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## **BANGLADESH**

### **Supporting the drivers of pro-poor change**

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### **Foreword, acknowledgements and disclaimer**

The aim of this paper is to strengthen the basis for DFID's future country programme for Bangladesh. The principal users are expected to be DFID staff in Dhaka and London.

The study is intended to contribute to discussions between DFID, other parts of the UK government, the government of Bangladesh and other development partners, including in the private and non-governmental sectors and among international agencies. It is complementary to other preparatory work under way, notably the Engagement Study, and the proposed review of the political process.

The report was prepared in the following way. DFID provided detailed terms of reference identifying a range of factors expected to have a strong influence over development prospects to 2015 and beyond. These were explored and expanded in a literature review. Responses from DFID Bangladesh, and a discussion with advisers in London in December 2001, led to a focus on selected themes which came to provide the agenda for a team which visited Bangladesh in January and in March 2002.

The team held consultations in Bangladesh with individuals and institutions, from among officials and politicians, the private sector, the media, a range of civil society bodies, the professions, police, researchers, the international community, the UK High Commission, and DFID staff. These were broad, subject to the limitations of being conducted in English and restricted to Dhaka. The team is extremely grateful to all those people who were generous with their time, as well as to the authors of the many documents that have been consulted, and to the DFID staff who assisted with the practical arrangements. We would like to express particular appreciation to Paul Walters and Bo Sundstrom, for their enthusiasm and consistent support.

In a country where the development challenges have been widely and deeply studied over many years, where there is a great deal of hands-on experience among knowledgeable and committed people, the authors have taken the view that the best way to make a constructive contribution is to provide an independent and frank assessment of selected underlying problems that bear most directly on development prospects. They have tried to focus less on what should be done, which is often well understood, than on how to bring about pro-poor change, which is often highly problematic.

This report is the responsibility solely of the team. The views expressed here should not be attributed to DFID or to any of its staff members.

The team consisted of Alex Duncan (Team Leader), Iffath Sharif, Pierre Landell-Mills, David Hulme, and Jayanta Roy. Tim Ruffer prepared the literature review. Other contributions were made by G.M.Mayeenuddin, Masihur Rahman, Roger Hay and Rashid Faruqee. Comments may be sent to alex.duncan@opml.co.uk.

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## Table of contents

	<b>Abstract</b>	<b>v</b>
	<b>Summary</b>	<b>vi</b>
<b>I</b>	<b>Introduction: aim and approach</b>	<b>1</b>
<b>II</b>	<b>Meeting the MDGs in Bangladesh: prospects and determinants</b>	<b>2</b>
	2.1 Poverty trends and dynamics	2
	2.2 Achieving the MDGs: opportunities and threats	4
	<b>2.3 Prospects and risks: 2001-2015 and beyond</b>	<b>7</b>
	2.4 Summary perspective and scenarios	8
<b>III</b>	<b>Institutions and governance: who will drive pro-poor change?</b>	<b>11</b>
	<b>3.1 Introduction</b>	<b>11</b>
	3.2 Strategies for poverty reduction	11
	3.2.1 Sustainable growth	12
	3.2.2 Empowerment	13
	3.2.3 Access to assets, services and markets	13
	3.2.4 Security	14
	3.3 Governance and how it can be improved	15
	3.3.1 Governance is the core issue	15
	3.3.2 Who will drive change?	16
	3.4 The impact on aid effectiveness	18
<b>IV</b>	<b>Selected cases of policy and practice</b>	<b>20</b>
	<b>4.1 Introduction and main themes</b>	<b>20</b>
	4.1.1 Selection of case studies	20
	4.1.2 Main themes	20
	4.2 Improving access to services and markets	22
	4.2.1 Introduction	22
	4.2.2 Health	22
	4.2.3 Micro-finance	23
	4.2.4 Engendering education	23
	4.2.5 Rural Land	24
	4.2.6 Seeds	25
	4.3 Infrastructure for growth and access: the case of Chittagong Port	25
	4.4 Social protection	26
	4.5 Achieving the rule of law	27
	4.6 Public financial accountability	27
	4.7 Policy analysis and decisions	28
	4.8 Making local government effective	28
<b>V</b>	<b>Implications for the main actors, with a focus on the development</b>	<b>30</b>

## Supporting the drivers of pro-poor change

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### **partners**

5.1 Introduction	30
5.2 The political process	31
5.3 Government	32
5.4 Civil society and the media	33
5.5 The private sector	35
5.6 DFID and other development partners	36
5.7 Conclusion	40

### **Annexes**

<b>I</b>	<b>Poverty assessment</b>
<b>II</b>	<b>Economic performance, prospect and risks</b>
<b>III</b>	<b>Areas of policy and practice: table of issues emerging</b>
<b>IV</b>	<b>Health sector: financial and institutional issues</b>
<b>V</b>	<b>Micro-finance</b>
<b>VI</b>	<b>Engendering education</b>
<b>VII</b>	<b>Rural land</b>
<b>VIII</b>	<b>Seeds</b>
<b>IX</b>	<b>Infrastructure for growth and access</b>
<b>X</b>	<b>Social protection</b>
<b>XI</b>	<b>Rule of Law</b>
<b>XII</b>	<b>Public financial accountability</b>
<b>XIII</b>	<b>Policy analysis and decisions</b>
<b>XIV</b>	<b>Making local government effective</b>
<b>XV</b>	<b>List of references</b>
<b>XVI</b>	<b>List of persons met in Bangladesh</b>

**Supporting document: ‘Socio-economic determinants of Bangladesh’s ability to meet the Millennium Development Goals: a preliminary analysis and literature review,’ by Tim Ruffer, Oxford Policy Management, 2001.**

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### **Abstract**

The central message of this paper is as follows. The prospects for continued progress towards achieving the Millennium Development Goals in Bangladesh depend substantially on the effectiveness and accountability of a range of institutions --- formal and informal; public, private and non-governmental; market and non-market; local, sectoral, national and even international; and rural and urban. As Bangladesh's past twenty years have shown, the extent to which these institutions support and strengthen the particular needs and capabilities of women strongly affect development outcomes. From the perspective of poverty reduction, there are positive aspects to the performance of some institutions in Bangladesh, notably some impressive advocacy and service-providing bodies. However, many others are either ineffective, or are used for purposes that serve predatory and often corrupt patron-client relationships, rather than development objectives. Improving institutional performance, not least in the public sector where there are deep-seated and systemic problems, many with their roots in the political process, is needed not only for overall development, but also for the effective use of aid.

There is widespread agreement on the nature of the problems in Bangladesh, and even on what needs to be done. There is little agreement, however, on how to go about it. In very many, although not all, cases, poor governance is at the root of the institutional problems. Poor governance is itself a result of insufficient effective demand for improvement, whether from organisations or individuals, or as an outcome of underlying socio-economic changes. Actual or potential agents of change include civil society, community organisations, reform-minded elements of the political parties and of the civil service, the media, the private sector, professional associations, or international agencies. With some notable exceptions, many of these, however, do not fulfil their potential in pressing for reform, either because they are weak or fragmented, or because they benefit from the status quo. While this situation creates massive obstacles to addressing the institutional problems, entry points do exist for those who have the incentives to drive change. While the principal responsibility for change lies with citizens of Bangladesh, development partners can play constructive roles.

The final section of this report outlines a broad agenda for the major actors, with a focus on Bangladesh's development partners. It proposes a stronger focus on identifying and supporting (i) socio-economic processes and (ii) agents for reform, that will strengthen pressure to improve the effectiveness and accountability of institutions. Where donor agencies are engaged in supporting the provision of social and economic services (whether through the private, public or NGO sectors), and in supporting policy reform, the paper endorses a strong focus on institutional aspects.

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## Summary

**Meeting the Millennium Development Goals: prospects and determinants (section II).** Bangladesh has made significant progress in reducing poverty over the last 20 years. However, poverty remains widespread (65 million people still lived below the upper poverty line in 2000), nutrition levels are very poor, large numbers of people lack basic services, and security and human rights are extensively violated especially for women.

If progress were to continue at the levels achieved in the 1990s then the Millennium Development Goals (MDGs) would be partially met by 2015. The extreme poverty goal would be reached (but 16 million would still live on less than \$1/day, and 40 million would be below the upper poverty line); universal primary education should be achieved by 2010 (but with grave doubts about its quality); the gender equality goal in primary education has already been reached (but on most other measures of gender equality - higher secondary education, literacy, labour force participation - women will fare worse than men); and child mortality reduction targets would be met. Maternal health and environmental sustainability targets would not be reached.

This progress however, cannot be taken for granted. The actual levels of achievement will depend on the country's ability to seize opportunities for pro-poor growth and human development and to avoid potential threats. With supportive public policies and strengthened institutions, the MDGs could be surpassed. With weakly formulated and implemented policy and poor governance, targets will not be achieved and the scale of deprivation and environmental degradation in Bangladesh will continue at appalling levels.

As background analysis, the study examines a range of factors that are expected to influence Bangladesh's development prospects. These fall under several broad headings: globalisation and trade; demographic change, urbanisation and migration; environment; socio-political changes; governance; human rights and rule of law.

Three broad socio-political and economic scenarios are set out. The first, ambitious but technically realisable, involves improved governance and policy and institutional reforms that lead to higher private investment and an accelerated GDP growth rate of some 6-7% per annum (4-5% per capita), with a reduction of the number of extreme poor to between 7 million and 11 million by 2015. The medium scenario involves a continuation of current processes of economic and social changes permitting a regime that delays reform and 'muddles through,' and achieves a GDP growth rate of 5% (some 3% per capita), similar to those achieved during the 1990s. The result is a slower fall in poverty to some 17 million people. The third scenario is based on continued confrontational politics, very limited reforms, growing social disorder, faltering and narrowly-based private investment, and weak international demand for Bangladesh's exports. These would be likely to reduce economic growth rates to 3-4% (1-2% per capita), leading to the numbers of extreme poor people falling more slowly, to some 26-40 million by 2015.

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**Institutions and governance: who will drive pro-poor change (section III).** The study suggests that the quality of institutions and governance is the prime influenceable factor that will determine the rate of poverty reduction. An important dimension of this conclusion is the particular need focus on institutions that support and strengthen the needs and capabilities of women.

A review of four strategies leading to poverty reduction (sustainable growth, empowerment, access to assets, markets and services, and security) suggests that from the perspective of poverty reduction, there are positive aspects to the performance of some institutions in Bangladesh, notably some impressive advocacy and service-providing bodies. However, many others are either ineffective, or are used for purposes that serve predatory and often corrupt patron-client relationships rather than development objectives. Improving institutional performance, not least in the public sector where there are deep-seated and systemic problems (many with their roots in the political process), is needed not only for overall development, but also for the effective use of aid.

The central obstacle to pro-poor governance and institutional reform is seen as lack of sufficient effective demand for improvement, from individuals and organisations. This arises principally from the fact that many of those who may be able to bring about change are beneficiaries of the present situation and have little interest in reform, while many of those with a strong interest in change - poor people and women in particular - are poorly placed to bring it about.

While this situation creates massive obstacles to addressing the institutional problems, entry points do exist for those who might have the incentives to drive change. Reform can be stimulated in two linked ways: by promoting broader processes of social and economic change (such as education in particular of women); and through identifying and supporting champions of change (including NGOs, community organisations, reform-minded elements of the political parties and of the civil service, the media, the private sector, professional associations, the research community and the Bangladeshi diaspora).

There is widespread agreement on the nature of the problems in Bangladesh, and often on what needs to be done. There is little agreement, however, on how to go about it. While the principal responsibility for change lies with citizens of Bangladesh, development partners can play constructive roles.

**Selected cases of policy and practice (section IV and supporting annexes).** The study examines these propositions in relation to eleven areas of policy and practice: improving access to services and markets (health, micro-finance, education for women, rural land, and seeds); infrastructure; social protection; achieving the rule of law; public financial accountability; policy analysis and decision-making; and making local government effective. Several broad emerging themes are discussed: stimulating demand for improvement to governance; creating a critical mass for reform from among often fragmented stakeholders; identifying and finding ways of addressing vested interests; and

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that to promote reform, the donor agencies need to strengthen some of their own capacities and change ways in which they work.

**Implications for the main actors, with a focus on the development partners (section V).** The final section of the study outlines a broad agenda for the major actors, informed by the widely-held view (which the authors share) that much of **what** needs to be done to promote broad-based poverty reduction is understood, but **how** to go about it is extremely difficult.

The approach proposed is based on a stronger focus on identifying and on supporting (i) socio-economic processes and (ii) agents for reform that will strengthen the pressure to improve the effectiveness and accountability of institutions. Specific recommendations for approaches and actions are made, including:

- in order to step up pressure over time for an improvement in **the political process**, many of these measures being long-term: education, especially education for women; promoting broad-based increases in income, both rural and urban; encouragement of public information on the political process; strengthening independent research centres and advocacy groups, and Parliament and the Election Commission; supporting a range of citizens', private sector and professional associations; and providing stronger links with international norms and standards for political accountability and effectiveness.
- to increase the accountability and effectiveness of **government**, despite the difficulties, entry points do exist: first, measures to support the demand side --- for actions to enable the private sector, public opinion and civil society organisations to become better informed and more assertive in calling government to account; second, based on the fact that government is far from monolithic, there is the possibility of building coalitions and finding agents for change within government; and third, technical improvements in public administration and financial accountability can help to strengthen the impetus for change, partly by highlighting feasible reform tracks and partly by improving the availability of information which can heighten transparency.
- in relation to **civil society and the media**, several approaches are suggested: to support advocacy groups, working for instance on women's rights, countering corruption, or improving education; to support organisations providing quality social and economic services, in part to raise people's expectations of the quality of public services and to step up competitive pressures on public providers; to support an independent press development institute focusing on training and standards of professionalism and ethics; to broaden and deepen the coverage of quality independent policy research institutes; and to encourage improvements in professional associations, for instance of lawyers and accountants.

## Supporting the drivers of pro-poor change

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- in respect of the **private sector**, for active support for the small, medium and micro enterprises, as part of which NGOs and development partners would need to continue with an implicit representation function, helping SMMEs to press for improvements in the wider constraints they face; in relation to the large-scale formal sector which could do much more to press for improvements in governance and public goods such as the rule of law and infrastructure, to help strengthen the policy analysis work of the major business chambers and to foster improved business ethics and, especially, a non-partisan collective business advocacy stance.

In respect of the international agencies, the study suggests that aid for Bangladesh should be based on a combination of up to four mutually reinforcing elements:

- First, continued funding of key pro-poor social and economic services through the most pro-poor and cost-effective delivery agencies, whether public, private or NGO. Institutional and governance aspects of these services will need sustained attention.
- Second, a greater emphasis on systematic and long-term (perhaps 20 years) support to underlying socio-economic changes and to agents for reform in Bangladesh that will increase pressure for the greater effectiveness and accountability (especially to poor people and women) of public institutions.
- Third, continuing to work with government to reform public policies and institutions, but on a strategically highly selective and collaborative basis, with an emphasis on governance. These are likely to combine a mix of mechanisms, including conditional budget support and institution-building projects.
- Fourth, there may be ways in which, in a range of international (and possibly regional) fora, the development partners can adopt positions beneficial to Bangladesh on such issues as trade, environment, and migration.

The report closes with observations on the possible role of DFID, based on the widely-held view that among Bangladesh's development partners, it has a comparative advantage in the difficult but important institutional issues which this study has highlighted.

## **Bangladesh: supporting the drivers of pro-poor change**

### **I Introduction: aim and approach**

The aim of this paper is to contribute to providing a sound base for DFID's future support to development in Bangladesh. It is intended to contribute to discussions between DFID, the government of Bangladesh and other development partners, including in the private sector and civil society and among international agencies.

The approach adopted is to identify some of the factors that will most strongly influence development prospects in Bangladesh, and in particular the country's ability to achieve the Millennium Development Goals, to explore where change is needed, and to suggest ways in which those changes might be promoted. The paper is necessarily selective, and seeks neither to provide an overall development strategy for Bangladesh, nor to identify all factors that will influence development prospects. However, we do suggest that successfully addressing the factors identified here will significantly accelerate poverty reduction in Bangladesh.

**Structure of the report.** Section II examines Bangladesh's past performance and prospects, and identifies principal opportunities and threats. Section III outlines strategies for poverty reduction, sets out the proposition that institutions and governance warrant particular attention if development objectives are to be achieved by 2015 and beyond, and identifies nine potential drivers of change. Section IV, together with supporting annexes, outlines a set of areas of policy and practice, links outcomes to institutions and governance, and suggests ways forward. These areas have been selected on the basis of illustrating important features of development in Bangladesh and are not seen as exhaustive. The final part of the main text, section V, draws out the implications for key players, including the development partners.

Supporting documents have been prepared. Annexes I and II examine poverty and growth performance and prospects. Annexes IV to XIV provide more detail on the areas dealt with in section IV of the main text. Annex XV is a list of references and annex XVI a list of persons met in Bangladesh. There is also a literature review<sup>1</sup>.

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<sup>1</sup> "Socio-Economic Determinants of Bangladesh's Ability to Meet the Millennium Development Goals: A Preliminary Analysis and Literature Review," by Tim Ruffer, Oxford Policy Management (2001).

## II. Meeting the MDGs in Bangladesh: Prospects and Determinants

### 2.1 Poverty Trends and Dynamics

Trends in indicators reveal that Bangladesh has made significant gains in social welfare since achieving Independence in 1971. Nevertheless, by 2000, almost one-half (49.8%) of the population was still living below the poverty line, the great majority of them in rural areas, and with a preponderance of women. Poverty reduction will remain for many years the central development challenge in the country. In this section, we examine poverty trends and prospects in terms of the MDGs, relating Bangladesh to this international agenda.

Some of the main features of poverty are explored in Table 2.1 and Annex I (Poverty Assessment). These include: that the incidence of income poverty has declined at an annual rate of 0.9% over the past two decades; that similar declines have also occurred in distributionally sensitive measures of income poverty such as its depth and severity; that inequality has increased but that the rate of worsening has slowed down; and that the incidence of poverty has remained higher in rural than in urban areas, despite urbanisation.

#### Box 2.1 Bangladesh: Trends in Millennium Development Goal indicators

MDG	Trends over 1980-2000
<b>1. Extreme poverty &amp; hunger</b>	Incidence of poverty decreased at 0.9% per year between 1980-1999. Children's nutritional status is very poor, but there is an improving trend: the rate of stunting dropped from 54.6 to 44.8 % between 1996/97 and 1999/00 (BDHS).
<b>2. Universal primary education</b>	The gross enrolment in primary schools has increased from 59% in 1982 to 96% in 1999 (UNDP). Although enrolment figures remain widely debated and disputed, there is consensus on the general increasing trend.
<b>3. Gender equality and women's empowerment</b>	The gender gap in adult literacy was 35% in 1974; it declined to 26% in 1999 (UNDP). The trends of the 1980s were reversed in the second half of the 1990s with more girls than boys attending primary school. Despite stipends, there are 41% girls to 48% boys in classes 6-10 and only 15% girls to 30% boys in classes 11-12. Progress in other areas of gender equality has not been so rapid.
<b>4. Child mortality</b>	Infant mortality remained unchanged for most of the 1980s, then declined steadily in the 1990s: from 105 (per 1000) in 1985-89 to 92.8 in 1990-94, and to 66.3 in 1995-99 (BBS).
<b>5. Maternal health</b>	There has been some modest improvement in maternal mortality: the BBS estimates for the 1990s vary between 4.8 and 4.4 (per 1000) compared to around 6 in the 1980s, but the figures are still the highest outside sub-Saharan Africa
<b>6. HIV/AIDS, malaria &amp; other major diseases</b>	Diarrhoeal diseases were the main killers in the 1980s but their prevalence declined by 44% by late 1990s. In contrast, tuberculosis is gaining importance especially in rural areas while respiratory illnesses still remain widespread (UNDP)
<b>7. Environment sustainability</b>	River erosion, desertification and salinisation of land; arsenic contamination of ground water; and deforestation are on-going environmental challenges.

Source: Fighting Human Poverty: Bangladesh Human Development Report 2000. UNDP, Dhaka.

Human poverty (indicated by outcome measures of: mortality; literacy and education; access to health services, water and electrification; and nutrition levels) appears to have declined more rapidly than income poverty, by about 3% per annum. A striking achievement has been the

elimination of the gender gap in primary education. Levels of human poverty remain severe, however, both absolutely and by comparison with Bangladesh's south Asian neighbours.

The principal determinants of poverty trends are:

- income levels, which remain low at US \$366 per capita, while the 1990s' growth rate of 3% per annum, if continued, will ensure that Bangladesh remains for many years in the category of poor countries;
- rising inequality, including within and between rural and urban areas;
- agricultural growth, which slowed during the first half of the 1990s, before picking up in the latter half of the decade; the potential benefits of this were, however, diffused by the economic shocks to households caused by the floods of 1998;
- slow productivity growth in the rural non-farm sectors which are becoming more important as a source of income livelihoods;
- greater allocations to social sectors and safety nets, including importantly through the NGOs which have been often effective providers of micro-credit, health and education services, and which have progressively sought, though with mixed effectiveness, to focus more effectively on the ultra poor; and
- increased women's participation in the economy, and improved educational opportunities for girls<sup>2</sup>.

Changes have also been taking place in the dynamics of poverty, which appear to have led to a progressive reduction in levels of vulnerability and a growth in resilience in the face of uncertainty and shocks. The first half of the 1990s was characterised by sharply fluctuating incomes faced by the poor resulting in their movements in and out of poverty<sup>3</sup>. The experience of the latter half of the 1990s suggests some improvements in the coping capacities of the poor, particularly highlighted by the rapid recovery from the 1998 floods. Dimensions of reduced vulnerability include:

- declining intensity of seasonal patterns of deprivation;
- an improving economic environment for many rural poor people with a majority of villages being linked by all-weather infrastructure, enhancing access to a range of markets and services – the share of remittances in household income has, for instance risen from 3.7% in 1987/88 to 18.5% in 2000;
- expanding non-farm informal activities in peri-urban areas that serve to link rural and urban sectors and to diversify rural livelihoods; and
- changing social attitudes that have widened the social and economic roles of women – although the burden of poverty remains disproportionately high for women in terms of nutritional intake, access to gainful employment, wage rates, and access to health care. Not only are female-headed households disproportionately found among the poor, but households dependent on female earners have a higher incidence of poverty than those dependent on male earners<sup>4</sup>.

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<sup>2</sup> UNDP 2000.

<sup>3</sup> See Rahman (1998) for a discussion on income erosions, differentiation of the poor, and the concepts of resilience and graduation.

<sup>4</sup> See Rahman et al., 1998.

For the future, a central question is how Bangladesh can convert this growing resilience into sustained graduation of poor people out of poverty. While improvements in social and human dimensions of poverty have outpaced improvements in income poverty over the past decade, sustained per capita income increases will be essential, if not sufficient, for long-term improvements in poverty levels. Further, despite improvements, vulnerability levels for many people remain high in absolute terms, and some trends are adverse. Environmental pressures are a growing source of concern, with the widespread problem of arsenic contamination of deep tubewell water supplies, degradation of the commons, and in the longer term the potentially disastrous effects of global warming and rising sea levels<sup>5</sup>.

## **2.2 Achieving the MDGs: opportunities and threats**

As a starting point for this work, a number of factors were identified as being those likely to influence most strongly the achievement of the MDGs in Bangladesh<sup>6</sup>. Some of the main points arising are set out below.

### **Globalisation and trade**

- Finite domestic markets mean that manufacturing development will have to be export-oriented. Access to foreign markets has improved with liberalisation. However, exports are at present narrowly based.
- As a labour abundant country, Bangladesh should have comparative advantage in labour-intensive manufacturing and agro-processing. However to realise this potential, productivity increases will be needed, including through skills development and improved working environments.
- Current import substitution policies stifle competitiveness. Further trade reforms are needed; policy capacity is weak.
- The environment for FDI is very adverse. Priority reforms needed include resolving problems with state-owned enterprises, financial sector and labour markets, and removing impediments to the private sector (especially transport and power.)
- Reducing risks of marginalisation of the poor requires broad investment in skills, infrastructure, etc., particularly in rural areas.
- Globalisation has strong implications for gender relations and the role of women in the economy. In the near future this will be particularly important in the garments industry.

### **Demographic change, urbanisation and migration**

- Despite falling fertility, population is due to rise from 130 million to some 250 million by 2100. Pressure on the environment will intensify. Dependency ratios are falling, creating potential for higher incomes, but in the medium term (10-20 years) they will rise again as the proportion of elderly rises. High youth unemployment in the short to medium term could lead to increasingly levels of lawlessness and crime.
- The urban population is projected to rise from 24 million in 1996 to 80 million by 2020; peri-urban areas and secondary towns will continue to grow in importance, creating new markets and growth poles, and the need for improved municipal governance and services.

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<sup>5</sup> The evidence on environmental issues is set out in Ruffer (op.cit).

<sup>6</sup> A fuller treatment of these is given in Ruffer (op.cit.)

- Livelihood sources are diversifying to smooth and raise incomes and consumption. However, realising the potential of non-farm income sources and diversifying within agriculture will require continuing large investments in rural infrastructure.

### **Environment**

- Bangladesh is extremely vulnerable to environmental threat (natural disasters, pollution, poor health and sanitation, arsenic, salinisation, deforestation and loss of bio-diversity, degradation of fisheries, and climate change). Climate change could directly affect around 20-30 million people, and particularly threaten the livelihoods of poor people dependent on agriculture. Climate change in Bangladesh is thus not just an environmental concern, but impacts directly on development prospects.
- Global warming may inundate 2% of the total land area by 2030 (and on the basis of high-end estimates up to 18% by 2100), triggering population movements, significantly affecting farm production especially of boro rice and wheat, reducing fresh water availability, and increasing the intensity of natural disasters. Adaptive capacity will be stretched.
- Bangladesh is especially vulnerable to climate change in its coastal zone, covering 30% of the country. In addition to the direct livelihoods impact referred to above, increased risks of cyclones and flooding are likely to discourage private sector investments in this region.
- Environmental degradation affects poor women and men who rely disproportionately on environmental resources, live in marginal areas, and are most susceptible to diseases induced by congestion and standing water, but at the same time lack access to formal insurance mechanisms to mitigate environmental risks.

### **Socio-political changes**

- Since the introduction of democracy in the early 1990s, society has become more pluralistic, with some growth of support for liberal, rights-based citizenship. However, the party political process is characterised by a culture of intolerance and confrontation, with widespread violence and intimidation. Patron-client relationships and divisiveness, often related to party allegiances, are widespread through society and the economy.
- Islamic fundamentalism is, and has been for some years, a significant force. Its potential impact on socio-economic prospects is unclear, but could be substantial.
- The growing middle class and formal private sector are not exercising their potential influence on government in favour of reform. However, there are encouraging trends in the growth of civil society, including an independent press and to some extent broadcast media as three independent Bangla TV channels are becoming important media for mass communication.
- NGOs have achieved a great deal, in terms of both advocacy and service-provision but the picture is complex. Weaknesses exist, including that: patrimonialism in society is to some extent mirrored in NGOs; overlapping and sometimes competing roles of NGOs have confused clients; there are tensions between larger and smaller NGOs; and effectiveness is not universal.
- There has been progress in increasing women's participation in public life, and the number of female representatives at the local government level has risen to 14,000 through reserved seats. However, female MPs have reduced in number. Female participation in the formal labour market has increased, though it is still low. Mainstreaming women's involvement in all sections of society remains a challenge.

- Economic and social inequality has increased markedly and seems set to continue. The possibility of a society with very great levels of wealth inequality is now high and has significant, but hard-to-predict, implications.

### **Governance**

- State structures that in some cases are centralised and inefficient, and in others reflect (or are unable to oppose) powerful vested interests, hinder development and poverty reduction. Even apparent win-win opportunities, such as improvements in infrastructure, are often blocked. The main causes are deeply rooted in social structures. Agents for pro-poor change are either absent or ineffective.
- A poorly-functioning state sector means that people, especially poor people, often have to rely on informal institutions and the private sector
- Widespread corruption and political favours lead to inefficiency and low levels of investment. Failure to reform SOEs and to resolve problems around the Chittagong Port are extremely costly in terms of growth and investment. A pervasive problem is the unwillingness or inability to implement stated policy.
- Current institutions at both national and local levels often lack the capacity or incentives to represent or serve the poor, and especially women.
- There is a need for more community involvement in the policy process, in decisions on resource allocation and investment priorities, and in management of facilities. Local government remains weak, with little local accountability.
- Some citizens' groups and parts of the printed media are active in seeking to bring about greater transparency as a means of stepping up pressure for improvements in governance.

### **Human rights, rule of law**

- While Bangladesh has a democratic constitution, the reality is that many people lack access to basic human rights. The major issues are the abuse of power by officials, police, local elites and *mastaans* leading to insecurity and exploitation. Major problems affect the functioning of the courts system and inhibit access to justice.
- There is reason to believe that the rule of law has worsened in the recent past.
- Violence against women is a huge problem and the incidence appears to be rising. Inequality in rights to land and other entitlements contributes to higher levels of poverty among women.
- Commercial justice is ineffective, undermining contract law and acting as an impediment to investment. Financial institutions face obstacles in pursuing defaulters, especially if they are influential.
- There are many cases of property rights being undermined by *mastaans* acting at the bidding of powerful interests.
- More positively a number of local and national NGOs are active in seeking to improve access to justice, and in publicising abuses.

### **Regional dimensions**

- Bangladesh's economic development would be promoted by a stronger integration with the regional economy, and in particular with neighbouring areas of India
- To fulfil this potential, trade facilitation is a priority, including but not limited to streamlining border procedures.

In reviewing and discussing these factors in Bangladesh<sup>7</sup>, a strong common theme emerging was the impact of the unaccountability and lack of effectiveness of many institutions, and in particular public institutions.

## 2.3 Prospects and risks: 2001-2015 and beyond

Bangladesh has had some notable achievements but also some major disappointments. Achieving the MDGs will be an important milestone for the country. It will be the litmus test of whether the country can capitalize on its existing achievements, overcome current constraints and grasp the opportunities. Future projections for some of the MDGs indeed look promising (Box 2.3 and Annex I section 5.).

### Box 2.3 Bangladesh's prospects for achieving the MDGs

Prospects for Some MDGs	Opportunities & Challenges to Achieve MDGs
<p><b>1. Extreme Poverty &amp; Hunger</b> Should halve the proportion of extreme poor by 2015 if a per capita growth rate of 3% per year is maintained.</p>	<p>Efforts to limit rising inequality are required. Sound macroeconomic management will be crucial as will be capturing benefits from <b>globalisation</b>. (for detail see Annex II). <b>Global warming</b> may adversely affect agricultural production (probably beyond 2015), and therefore growth. Growing <b>labour mobility</b> and <b>urbanisation</b> imply the need for investments in municipal services to ensure poor people's access to markets. Improved <b>governance</b> will be essential for sound functioning of markets.</p> <p><b>Declining dependency ratios</b> due to demographic dynamics will only be beneficial if improved education and literacy levels are achieved; quality of education is a concern.</p> <p>Realisation of <b>women's rights</b> through improved <b>rule of law</b> will be increasingly important if achievements in women's education are to be capitalized for future growth.</p>
<p><b>2. Universal Primary Education</b> Should achieve universal primary education (on completion rate basis) by 2010</p>	
<p><b>3. Gender equality &amp; women's empowerment</b> Gender equality in primary education enrolment and completion rates has already been achieved</p>	
<p><b>Prospects for Some MDGs</b></p>	<p><b>Opportunities &amp; Challenges to Achieve MDGs</b></p>
<p><b>4. Child Mortality</b> Should reduce infant and 'under 5' mortality rate by 65% by 2010</p>	<p><b>Environmental constraints</b> such as industrial pollution, poor health and sanitation, arsenic in groundwater and deteriorating habitats will affect overall health of the population, particularly children. Higher levels of social expenditure are required which will only come about from <b>growth</b> in the national income.</p> <p>Much will depend on the pattern of spread of HIV/AIDS through the country's increasingly urban population, and on international action to develop low cost/effective prophylactic and treatment methods. Recent rise of <b>TB</b> presents a major challenge, as does the threat of <b>climate change</b> on increasing outbreaks of cholera and other water-borne and diarrhoeal diseases.</p>
<p><b>5. Maternal Health</b> Should reduce maternal mortality by 75% by 2010</p>	
<p><b>6. Combat HIV/AIDS, malaria and other diseases</b> Projecting whether or not these major diseases will be 'halted' is presently not feasible</p>	
<p><b>7. Environmental Sustainability</b></p>	
	<p><b>Population growth &amp; urbanization</b> will create</p>

<sup>7</sup> Ruffer (op.cit.)

Growing pressure on natural resources, and global warming, make 'reversing the loss of environmental resources' unlikely  
 Doubts over providing safe drinking water to 90% of the population by 2010

unprecedented pressures on the environment and its resources.  
 Progress on water quality is being hindered by arsenic contamination.

Source: Team projections drawing on "Partnership Agreement on Poverty Reduction" between GoB and ADB (2000) and Bangladesh 2020

## 2.4 Summary perspective and scenarios

Over the past two decades, Bangladesh has made significant progress in improving social welfare from an extremely low starting point, there is an active if narrowly-based private sector, and there are promising developments of civil society. Yet poverty remains widespread and extreme, human rights are widely violated, and many institutions are either ineffective or oppressive.

Prospects for the future are uncertain (see box 2.3), partly because of external markets or environmental threats, and partly because of the difficulty in predicting the ways in which domestic economic and social changes will interact. This can be seen in three broad scenarios for Bangladesh (see box 2.4). The first scenario, ambitious but technically realisable, sees accelerated growth and poverty reduction between now and 2015, based on the assumption that the country will develop either a motivated elite or a civil society that will demand reforms, or some combination of these forces. This scenario sees a decisive government armed with the political will to restore macroeconomic balance; to undertake structural reforms with high speed and proper sequencing; to sharply improve governance, institutions and infrastructure; and to create an attractive business environment for foreign and domestic investors. In such a scenario the annual GDP growth rate would be around 6 to 7 percent on average, and the pace of agricultural and non-farm rural growth would accelerate through diversification and improvements in productivity. Given the modest scale of the internal market, exports will be crucial to this rate of growth, calling both for expanding market share in current exports and for diversification into labour-intensive and agro-processing industries.

Broadening the benefits from this scenario would also involve several growth poles in peri-urban areas across the country. Such a scenario of per capita growth of around 4-5 percent per year, which is well within the realm of possibility, would enable a substantial reduction in the numbers of extreme poor people from current levels of 48 million to 11 to 7 million by 2015.

### Box 2.4. Scenario Analysis: 2001-2015

No.	Some Features		Average Growth (Per capita per year)	Extreme poor (millions living below \$1/day)
	Economic	Socio-political		
I	<ul style="list-style-type: none"> <li>Enabling environment for private investment (legal, regulatory, infrastructure)</li> <li>Macroeconomic balance</li> <li>Broader export base</li> <li>Growth in rural &amp; peri-urban areas</li> </ul>	<ul style="list-style-type: none"> <li>Motivated elite</li> <li>Strong civil society resulting in effective demand for reform</li> <li>Decisive government</li> </ul>	4-5 percent	7 – 11

## Supporting the drivers of pro-poor change

II	<ul style="list-style-type: none"> <li>• Dwindling RMG sector</li> <li>• Sporadic structural reforms</li> </ul>	<ul style="list-style-type: none"> <li>• Strong vested interests</li> <li>• Fragmented &amp; isolated civil society resulting in ineffective pressure for change</li> <li>• Patrimonial party politics</li> </ul>	3 percent	17
III	<ul style="list-style-type: none"> <li>• Continued recent macro trends (high fiscal deficits, low reserves)</li> <li>• Lack of economic reform</li> <li>• Weak demand for Bangladeshi exports</li> </ul>	<ul style="list-style-type: none"> <li>• Rise in militant religious groups</li> <li>• Youth rebellion</li> <li>• Militarization of existing political parties</li> <li>• Rise in incidence of life-threatening disease</li> </ul>	1-2 percent	26 - 40

Note: Projections for poverty rates are based on a net elasticity of extreme poverty to growth of  $-2.56$ , as per elasticity calculations of the World Bank.

Second, a middle-range scenario involves a continuation of current processes of economic and social changes (as discussed in section 2.2) permitting a regime that ‘muddles through’ and achieves a modest per capita growth. Socio-political features of this base scenario include the continuation of existing patrimonial party politics that harbour powerful vested interests, and a fragmented and often isolated civil society unable to bring on effective pressure for systemic reform. Supply-side responses would include sporadic structural reforms implemented in some areas - governance and institutional reforms, infrastructure improvement, SOE restructuring, privatization, and enhancing the tax revenue base - though not up to full potential. Annual GDP growth under this scenario is expected to be similar to rates achieved in the 1990s, i.e. about 5 percent, or 3 percent per capita per year. While many of the MDGs should be achieved if the country maintains this base scenario, some 40 million people would still be above the upper poverty line, with 17 million living in extreme poverty.

Continuation of the recent macroeconomic shocks, further erosion of governance and institutions, and half-hearted attempts to reform introduce a pessimistic third scenario. In this downside scenario, per capita GDP growth would somewhat more than keep pace with population growth, but improvements in poverty levels would be slow. Other determinants of this scenario include continued confrontational politics, weak and narrowly based private investment (both foreign and domestic), weak international demand for Bangladesh’s exports, and inability to take advantage of potential opportunities offered by the ending of the Multifibre Agreement. There are numerous socio-political features of these ‘disaster scenarios’ that could be hypothesised out of existing forces – a rise in militant religious groups (linked to external changes), a youth rebellion (linked to rising dependency ratios resulting in a large population of unemployed youth), a systematic militarisation of the existing political parties, or increased incidence of life-threatening disease (AIDS, TB, cholera and other water-borne diseases) affecting the size of the labour force. These would be likely to reduce economic growth rates to 1-2 percent per capita that would lead to the numbers of extreme poor people falling more slowly, to some 26-40 million by 2015.

The most likely scenario, given that it is happening now, is muddling through. However, the downside scenario cannot be ruled out, not least because of the recent macroeconomic events. There are some serious internal and external risks: pervasive weaknesses in governance and

## Supporting the drivers of pro-poor change

institutions; a continued bleak global economic outlook; the imminent abolition of the Multifibre Agreement; and the adverse consequences of global warming and globalization, particularly on the poor. Notwithstanding these risks, the optimistic scenario is achievable if governance can be improved and pro-poor growth policy reforms pursued. This must be the goal for all within Bangladesh who wish to eradicate poverty, and for the country's development partners.

### III Institutions and governance: who will drive pro-poor change?

#### 3.1 Introduction

This section does four things:

- It explores approaches to poverty reduction and, under each of these, it outlines the critical factors, many of them institutional, that will determine success or failure in countering threats and taking advantage of opportunities
- It examines the reasons for institutional shortcomings, and in particular notes the importance of governance
- It suggests that the reasons for governance weaknesses lie primarily in the lack of effective pressure for improvement, and identifies nine potential agents for change
- In doing this it sets the scene for the next section which examines in more detail some illustrative areas of policy and practice.

#### Box 3.1 Some definitions

*Institutions:* The formal and informal rules, processes, laws, norms, and incentives that govern the way people cooperate to achieve shared goals.

*Governance:* The exercise of the power of the state in managing a country's social and economic resources, as well as the related mechanisms for public accountability, rule of law, transparency, and citizen participation.

*Public sector management:* The technical aspects of managing the public sector, including public administration; the civil service; public agencies; state-owned enterprises; public finance; public procurement; systems of monitoring, evaluation, and accountability; capacity building; decentralization; linkages between core public institutions and sectoral institutions; and structure of government.

*Capacity building:* Narrowly defined, the development of skills and competencies and related assets within organizations. Commonly used more broadly as synonymous with institutional development to cover all aspects of the development of the capacity of public agencies to perform their designated roles.

#### 3.2 Strategies for poverty reduction

Section II has confirmed that poverty reduction will remain the central development challenge in Bangladesh. However, achieving sustained and rapid poverty reduction is not a foregone conclusion and there is a wide disparity between the outcomes of the most favourable scenario (which would result primarily from effectively addressing policy and institutional reforms) and the least favourable.

The challenges are assessed in terms of four strategies that are central to the achievement of the MDGs: sustainable growth, empowerment, access to assets, markets and services, and security<sup>8</sup>. Some of the main features in Bangladesh are as follows.

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<sup>8</sup> This framework is based, with modifications, on strategies developed in DFID's Target Strategy Paper 'Halving World Poverty by 2015,' DFID October 2001. It is also close to the framework developed in the World Bank's

### 3.2.1 Sustainable growth:

The rates of economic growth that can be achieved will have a strong bearing on the rates of poverty reduction (Annexes I and II)<sup>9</sup>. Bangladesh's record over the past ten years has been undramatic but sufficient to underpin welfare improvements. During the 1990s, GDP grew by 4.8% per annum (some 3% per capita), a moderate rate by comparison with India, and well below rates achieved in South-east Asia. Exports (75% of which are now ready-made garments) grew by 17% annually, rising from 5% of GDP in 1973 to 14% in 2000.

Accelerated growth is possible (Annex II). However, there are a range of structural, policy and institutional weaknesses, including environmental stresses that give rise to concern that rapid or even moderate growth may not be sustainable. Levels of both domestic and foreign investment are low, and important elements of an enabling environment for the private sector are lacking. Recent declines have occurred in both the GDP growth rate and in the absolute level of exports, but it is not clear whether these represent a short-term downturn, or the beginning of a more adverse trend. The ending of the Multifibre Agreement in 2004/05 introduces uncertainties for Bangladesh's exports, but also opportunities for further expansion if policy and other constraints can be addressed.

Some of the institutional and policy factors that will most strongly affect the prospects for growth are, however, currently at least partly lacking:

- Crucial public-good elements of the necessary enabling environment for private investment are absent (Annex II):
  - Infrastructure services (trunk roads, telecoms, power and Chittagong port) are very poor
  - The legal and regulatory environment is uncertain, and taxation is unevenly applied, with many well-placed individuals (including members of parliament) not complying
  - Commercial justice systems are slow and negotiable
  - The financial sector is characterised by state banks that are exposed to loss-making SOEs, that have problems with arrears, especially due from influential clients, and whose continued viability depends on state guarantees.
- Restoration of macro-economic balance is needed (especially in the light of adverse developments over the past year) including: adoption of a more flexible exchange-rate regime; widening the revenue base; rationalisation of prices of public utilities and dealing with loss-making SOEs; and financial sector reforms.
- Bangladesh's base of manufactured exports remains narrow and somewhat precarious, as declines in 2001 have shown. Measures are needed both to diversify exports, and to expand the country's share of the market for ready made garments, including through: a further

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World Development Report on poverty, 2001. These strategies were used by the team in the literature review as a framework for analysis and found to be helpful in focusing on key issues (Ruffer op.cit.)

<sup>9</sup> Annexes I and II set out alternative growth paths and their expected impact on the income poverty MDG. Annex II explores the macro-economic and trade reforms that are considered critical to sustaining higher growth rates

reduction and rationalisation of tariffs, investing in skills, and meeting increasingly stringent health, safety and environmental standards and working practices.

- Sustainable environmental management will call for more secure property rights, including community-based management of common property resources, coping with externalities through prices that reflect social costs and benefits and through regulatory changes (e.g. to control urban air pollution), large-scale public and private investment (e.g. in water and sanitation), and a co-ordinated institutional response to improve the country's adaptive capacity towards challenges posed by climate change.

### **3.2.2 Empowerment**

The record of empowerment of the poor, to enable them to influence the functioning of public and private social, political and economic institutions, has not been favourable. This has significant negative implications for both human development and pro-poor growth rates. The lack of basic human rights and law and order is key to the problem of empowerment. Human rights abuses, especially with regard to women, children and the ultra poor, are widespread, there are major problems with the justice system, parliament is dysfunctional, the police are oppressive and predatory, and corruption is pervasive. Women fare the worst in terms of being “heard” across all walks of life. As there is virtually no system of public financial accountability the wastage of public resources is huge. These issues are explored in more detail in section IV and its supporting annexes.

More encouragingly, the civil society organisations that have emerged in recent years, whether for advocacy or for service-provision, offer real prospects for empowerment of otherwise marginalized groups. While these organisations vary greatly in aims and effectiveness, many of them have achieved a considerable impact on development outcomes in Bangladesh and deserve credit for much that has been achieved. In respect of advocacy, this paper will suggest that a large part of the solution to institutional shortcomings in Bangladesh must reside with strengthening drivers for pro-poor change. Elements of civil society have shown themselves to be crucial in this respect. Some NGO programmes are, for instance, seeking to provide local access to lawyers; within the legal and accountancy professions some members are actively pressing for improvement to standards; elements of the press do a fine job in publicising shortcomings; and anti-corruption pressure groups are growing. However, while these are all promising, they as yet fall well short of what is needed to sustain sufficient pressure to bring about broad-based improvement.

### **3.2.3 Access to assets, services and markets**

Improving the livelihoods of poor people depends, in Bangladesh as elsewhere, on access to a range of assets – human, natural, financial, and social – and economic and social services. Access in turn is influenced by a set of market and non-market institutions which often, in Bangladesh, are not pro-poor, either because they are ineffective, or are used in support of powerful vested interests. The challenge facing government, civil society and international partners is thus not just to take the measures needed to promote sustainable macroeconomic

growth, important as that is, but to ensure that its potential benefits are broadly shared – to raise the quality of growth.

An important part of that task is to raise the effectiveness and accountability of market and non-market institutions. There is a very large agenda for action: input and output markets continue to be segmented and subject to social, political and infrastructural constraints, especially in rural areas; and despite rapid increases in social sector expenditure, major challenges of ensuring access to quality services remain. For instance, public health services are not well targeted (the poorest decile of the rural population receives 6.9 percent of the total rural public expenditure) and are poor in quality (World Bank, 1998); and despite high enrolment rates (probably considerably overstated at 96% in 1999), functional illiteracy is widespread, and the quality of education is inadequate.

While the agenda is large, there is room for optimism that much can be achieved. Despite the problems with many institutions, many households are in practice succeeding in improving their levels of living. Livelihoods are diversifying, links between rural and urban areas are growing, as are non-farm rural activities, and households are linking increasingly strongly to global processes (for instance through export-oriented elements of the labour market.) There has been some improvement in ownership of non-land assets (via the microfinance market), but the proportion of the landless has risen. While markets are certainly influenced by their social and political context, this is not wholly static: the access of women to the labour market, for instance, is improving and is becoming less inhibited by social attitudes; among non-market agents, NGOs are offering a range of financial, advisory and social services; and although literacy levels remain poor, access to primary education has greatly improved, especially for girls. Section IV and the associated annexes explore several aspects of access to markets and services (Annex V on micro-finance; Annex VI on gender and education; Annex IV on health services, all of which indicate considerable progress; by contrast land markets remain deeply flawed (Annex VII) and limit access by the poor.)

### **3.2.4 Security**

Poverty reduction also requires enhanced security, to counter physical and economic vulnerability that drives people into poverty or threatens the sustainability of their exit from poverty. Bangladesh faces particularly high levels of insecurity because of the natural disasters that frequently occur. Since 1990, the share of the Annual Development Programme (ADP) devoted to the social sectors has more than doubled, and is considered to be partly responsible for the progress in human poverty indicators. Several targeted transfer programmes were introduced over this period for destitute female-headed households, and for the old-age population, while existing programmes (notably Food for Work, Food for Education<sup>10</sup> and Vulnerable Group Development) were further adjusted to seek to reach the ultra-poor. The country's capacity to cope with flood and cyclone victims has also improved over the 1990s. Several NGOs in Bangladesh have reached a size that puts their safety net programmes on a par with those of government, but are often more effective. Despite substantial improvements in social protection that are changing the face of poverty in Bangladesh, major challenges in this sector remain (see Annex X).

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<sup>10</sup> There are increasing concerns with the targeting of this programme.

Where the country has increasingly failed is in delivering personal security and observing legal rights for all income groups, especially the poor. Personal security is not assured, with high levels of violence, especially against women, and little recourse to formal justice.

### 3.3 Governance and how it can be improved

#### 3.3.1 Governance is the core issue<sup>11</sup>

These deficiencies are in good measure the result of poor governance. Confrontational politics that reflect a deeply divided society and strongly entrenched clientelist social norms have together obstructed reform, even though there is widespread agreement on the need for reform.<sup>12</sup> The political leadership of neither of the two main political parties has been able to overcome organised vested interests opposed to reform. Indeed, the leadership is part and parcel of the embedded problems, exploiting patronage, clan networks and social divisions in order to stay in power. Political representation of the poor through the electoral process thus suffers the handicap of being restricted by a framework of patron-client relationships on the one hand, and by election violence on the other.

#### **Box 3.2 The relevance of governance – some views of Bangladeshis**

‘As there is no good governance, there is anarchy everywhere,’ Finance Minister Saifur Rahman (quoted in *The Independent* (Dhaka), January 16<sup>th</sup> 2002.)

‘It all boils down to governance,’ Senior businessman and former public official, at seminar with team, Bangladesh Enterprise Institute, January 15<sup>th</sup>, 2002.

The failure of the political leadership is often attributed to weak capacity and lack of political consensus to take the tough measures required. This is too generous. The fact that the 2001 general election was organised (although the results are not universally accepted) was ample evidence of considerable administrative capability, as was the highly effective management of the 1998 flood crisis. Some might argue that the government is effectively hostage to vested interests. But, as one recently retired senior government secretary observed to the study team in January, vested interests have never stopped a government that has been truly determined on a course of action. The harsh truth is that the political leaders have had a different agenda than the public interest that they espouse in public. Instead, they are pursuing their personal short-term interests – personal power and enrichment – and these goals are almost always pursued at the expense of the national interest and often using criminal means<sup>13 14</sup>.

<sup>11</sup> Much of the analysis in this paper is consistent with the admirable ‘Report of the Public Administration Reform Commission’, June 2000. PARC frankly catalogues many institutional shortcomings in the public sector, and makes the link inter alia to incentives facing officials and to the political process.

<sup>12</sup> See Chapter 2 of *Taming Leviathan* (World Bank 2001) for a fuller exposition of the resistance to reform.

<sup>13</sup> ‘Corruption pervades public life and public administration in Bangladesh. Corruption takes place at both political and bureaucratic levels, occasionally independent of each other, sometimes in collusion... Underhand transactions for private gain have become the rule in public and private sectors’ transactions,’ Report of the PARC, p. 83.

<sup>14</sup> See Professor Rehman Sobhan’s discussion of the role of *mastaans* (musclemen) in politics in *Changes and Challenges: A Review of Bangladesh’s Development 2000* (UPL, 2001). For example, on page 90 he writes that

New approaches to achieve reform are needed. Past reform efforts have not worked to change the overall outcomes, even though some worthwhile institutional improvements (such as Ribec) have been made. But how is reform to be initiated? Clearly those benefiting from the misappropriation of state resources are unlikely to champion change.

### 3.3.2 Who will drive change?

Agents of change will be most effective in driving reform in a context where more subtle supporting social changes are occurring that empower citizens, promote consultation and participation, increase gender equality and encourage a spirit of tolerance. Nine potential drivers of change may be identified – reform-minded public officials, the media, NGOs, rural-based organisations, business organisations, independent policy research centres, professional associations, elements of the Bangladeshi diaspora, and Bangladesh’s development partners. For the most part, all of these operate mainly by advocacy. So far they have been aided by an independent Supreme Court, which has entertained public interest litigation and has on occasion protected the advocates of reform from government harassment. It must be noted that while all of these nine groups have the potential for progressive change they can also engage in activities that can reinforce or deepen the problems of governance.

**Government.** Many of the problems in achieving the development goals centre on the functioning of government, whether in the areas of growth, empowerment, access to markets and services, or social and economic security. Technical solutions exist for each area where improving the performance of government is important, whether within the civil service or within SOEs. The problem is rather that key players in government are not subject to the necessary incentives to take the decisions needed and, more importantly, act on them.

While there are deep-seated difficulties in bringing about sustained improvement in the performance of government, entry points do exist. The first lies in supporting the demand side: for the private sector, public opinion and civil society organisations to become better informed and more assertive in calling government to account. The second is based on the fact that government is far from monolithic. Interests are diverse, creating the possibility of coalitions, and on any one issue there are agents for change within government. And third, technical improvements to public administration can help to strengthen impetus for change, partly by highlighting feasible reform tracks and partly by improving transparency.

**The media.** Bangladesh is fortunate to have a robust and reasonably free press. Several well-established papers have a good reputation for exposing corruption and miss-governance and for raising issues of public concern. Broadcast media, with three Bangla TV channels, are also becoming important means of mass communication, and there is opportunity for the development of local radio to comment on locality-specific issues. Nonetheless, there are weaknesses which need to be addressed. Journalists are often poorly trained and, given their poor pay, susceptible to being ‘bought’ by vested interests. There may be a case for an independent

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‘Many politicians now increasingly use *mastaans* as a political resource in the contention for political office and state patronage to access public resources.’

press development institute, which could undertake training and promote better ethics and professionalism among journalists.

**NGOs.** Reform of the NGO movement in Bangladesh is a vast topic that has been addressed in several reports, most notably *Pursuing Common Goals*<sup>15</sup>. The NGOs roughly divide into those actively engaged in advocacy and those more focussed on providing services to the poor. In the past, the donors have tended to focus most of their support on NGOs engaged in service delivery. More recently, support has increased for NGOs engaged in human rights advocacy work and in promoting better governance. These latter NGOs merit more substantial support. At the same time, there is a need to support efforts to strengthen NGOs' own governance and accountability systems and to encourage ADAB, the NGO apex organisation, to be more effective in promoting higher standards in both public agencies and NGOs.

**Rural-based organizations.** Rural-based organisations continue to develop, and warrant further support both to strengthen the voice of rural citizens and poor people in particular, to combine to strengthen access to markets and services, and for common property management.

**Business organisations.** Poor governance greatly adds to costs for many businesses. For some, however, for instance some of the large NCB debtors and firms with privileged access to licences, corruption helps to enhance their profitability. Partly for these reasons, and because business is often aligned along political lines and tends to take a short-term view, to date the business community has been largely ineffective as advocates of reform. Businessmen often find it easier to bribe to circumvent bureaucratic harassment, rather than invest time in promoting governance reform.

The challenge here for the development partners is to work with the various business chambers, especially those whose members are engaged in exporting, to assist them to have a more informed and effective advocacy initiative for better governance. One avenue for pursuing this objective is to help strengthen the policy analysis work of the major business chambers and to foster improved business ethics and, especially, a non-partisan collective business advocacy stance.

**Independent Policy Research Centres.** Bangladesh has a number of policy research centres which have done excellent work. They have an important role in helping to form public opinion on the design of needed reforms. Their open debates and publications are valuable as sources of public information and as fora for raising the need for governance reform (see Annex XIII for a more detailed review).

**Professional Associations.** This is a group of potentially powerful advocates of governance reform, which are presently in much need of strengthening. For example, one might have expected the Institute of Chartered Accountants (ICA) to be pro-active in establishing and enforcing high standards of accountancy. In practice this is not the case. Instead, good accountants try to protect their professional reputations by association with international accountancy firms. The Bar Council and affiliated Bar Associations have also fallen far short of what might be expected of such professional groups. There is in short much scope for the

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<sup>15</sup> World Bank, 1997. Also see *Partners in Development: A Review of Big NGOs in Bangladesh* DFID 2000

development partners to work with professional associations both to help develop their ethical and professional standards and to help build them into stronger and more effective advocates of governance reform.

**Bangladeshi diaspora.** The substantial number of Bangladeshis living abroad, in many cases with significant human and financial assets and networks, and with exposure to international norms and practices, perhaps represents an under-used resource to promote development inside the country, and specifically for supporting governance improvements. Several possibilities exist (taking account of experiences from China, Turkey, India, and Lebanon) for involving the Bangladeshi diaspora in the development process, for instance through encouraging entry into higher levels of the civil service. A task force, including expatriates, could be created to examine the inhibiting factors behind currently dismal inflows of FDI from non-resident Bangladeshis. Reforms to the banking system may encourage more remittances to flow through formal channels.

**Development partners.** While Bangladesh has moved a long way to reduce aid dependency, concessional inflows remain substantial in both relative and absolute terms<sup>16</sup>. In the short term, and especially now when foreign reserves are low, only the development partners have the leverage to insist on reform. But this leverage is limited and likely to be time-bound, and they do not have the means to sustain reform if the measures taken may be reversed when the reserve position improves. However, in some cases, once achieved, reform is hard to reverse. This was true, for example with the introduction of VAT, which was pushed through by the World Bank and IMF in the early 1990s as part of a structural adjustment programme even though resisted by many Bangladeshis. It has proved to be a success and it would be surprising for any government now to propose its abolition.

The dilemma faced by donor agencies lies in the fact that aid provided without explicit or implicit conditions in the circumstances of Bangladesh would be an abdication of responsibility. Yet conditionality not backed by genuine ownership by the principal local stakeholders has in most cases failed to be implemented or has not resulted in lasting reform. A good example of the latter is efforts to curb system losses in the power companies.

Three features of donor approaches exacerbate the situation: lack of persistence, lack of firm solidarity among donors (sometimes based on differing analyses of how to go about promoting change), and lack of a collective donor willingness to suspend aid when faced with government backtracking on major governance reform commitments. The Bangladesh government has had an acute awareness of donors' lack of collective determination to insist on governance reforms despite conclusive evidence of pervasive corruption, lack of transparency, human rights abuses, and an almost total absence of public financial accountability.

### **3.4 The impact on aid effectiveness**

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<sup>16</sup> Aid flows constitute less than 2% of GDP, less than one-half of the annual development budget, and less than 20% of total GoB expenditure. The comparable figures for the early 1990s were around 10%, 100% and 50% respectively (source: B.Sundstrom, DFID).

It is incumbent on donors to act differently because the factors that weaken overall development performance also reduce aid effectiveness. Over the years countless well-intentioned donor supported development programmes implemented through the public sector have floundered because neither politicians nor civil servants saw personal advantage in their implementation. Thus, the challenge for the future for Bangladesh's development partners is to design their future country assistance programmes based on a more thorough understanding of the norms and incentives that motivate the behaviour of public officials. What has motivated public officials, contractors and other vested interests has been a determination to keep up the flow of aid funds so they could obtain their share; and in many cases they have had little interest in development outcomes and even less in reducing poverty.

Bangladesh's impressive array of NGOs, though not without flaws, have had a much more credible commitment to assisting the poor and the vulnerable. There is evidently a case, from the perspective of making the best use of aid for continuing carefully judged support for the advocacy and service-providing roles of NGOs. But, as the final section of this paper will suggest, for Bangladesh to graduate from low-income to middle-income status will require improvements to public institutions and to governance. Where, if anywhere, lies an effective role for the international community and the other agents of change in helping to bring that about?

## **IV Selected cases of policy and practice**

### **4.1 Introduction and themes emerging**

#### **4.1.1 Selection of case studies.**

This section explores the proposition set out in section III – that institutions and governance are central to Bangladesh’s development prospects, and that the key to sustaining improvements will be to strengthen pressures for pro-poor change --- in relation to eleven different areas of policy or practice, as follows:

- Improving access to services and markets:
  - Health
  - Micro-finance
  - Education for women
  - Land
  - Seeds
- Infrastructure for growth and access
- Social protection
- Achieving law and order
- Public financial accountability
- Policy analysis and decisions
- Making local government effective.

These have been selected on the following criteria:

- That they are central to the four strategies set out in section III – growth, empowerment, access, and security --- and hence to the achievement of the MDGs.
- That institutional dimensions constrain, but also offer entry points to, improved socio-economic prospects in Bangladesh
- That there is at least the potential for a constructive role for Bangladesh’s development partners.

The text is limited to highlights of lengthier discussions of the issues presented in annexes IV to XIV, each of which follows a comparable structure. The subjects covered are not exhaustive, nor does inclusion in this discussion imply that the issues covered are necessarily of greater importance in achieving the MDGs than are others that have been omitted. However, we have sought to achieve a broad coverage of topics, including those that are relevant to rural areas and to improving the economic and social situation of women.

#### **4.1.2 Main themes.**

These case studies confirm this report’s argument that problems of institutional performance, and in particular poor governance, place great constraints on the achievement of development goals in Bangladesh. While much the evidence is mixed, progress is possible when the context is appropriate and interventions are well designed and implemented in a sustained way. The

development of the microfinance sector (and the evolution of PKSF), rural electrification, Ribec's contribution to improving financial accountability, and gender equality in primary education all indicate that progressive changes can occur in the country despite considerable obstacles.

What indications do these cases provide of the types of action that development partners and others might pursue to overcome obstacles and increase the opportunities for pro-poor change? Here we present some of the main comparative findings – many of these are explored in greater detail in the remainder of section IV and in the final section V which examines the implications for different stakeholders.

**Stimulating demand.** A lack of effective public demand for change is an obstacle to many potential reforms. Development partners can help address this by supporting quality service providers and advocacy organisations, including through encouraging the creation of more specialist advocacy bodies over time; by seeking out opportunities to further strengthen the public-information and watchdog role of the media; by promoting transparency, including through the use of IT; by continued support for the social mobilisation of those who suffer at the hands of corrupt politicians, bureaucrats and businessmen; by looking for opportunities to support the development of business associations that are not part of the party political system; and, by seeking out opportunities to link GoB and other actors to the achievement of international standards, goals and benchmarks. There are difficulties, but equally there are obvious areas in which concerted action by development partners and civil society groups could make headway. The most obvious of these is in telecommunications where some Bangladeshi analysts reckon that public support for reform of around 90 to 95% has never been mobilised to insist on change. A similar situation may exist at the Chittagong port where a well-judged confrontation with the unions would stand a good chance of bringing about much-needed improvement, and giving GoB popular support (Annex IX).

**Creating a critical mass for reform.** There are frequently individuals and organisations that offer potential for promoting change but they are fragmented, isolated and insufficiently influential to bring it about. Measures to create a critical minimum mass from such pre-existing agents could well be effective (for instance through promoting institutional development.) In the different contexts, these could involve encouraging groups of farmers, or of lawyers or accountants or smaller-scale business people, or promoting networking using IT, or international links. Part of the purpose of creating a critical mass is to raise expectations and confidence, currently very low in Bangladesh, that improvements are possible. Similarly, while many problems centre on the political parties and on the public sector, these are not monolithic. They contain pro-reform individuals, some quite senior, who could combine into coalitions for change around particular issues.

**Addressing vested interests.** In many cases reform will challenge the interests of specific interest groups – usually these are the non-poor and sometimes they may be elites. To increase the chances of a successful reform it may be necessary to look for ways of compensating such groups so that they no longer oppose reform. For example, early retirement packages for the dockers at Chittagong might remove them as an oppositional force and be a relatively small cost compared to the costs of letting the port continue to operate inefficiently.

**Donor capacities and modalities.** The case studies demonstrate that to promote successful reform donors need to strengthen their own capacities and modify some of the ways in which they operate. In particular:

- Employ staff, including senior Bangladeshi staff, with a detailed understanding of the political context in Bangladesh to provide assistance to other advisers
- Seek to achieve higher levels of institutional learning by extending the period of time that individual expatriate staff are based in Bangladesh (and consider how to reward staff for such postings)
- Over and above staff development, ensure that full advantage is taken of the potential for learning from Bangladeshi organisations and individuals
- Recognise the importance of timing, and develop internal procedures that permit a rapid response to opportunities and are related to the election cycle and other critical events
- Recognise the long time scales that may be needed to achieve pro-poor change in project and programme planning procedures
- Continue to develop new methods for managing staff-intensive activities that permit small scale initiatives to be managed as larger aggregated packages

At the same time donors should pursue many of the innovations that they have made in recent years, in particular, the application of gender analysis to all programmes, the creation of multi-partner networks for service delivery and advocacy and the recognition that working with the non-poor will at times be an effective means of assisting the poor.

## **4.2 Improving access to services and markets**

### **4.2.1 Introduction**

Equitable access to a range of efficient economic and social services and markets is central to improvements in the livelihoods of poor people in Bangladesh. The following sections highlight in brief factors favouring and hindering such access in relation to health, micro-finance, education (with a particular focus on the access of women), land and seeds. Each is supported by an annex (IV to XIV)

### **4.2.2 Health (Annex IV)**

- The government continues to espouse an unaffordable mandate; the notion that better health services via a more cost-effective public system would generate political support is not sufficiently widely accepted to generate support for the necessary reforms.
- The financing gap in health care expenditure implies rationing of such services, either by price (which would not deliver a pro-poor service pattern) or by selection (exemption of the poor from charges) leading to difficult problems of provider incentives.
- Health workers resist decentralisation as they stand to lose power, status and access to rents from decentralisation or from other more efficient, equitable or less corrupt outcomes.

- There is ambiguity in government's stance towards other health service providers<sup>17</sup> despite their increasing share of urban and some rural primary health care services (both promotive and preventative) in competition with public services.
- Future approaches might usefully be based on a greater use of diverse providers of publicly funded services (private sector, NGO, community organizations), competition, an improved management environment, and regulation by way of contracts for publicly financed services.
- Operational challenges will include lowering management costs (e.g. NGO management costs may in some cases amount to about 20% of total service costs); maintaining competitiveness and effectiveness even after contracts have been let; and strengthening capabilities for effective contract management and consumer voice.

#### **4.2.3 Micro-finance (Annex V)**

- A strength of the micro-finance sector is that important players continue to seek to bring about demand-driven innovation both in products and institutional design.
- The recent introduction of deposit products is one such example which also has the potential to improve the limited success of MFIs in reaching the extreme poor.
- However, this creates new challenges: as guardians of poor people's savings, MFIs are faced with the need for better risk management and financial accountability aimed at maintaining quality, efficiency and probity.
- There is an evident need for appropriate regulation and supervision for MFIs offering deposit products. Dilemmas are created however, by the limitations in the ability of public regulatory authorities. Government, to its credit, has, however, not so far sought to over-regulate MFIs.
- The lack of a regulatory and supervisory framework has brought about reputational challenges for the micro-finance sector: there exists for instance a widespread misperception among different sections of society, including officials, that MFIs charge excessive rate of interest.
- The PKSF (Palli Karma Shahayak Foundation, discussed in Annex V) offers one regulatory approach which does not involve an exclusive reliance on the public sector.
- The need for dialogue both within the MFI community and between the MFIs and government has never been stronger, not least because of the present tensions between government and a handful of MFIs. Unless checked and resolved, such reputational challenges have the potential to undermine the whole sector and its laudable achievements.
- Micro-finance in Bangladesh can further build on its pioneering role by bringing about a further set of innovations in institutional structures, products and policies, (listed in Annex V) so that a more sophisticated set of MFIs emerges over time.

#### **4.2.4 Engendering education (Annex VI)**

- Despite data problems there is clear evidence that female enrolment in primary and secondary schools increased at a faster rate than for males throughout the 1990s.

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<sup>17</sup> A new (2002) NGO policy may lead to clarification of the respective roles of different agencies.

- Female gross enrolment however is still lagging at the higher secondary (48.4% against 57.0% for males) and the tertiary levels (with around four males in formal educational institutions for each female). This lag is particularly great for poor households.
- The levels of learning that are achieved in schools are very low for both girls and boys.
- It is reasonable to argue that the restructuring of the Ministry of Education, increased domestic funding, a series of international targets for gender equality in education contributed to the move towards gender equality in education over the 1990s. There is some evidence that the Female Stipend Programme (FSP) also played an important role in increasing female enrolment at primary and secondary levels.
- A more pro-poor and pro-female focus is needed for all age groups and educational levels, such as feeding programmes, or stipends for the poorest households.
- The benefits of greater female enrolment will have only a limited impact on the capabilities of girls, and on the contribution that they can make to development, unless the quality of education is greatly improved.
- The deteriorating quality of governance may have implications for the effectiveness of future GoB actions to promote gender equity in education.

#### 4.2.5 Rural land (Annex VII)

- Fifty-six per cent of the rural population in 1996/97 was functionally landless, and some 40% of holdings involve some form of tenancy, the most common of which is sharecropping.
- Centralised and fragmented, time-consuming, out-dated, extremely inaccurate, and pervasively corrupt systems for creating, maintaining and updating records of land rights result in high transactions costs and imperfections in the land market, exclude poor but efficient farmers from the land, and discourage productive investments in land. The poor and women are the worst victims of the shortcomings in the system.
- Lack of crosschecking and verification leads to a multiplicity of false records. Dispute resolution procedures can take years to work through the court system. Some 70-80% of civil and criminal litigation is estimated to owe its origin to land disputes.
- The main focus of legislation to date has been on land ceilings and tenants rights. Implementation of these measures however, has been haphazard, ceilings have been widely evaded, sharecroppers remain largely unaware of their rights, and illegal (often powerful, *mastaan*-supported) occupiers have been hard to evict.
- Reforms have not succeeded, perhaps in part because inadequate attempt has been made to win (e.g. through compensation) the co-operation of those who might lose, or through replacing the income of civil servants who might be adversely affected by rationalising the registration system.
- An ADB-supported initiative has made slow progress owing to an overall lack of political support, conflicting bureaucratic priorities and infighting, lack of institutional capacity, and the inherent complexity of some of the tasks to be carried out.
- For the future, a much improved land record system will require modern technology, together with decentralisation, means of compensating losers, and a more active support for local community involvement, particularly for common property management.

#### 4.2.6 Seeds (Annex VIII)

- The public sector, through BADC, continues to have principal responsibility for formal supplies of seeds for the five notified crops (rice, jute, potatoes, wheat and sugarcane.) which together account for some 90% of the area planted<sup>18</sup>.
- BADC is subject to many problems common to the public sector, including continued lack of client-orientation, over-staffing, an unbalanced budget, minimal incentives to produce new varieties and management problems, some of them union-related.
- Measures to reform the BADC's role have faced funding constraints and resistance from political and union activists. Nevertheless, there has been some involvement by the private and NGO sector<sup>19</sup> in seeds supply and agricultural research after the adoption of a new seeds policy in 1993 (amended in 1998).
- However, there are concerns with the quality of formal private sector supply of seeds. Pressures to establish brand reputation are not yet adequate to ensure quality, and the absence of public quality regulation adds to the problem.
- In relation to pricing, the cost of seed delivered by the private sector is higher than that from BADC, reflecting a set of explicit and implicit subsidies to the latter and acting as a disincentive for the expansion of the private sector seed business. Retail price controls remain contentious.
- The informal private sector is substantial, and perhaps growing, in particular in the form of the smuggling of varieties, for instance of jute and rice, primarily from India.
- For non-rice crops, private sector and NGO involvement is already greater than it is for rice. NGOs often link seed marketing to credit and other services.
- Ways forward include recognising the importance of farmers' own seed, reducing the public sector role in the seeds systems servicing the five notified crops, recognising the significance of smuggled seeds and adjusting policy accordingly; minimizing the disincentive effects on the private sector of the expansion of regulations and the subsidies that apparently favour the public sector and NGOs; dealing with underlying management issues, especially those specific to BADC; and defining priority public-good tasks, including quality control.

#### 4.3 Infrastructure for growth and access: the case of Chittagong Port (Annex IX)

- While there appears to be a good development case for continued substantial investment in infrastructure, there are also many lessons, good and bad, to be learned from past interventions, many of them relating to governance and the difficulty in Bangladesh of creating conditions conducive to private investment. In this paper, we limit ourselves to one case study, Chittagong port, to illustrate this point. Other cases, notably power and telecoms, demonstrate similar lessons.

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<sup>18</sup> This section draws heavily on a very useful recent document: 'The rice seed delivery system in Bangladesh: institutional and policy issues,' by Mahabub Hossain and Aldas Janaiah (IRRI) and Muazzam Husain and Firdousi Naher (BRAC). Paper presented at the CPD/PETRRRA/DoLSys Rice Seed Delivery System and Seed Policy Dialogue, Centre for Policy Dialogue, Dhaka, January 8<sup>th</sup>, 2002.

<sup>19</sup> Background note 'Policy development: improving markets and services for seeds,' prepared for this paper by G.M. Mayeenuddin, Dhaka, March 2002, mimeo.

- Using outmoded management, information and control systems, the Chittagong port is one of the most inefficient in the region.
- With 90 percent of Bangladesh's external trade moving through it, the cost to the national economy of this inefficiency is enormous, variously estimated at between US \$0.5 and \$1.0 billion per annum.
- Centralised management and budget arrangements are excessively linked to governmental and political processes, and give insufficient autonomy and incentives for improved performance to local management.
- Industrial action by the port trade unions are not always connected with their conditions of work, but have much to do with local and national political issues of a partisan and factional nature. Port users are allegedly obliged make extra payments to get the work done on time.
- Measures for reform are not pursued because of a combination of such perverse incentives and a few vested interests linked to the political process, the bureaucracy, and the unions.
- Possible changes include introducing competition through instating private container facilities (in the form both of a terminal at Chittagong and of Internal Container Depots (ICDs) at number of locations in the country<sup>20</sup>), and restructuring the port and terminal services. Privatisation may be premature at this stage.
- A reform strategy would have to be based on recognizing the incentives facing the various stakeholders (port workers, political parties, employees of Chittagong Customs House, private exporters, government, and citizens groups) and forming a coalition of interests to withstand any resistance and to push forward desperately needed changes.

#### **4.4 Social protection (Annex X)**

- Heavy leakages in the main social protection schemes in Bangladesh involving several different organizations seem to be associated with the involvement of central government ministries.
- The capacity of Bangladesh to avoid mass hunger and starvation during the 1998 floods, however, is testament to the fact that the capacity to run these programmes efficiently do exist within the government.
- NGOs, union parishads and local relief committees are better able to reach the poor (and even the very poor).
- While on the one hand social protection schemes experience levels of leakage that greatly reduce their efficiency, on the other hand they provide significant material benefits to millions of the poorest and most vulnerable households, thereby making a case for these schemes to continue. A priority is to understand them better and seek ways to improve on their performance.
- An authoritative account of why these schemes work relatively effectively, and that explains the differences in their comparative performance, is not yet available.

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<sup>20</sup> At present containers are packed and unpacked at the port, leading to great cost, delay and inefficiency. ICDs would permit this to be done in other locations, including the premises of larger importers and exporters.

#### 4.5 Achieving the rule of law (Annex XI)

- Poor rule of law<sup>21</sup> has been singled out in various consultations with poor people in Bangladesh as being their greatest concern.
- The Supreme Court commands respect due to its good reputation. Inefficiency, logistical constraints and allegations of malpractice by officials however, have eroded the reputation of the subordinate courts and have increasingly affected the higher courts in recent years.
- As far as possible, people and businesses avoid the courts due to long delays and their inability to enforce contractual agreements.
- Poor people in rural areas must resort to the traditional informal village *shalish* even though they are dominated by the elite and biased against the poor and women. Some NGOs have begun to engage with the *shalish* with a view to reform and to modernize, initiatives that merit support.
- Police violence and extortion and their role in enforcing the will of the political party in power make the police an ineffective body to uphold the rule of law. The police also have few resources for crime detection and very little training in criminal investigation work.
- The challenge of reforming institutions responsible for the rule of law is daunting: the task is immense; the experience of reform is wanting; and the attitude of key official stakeholders is ambivalent, given that many are among the beneficiaries.
- Opportunity for change involves starting from specific abuses which are capable of galvanising action and NGO-organised campaigns and to lead into the systemic reforms that are needed, which is where the advocacy of the development partners is becoming more vocal.
- Several donor-supported initiatives are under way; success depends largely on improving government ownership and to efforts to build public awareness of and support for the reforms.

#### 4.6 Public financial accountability (Annex XII)

- Bangladesh's present system of public financial accountability is highly deficient, non-transparent, inaccurate, and fails to integrate recurrent and development expenditure.
- There are relatively few qualified auditors within government service, and accountancy standards are widely regarded as inadequate.
- Tax collection and procurement are the source of much corruption. Parliamentary scrutiny is perfunctory, and the widespread misappropriation of funds mostly goes unpunished.
- Initiatives such as the Ribec programme, though not yet used to its full potential, suggest that with persistence, well-managed technical assistance can bring about changes in public financial management practices.
- Entry points for strengthening public demand for greater transparency may include the growing demand by independent policy research institutes for more financial data, especially as they undertake analysis that the government will need indeed to manage crisis, to engage in international fora (e.g. the WTO), or to respond to development partners.

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<sup>21</sup> "The rule of law is generally accepted to mean: (1) the primacy of law over the arbitrary exercise of government power; (2) equal subjection of all – including the government – to the power of the courts; and (3) the derivation of law from the rights of individuals as declared by the courts," a comment made by Chris Murgatroyd, DFIDB.

- Openings do exist to work with reform-minded elements within the Government to tackle weaknesses in the financial system. Other potential allies are the Audit Office, organisations such as TI-Bangladesh, and the financial press.
- For the long-term sustainability of improvements, development partners will need to stay the course and maintain the pressure on improving public financial accountability.

#### **4.7 Policy analysis and decisions (Annex XIII)**

- The need for broad approaches to poverty reduction emphasises the importance of coordination of policy analysis and decision-making between ministries, along with strengthening capacities within individual ministries and agencies.
- At present Bangladesh has weak capacity to undertake policy analysis, and what there is tends to be largely outside government.
- The independent policy research institutes (IPRCs), are variable in quality and do not specialize in all pertinent areas of research. While there are a number of highly competent individuals (often in high demand and prone to becoming over-extended), nowhere is there a strong corps of skilled and reliable analysts, and some areas (such as environment) are weak in relation to the scale of the challenges.
- The challenge in strengthening policy capacity is twofold: to upgrade, deepen and extend the quality of the analytical work currently done by IPRCs and in the universities; and to help build a capacity within government to manage, understand and make practical use of the policy studies completed by others.
- Two case examples of policy analysis are discussed: the PRSP process; and trade policy.

#### **4.8 Making local government effective (Annex XIV)**

- Local governments are very weak and offer poor quality services (education, health, nutrition, family planning, irrigation, agricultural services, and main secondary roads). They have few resources, little authority to raise revenue, and almost no influence on how central government uses its resources in their areas.
- Local private initiatives to establish and run local services exist but are not sustainable nor are adequate.
- Neither MPs nor central government officials show much willingness for local government decentralisation as it will mean relinquishing many of their powers and influence over resource allocation. Past experience of decentralisation has been poor.
- The first tier of local government has elected union councils, with three seats out of twelve reserved for women. The present government has indicated some ambivalence about holding upazila/thana council elections at the second tier, and has no plans to establish elected district (zila) councils at the third tier.
- There has been some discussion of the merits of introducing elected provincial government, recognising that attempting to administer a unitary system with over 130 million inhabitants is unwieldy and politically unstable.

### Supporting the drivers of pro-poor change

- To strengthen bottom-up accountability, mechanisms in addition to elections (which are easily manipulated in a clientelist system and therefore a poor instrument for accountability) will be needed to overcome local government weaknesses.
- TI-Bangladesh's programme to establish Committees of Concerned Citizens in the districts to produce scorecards on the performance of public institutions merits support.
- There are several drivers for effective decentralisation: local civil society; local elected officials; and NGOs. There is a need however, to aggregate their efforts in seeking reform in order to create a critical minimum mass that is at present lacking.
- Six specific measures along with upgrading basic education are considered (listed in Annex XIV) to strengthen the developmental role of local authorities.

## V Implications for main actors, with a focus on the development partners

### 5.1 Introduction

There is a widely-held view in Bangladesh, which we share, that much of *what* needs to be done to promote broad-based poverty reduction is understood (Box 5.1 sets out some of these issues), but *how* to go about it is extremely difficult.

#### Box 5.1 Some measures of what to do that command broad agreement

##### ECONOMIC

- Stop the losses in the state-owned banks, rationalise them, chase up defaulters
- Restructure and/or privatise loss-making SOEs that are providing poor services to people and business – BTTB, Chittagong Port
- Remove unnecessary regulations and red tape
- Pursue macroeconomic stability
- Encourage foreign investment
- Reduce corruption in business
- Increase the tax burden on wealthier groups
- Develop a more coherent voice in WTO and international economic fora

##### SOCIAL

- Improve the quality of education
- Improve the quality of state health provision
- Provide better social protection for poorer people
- Improve the position of women in a range of institutions

##### POLITICAL AND ADMINISTRATIVE

- Reduce confrontational nature of party politics
- Stop the corruption around political parties
- Make the police work as a civil force
- Improve the judiciary
- Reduce the amount of violence, especially against women, and demobilise the mastaans

##### ENVIRONMENTAL

- Tackle urban pollution problems – air quality, planning, transport, waste
- Mainstream environment in planning
- Enforce existing environmental laws
- Have a stronger voice in international debate on global warming
- Tackle the arsenic problem

This section draws out some of the implications of the paper for the future approaches, priorities and actions of different stakeholders. A particular focus is kept on the development agencies.

The central task that has emerged from the paper is **how, over time, to strengthen agents and socio-economic processes that will sustain pressure for pro-poor change** across the wide agenda of policy and institutional reform and investments that are required for successful development. The future environmental, economic and social challenges facing the country are severe, and it is by no means clear that the necessary coalitions can be put together to ensure that they are met. In a complex socio-political environment, the difficulties arise principally from the

fact that many of those potentially able to bring about change are beneficiaries of the present situation and have little interest in reform, while those with a strong interest in change are relatively powerless.

However, there are several reasons to believe that the necessary changes can come about, at least in the longer term even if the shorter-term prospects are not good. In the first place, considerable social and economic changes are under way, not least in urbanisation and reduced isolation of rural populations, improving literacy and other indicators, the growing involvement of women in economic life and their access to education, the growth of a middle class, and perhaps also the role being played in national affairs by well-resourced and educated Bangladeshis who have spent time abroad. Second, there is an increasingly diverse and impressive set of organisations and individuals active in civil society, the press and the research community, whether as advocates of change or as alternative service providers capable of creating competition for former state monopolies and locally oligopolistic businesses. And third, Bangladesh has recently become a significant exporter of manufactures, creating for the first time a substantial formal private sector, potentially more and more concerned about the lack of infrastructure and a functioning civil justice system, and recognising the need for meeting international standards of competition, health, safety, environment and perhaps also governance at the levels both of private companies and of the public sector.

Longer term, these trends are arguably laying the basis for an increasingly articulate and outspoken population that will be more able to insist on improvements in the way they are governed. An important part of the agenda for Bangladesh's development partners is to support these processes, alongside their other actions to encourage policy change, promote more effective and accountable public, private and non-governmental institutions, and to invest in public goods for broad-based growth, both nationally and with a focus on rural areas.

## **5.2 The political process**

Many if not most of the constraints that have been identified in this paper as holding back Bangladesh's development prospects have their roots in the nature of the political process. Among areas studied, its influence can be felt *inter alia* in the realms of governance, policy analysis, local government, and the inability of the formal private sector to combine for wider public purposes. The re-introduction of democracy a decade ago, while welcome from the perspectives of bringing about a more open society and creating at least the potential for more accountability, has been for many people a disappointment. It has been associated with patrimonial party politics which has not only failed to lead to reform, but contributes to the divisiveness and corruption that permeates many social and economic institutions, and to short-termism in decision-making that undermines the ability to sustain reform. Reform of the political parties is part of what needs to be done to break into the vicious circle of poor governance.

Longer-term improvements will, as suggested above, need to be based on an increasingly effective demand from a better-informed and more prosperous population. Measures to strengthen this demand, to be fully effective, will require the support of several stakeholders, including reform-minded elements of the political parties and government, civil society and the

development partners; to the extent that support from particular stakeholders is absent or half-hearted, progress will be slowed. There is a useful literature in Bangladesh which identifies opportunities for coalitions for change, even including elites who are beneficiaries from at least some aspects of the present situation.

Priorities for increasing pressure for improvement to the party political process over a ten to twenty-year perspective will include:

- Education, especially education for women, as part of a broad approach to human resource development and as a goal in its own right
- Broad-based increases in income, both rural and urban, recognising that destitute people are little able to engage in political processes
- Encouragement of public information on the political process through a variety of means, including an open press and broadcast media, independent research centres and advocacy groups, and strengthening the Parliament and the Election Commission
- Supporting a range of associations, some of them citizens' groups (including as time passes in the increasingly influential urban areas of the country,) some professional associations, and some groupings of the private sector
- Providing stronger links with international norms and standards for political accountability and effectiveness, including through the activities of elements of the Bangladeshi diaspora.

Virtually all of the responsibility for improving the political process lies with Bangladeshis rather than the international community. The latter has relatively few effective instruments for direct influence, and there are questions surrounding the extent to which it is legitimate for external attempts to influence directly or indirectly the political process in a sovereign state. Many of the measures needed to support the five priorities set out above are, however, appropriate for external agencies, and provide a set of entry points for addressing long-term development needs of Bangladesh.

A more soundly-based approach to reforming politics in Bangladesh will require more systematic understanding of the nature of the processes involved than appears yet to be in place. DFID's proposal for a review of the ways in which the political process influences development is fully warranted.

### **5.3 Government**

This paper has emphasised that successfully achieving development goals will require changes to the effectiveness and accountability of a range of institutions in the private, non-governmental and public sectors.

We have also argued that many of the problems centre on the functioning of government, whether in the areas of growth, empowerment, access to markets and services, or social and economic security. The agenda for government is large, and some of the main elements have been spelled out in the report. Among priority measures, stepping up economic growth and reducing the country's susceptibility to economic and environmental shocks will depend in particular on a set of policy reforms that need to be led by government. Empowerment requires

inter alia improvements to the criminal justice system and to the police. Access to markets and services calls for improvements in the quality and pro-poor orientation of publicly funded services (whether delivered by the public, private or NGO sectors), for changes to public funding priorities and modalities, and for more effective provision of public goods, including infrastructure and regulation. Improved security demands building on existing initiatives for social protection, and for more effectively safeguarding human rights.

Technical solutions exist for each area where improving the performance of government is important, whether within the civil service or within SOEs. The problem is rather that key players, principally among officials and politicians, are not subject to the necessary incentives to take the decisions needed and, more importantly, act on them; indeed the incentives are often to block reform. These weak or perverse incentives in turn reflect the lack of effective sustained demand for improvements from the political process, civil society and the private sector. The result is that widely desired actions are not taken, and there is a widespread sense of frustration and powerlessness, even among some people in senior positions. Lack of capacity is frequently a symptom rather than a cause of the problem.

While there are clearly deep-seated difficulties in bringing about sustained improvement in the performance of government, it is important to recognise that entry points do exist. The first lies in supporting the demand side: for the private sector, public opinion and civil society organisations to become better informed and more assertive in calling government to account. The second is based on the fact that government is far from monolithic. Interests are diverse, creating the possibility of coalitions, and on any one issue there are agents for change within government. And third, technical improvements can help to strengthen impetus for change, partly by highlighting feasible reform tracks and partly by improving the availability of information which can heighten transparency. The Ribec programme is arguably one such example, increasing the scope for improvement in government performance even if there is no way of guaranteeing that it will be used in practice. The Minister of Commerce's proposal for a trade policy institute may offer another such opportunity.

#### **5.4 Civil society and the media**

Civil society (here broadly defined to include NGOs, CBOs, the media, independent research centres, professional associations and the Bangladeshi diaspora) will play two decisive roles in Bangladesh's development: as advocates of reform; and as service providers.

**Advocacy.** Our analysis has highlighted the demand side of the problem of governance and institutions: in short politics and government are flawed in good measure because civil society has been unable to prevent the abuses or to sustain enough pressure for reform. Yet civil society organisations also offer a real basis for optimism, notably in the growth of certain advocacy groups, some of them highly impressive, working for instance for women's rights, to counter corruption, or to improve education. Recently, support has increased for NGOs engaged in human rights advocacy work and in promoting better governance. These latter NGOs merit more substantial support, as do those engaged in drawing public attention to environmental issues. The press, the research community, and some professional associations (e.g. of lawyers) are also central to improving the quality of political discourse.

**Service delivery.** Separating the question of which services should be publicly funded, and for whom, from that of who should deliver them is a useful contribution to the policy debate in Bangladesh.

The former calls for clarity on (a) market failures and public goods to promote based-based growth, and (b) what are the most cost-effective means of achieving other social and poverty objectives (such as gender considerations or spatial balance between urban and rural development).

The latter is a pragmatic question, based on who can deliver services most cost-effectively. NGOs and some community-based organisations have shown that they have or have had a comparative advantage in Bangladesh in delivering a range of services, especially in rural areas. Certainly the response of several external agencies, based on years of involvement, has been a progressive shift of funding for service delivery from government towards NGOs. In certain other areas, however, including micro-finance and some agricultural services, a further shift may be taking place from NGOs towards private for-profit providers. In part this is because the private sector is growing, and is increasingly capable of taking on new functions. In part it is due to a changing pattern of market failures: in micro-finance, for instance, MFIs are showing signs of being able to access formal private capital markets in a way that was not possible a few years ago. It is important that the growing scope for private delivery of some services is recognised and care is taken (for instance by development partners) not to undermine the private sector by continued unwarranted subsidies to alternative service providers.

Several suggestions have been made for strengthening the ability of civil society to press for pro-poor change and as service-providers (see section III above). While most of these involve external support, there is a need also for civil society organisations to attend to their own governance to ensure their accountability, transparency and evident independence from party political affiliation. The present tensions among some NGOs, and between some NGOs and government, have come about for a complex set of reasons, some of which can be mitigated through ensuring the highest standards of governance within the NGOs. It would be extremely unfortunate if these tensions came to threaten the NGOs' great potential contribution to Bangladesh's future development.

**The press and broadcast media.** For all the great strengths of the press, there is a need to raise further the standards of journalism in the country. There may be a case for an independent press development institute, which could undertake training and promote better ethics and professionalism among journalists. The quality and independence of the contribution of radio and television to improving governance might in addition benefit from greater diversity.

**Independent policy research centres.** The IPRCs have an important role in helping to inform public opinion on the design of needed reforms. Their open debates and publications are valuable fora for raising the need for policy and governance reform, and some undertake commissioned policy work on behalf of government, helping to raise the quality of policy analysis. Their problems relate in part to sometimes unpredictable periods of relative strength and weakness associated with individuals, and to more predictable weaknesses associated with funding that is

often short-term and project-led. Based on a more through analysis of Bangladesh's needs, a review of the constraints to policy analysis capacity (including the problem of sometimes weak demand from within government), and the strengths and weaknesses of the IPRCs themselves, there appears to be a good case for more predictable and less discontinuous funding, alongside measures to ensure high-quality outputs (see Annex XIII).

**Professional associations.** Some individuals within a range of professional associations, including the Institute of Chartered Accountants, the Bar Council and affiliated Bar Associations, and the association of retired police officers, are well aware that these organisations could do a great deal more to develop and enforce ethical and professional standards, and to become stronger and more effective advocates of governance reform. Such individuals offer potential for change, but they do not yet constitute a critical minimum mass sufficient to bring about improvement. The development partners may have a useful role for in supporting pressures for reform within the associations.

## 5.5 The private sector

Small, medium and micro enterprises have developed considerably over the past two decades, for a complex of reasons including microfinance and associated advisory and management services, rising literacy levels, and investments in infrastructure (e.g. rural electrification which is one of the successes in Bangladesh), and have contributed to rising and diversifying livelihoods. Yet they are also subject to many constraints that raise uncertainty and costs, including the vagaries of the administration, policy and power supplies. While they represent an important part of the complex of markets and service providers that are of importance to low-income households, there are continuing problems which reduce their contribution. Some SMMEs are a source of pollution, highlighting the need for stronger environmental governance. Further, SMMEs are poorly placed to press for reforms and investments to address the wider constraints they face. NGOs and some development partners play an important role in undertaking this implicit representation function, and in providing practical support to SMMEs.

The position of the large-scale formal private sector is quite different. It has done well in some areas of the economy, despite the problems it faces. There are many public goods, not least infrastructure and the legal system, whose state is woeful and which represent a cost to the private sector. Yet the business community has been largely ineffective as advocates of reform, in part because it is divided along political lines. The various chambers of commerce and industry are a disappointment as a means of individual firms coalescing for the wider good. Too often, businessmen have learned to live within an imperfect political system, and indeed reinforce it through providing much of its funding.

One avenue for harnessing the potential of the formal private sector is to help strengthen the policy analysis work of the major business chambers and to foster improved business ethics and, especially, a non-partisan collective business advocacy stance.

## 5.6 DFID and other development agencies.

We approach the discussion of the implications for the development agencies in Bangladesh by asking three questions:

- Should the donors maintain aid programmes in Bangladesh?
- If so, what should the main foci be?
- What approaches should be adopted to aid management?

**Should aid to Bangladesh continue?** Under most foreseeable circumstances, there is a case for aid to Bangladesh on the grounds that many of the world's poor live in the country, and (though evidence on aid effectiveness is weak) there is reason to believe the donors can contribute to sustaining and perhaps accelerating the reduction of poverty. The more difficult questions relate to the scale and modalities of the aid programmes, including the relative balance of aid to the public, private and NGO sectors, and aid management. While a comprehensive answer to these questions is beyond the scope of this paper, some considerations are set out below.

**What should be the main foci?** The following discussion draws out some of the more general implications of this paper for aid as a whole. It does not purport to be an exhaustive account of what aid programmes should seek to cover. Further, decisions on the specific focus for any one individual agency – including DFID --- will depend on many factors including its own comparative advantages, scale, funding mechanisms (grants or loans, for instance), policies and priorities, etc.

Aid for Bangladesh should arguably include several mutually reinforcing elements:

- First, continued funding of key social and economic services through the most pro-poor and cost-effective delivery agencies, whether public, private or NGO, at the same time stressing the importance of governance issues, including of NGOs. Funding of some services is likely to continue to be undertaken within sector programmes, linking investment with policy and institutional change. Institutional and governance aspects of these services will need sustained attention, for instance in relation to the financing and management of maintenance of infrastructure, and the accountability of health and education services.
- Second, a greater emphasis on supporting systematically and over time, if necessary up to twenty years, the underlying socio-economic changes and the agents for reform in Bangladesh that will increase pressure for greater effectiveness and accountability (especially to poor people and women) of public institutions. These change agents are likely to include: community organisations (for local representation and management of common resources, for instance), private sector associations; advocacy NGOs, including on human rights and corruption; press and other media; professional associations; and the research community. The possibility of mounting strategic multi-sector initiatives to

promote (a) gender equality and women's empowerment (as well as mainstreaming gender), and (b) stronger environmental governance, should also be considered. There will be few ways of directly reforming the political process, although support for Parliament and the Electoral Commission may be a possibility.

- Third, continuing to work with government to reform public policies and institutions, but on a strategically highly selective basis, with an emphasis on governance. These will, as now, combine a mix of mechanisms, including conditional budget support and institution-building projects. Priority institutional areas include but are not limited to: financial accountability; the police and criminal justice system; and local government. In relation to policy development, the lead on macro-economic policies will continue to be taken by the international financial institutions. Bilateral agencies, not in most cases being large donors in financial terms, would continue to engage with, and where appropriate, provide parallel- or co-financing to, the programmes led by the international financial institutions. The instruments might include budget support, and there would be a need to maintain explicit or implicit conditionalities on a more robust and co-ordinated basis than hitherto (see below). The bilateral agencies may continue to contribute analysis to certain sectoral policies (such as agriculture and health). Support for the capacity of independent research centres as a means for improving policy analysis has merit.
- Fourth, (based on more examination than we were able to undertake) to consider whether, in a range of international (and possibly regional) fora, there are ways in which the international community (perhaps in conjunction with the Bangladeshi diaspora) can advocate positions beneficial to Bangladesh on such issues as trade, environment, and migration.

These four elements potentially provide for a large, perhaps for any one agency over-large, agenda, but relating these to the work of other donors could help to narrow the scope. It comprises some items (notably those with an institutional focus) which are staff-intensive and may lead to little disbursement of funds, and others (notably infrastructure and budget support) which involve large-scale disbursement. The choices to be made involve factors beyond the scope of this report. But as this paper has argued, there is a good case from the perspective of long-term development for giving priority to supporting the agents and underlying processes leading to improvements in governance.

Specifically for DFID, the positive reason to engage in these difficult but important institutional issues is that it has much to contribute. DFID is widely perceived as having a comparative advantage in institutional development. Successes in which DFID, and the development partners more widely, have had a role over many years include support to some advocacy organisations, women's education, micro-finance, health, and even tax reform (the introduction of VAT). The negative reason is that failure to address some of these problems will adversely affect not only Bangladesh's development prospects, but also the effectiveness of aid funds. Some very large programmes have been implemented in Bangladesh without much impact, while the willingness of donors to disburse large sums over periods of years in the absence of improvements to public financial accountability has been actively harmful.

Combining some of these elements, including an active involvement in issues of governance, into DFID's future programme is by no means the only option (see Box 5.2).

### **Box 5.2 Alternative approaches to aid management in Bangladesh**

We have heard two very different arguments for alternative approaches to aid management. While both contain elements of truth, neither approach is adequate to meet the challenges in Bangladesh. They are as follows.

- First: Bangladesh, for all its governance shortcomings, has made considerable socio-economic progress in the past two decades, has a democratically-elected government, and has a reasonable prospect of meeting most Millennium Development Goals in 2015; aid funds have made a respectable contribution to past socio-economic achievements, and will be important to achieving the MDGs in the future; under these circumstances, and in line with changing aid-management practice internationally and within DFID more generally, there may be a case for moving towards a much greater use of direct budget support and of programme aid, with a matching reduction in project aid. In relation to DFID specifically, such a move would be compatible with the overall expansion of available resources, and with pressure on staff numbers.

There are elements of this argument, but not all, with which we are in agreement. Sector programmes, for instance in health, have much to commend them. However, there are real uncertainties about the achievement of the MDGs, the principal risk being failure to bring about policy and institutional reforms; and there is little reason for confidence that the Bangladesh government will address these. Without some of these changes, there can be no assurance that aid in support of economic growth or improved services will be effective. Further, in the absence of governance reforms, especially to public financial accountability, not only is much aid likely to be misappropriated, but aid may also reinforce some of the patrimonial political processes that threaten to undermine Bangladesh's development in the medium and longer term.

- A second, and quite different argument is that the effectiveness of aid channelled through the Bangladesh public sector has been extremely poor. There is widespread misappropriation, and in relation to institutional strengthening in the public sector, there are few examples (other than the much-quoted Ribec) of successful interventions. Further, the record of aid conditionality in supporting public sector reforms is not good. Aid should therefore be directed wholly or almost wholly towards supporting NGOs, and perhaps the private sector, which have a better record of effectively using it.

This argument contains an element of truth in its judgement of the problems with past aid<sup>22</sup>. The limitations of this argument, however, centre on the fact that few if any countries have successfully and sustainably raised standards of living if government is highly dysfunctional. Bangladesh is unlikely to be an exception. However difficult the task of addressing these problems in Bangladesh, they are central to development prospects, and development agencies cannot ignore them.

**What approaches should be adopted to aid management?**<sup>23</sup> This final section raises a number of the more practical considerations for DFID and other development partners.

- Various changes are needed in aid management in the following ways:
  - To continue to press for government ownership of policy and institutional reform. However, where government is unable or unwilling to take the initiative, and change is required if aid is to be responsibly used, to be prepared to apply explicit

<sup>22</sup>The World Bank has conducted a broad study of aid effectiveness. DFID staff has been discussing the case for further work on this. To be fully useful, this should involve other agencies than just DFID.

<sup>23</sup> DFID's Engagement Study, now under way, will, we understand, include aid management. The topic is highly pertinent.

conditionality on a few critical issues (including financial accountability) and be more prepared than before to suspend or scale back disbursements in the event of non-compliance. Pressures on donors to disburse funds have in the past contributed to their unwillingness to take this course of action. To meet this concern, there may be merit in establishing an escrow account into which funds would be paid pending compliance. The accumulation of funds in the account might serve to strengthen incentives.

- To address three unsatisfactory features of donor approaches: lack of persistence, lack of firm solidarity among donors, and lack of a collective donor willingness to suspend aid when faced with government backtracking on major governance reform commitments. To facilitate some of these, there is a case for reducing the number of donors active in some sectors. It may be possible to reconcile this proposal with the need for donor agency managers to spread risk by involvement in several sectors; the means would be to enable an individual donor A to co-fund activities with another donor B in a sector in which donor A does not take management responsibility. Growing collaboration among EC member states should facilitate this.
- To recognise the long-time scale of some of the issues raised here. This includes the need to take a long view (up to twenty years) of the ways in which socio-economic change (e.g. women's literacy, or the growth of social institutional association with urban areas) will impact on governance, and to be prepared to make in-principle commitments to sustained support. It also relates to the need to take a long-term perspective (well beyond 2015) of environmental impacts, including climate change. More short-term, donors need to be aware of the importance of timing in the reform process. Just before and after the elections there may be critical windows of opportunity to promote change. Donors need to prepare for such times and be ready to take rapid action to help pro-poor agents of change take the initiative.
- To recognise that DFID's present and potential comparative advantage around institutional issues suggests that it might give priority to some of the most difficult and thankless areas of policy and practice.
- For DFID management to be prepared to give adequate staff time to difficult areas, especially on governance, that are central to Bangladesh's long-term prospects but that despite staff-intensity have the possible disadvantage of being unlikely to lead to substantial disbursement of funds. Mechanisms for aggregating smaller activities into more sizeable programmes (e.g. HUGO) are potentially an important step forward, and should be closely monitored not least for their relevance to DFID's work in countries other than Bangladesh.
- Some of these will require a long time scale and a process approach, chipping away at problems, and being willing to be opportunistic and flexible. They will also require in-depth knowledge of the local situation. Obstacles will be frequently encountered, but

management systems need to consider these not as failures, but as leading to a period of reflection and definition of new approaches.

- This approach will inevitably involve risks, including political risks. It is important that DFID be equipped with the necessary staff skills, including in political analysis, to ensure that the risks it takes are well informed.
- For reasons both of continuity and understanding of local conditions, there is a case for more senior Bangladeshi advisors in the DFID office. What appears to be rapid turnover among UK-origin staff in the Dhaka office is a problem.
- Certain information gaps have been identified, either by DFID staff, or by the team. They are:
  - The political process in Bangladesh and its effects on development prospects<sup>24</sup>
  - The effectiveness of past aid in Bangladesh, and lessons learned
  - The strengths and weaknesses of policy research capacity in Bangladesh and ways of strengthening it, within the private sector, the research centres and government
  - How best to support trade policy capacity
  - The political economy of the trade unions and the scope for reform.
  - The role of the Bangladeshi diaspora in promoting pro-poor change.

## 5.7 Conclusion

Despite the severity of poverty and the magnitude of the economic, environmental social and political challenges, there are good prospects of Bangladesh meeting at least some of the MDGs, provided that measures are taken to raise the accountability and effectiveness of a range of institutions, public private and non-governmental. Governance improvements are central to many aspects of these, and the principal responsibility for ensuring they happen lies with the citizens of Bangladesh. At the centre of donors' country strategies, there is a good case for providing direct and indirect support to the organisations, individuals, and underlying socio-economic processes that will help to increase the demand for improved governance.

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<sup>24</sup> We understand such a study is under way.