

# Risks and challenges...

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needed while resisting further nominal exchange rate appreciation against the dollar. This may need to be coupled with some fiscal easing, preferably by boosting expenditures on infrastructure building and maintenance, with possible budgetary provisions to beef up existing safety net schemes further.

Deterioration in the solvency of state-owned banks is also likely, assuming failure to recover all non-performing loans and measuring capital on a conservative basis. The additional re-capitalisation needs of state-owned banks could be between 2-3% of FY 2015's GDP. Under-capitalised banks should be held strictly account-

and oversight by the Bangladesh Bank; through improved corporate governance in public banks; and through provide access to serviced land to domestic and foreign investors through the SEZs. Establishing a sound financing framework to meet the country's growing infrastructure needs remains a key challenge for policy makers. Efficient transport, reliable energy, safe drinking water, and modern telecommunication systems are critical in attracting foreign direct investment, expanding international trade, and achieving long-term investment and growth. Moving faster on structural reforms has become particularly pressing especially since global demand is weak and competition in international market is intensifying. This is true not just for Bangladesh, but all emerging economies.

**WHAT MAKES REFORMS HAPPEN?**  
A frequently asked question is why don't reforms happen if they are in the national interest? The outlook for reforms depend on political leadership and the larger political economy. Where leadership and popular support for reforms are strong, reforms are more likely to happen. Where politicians are more interested in power than leadership, the prospects for positive change wither away. While the presence of a political leader committed to reform is a prerequisite for success, it does not guarantee success.

Challenging the status quo is inherent to reforms. Reforms inevitably threaten those with a stake in the current system. Power brokers and stakeholders who benefit unintentionally and disproportionately from a policy can hold reforms back even if the status quo is unsustainable over the long term. Their influence, incentives, and behaviour, as a consequence of reforms,

have to be managed until the success of the reforms becomes apparent for both them and society at large.

Reforms also need to give time for adjustments. For instance, while technocrats may see cuts are needed in, say, subsidies because of revenue shortfall, the near-term negative effects on low-income groups have to be on the minds of both those supporting the political

centred values and aims; bureaucrats who have unusually high levels of influence in designing policy; and strong political leadership promoting the reform. A broader form of developmental leadership made up of reform coalitions that incorporate elements of government, the legislature, and civil society is critical to the internalisation of reforms and their subsequent imple-

mentation of public sector governance reform depends on high-level political commitment, strong technical capacity, and incremental approaches with the potential for cumulative impact over an extended period of time. Domestically driven reform agendas with cumulative impact over an extended period are central to sustainable outcomes. Explicit attention to the

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able for improving their financial performance. Stricter oversight of their lending activities and more aggressive recovery of bad loans are needed, backed by recapitalisation contingent on agreed reforms to improve longer-term viability.

Greater attention is needed to swiftly reach the standards of safety and labour rights compliance in garments; to complete the critical ongoing road, electricity and gas development projects; to improve the efficiency and financial solvency of the banking sector. This can be done by easing controls over the interest rate; through better banking supervision



status quo and reformers.

Research on reforms show that political bureaucratic relations are an important factor in making reforms work. Political-bureaucratic relations that support successful reform often involve a core group of political and bureaucratic leaders who work closely together and share development-

mentation. These coalitions are particularly important for economic and governance reform in the developing world characterised by oligarchic democracy, where competition for elected office is closely linked to the entrenched interests of business and industry.

Research also shows that successful

political feasibility of reform, helping to identify and build incentives for reform, and working with reform-oriented politicians and bureaucrats is a fruitful approach for all agencies to pursue.

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