and support regional initiatives. The Bank Group will foster regional dialogue in key sectors, working through its sector and country departments, as well as the Regional Department. Programming under the CAS will remain sufficiently flexible to respond to regional opportunities as they emerge, including on-going consideration of India-Bangladesh cooperation in the power sector and a proposed cross-border water resource management operation.

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