

# Sustaining development, accelerating growth

PHILIPPE LE HOUÉROU

FROM March 28 to April 2, I visited Bangladesh. This was my first visit to the country as the World Bank's Vice President for the South Asia Region. In all my encounters with the people of Bangladesh, I felt their indomitable spirit, energy and resilience. I also witnessed first-hand their hard work, kindness, and entrepreneurship.

These qualities have helped Bangladesh make impressive gains in overcoming poverty. With a vibrant economy that has grown at nearly 6% a year in the last decade, Bangladesh has seen the number of poor people drop by a third and is on track to meet the Millennium Development Goal of halving extreme poverty by 2015. Based on prudent economic management, growth was driven by exports and remittances. Today, Bangladesh is second only to China in exporting readymade garments. Moreover, Bangladeshi workers overseas sent home more than \$14 billion in remittances in 2012-13.

As the Nobel Laureate Amartya Sen has often remarked, on social indicators, Bangladesh has outperformed its neighbours. Despite having lower income levels than India, Bangladesh has the longest life expectancy, lowest fertility rates, and lowest infant and under-5 mortality rates in South Asia. Its female primary school enrollment rate of 98% is higher than the rate in Bhutan, Nepal and Pakistan and about the same as in India. Women have a significant presence in the garment sector and in small businesses.

Bangladesh has found its own ways to overcome poverty, and its examples are now copied worldwide. This is the country that pioneered microfinance and cash transfer programmes for the poor -- two innovative and effective ways to lift people out of poverty that are now widely replicated as far away as Africa and Latin America.

But Bangladesh can do better. In 2010, 64 million Bangladeshis -- more than a third of the population --still

lived below the international poverty line (\$1.25 a day). The government wants Bangladesh to become a middle-income country by 2021, the country's fiftieth year of independence. This goal is ambitious and attainable, but achieving it will not happen by itself. To reach it, Bangladesh needs to recognise how to overcome the obstacles in the way.

As clearly identified by the government and the private sector, power and transportation networks are perhaps the greatest obstacles to sustained higher growth. Better infrastructure will lead to improved productivity, which in turn will make exports more competitive and attract more foreign investment, leading to further increases in productivity. Modernising the investment climate would help businesses acquire land more easily and settle their disputes more efficiently. Government services also need to keep improving, and government institutions need to become more accountable to citizens. In addition, more effective management of Bangladesh's growing urban areas would help them become good places to live and to do business. Moreover, as a low-lying delta country that is frequently subject to floods and cyclones, Bangladesh needs to take urgent action to understand and begin to address the massive challenges related to climate change and disaster risk management.

During my visit, I travelled outside Dhaka to see for myself some of the initiatives that have transformed the lives of Bangladeshis as well as some of the challenges that are acting as barriers to growth. In Barisal, I saw how solar lighting, irrigation networks, micro-finance schemes, and multipurpose buildings that function both as schools and cyclone shelters and helping communities -- often under the leadership of women -- to transform lives, improve livelihoods, and enhance security. My trip to Chittagong took me to the port and the Export Processing Zone, where I saw how the private sector is driving growth in Bangladesh -- keeping the export sector vibrant and creating thousands of jobs. But I also saw how a lack of land, power and transport is holding back

the business community.

Going forward, the World Bank Group aims to finance some of the large-scale infrastructure that can help Bangladesh's economy to grow. This will mean financing more energy generation and investing in transport infrastructure at the ports, on trunk roads, and along inland waterways. The World Bank Group has already stepped up its commitment to Bangladesh. We are on track for \$2.7 billion of new financing agreements signed by the end of this fiscal year (June 30, 2014). The World Bank Group Board has already approved \$1.75 billion in new financing this fiscal year.

For the World Bank Group, Bangladesh is an important partner in contributing to the global goals of eliminating poverty and boosting shared prosperity by 2030. This means ensuring that resources are used for their intended purposes and creating opportunities for those who need them the most: the poor. We will work with the government to ensure that the poor are not deprived of their right to better services and living conditions. Instead of abandoning sectors with poor governance, we are strengthening oversight, bolstering procurement systems and prioritising institutional reforms.

As I travelled around Bangladesh I met people who face tremendous challenges with both energy and determination. They want a world where their families enjoy income and shelter, where their children are fed and educated, where businesses thrive and opportunities are multiplied by energy, roads and other infrastructure, and where men and women together make responsible decisions about their own future.

We at the World Bank Group will work hard to help Bangladesh achieve this vision. The World Bank Group approved its first project in Bangladesh in the first year of independence. We will remain steadfast partners for the people of Bangladesh until the day that they are free of poverty and enjoy shared prosperity.

The writer is the Vice President, South Asia Region, The World Bank

## Coffee with a smile

### SHIFTING IMAGES



MILIA ALI

THE one thing that continues to impress me in the United States is the responsiveness and good cheer of the workers in hotels and restaurants -- in fact in most of the service industry. I have always wondered how the workers manage to deliver radiant smiles to customers, despite the fact that they are paid a pittance compared to white-collar

corporate employees.

My question was partially answered when, by chance, I came across an article on the restaurant chain Pret A Manger. The brand is well known for the courteous attitude of its staff. Interestingly, the article revealed that the smiles of the waiters serving Pret's freshly baked croissants are an integral part of the company's performance criteria! The staff selection process ensures that workers are hired for qualities that contribute to customer wellbeing.

I must admit that my initial reaction to the write-up was negative. For me, whether it's happiness or sorrow the authenticity of feelings is important. Besides, the fact that workers' "happy behaviours" are monitored for measuring job performance gives a somewhat Orwellian twist to the idea of freedom of expression.

My discomfort about the faked joviality of service sector workers in the US persisted until I consciously started noticing the service culture in Dhaka during my recent visit. It appears that the concept of good customer service is not ingrained in the service industry as well as commercial establishments in Bangladesh. Let me illustrate my point by sharing an experience. Since my iPhone is restricted to American providers, I decided to buy a smart phone that I can use in Bangladesh. What should have been a straightforward exercise turned out to be an ordeal!

Although I went to a dealer representing a respectable corporation, my request for transferring my phone directory to the new phone was refused because the "expert" was "out"! I braved the traffic and made a second trip but was subjected to the same frosty reception. After I threatened to make a formal complaint, the salesman gave me a hostile look and called the "expert" who arrived in 10 minutes and helped me with the applications. However, within days of using the phone I encountered problems and went back to get it fixed. I was asked to go to the service centre in some other part of town. No smiles. No "Sorry" -- not even a question about what was wrong with the phone. I dare not compare this incident with my pleasant experience of buying a phone in the Apple Store in Virginia since I will receive a lot of flak from some readers for comparing Bangladesh with the United States -- given the difference in salaries, education etc. But my question is: how much does a smile cost, and what level of education is required to be civil to a fellow human being?

The phone incident is emblematic of the overall lackadaisical attitude toward customers/clients in the country. The customer who is supposed to be king is often reduced to a mere supplicant. Try changing or returning something that you bought (even if the good was initially damaged) -- you will find yourself pleading helplessly. Your humiliation is intensified when you are subjected to suspicious glances from other customers and salesmen. As for a relaxed meal in a restaurant it can often become a test of patience. You need to wait to be served until you catch the eye of one of the "preoccupied" waiters who will try to ignore you for as long as they can and then make you feel grateful to be noticed!

I know that there is nothing intrinsically wrong with the sales persons or service providers in Bangladesh. The basic instinct for helping out is inherent in most people, but the instinct needs to be honed and developed by proper training and systematic monitoring. Let me reinforce the point through a positive example. My husband and I frequently visit a coffee bar in a small hotel in Gulshan. While sipping our espressos we often notice with delight the ethos of "perfect" service in action. The hotel management has succeeded in inculcating a culture of courteousness and sense of "pride" among the staff. A casual coffee experience is thus greatly enhanced by the waiters' smiling faces associated with pleasantries like "May I help you?" and "Thank you. Please come again".

After some reflection I have come to the conclusion that there is something to be said about receiving warm smiles and encouraging words from people around you. Glum and depressing behaviour can turn us off by spreading negativity. Although driven by commercial considerations, Pret A Manger's managers do have a point about promoting the feel good factor. The private sector in Bangladesh would benefit from introducing similar hiring, training and supervision criteria.

Even if you are welcomed by artificial smiles -- a smile is a smile. And it surely can brighten your day!

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## FY15 budget: Just don't think big, do big also

ABUL BASHER

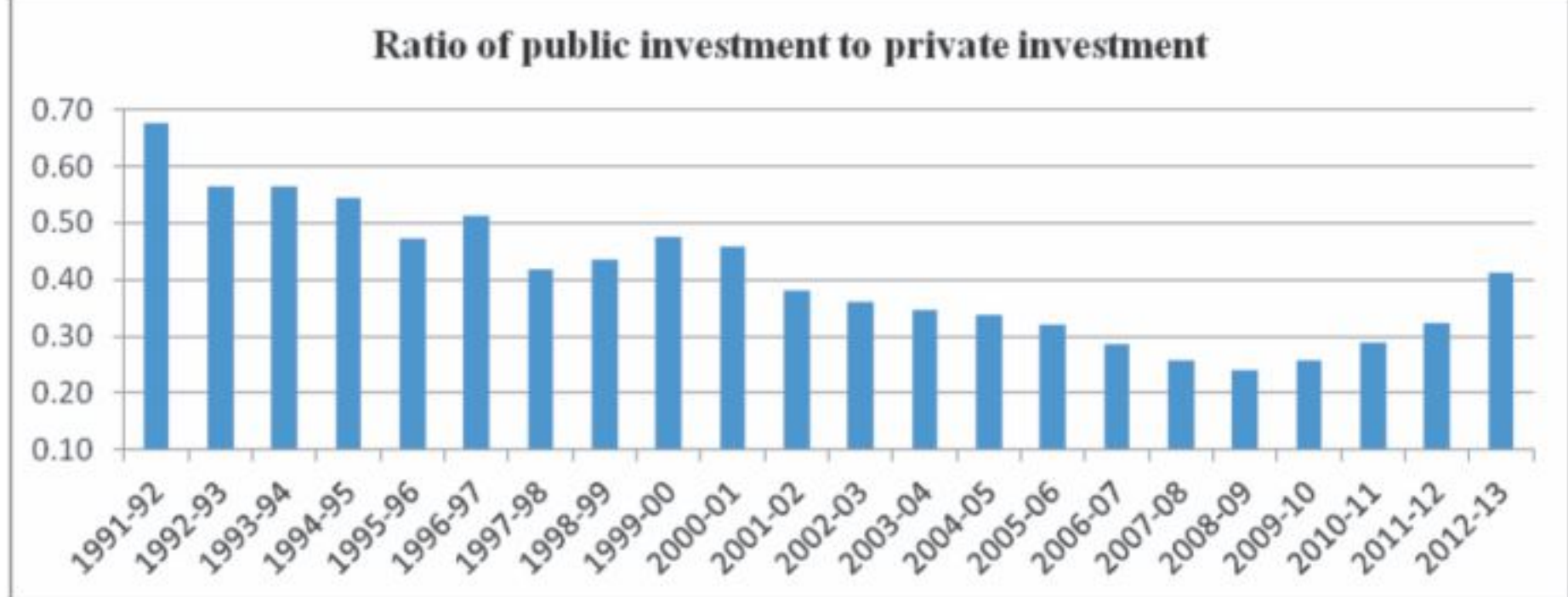
AS a nation we have learnt to think big. There was a time when we could not think of achieving more than 4% or 5% growth of GDP. Now we think of achieving 8% growth and becoming a middle income country. However, big thinking requires big doing. The question is whether we have learnt to do big as well.

It was the government that inspired us to think big. It was political leaders who told us about vision 2021 and improved living standard. Therefore, onus lies mostly on the government to do big and enable the private sector to do big as well. But unfortunately, it has been mostly business as usual for the government, which will not help to accomplish the raised living standard that we were inspired to dream of.

The realisation of our dream is dependent on investment. The low level of investment has become a much-talked-about topic and a matter of concern of everyone. In early 1990s our total investment was around 15% to 16% of GDP. Private investment was about 10% and public investment was around 6%. By taking the advantage of liberalised economic environment and other concomitant economic reforms initiated in early 1990s, private investment has been increasing while public investment remained at around 6%. During the last 5 years, private investment has been hovering at around 19% of GDP. Three years' moving average of growth of share of private investment in GDP has been declining almost for a decade. Coincidentally, in addition to frequent skids, the pace of our trade liberalisation has also stalled in the recent years.

Public investment creates the ground for private investment to take place. Investment takes place only in response to a revealed or potential opportunity to make profit. When such an opportunity is available or a new one is created, new investors rush in to invest along with the existing ones. When it disappears, investors run away and disinvestment occurs. Public policy as well as public investment increases the profitability. If there is one big thing to be identified for realising our big thinking, it would be to increase public investment.

Graph 1: Ratio of public to private investment in Bangladesh during FY92-FY13



Source: Bangladesh Economic Review (different years), Ministry of Finance, Government of Bangladesh

The public-private investment ratio indicates how supportive the public investment of a country is in promoting private investment. The ratio was about 0.7 in FY 92. It became volatile since then, ranging between 0.68 and 0.47 until FY00. Unfortunately, it started declining from FY01 and fell to 0.24. Such decline was not favourable for private investment. The ratio started increasing slowly again since FY10. But the pace of trade liberalisation stalled around the same time. In some years, it has in fact been reversed. By and large, the stimulus of trade liberalisation is more or less fully exhausted. Because of such an environment coupled with missing augmented public investment, the economy is caught in a trap of low private investment. Only escalated public investment can free the economy from the shackles of poor private investment, which has been fixed around less than 20% of GDP.

The main source of public investment in Bangladesh is the annual development programme (ADP). Every year, the government declares a target for it in the financial budget announced in June. By the end of the fiscal year, the set target is down-sized. This has been common practice.

The story for this year is the same. The size of the ADP has been reduced to Tk. 60,000 core from its original target. The revised amount represents a 5% growth over the revised ADP of the previous year. When adjusted for inflation, which seems to be more than 7% this year, the revised ADP of the current year represents a negative growth in real terms. With this kind of public investment it is not possible to realise our big thinking. We need a big ADP -- a big push in the economy -- to

accelerate private investment and economic growth.

Unfortunately, the importance of big ADP and public investment is not underplayed in Bangladesh. Following the announcement of financial budget, economists and commentators characterised it as 'ambitious' and 'too large.' As a result, the government does not feel obliged to take measures to increase the size of the ADP. For decades, actual ADP grew by an annual average rate of 5% to 6% in nominal term. Given the high inflation, the growth of ADP has been negative. This should be a serious concern as it means that the government is actually investing less and less over time. It does not require a smart brain to understand why publicly provided capacity enhancing services and utilities are becoming scarce in the country as a result of observed trend of public investment.

The failure to ensure increased ADP is related to two factors; inadequate administrative capacity, and inadequate resources. The problem of inadequate capacity to implement ADP in time is a perennial one. The government must enhance its administrative capacity.

The issue of inadequate resource is also a perennial one. With drying up of foreign assistance, the government needs to do something big to mobilise resources from domestic sources. The collection of tax revenue has been increasing, but still lacks the required momentum to provide adequate resources for financing the development expenditure. The growth of tax revenue depends on how much effort is made and additional measures taken. According to a study by Bangladesh Bank (in 2007) the tax buoyancy is about 1.24. At the same time, growth of nominal GDP has

been hovering around 13% to 14% in recent years. With this trend, tax revenue could grow by up to 17% in absence of any additional effort and measures.

In absence of adequate domestic and external resources, the government has to rely on borrowing from domestic sources to undertake a large ADP. This is also a misunderstood issue. Government borrowing is severely criticised by economic commentators on the assumption that it reduces the available funds for lending to the private sector. Depending on the reliance of the private sector on bank loan to invest, such a diversion of funds can possibly reduce the private investment. Whether this really takes place or not is an empirical question.

Empirical analysis has not yet provided any ground to be critical about government borrowing to finance its development activities. The correlation between observed government borrowing and private investment during FY02-FY13 is about 0.94. Many economists argue that government borrowings take some time to influence private investment. Taking this into cognisance, the correlation between government borrowing of the last year and the private investment in the current year is estimated. This correlation turned out to be 0.91, reiterating the positive relationship between them.

However, there is a difference between correlation and causality. But the positive correlation between government borrowing and private investment ensures that the former does not hinder the latter. Two recent studies using sophisticated econometric techniques -- one by Bangladesh Bank in 2006, and another very recently by Bangladesh Institute of Development Studies (BIDS) -- confirm that government borrowings have been contributing to private investment so far.

If the government really means to realise its big thinking, and the dreams it has inspired us to dream, this is the time to do the big things. Formulate and implement big investment plan. Carry out big policy reforms and capacity building to enhance the ability to implement big ADP. And mobilise big amount of resources domestically, defying the popular rhetoric. Business as usual will not work.

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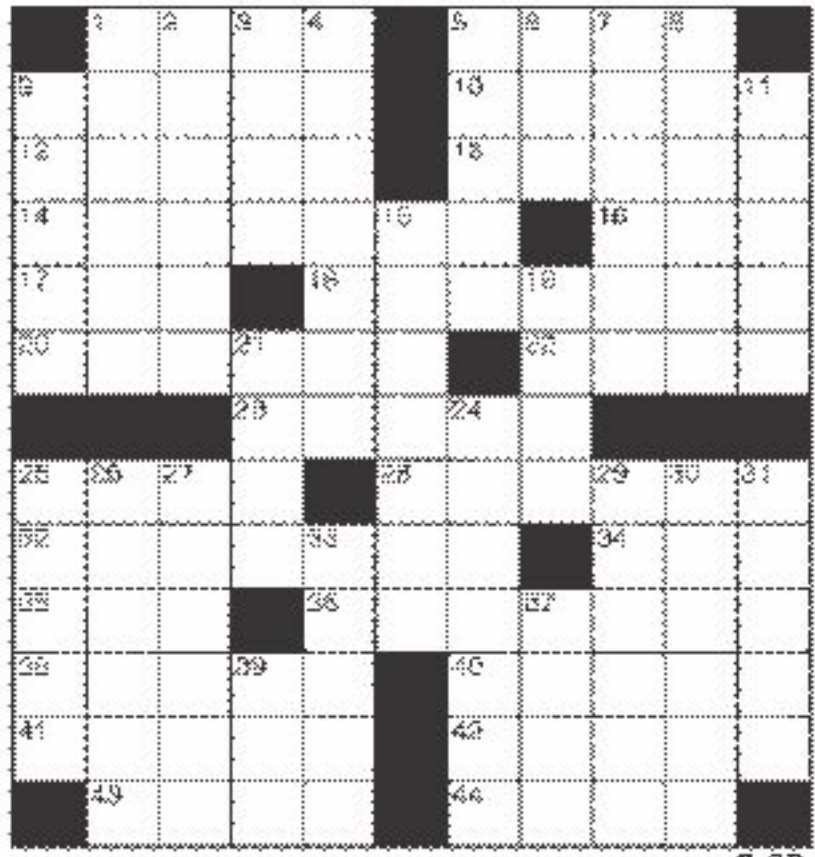
### CROSSWORD by Thomas Joseph

#### ACROSS

- 1 Play group
- 5 Pear shaped instrument
- 9 More sage
- 10 Make better
- 12 Foreword
- 13 Left over
- 14 Scent
- 16 Gift topper
- 17 Punk rock offshoot
- 18 Sheet material
- 20 Sounded hoarse
- 22 Hideous
- 23 Verdi pieces
- 25 Egg outline
- 28 Region of eastern France
- 32 Arrange in every possible way
- 34 Crew director
- 35 Compass trace
- 36 Lie in court
- 38 Yoga position
- 40 Circus star
- 41 Shore bird
- 42 Three-time Wimbledon champ
- 43 Bank statement no.
- 44 Martial arts levels

#### DOWN

- 1 Movies
- 2 Houston team
- 3 Lowly worker
- 4 Good sport
- 5 Powerful beam
- 6 Diamond judge
- 7 Brewing item
- 8 Sign up
- 9 Wind-shield clearer
- 11 Loser to Truman
- 15 Oversee negotiations
- 19 Swear
- 21 Tropical tree
- 24 Warned
- 25 Milky stones
- 26 "Romeo and Juliet" setting
- 27 Very cold
- 29 Savvy
- 30 Kitchen gadgets
- 31 Put to use
- 33 Sports surprise
- 37 Coffee, in slang
- 39 Bars for scanning



#### CRYPTOQUOTE

NK NO KYJ CUHR BL US JMFQKJMN CSNM KB PJ UPIJ KB JSKJHKUNS U KYBFTYK ZNKYBFKUQQJXKNSTNK.

-- UHNOKBKIJ

Yesterday's Cryptoquote: AFTER AN ERA OF CONFRONTATION, THE TIME HAS COME FOR AN ERA OF NEGOTIATION.

-- RICHARD M NIXON

### Yesterday's answer



#### A XYDLBAAXR is LONGFELLOW

One letter stands for another. In this sample, A is used for the three L's, X for the two O's, etc. Single letters, apostrophes, the length and formation of the words are all hints. Each day the code letters are different.

The trouble with using experience as a guide is that the final exam often comes first and then the lesson.

Anonymous



### Request for concept notes for partnership grants

Katalyst is a market development project that aims to contribute to increasing the income of poor men and women in rural areas. It does this by facilitating changes in services, inputs and product markets, which in turn increases the competitiveness of farmers and small enterprises. Katalyst is co-funded by the Swiss Agency for Development and Cooperation (SDC), the UK Government, and the Danish International Development Agency (Danida). It is implemented by Swisscontact and GIZ International Services under the umbrella of the Ministry of Commerce, Government of Bangladesh.

#### Katalyst is looking to co-finance innovative ideas in the following areas:

- Providing Integrated Pest Management (IPM) solutions to vegetable farmers
- Promoting and distributing quality seeds to vegetable farmers
- Promoting appropriate pesticide dosage to farmers
- Developing efficient procurement channel for quality agro products
- Improving production and distribution of compost fertiliser
- Producing and marketing value-added fish products

Katalyst invites innovative private companies, associations, NGOs and think tanks to submit innovative project concept notes on these areas. The Request for Concept Note, Sector Brief and template for Concept Note are available at: [http://www.katalyst.com.bd/abtus\\_procurement.php](http://www.katalyst.com.bd/abtus_procurement.php)