

Bangladesh can grow like China

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ELLEN Goldstein, who recently completed her assignment in Bangladesh as the World Bank's country director, talked with *The Daily Star* before her departure. She shared her views on various issues such as the Bank's contribution to Bangladesh, the country's macroeconomic situation, infrastructure deficiency, investment climate, corruption and Padma bridge financing. Here are the excerpts from the interview.

What is your overall contribution/impression about Bangladesh's economy?

I feel that my term here was on balance a pretty positive one, as the World Bank was able to achieve many of the things we had set out to do, that contributed to important development results in Bangladesh.

We have a portfolio of more than \$5 billion in total commitments now in over thirty different operations.

In areas like rural transportation, rural water supply, local governance, community-driven development, girls' education, health and nutrition outcomes, we have massive scaling up of the WB's resources. At the same time, we can measure and see the results on the ground and how it is changing people's lives.

Is Bangladesh moving up the ladder on social indicators?

Most of Bangladesh's social welfare indicators have shown improvement over the past 20 years. This is a tremendous credit that can be attributed to successive governments and many other stakeholders such as non-government organisations and community organisations.

There has been a consistent focus across different governments on improving social welfare, health, education, nutrition, social protection and family planning.

What is your comment on corruption, efficiency of infrastructure and bureaucracy issues?

I first came to Bangladesh in early 1990s. When I came back here again in 2009 for the current assignment, I saw a remarkable transformation of Bangladesh's economy and society over this 20-year period.

There has been amazing transformation, and a lot of that is underpinned by a relatively good macro-economic management which is a kind of hallmark for Bangladesh.

At the same time, I do not think that we have seen a huge progress on some areas that would allow Bangladesh to jump from the current relatively good performance of 6 percent growth a year and falling poverty rates.

But, if the country wants to grow like China with 8 percent to 10 percent GDP growth, Bangladesh has the potential to do that.

What areas can help achieve higher economic growth?

The big opportunity for Bangladesh is to take advantage of the most competitive labour market in the world. The country has a demographic dividend with a huge number of young people. More educated young people are entering the labour force than before. In order to take advantage, there should be additional structural reforms in the areas of infrastructure development and investment climate.

What is your comment on infrastructure deficiency and investment climate?

For large scale infrastructure, Bangladesh needs to embrace public-private partnership (PPP) model. Not all infrastructures can be built through public sector money. There has to be a much more diverse market for providing the needed infrastructure. And we are talking about a whole range of infrastructure -- telecom, port, roads, inland water transport, etc.

The other related area is investment climate in terms of the regula-



Ellen Goldstein

tory environment and the processes and procedures around investing, starting or operating businesses in Bangladesh.

What are the development challenges of Bangladesh?

Remarkable progress on human development has been made which is a triumph for Bangladesh. The number of women in workforce or the number of girls in school demonstrates a huge social transformation.

But one area related to human development as well as to investment climate, that now needs focus is skill development. Bangladesh needs to have more skilled labour force both in the country and outside. For that, a significant focus on the quality of education is needed going forward.

There is allegation against the WB of slow fund release. What do you say?

First of all, we need to work on the facts, not on the allegations.

The WB has a total commitment of around \$5 billion and about \$3.4 billion which is currently committed but not yet disbursed. We have

to remember that when a donor commits for a five-year project, in the first year almost fourth-fifths of the money will not be disbursed. The minute the money is committed it will not go out of the door. The WB's yearly disbursement is higher than other development partners. In recent years, we have disbursed from less than \$400 million to well over \$500 million. In the first half of the fiscal year, we have already disbursed \$350 million. Hopefully, we will continue the same pace and the full years' disbursement will be more than \$600 million.

Why is Bangladesh not getting budgetary support from the WB?

Under the current country assistance strategy, we thought there might be scope for budget support. While considering a poverty reduction support credit, some deterioration was seen in the overall governance environment in the country. You can remember back at that time, there were problems with the management of capital market, issues in the telecom sector such as

renewal of telecom licences, and issues with public debt management. As a result, we saw a decline between fiscal year 2010-11 and 2011-12 in the Country Policy and Institutional Assessment or CPIA. This is an indicator that we use to assess how the government is doing on many different aspects of policies and institutional development.

Let me say that the strategy pursued in the power sector did in fact help to keep growth moving which is very important. This is not meant to be necessarily a criticism. But what it did mean is that there is a tremendous increase in subsidies in government spending. This led to greater domestic borrowing by the government that led to the tendency to crowd-out borrowing by the private sector. Along with this, there was deterioration in the quality of public spending in some areas.

Was the way the WB handled the Padma bridge issue a bit high-handed when no money changed hands? Is it a zero-sum game in the end?

You have raised a very important question for everyone working in development. And that is a question of how do we do business in a weak governance environment. How do we balance the need to avoid corruption risk, which takes money out of the hands of poor Bangladeshis? How do we minimise those risks and still try to contribute to development results? This is a very fundamental question and it is unlikely to be answered today.

The people of Bangladesh win if a stance is taken against corruption. I think most Bangladeshis are tired of thinking that money meant to be used to improve the lives of the poorest in the country may not be used for that purpose. It frustrates people tremendously. They deserve the money that is made available by the international community to be used for more long-term development purposes.

What are the improvements that make you proud?

We have made a lot of progress in supporting and strengthening Bangladesh's own systems. And in the end, through this strengthening, Bangladesh will be a more dynamic country.

I was thinking in particular about improvement in the public financial management. We are working together to improve the programming and oversight of the budget. The parliament and the Office of the Comptroller and Auditor General need to be strengthened to be more efficient and more transparent, so people can see how the public money is being spent.

We have had also incredibly good progress on public procurement reforms. All of the drama around the Padma bridge project is because of a procurement issue.

Is the WB responsive?

We scale up in areas where we see results. We see results and we scale up to get more results.

We also tried to be a more responsive WB. There have been many instances where the government has had a sudden or important problem to deal with. Despite the reputation of slow bureaucracy, the WB tried to respond in an innovative, flexible and quick manner.

Will the Padma bridge episode have any adverse impact on the relationship between the government and the WB?

We have a wonderfully long and productive relationship between the government and the WB. I think our relationship can withstand this kind of discussion. It has its moment of stress and people get frustrated. I believe that we have been through so much together as partners and that our relationship is going to come out of this very strong.

The fact that many people in Bangladesh have understood and appreciated why the WB has taken this decision, I think the public still see us as a very valuable partner to the country both in the terms of the money that we bring and the projects we have done.

WB economist calls on G20 to coordinate policies

REUTERS, Washington

THE World Bank's new chief economist on Tuesday urged Group of 20 finance leaders to better coordinate economic policies in order to prevent a possible global currency war.

In an interview with Reuters, Kaushik Basu said G20 finance ministers, meeting in Moscow on February 15 and 16, should act on a solution before escalating tensions spark another global economic crisis.

While the risk of a sudden plummeting of the global economy had diminished because of measures adopted in Europe to ease its sovereign debt crisis, a rapid bounce-back in growth was unlikely, he said.

"We are not in a currency war but could be inching towards one," said Basu, a former chief economic adviser to the Indian finance ministry. "Global leaders need to coordinate policy to prevent either (one) from happening or markets believing it is happening. Such coordination is entirely within the realm of the possible; all it needs is determination."

He said that, while unconventional monetary policy measures by central banks in the United States, Japan and Europe to revive growth had proved valuable, the impact of those policies was "beginning to feed into the global situation".

"The need is for some global monetary and fiscal policy coordination and the G20 is the forum that could push on that, and I think it ought to take that task seriously," he added.

Advanced economies have ramped up debt and printed money, which has weakened some of their currencies and made them more competitive. Meanwhile, near-zero rates in the rich world have exacerbated the problem of hot money flows for emerging markets with high interest rates and driven up



REUTERS

Kaushik Basu speaks during the book release of 'The New Oxford Companion to Economics in India' edited by Basu and Annemie Maertens, in New Delhi in 2011.

their exchange rates.

A NEW NORMAL?

Most recently, tensions have increased over aggressive expansion of monetary policy by Japan's new government, which it says is aimed at beating deflation. But U.S. and European officials have grown concerned about comments from Japanese officials that suggest Tokyo is targeting a specific level of the yen, which has lost about 20 percent against the dollar since October.

"You need a minimum amount of collective agreement on these policies so that if the Fed acts, or the Bank of Japan acts, central banks in other major economies, such as China, India and Indonesia, are able to take a more or less supportive position," Basu said, adding: "For that you need a collective conversation."

The global crisis has reduced high rates of growth in emerging market economies like China, but the slowdown did not signal a "new normal," Basu said.

"I do believe there is a shifting of global gear that is going on - and you won't see it just now - but if you do prospecting for three to four years, a couple of emerging economies will come out as the growth drivers of the world," he said.

While China, India, Indonesia and Brazil are leading emerging economies, several African economies have adopted economic reforms that have fueled investor interest and boosted growth, he said. Basu said trade among emerging economies was increasing, while savings and investment rates were rising in middle-income countries, which would support stronger economic growth.

"Eventually, I expect industrialized countries to go back to slightly higher growth, which for them is fine because they are already developed, and I expect some emerging economies to get back to between 8 and 9 percent growth, which they had before the global financial crisis," Basu added.

Sri Lanka drops IMF loan bid over spending dispute

AFP, Colombo

SRI Lanka on Tuesday dropped plans for a fresh \$1.0-billion loan from the International Monetary Fund following disagreements over how the money should be spent, the central bank said.

The government announced last month that it was seeking a new cash infusion from the IMF after drawing down a previous \$2.6-billion bailout loan six months ago.

"Sri Lankan authorities have decided not to pursue a new programme with the IMF, but to continue maintaining the close relationship with the Fund under standard consultation processes similar to many other member countries," the central bank said. Treasury chief Punchi Banda

Jayasundera had said he wanted the new IMF loan to spend on infrastructure while the US-based lender was only willing to hand over money to bolster the bank's foreign reserves.

"The IMF has indicated that the Fund may not be in a position to consider any direct or indirect budget support to Sri Lanka," the bank statement said.

Money for foreign reserves is not meant for immediate spending, but serves to enhance a country's creditworthiness.

An IMF team is currently in Colombo conducting annual consultations with Sri Lankan authorities.

The 2009 IMF bailout was secured when Sri Lanka's foreign reserves crashed to a dangerously low level of \$1 billion. They now

stand at a comfortable \$7 billion.

The bank also announced on Monday that Sri Lanka's new taxes on cars and luxury goods had helped reduce imports last year and narrow the huge trade deficit.

Faced with a balance of payments problem in 2011, the government hiked car imports by up to 300 percent, stopped credit for luxury imports and allowed the local currency to depreciate sharply by nearly 20 percent.

The government has revised down its growth estimate for 2012 from 7.2 percent to 6.5 percent.

Sri Lanka's economy grew 8.3 percent in 2011, up from 8.0 percent in 2010, the first full year after government forces crushed Tamil rebels bringing an end to the island's ethnic war.

Barclays to slash jobs

AFP, London

BARCLAYS will cut at least 3,700 jobs this year and slash costs, the scandal-hit bank announced on Tuesday as it also revealed that it had plunged into an annual net loss amid the Libor rate-rigging crisis.

The British bank said in a statement that it would "reduce headcount by at least 3,700 across the group, including 1,800 in the Corporate & Investment Bank and 1,900 in Europe Retail and Business Banking." Barclays employs 140,000 staff.

The bank reported a loss after tax of £1.04 billion (\$1.63 billion, 1.22 billion euros) for 2012 compared with a net profit of £3.0 billion in 2011 -- news brushed aside by the market as Barclays' share price soared on Tuesday.

"There is no doubt that 2012 was a difficult year for Barclays and the entire banking sector," said chief executive Antony Jenkins, who was brought in to shake up the bank in the wake of the Libor scandal that has rocked other lenders.

"The behaviours which made headlines during the year stemmed from a period of 20 years in banking in which the sector became too aggressive, too focused on the short-term, and too disconnected from the needs of customers and clients, and wider society," he said.

"Barclays was not immune from the impact of these trends, and we suffered reputational damage in 2012 as a consequence. Change is needed both in our industry and at Barclays," Jenkins added in a statement.

Jenkins ordered a strategic review after replacing Bob Dia-

mond as chief executive five months ago and after the bank was fined \$450 million (336 million euros) by British and US regulators for attempted manipulation of Libor and Euribor interbank rates.

As well as deciding to scrap thousands of jobs, Jenkins on Tuesday said that he would slash the bank's costs by £1.7 billion in 2015. Barclays said that as a result of the job cuts, it would incur a restructuring charge of close to £500 million in the first quarter of 2013.

It added that going forward the bank would focus its investment projects in Britain, the United States and Africa, "whilst maintaining an appropriate presence across Europe and Asia."

Barclays would set out also to "provide greater disclosure and transparency" around its financial performance.