

Infrastructure matters

CHRISTINE WALLICH

[On August 29, World Bank Country Director for Bangladesh Christine Wallich spoke at an international workshop on infrastructure financing in Bangladesh. Her words have generated a great deal of debate and discussion, and we feel are of sufficient import to warrant publication of the full text (with minor edits) of her speech here for the benefit of our readers.]

THE topic of infrastructure finance is one which I have personally given high priority, and I won't pass up this occasion to highlight the importance of one particular aspect of infrastructure finance -- asset securitisation -- that warrants close attention in the infrastructure finance context.

The market has already been tested some months ago, with three asset-backed zero coupon bonds issued by three NBFI, a good beginning. Looking ahead, we would be particularly keen to see other transactions take place, for example, securitisation of the Jamuna Bridge revenues -- placing assets backed by bridge-related revenues in the market. Our conservative estimate is that at least Tk 100 crore could be raised through a securitisation of Jamuna Bridge revenues. JMBA could use these revenues to develop further infrastructure projects, for example, a contribution to the financing plan for the Padma Bridge.

Asset securitisation has been used with great effect in China, where toll roads are corporatised and IPO shares listed on a stock exchange, once their revenue stream has stabilised; the proceeds of the IPO are then invested in the next toll road, and so on, and so on. Many other possibilities exist for securitising certain and predictable revenue streams. But Jamuna Bridge is a good place to start -- a premier national asset, a well managed company, a stable and proven revenue stream that will grow, long into the future.

To facilitate securitisation, there are still a few issues for GOB to attend to: (i) removing the 1.5 percent stamp duty on issue and trans-

fer of unlisted securities; (ii) standardising the regulatory and accounting treatment for securitisation; and (iii) a securitisation law in due course. These last few wrinkles should be worked out soon, so that the securitisation can contribute to infrastructure financing in Bangladesh. The World Bank is ready to assist, if desired.

Infrastructure

The recent Investment Climate Assessment for Bangladesh identified poor quality and poorly managed infrastructure as the major deficiency in the investment climate, together with "security" and law and order. Specifically, power, ports, and telecommunications were cited as major constraints to attracting investment, and therefore to the much-needed higher growth path.

Improving the investment climate for growth is therefore a key pillar in our forthcoming country assistance strategy, which is being done jointly with three other donors -- Japan, ADB, and DFID. The focus will be on addressing the policy and investment logjams in infrastructure sectors, including public private partnerships.

This emphasis on infrastructure is relatively recent -- in Bangladesh, and in general. In the pendulum swings that sometimes characterise thinking about development, the 1990s emphasized the importance of human development -- health and education -- for poverty reduction. The links between infrastructure and poverty reduction were down-played or even forgotten. In addition, it was often assumed that "the private sector will do it all, in terms financing infrastructure," with the result that many donors, including us, backed away.

We now know differently: The quick rule of thumb that investment in infrastructure should grow broadly in line with growth of GDP. In other words, to get 8 percent GDP growth in Bangladesh, infrastructure also needs to grow by 8 percent each year. So, infrastructure is key to the millennium development goal of growth and poverty reduction. (At present levels, this

would imply \$4 billion in spending on infrastructure annually in Bangladesh). Even today's 5.5 percent growth rate implies an infrastructure investment of \$3 billion a year. About half of this is for investment in new infrastructure, and half for maintenance of existing assets.

But in fact infrastructure is an input into all MDGs:

- Electricity is an input to the "cold chain" for vaccines.
- Better roads are inputs into education, increasing girls' primary school attendance up 68 percent.
- Better transport is an input to MDGs for health, cited by 73 percent of women as necessary to

applauded for the 2003 Public Procurement Regulations, and progress is also being made on the Concessions law. However, it is the implementation that matters.

The power sector is a case in point. We believe that Bangladesh is denying itself access to readily available power projects by failing to address the essential role of procurement processes. It is emphatically not an absence of finance that is holding up power sector development. This needs to be said for the record.

Over the past 6 years, some 15 power plants have been publicly tendered, but only 3 were awarded.

To put Bangladesh on a path to prosperity means creating a policy environment and investment climate that allows investors and entrepreneurs to contribute fully to the growth process. There are no shortages of infrastructure opportunities in Bangladesh, and there is no shortage of support amongst the development partners to assist Bangladesh in bringing in infrastructure vision to fruition. Governance reforms will be needed to elicit that support -- and solutions need to be pursued across a range of areas.

access prenatal healthcare.

- Networked water and sanitation are inputs into reducing infant and maternal mortality -- by as much as 75 percent.
- Piped water available on the school premises, has raised school attendance by up to 16 percent.

So, infrastructure matters. Not surprisingly, many of our key stakeholders urged the World Bank to deepen its engagement in infrastructure; in South Asia, our infrastructure commitments grew from \$880 million in FY04 to \$1.4 billion in FY05 ended in June.

Governance

We would like to underline our commitment to infrastructure in Bangladesh. But we also emphasise that support for larger-scale infrastructure investments can come only with improved governance. Appropriate and transparent processes for identifying, procuring, and managing infrastructure projects are a necessary condition for support -- whether from the private sector, World Bank, or other donors -- for large-scale infrastructure development. GOB is to be

The procurement processes followed were questionable and non-transparent and not in the interest of good outcomes for Bangladesh. Had the tendering process not been undermined, two world-class project finance structures -- Meghnaghat II and Sirajganj -- could already be providing 900 MW of very low-cost power to the system. Instead, we now see load shedding of about 900 MW a day, expensive suppliers credits, and contingent liabilities, for government. The Bank will support a 120 MW peaking plant at Siddhirganj, if government completes the hand-over of power lines from PDB to REB, under the Rural Electrification Project. Beyond that, of the 3000 MW planned to be added by 2007, 730 MW at most will come on stream -- an amount that does not even meet today's shortfall.

This poor performance is all the more regrettable given the good past record Bangladesh has for implementing large scale power projects, which the World Bank has been proud to support with finance and guarantees. As many here know, during the

World Bank President Wolfowitz's visit last week it was agreed that the Bank and government would assess the obstacles (including governance and corruption-related obstacles) that have constrained power sector development, and agree on a set of 3-6 month rolling targets (including governance and corruption-related targets) to ensure that power capacity needed for growth is put in place, and as a basis for donor support. This assessment would also help us understand what it would take to overcome the obstacles that have constrained infrastructure development generally.

Procurement

Let me revisit the point about infrastructure governance and procurement. The media highlighted Mr. Wolfowitz's remarks on the corruption that usually goes along with large infrastructure projects. Mr. Wolfowitz acknowledged that "it takes two to tango" -- and that supplying countries have a special obligation not to aid or abet corrupt practices. He also said that diagnosing the problem is easy, but figuring out what to do is much harder.

On the diagnosis, we have a good idea that the roots of Bangladesh's current problem of infrastructure governance lie outside the infrastructure sectors themselves -- and lie in Bangladesh's system of political governance. Election financing is thought to be a major source of corruption in Bangladesh. Some would say the major source. The cost of getting elected in Bangladesh is said to be among the highest in the world. Taka 200 billion was said to be spent by the parties for the last elections. I cannot vouch for the number and it may well be

apocryphal. This is about \$3.3 billion or 5 percent of GDP, a large number for a country at Bangladesh's income level. If true, this amounts to \$21 per capita paid by each and every Bangladeshi, or to put it another way, it's a 5.3 percent tax on the average (per capita) income of all Bangladeshis. And yet the ceiling of election spending/contributions is a fraction of this and the parties have no audited accounts.

In the absence of other party financing mechanisms, corruption, including corrupt public procurement, and patronage systems in all sectors and ministries, are used to

raise vast resources to the parties' election coffers. The power sectors, as Mr. Wolfowitz noted, is a tempting target, given the magnitude of its transactions. GOB must remain alert, lest this be allowed to happen: Unfortunately, once political parties become dependent on funding from routine corruption in the sectors, the systemic corruption that pervades the system is self-reinforcing.

Until and unless the system of election financing is addressed, infrastructure governance reforms will be struggling uphill -- improvements will occur, but cannot be fully successful unless the bigger picture of election financing is also reformed. While this lies outside the World Bank's development mandate, we are encouraging bilateral donors to address it by providing good-practice models of political party financing.

Disclosure

So what about solutions? It's hard to know where to start, but here is a suggestion. Earlier this year, in May the High Court gave a historic judgement requiring all candidates intending to run for political office to

make key disclosures: Candidates must disclose their income, assets and liabilities, the assets and liabilities of family members, their bank loans and repayments, and sources of income, and any criminal record.

Asset/income disclosure laws exist world-wide and are intended to empower voters with information and to make it harder for corrupt politicians and the parties that support them. In the new democracies of Eastern Europe and the FSU, asset disclosure laws were a key ingredient to de-criminalise politics and reduce the systemic and self-reinforcing corruption that pervaded their system. The fact that false information may be disclosed does not matter so much at the outset -- the media and voters can usually tell.

With preparations for the elections soon underway, the Election Commission could make no greater contribution to the Bangladeshi people than to rigorously and relentlessly implement the High Court judgement on asset and income disclosure. It will have its benefits for the elections. But infrastructure finance will also benefit tangibly. By making it harder for corrupt politicians and the parties that support them, over time there will be less pressure to use infrastructure as a "cash cow" or "golden goose" for the party or candidate. That's good for infrastructure, and for those of us who would like to help finance it.

World Bank program

Let me conclude with a few words on the World Bank assistance strategy for Bangladesh. In the past 2 years our engagement has deepened, and current commitment levels are on the order of \$650-750 million a year. Future IDA commitments will of course depend on country performance -- the pace of economic reforms and project implementation.

Preparation of our Country Assistance Strategy is underway; its supports national priorities from the PRSP. Our preliminary consultations have included the major political parties.

A particular challenge for us, but much more for the PRSP, will be

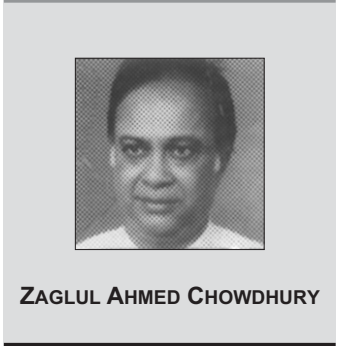
making this a strategy that bridges the political/electoral cycle. Given the PRSP's time horizon, it must be jointly owned by both major parties. Substantial thought needs to go into how this bipartisan ownership can be achieved. "Ring-fencing" key policy areas and ensuring key reforms can go ahead with bipartisan support -- coming together for the common good -- was also emphasised by Paul Wolfowitz during his visit.

About a third of our support will continue to be for projects in health, education, and the social sectors, including social protection. This is the third year that we have provided budget support (Development Support Credits) to the government as a means to support reforms in difficult areas like the NCBs (where we and the IMF are supporting management contracts and restructuring/privatisation, downsizing of SOEs, re-organisation and modernisation of the NBR and Customs department. The future agenda may include public administration/civil service reform, as well as legal and judicial reform, and strengthening local government. We plan to support infrastructure (power, ports, railways, and further energy sector restructuring) together with our joint CAS partners, especially Japan and ADB.

Conclusion

To put Bangladesh on a path to prosperity means creating a policy environment and investment climate that allows investors and entrepreneurs to contribute fully to the growth process. There are no shortages of infrastructure opportunities in Bangladesh, and there is no shortage of support amongst the development partners to assist Bangladesh in bringing in infrastructure vision to fruition. Governance reforms will be needed to elicit that support -- and solutions need to be pursued across a range of areas.

Kunming initiative needs a push



ZAGLUL AHMED CHOWDHURY

Kunming, capital of Yunnan province, late last year, which was termed as "China-South Asia Business Forum" shed some light in this field and the ball seems to be now rolling.

Yunnan province, seen as China's gateway to South-East and South Asia, launched the "Kunming Initiative" a few years ago, but without much progress. However, the idea has been praised by all concerned and of late concrete steps are being

Islamabad felt that the regional grouping now needs to swing more into effective action oriented welfare activities. The signing of Safta and stronger emphasis on unremitting efforts for poverty alleviation in one of the most poverty-ridden regions on one hand reflected the forum's eagerness to tackle critical issues inextricably linked with economic emancipation and protocol on curbing terrorism, on the other, it underlined the will-

scheduled within next three months.

The emergence of the "China-South Asia Business Forum" meeting in Kunming was an event in the right direction for regional cooperative approach. What was noteworthy is the support from China's central government towards Beijing's economic cooperation with South Asia. The initiative came from the Yunnan province, whose

April, 2005 that took him to four regional countries Pakistan, India, Bangladesh, and Sri Lanka. He discussed bilateral and multilateral cooperation with the leaders of these countries and the focus was on multi-faceted cooperation, mainly in the economic fields including trade and business. The visit of the Chinese premier to the four South Asian nations had taken place at the right time and this provided the much needed push to Sino-South Asia cooperation and also the "Kunming Initiative," which has several concrete programmes on hand like road and air communications to pave the way for regional and sub-regional cooperation that will help economic and social advancement for all involved. Interactions with China can help in that direction and what is required is the follow up actions both at bilateral and multilateral levels. There should be no slackening in this effort since regional cooperation holds the key for progress of developing countries.

These issues were not lost during Prime Minister Khaleda Zia's visit to China. Bangladesh should pursue follow up action on areas of agreement reached bilaterally during the Chinese premier's visit here and recent visit of Bangladesh premier to Beijing. There must be no slackening in carrying out the "Kunming" progress as well as Beijing's collaboration with South Asia collectively. This process as well as other programs both at bilateral level and regional scale need to be pursued with all seriousness.

China's economic links at bilateral level with all the South Asian nations are on the increase. Bangladesh leaders regardless of political affiliation have been attaching importance to Sino-Bangladesh cooperation and all the heads of government in the last quarter of a century chose to forge closer economic links with China, which swung into economic reforms in 1978 and by now has emerged as a strong economic power.

While the strengthening of the Dhaka-Beijing economic ties will be of mutual benefit, it is equally important that regional ventures with China like the "Kunming Initiative" involving Bangladesh, Myanmar, and parts of eastern China and India needs effective push for proper implementation of the common projects for the benefit of a large segment of people living in these areas.

Zaglul Ahmed Chowdhury is a senior journalist.

MATTERS AROUND US

China's economic links at bilateral level with all the South Asian nations are on the increase. Bangladesh leaders regardless of political affiliation have been attaching importance to Sino-Bangladesh cooperation and all the heads of government in the last quarter of a century chose to forge closer economic links with China.



Chinese premier Wen Jiabao toasts with prime minister Khaleda Zia during her recent visit to China.

considered and discussed for multi-faceted cooperation under this initiative. The matter had also come up during the Chinese Prime Minister's visit to South Asia and with the countries which have great stakes in the idea. Bangladesh and India among the Saarc family are involved in the "Kunming Initiative." The other country in this venture is Myanmar.

Saarc needs larger interactions for its development. It's welfare oriented programs need close links with the outside world as well. The last Saarc summit in

ingness to improve the overall climate in the area as far as possible.

But it is the core economic matters that will help improve the socio-economic conditions of the member countries, particularly the lesser developed ones, should now catch the imagination of the Saarc leaders in a far bigger way in their future programs. Here Saarc can be benefited from greater links with nearby Asean and of course with China. This aspect needs to be remembered by South Asian leaders when they meet in Dhaka for the next summit

Vice-Governor Shao Qiwei is a driving force behind the regional and sub-regional cooperation. He is also keen for bilateral cooperation with Bangladesh and led a high-powered team here not long ago to discuss concrete issues. A Dhaka-Kunming direct air route is now a bright possibility and may take shape shortly. If it finally does, this will help in greater Sino-Bangladesh links in the field of trade and commerce in addition to the regional framework.

Chinese Prime Minister Wen Jiabao paid a South Asia visit in

Brown-out in Calcutta

The typical Indian wades through dirt and swill, past open sewers and fly-specked waste, to an immaculate home where he proudly bathes twice a day. An acute consciousness of personal hygiene coexists with an astonishing disregard for public sanitation.



Victoria Memorial, pride of Calcutta.

SHASHI THAROOR

MY French friend Rene had just finished a three-year stint as a cultural attache in Kolkata, formerly Calcutta. During his medical exit-check, the doctor asked how many packs of cigarettes he smoked a day. "I've never smoked in my life," he replied. The doctor couldn't believe it. After three years of breathing Kolkata's polluted air, Rene's lungs resembled those of a chain smoker.

Globalisation may be transforming India, but there's one dismal constant: pollution. India's cities are among the world's dirtiest. The air in Kolkata or Delhi is all but unbreathable in winter as car-exhaust fumes, unchecked industrial emissions and smoke rising from countless charcoal braziers get trapped by descending mist and fog. When the Australian cricket team played in Delhi, its coach complained the smog-laden air gave the home team an unfair advantage by impairing his players' performance.

Factories belch forth noxious black clouds. Effluents pour untreated into rivers. Sewage systems reek and overflow. Despite the famed Himalayan tree-huggers, deforestation and overcultivation take their toll in

rural India. Environmental consciousness remains limited. Governments pass regulations, then ignore them. Meanwhile, more and more cars ply the congested roads, and more small factories open up that do not meet pollution-control standards.

"Why do we do this to ourselves?" I asked an Indian friend, Debashis. His reply was startling. "But we don't do it to ourselves. We do it to other people." Very few Indians, he explained, have a broader sense of community than that circumscribed by ties of blood, caste, or village. We take care of those we consider near and dear and remain largely indifferent to the rest. The environment is thus an abstraction, almost irrelevant and destined to neglect.

It is common to find sumptuous luxury apartments in buildings that are filthy, whose entryways, walls and staircases have not been cleaned or painted in generations. Owners are proud of their immediate habitat but are unwilling to take responsibility (or expense) for common space. My mother once asked her "sweeper-woman" in Delhi to clean the outside steps leading to her apartment. The woman, who would have been paid extra for the chore, was astonished. "But why?" she asked. "They don't belong to you."

This lack of civic culture leaves public parks in India full of garbage. Streets remain pot-holed and neglected; public amenities such as pay phones and restrooms are vandalised or not functioning. The typical Indian wades through dirt and swill, past open sewers and fly-specked waste, to an immaculate home where he proudly bathes twice a day. An acute consciousness of personal hygiene coexists with an astonishing disregard for public sanitation.

So with pollution, abetted by corrupt enforcement of environmental regulations and corporate disregard. Cardiovascular and respiratory illness is rampant, with attendant health costs estimated at 4.5 percent of India's GDP. In other words, more than half of India's annual economic growth is wiped out by pollution, and development is taking place largely at the expense of the environment. But given a choice between living more modestly in a "green society" and becoming more prosperous in the midst of brown, most Indians would be happy to gasp and wheeze all the way to the bank.