Slow-go reform still aid-givers' worry

Frederick Temple, the World Bank Country Director for Bangladesh, talks to **Toufique Imrose Khalidi**

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FREDERICK Temple, the World Bank Country Director for Bangladesh, has known the country for some 15 years now in various capacities before taking over at the Dhaka office. In an exhaustive interview, he touched upon everything from the latest Paris meeting to corruption in the civil service systems. (Browse our website for full text)

The Daily Star (DS): We hear that this year's Aid Club meeting in Paris was somewhat different from previous years' in both form and content. Could you throw some light on the developments in the meeting? How did it go?

Frederick Temple (FT): Let me say something a little more broadly on the Development Forum process. For me it's a continuous process, not just a meeting in Paris. I think we had some very good preparatory meetings here in Dhaka beforehand. It was useful that the group of donors issued letters expressing their concerns about the political situation in advance of the meeting. The discussions that were held with the Prime Minister and with the Opposition were good forum for the donors to make their concerns known.

We also had a number of meetings about the technical sessions on the agenda where the members of the local consultative sub-groups that work on the particular problems met with officials from the sectors and talked about issues. I think these were very productive meetings. I am happy that the government has agreed to have a follow-up meeting in September to take stock of the issues that were discussed in Paris, to see what progress is being made in implementing reforms. So, for me, I don't see the meeting in Paris as an isolated event. I see it as part of a dialogue between the donor community and the government.

I think the meeting in Paris itself was useful in having issues that have been identified by the local consultative group here tabled, have concern expressed. We used a new format where (Finance Minister) Mr. Kibria chaired the substantive sessions. There were presentations by responsible government officials and the initial questions were posed by representatives of the LCG sub-groups speaking as representatives of the sub-groups. I think that was probably a bit better than previous years where there was somewhat lesser a tendency for everybody to speak formally and they have a little more focus. To be honest, I think there was not as much dialogue as I and other donors would have liked. There were statements of position, questions, not so much of exchange.

When you look at the meeting as a whole, what happens is that the donors basically expressed concern about what they see as a slow pace of reform and certainly we in the Bank and other donors also tried to give the government credit for managing the macro-economy well and for dealing with the floods well. But I think we are disappointed with the structural issues. In many areas the progress has been slow. The government explained its position in many areas well, but we keep looking for more specific implications of the reforms that the government hopes to carry out in the near future.

DS: You talked about a changed format of the meeting this time. Was it a sudden development or was it something done during the build-up to Paris?

FT: What you have to see is the Bangladesh Development Forum setting into a pattern of other development forum where very similar things are happening. Donors are emphasising that these should be opportunities for exchanging of views rather than the more traditional format. And I think this started really at the last meeting and has certainly happened with the meetings for the countries in the region.

DS: Did you discuss politics in Paris?

FT: As I told you that there were quite a number of high level meetings here before going to Paris. At the meeting in Paris there was on the donors' side a recognition, reiteration that these were important concerns, but not a prolonged discussion. We had some prolonged discussion here and there was some acknowledgement of the donor concerns and issues by the government, but again, not a protracted discussion. These were taken as points that had already been tabled, but not discussed upon.

DS: How did it go at the Investment Forum that followed the Development Forum?

FT: The Investors' Forum was quite successful. It was oversubscribed. People had to sit in a second room. It was very well attended with quite a number of discussions and I know from talking to many of the investors that they were very pleased that the government arranged the forum and gave them the chance to interact directly. And the investors from Europe and North America were pleased to have a chance for interaction.

DS: What kind of interest was shown? In which areas?

FT: The agenda was set up mostly around infrastructure projects and you mostly had companies that invest in energy, telecommunications, roads, ports rather than the general manufacturer. But that was the intent.

DS: Were there any new faces? Or the ones that regularly attend such meetings?

FT: My impression is that there were a few new people, but a lot of the companies are currently here or are ready with investments or companies which are considering investments. There were one or two chamber representatives. The German chamber came, for example.

DS: Back to the Aid Club, to what extent is this annual meeting an arbiter of fate of Bangladesh's economic development agenda? Is it right to describe the meeting in such terms?

FT: You have to realise that donors make their decisions about their commitments to Bangladesh over time, at many different points and certainly in relation to their own programming cycles. So it's never been true that the Paris meeting is where donors listen to the discussion and then make their decisions about their support for Bangladesh. So the meeting becomes an important input in the donors' decision making, but donors don't just go there and decide.

In that sense, two things are quite important. One is that it is a chance for the donors to take better stock of what the government is. All of the donors were having intensive relations with the government in Dhaka and they had day-to-day discussions. But it's relatively rare that you get to step back and take an overview in and against an agenda set by the donors.

The second thing that is important is that the meeting in Paris provides an opportunity for donor officials from the capitals to see the government first hand. Many people who came don't come to Bangladesh very often. And, if you hold the meeting here is Bangladesh, it would have certain advantages of access to people on the government side in Bangladesh, but you won't get as many of the people from the other side. So it's their chance to see, in this case, five or six key officials in the economic area and listen to them. I think that is very important. It's certainly had a very significant influence on their decision making.

What is becoming increasingly important in donor decision making is performance. And here again, one meeting doesn't become decisive. Are you familiar with this report that the Bank did for assessing needs?

DS: Assessing Aid?

FT: Well, I think that is a nice analytical statement of what people have been realising. Which is that aid is not effective if the government isn't going through the policy and institutional reforms, which is going to increase its absorbing capacity. And I think a good part of the message in Paris and a part of the message in general is that in a world where the amount of money available for development assistance is shrinking, bilaterals and multilaterals will look more and more to performance to make decisions about their aid commitments.

DS: Performance not only in implementing projects, but also in building institutions?

FT: Yes, that's right.

DS: But how do you judge that? How do you assess that? In case of projects, you can see that.

FT: Well, even in projects, I have to say, we are making much more these days of what we call outcomes which is the effect on the ground, and putting less emphasis on inputs. It used to be that we focused very, very heavily on disbursements. We still look at disbursements, but we are trying to move towards the impact on the ground.

Now when you look at measuring progress and reform in policies and institutions, in Bangladesh, the development agenda has been relatively clear, relatively unchanged for some time. People have been focusing on the main structural issues and the necessary reforms. What people are looking for is not just policy commitments, but they are looking to see things actually being adopted and implemented. And that's really the mark of change.

Let's take IDA for example. Our strategy for Bangladesh is to recognise there is a broad reform agenda and that the government is not going to be able to make progress in every area uniformly. That would be unrealistic to expect. So what we say to the government is, we hope you formulate an agenda, we'll give you advice about how to formulate an agenda and then our support would depend on your adapting (to the agenda) and the beginning to implement the agenda.

What we would like to see is some progress in the implementation and then we'll come and provide some financial support. For example, you know we have been looking at the banking system for years and it has a lot of problems. We are going to approve this year new financial support for the non-bank financial institutions, basically the leasing companies because that's the part of the financial system that's performing reasonably well. But we are not willing to put new money into the banking system until the government has made more progress in reforming the banking system. But we will in the near term provide technical assistance to help strengthen Bangladesh Bank. I think that is a good example.

The power sector is probably another example. We haven't made new loans to the power sector for about nine years now. We've recently come to the government with this adaptable programme proposal and basically have said that if you adopt the right reform programme, we'll come in a phased way and provide financial support.

In contrast, in health for example, we've been very happy with policy and institution improvements and we've been financing health on a programmatic basis for some time.

So, we try to use the progress in the reform agenda as the trigger for coming in with financial support. We're certainly willing to engage in policy dialogue and to provide technical assistance on a smaller scale to get reforms started if the government hasn't moved as far as wanted.

DS: So, are you thinking of doing something extra for the power sector now that the crisis has reached an alarming proportions?

FT: Well, our view on the power sector is that you have a crisis because the government hasn't been successful in dealing with the reform problems in front of it. I wouldn't say the government has done nothing. They did set up DESA, and when that wasn't so successful as one would have hoped, DESCO. They've set up the grid company that's dealing with transmission. They've opened the sector to IPPs (international power producers), but they are still facing the basic constraint of not being able to bill and collect from power consumers. So the problems are because of slow reforms and we would continue to emphasise the need for a good reform programme.

Now if you look at the current crisis, one of the things that we're concerned about is the need to discourage the government from making investments or encouraging private investments in short-term expensive solutions. These barge-mounted and skid-mounted power plants that are being brought in because of the problems are very expensive and the power tends to be at maybe six cents a unit, whereas the new IPPs that are on line are about three cents a unit. I think the government has to be very careful about getting power at those rates because it will be too expensive for the consumers. And either the government will have to have very high prices or will have to subsidise it. We also feel that the government needs to be a bit cautious in expanding the number of IPPs to keep some balance on the foreign exchange exposure of the investments in the energy sector.

So our advice to the government would be to first try to look to the possibilities for higher capacity utilisation out of the existing system. I am not sure of the current figure, but the capacity use in power generation is probably 50-60 per cent. Our feeling is the government should get more out of the existing plants rather than investing in uneconomic new plants. Secondly, it should improve the reliability of the transmission system to make sure you don't get disruptions in power supply before going to expensive new generation.

DS: So reforms have been high on your agenda for many years. How much of your resources are directed to reforms?

FT: As I said, our approach is, in any particular area, if there isn't the right policy and institutional framework, then we won't support project lending. So in a certain sense, either there is an adequate framework and we will continue support or we won't do anything.

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DS: Support is coming in the form of 'conditionalities' as we tend to call it, not in the terms of money.

FT: I wouldn't prefer to say conditions. Let's call them prerequisites. Again if you go back to the *Assessing Aid* study, that broad study and a lot of our experience shows that if the policy and institutional framework isn't appropriate, the money isn't going to be fully effective. So what we are willing to do is to engage in a dialogue about what kind of reforms needed and try to help the government come up with the right reforms. If it takes some technical assistance to help get the process started, we can provide technical assistance. But we would see the project financing coming once the government has adopted the right framework and has started the reforms.

DS: The *Assessing Aid* study says that aid direction will be changing, having different definition from now on. How much has it affected Bangladesh so far?

FT: There are two things you need to think about. One is the assessing aid framework. The other is this new comprehensive development framework. The comprehensive development framework is something that (World Bank President) Mr. Wolfenson has been articulating *and, I think, it expresses the importance of taking a comprehensive look at government which means in macro-economic management it's very important, but also having to take into account a full range of structural and governance issues, and particularly banking sector and governance and social issues.*

If you look at Bangladesh, I think we were already doing many of the things, including the comprehensive development framework. But I would cite in particular the emphasis we have placed on banking sector reform for sometime and the attention on vital institutional and governance issues. A very good example is that we have been working very closely with the Law Ministry and the Supreme Court on development of a judicial and legal capacity building project. That exemplifies the attention to governance.

We also, not so much through project lending, but through some of the broader issues, are trying to put more attention to governance including corruption. A lot of the dialogue exhibits that we are more supportive and we are investing quite a bit of resources trying to work with the government on various aspects of institutional development.

DS: How do you fight corruption? How do you measure corruption in Bangladesh? How does World Bank come into this?

FT: I would say, measuring it of course is very difficult. One of the things you can do is talk to consumers. Don't just talk to the government, but talk to people in the business community. Use surveys to talk to the ordinary people. If you look at the report on governance that we are using, you will know that we are using consumer surveys and business reports to try to understand what is happening. How do you respond to it?

I think one of the things to do is to get corruption into the dialogue. I used to come here during the 1980s and early 1990s. And with my colleagues, we often recognised that corruption was a major problem, but we really didn't speak about the problems. These days, World Bank and other donor institutions are putting the topic on the table at least.

Then there is unbundling, breaking things down into their component parts. So we are trying to work with NBR on improving tax administration including customs administration. We are trying to work through this judicial and legal capacity building project. We'll work on the legal system. We would like to do more in the area of auditing and accounting. We work on these financial issues but I think we would like to provide more help on systematic issues. We are well placed to try and help the government improve procurement practices.

So at one level you try to get it on the agenda in a general kind of a way and then you start picking at the particular places where you think it happens and try to focus on those areas.

DS: In the World Bank aid basket, what is the share of resources dedicated to improving these institutions and implementing financial reforms?

FT: You mean what percentage of our programme goes for this?

DS: Yes.

FT: It's a good question. I can't answer it quantitatively. What happens is we have a number of activities that you could say are specifically focused on these things. Then in every area we are working on projects, some part of it is looking at institutional development. So it's very hard for me to put a number on it.

DS: Are other donor agencies involved in this?

FT: Yes, other agencies are also quite active in this. In particular UNDP, among the multilaterals, has done quite a bit of institutional development work including working with the police. Other bilateral donors are also interested in trying in various ways. It's often harder for bilaterals to deal directly with the problems because it gets interpreted politically.

DS: So Bangladesh needs both finance and knowledge. Which one should be given priority? Multilateral agencies such as the World Bank provide both to developing countries. What is the scenario for Bangladesh? Are the institutions like the World Bank really capable of providing knowledge when it comes to countries like Bangladesh where issues/situations are different from what such knowledge and expertise are drawn from?

FT: They should come together. I think you have to put emphasis on getting the right policies and institutional framework and providing good examples of best practices and then when you are comfortable, both the donor and the government, you then turn to the financing. You ask about whether you can apply knowledge from elsewhere in Bangladesh and I must say the answer of course is: you cannot blindly take any prescription and apply it. Nobody would say that you can apply what's been done elsewhere.

As far as I am concerned, the comparative experience is good for two things. One is that, it can tell you what has failed elsewhere. And very often when a country starts to confront a problem, it's useful to know what hasn't been so successful elsewhere. Then the second thing it can do is put some ideas on the table, not necessarily give specific prescriptions. Maybe there's a point there. We just had an international seminar on privatisation and these reform issues were very difficult. But what I think the experience of other countries can often do is to give the government some confidence that the problems can be solved.

If you look at privatisation, sure, Bangladesh can't take the same solutions that were applied elsewhere, but to me people in the government should take courage to address difficult issues because in many different set-ups, in many different political, social and economic set-ups, privatisation has been successful. So my question is, why not Bangladesh? Sure, Bangladesh is unique. Every country is unique. Countries have succeeded in privatising, reforming their power sectors, improving their banking systems. Why not Bangladesh?

DS: But unfortunately such national agenda is often thrust on the government by the donors. More often than not, these are dictated by donors. We're so used to this word 'conditionalities'. Why is this situation?

FT: One of the things that's unfortunate in Bangladesh is that the tradition has developed or there are a lot of development of systems coming and all too frequently what happens is that there is an expectation from the Bangladesh side that the donor will come along and ask certain conditionalities and provide financial assistance. I think that's a perverse system. What really should be happening is the government should be taking the lead, formulating its own reform programmes and coming and saying this is a reform programme we have, we'd like financial support for it. Certainly we are trying to move in that direction. As I said to you, we tried to start with the policy and institutional framework and have the government adopt the right framework first and begin implementing rather than our coming and trying to sort out some solution.

DS: Have things started changing, now that you've changed from the Aid Club to the Development Forum? Is the government taking the lead nowadays?

FT: This is not something where you'll see a 180-degree change. You are going to see it happen gradually over time.

DS: But are things improving? Is the government starting to take the lead? Has the government's knowledge base improved? In the context of the change from Aid Club to Development Forum ...

FT: I think you can see specific pockets of change where ideas are coming. I'll give you another example -- telecommunications. We've been working with the government now for quite some time on the framework of the sector. We work with the government. The government adopted the telecommunications policy statement a little over a year ago. The government drafted a law for the telecommunications sector that would provide for private sector participation and a regulatory set up. The law has gone through some public discussion and it is about to be submitted to the Cabinet. We haven't financed anything besides some technical assistance. I think in a year we will come and finance putting into place the regulatory commission. So I think that's an area where these practices are coming that will help set up the framework.

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I think in banking we've been doing the same thing. In an effort to help the government address the problems, there's a banking commission, a lot of discussion in Bangladesh Bank, in the Finance Ministry. We've done some studies, we've provided some technical assistance. But again the financing will come later. So one day you see things one way and the next day you see things another way.

DS: There is agreement among all the parties that there has been some improvement in certain areas like banking reforms and so on. But I don't think much has happened in reforming the civil service, an area where improvements are crucially important.

FT: I think I would agree with you that civil service reform has been one of the more difficult areas and setting up the public administration reform commission had a slow start. It took them a while to establish leadership and I think the commission as established has taken the strategy by trying to begin with significant but limited successes. If you look at their agenda, they tried to pick certain things that are going to be popular and tend to demonstrate that the process will work. But they see it as a kind of medium term process. But I agree with you that general public administration reform is still one of the difficult areas.

DS: The opposition probably comes from the civil servants. Am I right?

FT: I think you are right. I think it's hard to change a large well-established institution like the Bangladesh Civil Service where people are all accustomed to doing things in certain ways.

DS: But I have read in your reports that most of the problems stem from the inefficiency in the bureaucracy and their lack of ability to deliver goods to the poor, the final target. Why are you not pushing this case as you are doing in other cases?

FT: I wouldn't say we are not pushing. We are. You are right. You've said that the fundamental pervasive constraint in Bangladesh is institutional.

DS: The government is corrupt, inefficient. There are problems in the government. A good alternative, people are saying these days, are the NGOs. Do you agree that the NGOs are better distributors of foreign assistance? What's been the Bank's experience?

FT: Let me say one other thing on the institutional side. We have in the last three or four years started a lot of initiatives that government work should ordain and we've been trying a number of things on the institutional side. I have to also say that we are going through a process of taking stock of whether we should focus more, whether we should concentrate one certain institution rather than many institutions. So I think we've been happy that there's been more focus on institutional constraints and we are doing something, but I think we are not completely satisfied with our own efforts and we want to review our strategy.

About NGOs, Bangladesh is a wonderful success story of developing some very effective internationally renowned NGOs, including in the micro-credit area.

DS: But it is being said that the recent floods proved the vulnerability of the NGOs. The government document prepared for the Paris meeting pointed to the vulnerability of the NGOs, saying that they could not withstand the onslaught of floods? They themselves got washed away in many cases?

FT: It was interesting to me because I arrived here in September and anybody looking at Bangladesh and seeing these floods would have thought this would have set Bangladesh back enormously. Obviously, the floods were very tragic. What was astonishing to me was how resilient the country's people proved to be and I think a lot of credit for that goes to the community organisations and the community base. The government deserves some credit, but the government deserves credit for having worked closely with the communities and the community-based organisations and for not trying to run the relief effort as just a top down effort where orders come from Dhaka about what to do. It was much more a co-operative effort at the local level and I would have said that the experience showed the resilience of the community based organisations.

A lot of people thought, and I've got to say I was worried, that the floods would wipe out micro-credit institutions very widely. It's turning out that the micro-credit institutions seem to be surviving through the floods. Some of the smaller ones that were only in flood affected areas are having a hard time.

DS: So after the floods and after the meeting in Paris, how would you describe the state of economy? What are the key issues at stake at the moment?

FT: We and the government went through an assessment of the economy. We did some forecasts about the situation and my impression is that, broadly speaking, the framework that was discussed at that time has proved to be reasonably correct.

"But I think we are disappointed with the structural issues. In many areas the progress has been slow."

The things that have happened on the good side is that this *boro* crop that is coming in is a lot better than people expected. In fact, for Bangladesh it's turning out to be a record crop and that is probably going to push the growth rate up more than people expected. If you were expecting four minus, you are going to get four plus. That's the plus side.

The negative side is that exports are not recovering fast as we and others had hoped. Revenues are still a bit of a problem. On the balance of payment side, slower exports are being somewhat offset by remittances and I think the expatriate Bangladeshis basically responded to family need and there was a considerable flow of remittances and there's been a bit less pressure on the balance of payments expected because of the slower manufacturing growth having less influence. So the net result is that more or less the macro target would grow besides the budget deficit, inflation and balance of payments are all coming out.

If you look forward, the thing of most concern is to get exports to pick up again. That's still something that people are looking at: why have the exports fallen? Certain part of the explanation is floods and some productivity lost. We haven't done enough empirical work to answer it completely yet. Competition from some East Asian countries which went through massive devaluation and have their economies stabilising, maybe putting pressure on markets in Bangladesh. Looking at the problems in the export sector is probably important for the economy at this time.

DS: What about inflation at this stage?

FT: The inflation followed more or less the trajectory that was expected. There seemed to have been a full-pushed spike and so it went up to about 12 or 12 and a half per cent. And then it came down to 8.3 per cent in February and I think with this boro crop coming and food easing up, it will probably go back to reasonably normal levels.

DS: There was a time when the import content of aid was very high and a lot of money coming into Bangladesh as aid was in fact going back to the economies from where it had come. Is it changing?

FT: When I first started working on Bangladesh from the World Bank in Washington in 1985, we were just phasing out what were called import programme credits and the aid concept of the first 10-15 years of Bangladesh's assistance was that we were financing imports. I think we've gone much more to the concept of helping to finance development and to target the financing so that the inputs that are necessary for development to occur. If you look at the health programme, for example, there was relatively little import content. We're basically helping to finance the government programmes with very high domestic expenditure content.

Some areas you can't help but have heavy import content. I don't have the statistics, but I'm sure if you looked at the statistics you'd find that the domestic content of foreign financing has gone way up.

DS: It is said that there are lobbies here trying to promote the type of projects where import content is high because that would ensure a commission for them, some money on the side.

FT: Certainly (there is) a problem you have to go against. You have to look at the incentives. Sure, there are a lot of pressure for financing imported content. I'd agree with you.

DS: If poverty is the number one issue to be addressed in Bangladesh, how much of the Bank resources has been directed to this area. What is the share of social development in the total aid pie?

FT: Our strategy for reducing poverty has four parts to it. One, you have to have sound economic management. If you don't have sound macro-economic management, you won't have the enabling environment for poverty reduction. The other three parts of it are to promote growth in employment and incomes because if you don't have growth, you are not going to reduce poverty. We promote the kind of growth that leads to job creation and incomes. Thirdly, we promote faster human development because if the population doesn't have the health and the skills and abilities, it can't get into productive activities. Lastly, we believe in targeted interventions that go straight to the core to improve the economic opportunities and provide social safety nets. So it's a four-part strategy and we try to relate everything we do to this direction. It may not always be so obvious when you have macro-economists, but part of what they are doing is to try to make sure that there are public resources available for public programmes and to make sure that the projects do support poverty alleviation and not something else.

DS: The World Bank often says that the returns on investment in social sectors especially education have been very high in terms of reducing poverty. Has this finding had reflection on the quantum of foreign assistance to this area?

FT: Well, you calculate it in terms of the amount of investment and the returns. It doesn't matter where the investment comes from. Ultimately that's the justification for taking development assistance. If you don't think that the money coming in for education and health is going to produce a more productive population and that productive population will allow the economy to grow faster, which would generate additional revenue to pay back the aid, then you shouldn't be doing it.

DS: Thank you for your time.