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Staff Country Reports

Bangladesh: Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper

The attached Joint Staff Assessment (JSA) of the Interim Poverty Reduction Strategy Paper Progress Report for **Bangladesh**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) or Interim PRSP (IPRSP) to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or IPRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

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BANGLADESH

Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund (IMF) and the
International Development Association (IDA)

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I. INTRODUCTION AND SUMMARY

1. **Bangladesh's development is a "mosaic of achievements and missed opportunities."** The country's achievements are many, especially compared to other low-income countries and given the weak initial conditions at the time of independence in 1971. Thanks to prudent macroeconomic management and generally sound policies for much of the past decade, indicators of economic and social well being have improved steadily. While the economy moved to a higher growth trajectory of 5 percent per annum during the 1990s, compared to 4 percent achieved in the 1980s, this is still below the 7 percent growth rate envisioned in the I-PRSP. The effectiveness of the improved policy environment has been constrained by slow implementation of structural reforms since the mid-1990s. Moving forward, acceleration of economic growth and poverty reduction would critically depend on implementation of significant structural reforms particularly in the areas of governance, state-owned enterprises (SOEs), financial sector, and infrastructure.

2. **The Government of Bangladesh has developed an interim poverty reduction strategy paper (I-PRSP)** in consultation with various ministries and civil society organizations. The paper takes stock of the challenges facing the government and recognizes acceleration of growth as key to reduce poverty. In parallel, the strategy also lays emphasis on human development, especially greater access of the poor to education, health and nutrition, and social protection to ensure that the poor benefit from the growth process.

3. **The I-PRSP lays out a broader vision for the future along with a medium-term economic strategy.** It focuses on: (a) achieving accelerated growth with a poverty focus by building on macroeconomic stability; (b) implementing a set of long overdue structural reforms in the banking and energy sectors, alongside privatization and closure of SOEs; (c) investing in human development, improving quality and access to education and health services, especially for the poor and women, and strengthening social protection; (d) poverty-focused priorities in key areas, especially the rural sector with an emphasis on nonfarm development; and (e) a commitment to developing and implementing concrete monitoring mechanisms to track and achieve measurable results.

4. **The staffs consider that Bangladesh's I-PRSP constitutes a cohesive policy framework to increase growth and reduce poverty.** However, **some weaknesses remain to be addressed in the transition to the full PRSP.** First, it will be important to more sharply prioritize near-term policies in key sectors and antipoverty programs, and incorporate their cost into the medium-term budget framework. Second, there is need to meaningfully address capacity constraints for effective implementation and monitoring of the strategy. Third, in human development, it will be crucial to design a more cohesive strategy, focusing on public-private partnership, necessary for achieving the Millennium Development Goals (MDGs). Fourth, greater attention will need to be given to improving the investment climate, especially by strengthening law and order, as well as sustained improvements in economic governance. Finally, it will be important to initiate poverty and social impact assessment (PSIA) of the reforms and implementation of monitoring mechanisms for social development.

II. COUNTRY OWNERSHIP AND PARTICIPATION

5. **The extent of consultation that is embodied in Bangladesh's I-PRSP "A National Strategy for Economic Growth, Poverty Reduction, and Social Development," is commendable, and is one of the strengths of the document.** A large number of stakeholders, including the grassroots poor, nongovernment and community organizations, the private sector, trade unions, government, academia, research organizations, donors, and other public community leaders, were consulted over an eighteen-month period at various stages of the document's preparation. An initial draft of the I-PRSP was posted on the government's web-site in April 2002, followed by an extended period during which the draft was discussed with various nongovernmental organizations, members of civil society, and Bangladesh's development partners. To build consensus within government, focused interministerial meetings were organized to review sector strategies in the I-PRSP. **This is an area where more needs to be done in the transition to the full PRSP in order to ensure sufficient "buy in" of line agencies of government.** A revised draft, incorporating the various comments received, was posted on the government's web-site in September 2002. After another round of comments and revisions, the I-PRSP was finalized and transmitted to the Bank-Fund in mid-March 2003.

6. **A major challenge is to set up nationwide effective consultation mechanisms whereby timely feedback occurs.** Although consultations involved stakeholders at various levels, including the poorest households, feedback mechanisms were not always clearly laid out so as to inform the various levels of decision making. This deficiency could be addressed in the ensuing consultations leading up to the full PRSP.

7. **One particular area that may be important to consider in the development of the full PRSP is the role of parliamentarians.** Though the draft I-PRSP was circulated to all members of parliament, they have not discussed nor formally endorsed the strategy, and yet, in a parliamentary democracy, they are important actors. Consideration might be given to their active inclusion in the preparation of the full PRSP.

III. POVERTY DIAGNOSTICS

8. **The poverty diagnostic in the I-PRSP is systematic, drawing upon an extremely rich information base.** This diagnostic explores multiple dimensions of poverty, and in addition, assesses progress over time. A relatively comprehensive database already exists in Bangladesh to monitor most of the important poverty and social development indicators. The I-PRSP makes good use of data from diverse sources (census and other nationally representative surveys such as household income and expenditure, labor force, health, etc.) to provide a concise, yet relatively comprehensive assessment of the multidimensional challenges facing Bangladesh in reducing poverty.

9. **The staffs agree with the broad conclusions emerging from the analysis, namely, that Bangladesh has achieved considerable progress since independence in reducing poverty, that the pace of income-poverty reduction has picked up considerably during the 1990s**

compared to the 1980s, and that Bangladesh's overall progress in reducing poverty has been slower with respect to its income relative to its nonincome dimensions.

10. **However, many analytic and implementation challenges remain.** Acceleration in poverty reduction during the 1990s is attributed to faster growth in per capita consumption. However, a more in-depth analysis of changes in the overall policy environment that contributed to more rapid progress compared to earlier decades would be helpful in better understanding how Bangladesh can sustain or further accelerate the pace of poverty reduction in coming years. The increase in inequality during the 1990s dampened the poverty impact of growth significantly. It would be important to explicitly acknowledge the role of inequality in the policy framework. More broadly, the full PRSP should expand on the analysis to establish clearer links between diagnostics and policy, and prioritize actions across and within sectors.

11. Finally, while the I-PRSP rightly points out that conflicting data make it impossible to ascertain relative progress in poverty reduction over the two halves of the nineties, the staffs would like to highlight a few related issues. First, more work is needed at Bangladesh Bureau of Statistics (BBS) to help ensure better consistency between the Household Income and Expenditure Survey (HIES) and National Accounts data. Second, the simulations on national poverty with macro growth data included in the I-PRSP are unlikely to provide a credible alternative to survey-based estimates, as the methodology used requires extremely strong assumptions. Third, while other micro or panel data can indeed serve as a useful complement in assessing trends in income poverty over time, they should not be seen as potential substitutes for detailed, nationally representative household surveys such as the HIES. In this regard, the next round of HIES, planned for FY04, will need to have built-in modules on education and health just as the last two rounds did.

IV. TARGETS, INDICATORS, AND MONITORING

12. **The I-PRSP provides a comprehensive set of poverty reduction indicators and targets that subsume and in some cases even exceed, the MDG.** Inspired by I-PRSP consultations where it was challenged to depart from the "business as usual" approach and build on the successes of the 1990s, the government has consciously chosen an accelerated development strategy. For example, unlike the MDGs, which use 1990 as the benchmark, the I-PRSP aims at halving poverty incidence by the year 2015 from its level in 2000. The targets proposed are extremely challenging, and other than in the area of education, the pace of progress will have to be considerably faster than during the 1990s to achieve these. For instance, the income poverty and child mortality targets imply an acceleration by a factor of 2.2 and 3.5 respectively, compared to what was achieved during the 1990s. Some of the targets set may be overly ambitious—for instance, both on accelerating annual GDP growth to the 6.5–7 percent rate needed to meet the income poverty goals as well as the need to improve the efficiency and quality of public spending.

13. **The quantitative input indicators proposed could usefully be complemented with other quality and outcome indicators.** The I-PRSP proposes increasing public

spending on social services from 4.2 percent to 5.1 percent of GDP between FY03 and FY06. However, apart from expenditure targets, indicators such as primary school student attendance rates or pass rates in Primary Scholarship Examination could also be usefully tracked to assess quality of service delivery. It is recommended that the full PRSP set out indicators for monitoring quality as well as mechanisms through which these indicators will be measured and tracked.

14. The staffs welcome the high priority accorded to tackling extreme poverty, including the persistence of chronic poverty among specific groups. While the I-PRSP outlines several policy initiatives to strengthen social protection, monitoring systems of both existing and planned social assistance programs will also need improvement to ensure that allocated resources reach their intended beneficiaries.

15. **Much work lies ahead for the success of the poverty reduction strategy, which will require a systematic approach to monitoring and evaluation.** The I-PRSP recognizes this need and outlines a comprehensive set of input, intermediate, and outcome indicators that will be used to track progress in implementing the strategy. However, there is much work ahead in data collection, analysis and its linkages with policy, and the monitoring of indicators. One of the key outputs of the poverty monitoring system envisaged is an annual report on poverty reduction and social development, providing an overview of progress in achieving economic growth, human development, poverty reduction, gender equality targets, and analysis of factors behind the observed trends and their policy implications—this could serve as a useful tool for monitoring progress in I-PRSP implementation and form the basis for the annual I-PRSP progress report.

16. **On institutional arrangements,** a Poverty Focal Point has been established in the General Economics Division (GED) of the Planning Commission for effective poverty and MDG monitoring and tracking progress in implementing antipoverty policies and programs. The GED is also responsible for preparing and managing the transition to the full PRSP. In addition, the formation of a National Poverty Reduction Council (NPRC) chaired by the prime minister is under way, with strong interministerial linkages and representation from the private sector, academia, research institutes, NGOs, and civil society. **Substantial capacity strengthening and technical assistance will likely be required from Bangladesh's development partners to operationalize this ambitious framework.**

V. THE POLICY AGENDA

17. **The government's overarching goal, as articulated in the I-PRSP, is to substantially reduce chronic poverty and invigorate social development in the shortest possible time.** In addition to specifying social targets in line with the country's MDG, the strategy recognizes the need for acceleration of economic growth as the engine to drive down poverty. In parallel, it lays emphasis on human development by paying attention to the need for greater access of the poor to education, health, and nutrition, providing for greater social protection, and empowering the poor through participatory processes that would give them voice in shaping their own destinies. Thus, the government's poverty reduction strategy is a

combination of key elements that are expected to propel growth, while making sure that the benefits of that growth are shared by the poor. The I-PRSP articulates this strategy as resting on five pillars: (i) improvements in governance; (ii) acceleration of pro-poor growth; (iii) investment in human development; (iv) women's advancement; and (v) ensuring social protection.

A. The Governance Agenda

18. **The I-PRSP rightly observes that “poor governance is a strong impediment to current poverty reduction efforts.”** The staffs welcome the attention given to strengthening economic governance, especially with respect to improving accountability in the management of public resources, including improvements in public purchase and procurement systems, and tackling poor governance in the power sector. However, the main concerns expressed during the participatory consultations were “law and order, corruption, human rights, and economic and social violence.” In light of this, the recognition given in the I-PRSP of the need for an independent anticorruption commission, ensuring a strong and independent judicial system, and for comprehensive and fundamental reform of the police service is welcome. Nonetheless, since all parts of the justice system are interdependent, there is a need for a comprehensive sector approach that strengthens institutions and the linkages between them, and improves both the formal and informal processes within the system. A more explicit treatment of these linkages and a concrete agenda to address the above-mentioned concerns is warranted.

19. **In the transition to the full PRSP, greater emphasis will need to be given to political governance.** It is clear that poor law and order, extortion, and toll taking deter private investment and hamper economic growth, impeding poverty alleviation. An integral element of the poverty reduction strategy would include development of detailed strategies on political governance issues, such as the reform of the present election system that condones excessive campaign expenditures, which are then recouped by dispensing favors and engaging in corruption.

B. Macroeconomic Framework and the Structural Agenda

20. **The I-PRSP presents a credible framework for accelerating economic growth and maintaining macroeconomic stability.** The strategy envisages raising growth to 7 percent over the medium term. This target is ambitious, and its achievement will hinge on maintenance of macroeconomic stability and a speeding up of structural reforms in areas identified in the I-PRSP (e.g., financial sector, SOEs, energy). The staffs consider the medium-term macroeconomic framework in the I-PRSP to be sound. In particular, appropriate emphasis is given in the medium-term budget framework to containing the deficit, mobilizing revenue, rationalizing expenditure, limiting domestic financing, and curtailing subsidies to SOEs. However, the growth rate of 7 percent is above Bangladesh's past experience, hence the risks to this scenario cannot be ignored. For this reason, staffs encourage the government to develop an alternative lower growth scenario and design contingency plans that fully reflect the envisaged risks in the full PRSP. It will also be important to more sharply prioritize and begin costing pro-poor policies and programs, and

incorporate such allocations into a medium-term budget framework. Greater attention will also need to be given for efforts to significantly strengthen public expenditure management, in the context of a fully defined medium-term expenditure framework.

21. **Staffs also encourage the authorities to identify systematically the sources of growth that underpin the envisaged 7 percent growth rate and the links between growth and poverty.** The I-PRSP makes a start in this direction by outlining detailed action plans for raising productivity in priority sectors, like agriculture and rural nonfarm enterprises (RNFEs), manufacturing growth propelled by private investment, infrastructure, and technology development. In the full PRSP, the emphasis needs to be on policy and institutional reform to reduce the constraints on private sector growth, and a reform path to tackle the most onerous ones will need to be mapped out. External financing need and counterpart budget support during FY04–06 are projected to amount to about \$2 billion.

22. **The I-PRSP rightly identifies the private sector as the main engine of economic growth, but has not fully addressed the constraints on this sector.** There is urgent need to create an investment-friendly environment, especially improved law and order with good governance, better provision of infrastructure services, and better and cheaper access to capital. Although the I-PRSP assigns an essential role to the private sector, it has not addressed the severe bottlenecks that the private sector faces. For instance, the recently completed Investment Climate Assessment found that Bangladeshi firms fare worse than those in neighboring countries in access to infrastructure services, especially electricity, and corruption is pervasive with half the firms surveyed reporting it as a major problem due to poor regulatory environment, which makes it difficult to start, operate, and exit a business. Furthermore, *small and medium-sized enterprises are disproportionately affected by all these problems.* It would be helpful if the Tracking and Monitoring Matrix (Annex 11) in the full PRSP were to have a section on private sector development with carefully chosen outcome indicators such as time taken to get a business license, construction permit, and utility connection.

23. **More broadly, the financial sector reform and trade policy content will need greater attention in the full PRSP.** Staffs encourage the authorities to address the financial sector issues more fully, particularly the weak governance in this sector. Medium-term plans for financial sector and trade policy reforms should be put in place and become an integral part of the overall strategy for poverty reduction and growth. These should consist of resolution strategies for the nationalized commercial banks and a detailed timetable for implementation aimed at comprehensive reduction in trade barriers. At the same time, it would be important for the government to assess the likely impact of financial sector and trade policy reforms on the poor and make explicit the benefits of such reforms to the public, in order to reduce the opposition to further reforms.

24. **The staffs welcome the coverage in the I-PRSP on the ready-made garments (RMG) sector,** but the issues related to this sector may deserve even greater attention. The final phase of Multi-Fiber Agreement (MFA) quota removal at the beginning of 2005 is expected to lead to large shifts in competitiveness among exporting countries, and

Bangladesh could face a serious shock to its balance of payments. Against this background, top priority will need to be given to improving the competitiveness of the RMG industry and to promoting export diversification. Strengthening the RMG sector's competitiveness and diversifying exports involve a much wider range of policy measures, including not only those emphasized above, related to infrastructure, the financial sector, labor relations, and domestic competition, but also human capital development.

C. Sector Policies

25. **The thrust of the sector policies underpinning the I-PRSP is adequate.** The I-PRSP describes social policy at a general level without clearly indicating the focus of poverty reduction efforts, or taking into account resource and capacity constraints that will undoubtedly arise in formulating, financing, and implementing it. In the process leading up to the full PRSP a clearer sense of prioritization will be needed.

26. In rural development, **the I-PRSP rightly focuses on a sustainable agricultural growth-based approach, and places agriculture within the wider rural development framework.** Nevertheless, there is too little emphasis on implementation priorities and greater attention needs to be paid to the institutional framework required for supporting a more holistic approach and clarifying the public-private roles. In particular, a clear linkage between agricultural/rural sector policies and poverty reduction outcomes would be welcome. This is absolutely essential for prioritization and resource allocation. The growth of the RNFE sector has made an important contribution to the reduction of rural poverty. Therefore, the focus on RNFE is fitting, particularly in highlighting its multisectoral nature. However, no apparent institutional home or coordination mechanism exists to ensure implementation of such a strategy.

27. **An overall strategy and framework for water resource management is crucial for rural development.** Therefore, there is a need to formulate, in the full PRSP, a rural development strategy under the purview of the National Water Management Plan covering both planning and implementation aspects. Notably absent from the I-PRSP are strategic issues like land reforms, equity, and poverty-focused interventions through sustainable operation and maintenance.

28. **In human development, the I-PRSP builds on the progress already achieved in Bangladesh.** The expansion of coverage and access to education, encouraging record of improvements in health outcomes, and family planning were made possible because of the shift in public policy and spending away from controls to the improvement of quality and access to education and health services. This strategy has been reiterated in the I-PRSP.

29. **The strategy for improving education sector outcomes is well considered, but there is scope for better articulation of the crucial components of this strategy in the full PRSP.** The I-PRSP addresses appropriate issues pertinent to education, especially primary education, in view of its importance for sustainable poverty reduction. The emphasis is well placed on improving the quality of education through tackling governance problems in the

sector, ensuring complete enrollment at the primary level, and enhancing the scope for technical and vocational training, as core elements of the poverty reduction strategy. Nonetheless, in the full PRSP, a clearer articulation of indicators and how they will be monitored and evaluated is needed. More specifically, the indicators should be extended beyond inputs to emphasize outcomes—e.g., completion rates and indicators of system quality. In terms of education strategy, a more effective partnership among government, private sector, and NGOs in delivery of education would be a useful dimension to consider in the full PRSP.

30. **Likewise, the outline of strategies for health, population, and nutrition issues in the I-PRSP is sensible**, but on the delivery of services, excessive emphasis is placed on the public sector. Given that the great majority of outpatient contacts are with private health-care providers, it would be important for the full PRSP to highlight the role of the private sector in health care, and to give explicit consideration to potential partnerships between the private and public sectors in the provision of health-care services. It will also be important to recognize that health indicators such as maternal mortality and child malnutrition are among the worst in the world, and at the same time the reduction in the fertility rate has stalled over the last decade. So the government will need to devise effective strategies to reduce the fertility rate to levels achieved by other countries. Therefore, in completing the full PRSP, the following issues will need to be addressed: (i) prioritization of public spending; (ii) defining the long-term role of the public sector in health-care delivery, i.e., the balance between private and public health care; and (iii) specifying concrete measures to be taken in the short and medium term to implement the strategy for delivery of health care and family services.

31. **The staffs underscore the critical importance of access to safe water and sanitation, and hygiene for fostering human development of the poor.** The water, sanitation, and hygiene triangle would reduce morbidity and thus economic losses and direct medical costs, as well as lead to a better nutritional status of the poor. Although improvements in water and sanitation figure as priorities in any public consultation, the I-PRSP has not given them space. Clearly, morbidity due to poor sanitation and hygiene (and including food hygiene) can be reduced to a few episodes a year through improvements in safe water and sanitation, leading to immediate gains in economic production in health and well being. The challenge for the full PRSP will be to refine the health strategy so that it also addresses the underlying environmental causes of so much of Bangladesh's ill health, and defines their solutions such as through improved water supply and sanitation.

32. **The staffs share the strong emphasis placed in the I-PRSP on infrastructure development and urge that priorities in this critical sector be addressed systematically in the full PRSP.** Upgrading infrastructure (roads, ports, power and gas, and telecommunications) is key to achieving the goals of rapid growth and poverty reduction (Annex 6). There is commitment to adopting a new approach involving reorientation of sector priorities and greater private participation. The underlying strategy is to reduce physical distributional costs and improve service delivery to the poor and the poorer areas.

33. **Credibility of the infrastructure policy lies in its implementation.** The Telecommunications Regulatory Commission has been in operation. A first step in the energy sector has been taken in passing the Energy Regulatory Commission Act. The government may wish to begin to identify its successes in the power sector and, moving forward, make a commitment to “showcase” the sector as an example of Bangladesh’s ability to tackle the systemic problems of poor governance (particularly transparency and accountability at the political and corporate levels). The successes would include the rural electrification program, some of the most competitive independent power plants contracted through world-class procurement practices, initial steps to unbundle the sector (for better regulation and corporate governance), progress over the last two years in reducing theft, and improving collections. The I-PRSP says very little about this evolving policy and institutional foundation, which ought to be reflected in the full PRSP. Further, the full PRSP ought to have better prioritization within the roads sector in view of the critical role of the national, regional, and rural road network in reducing poverty and stimulating growth. Finally, it would be important for the government to articulate a national strategy to ensure that transport operators, public or private, meet the needs of the users, particularly of the poorer sections of society.

34. **Gender has been identified as a core development issue and gender equality as a way of reducing poverty.** The sector strategy (Annex 8) gives importance to addressing violence against women, reducing the high maternal and female mortality rate, ensuring formal equality before the law, reducing discrimination in employment opportunities, gender disaggregated statistics, and the creation of a woman-friendly institutional environment. While gender issues have also been mainstreamed in education and health, they are not fully integrated in agriculture, rural development, and in the analysis of employment and the labor market. In the full PRSP, the strategy needs to fully articulate how the MDGs of gender equality will be attained.

35. **The I-PRSP could have emphasized the importance of social protection for the poorest, vulnerable, and socially excluded groups** for their sustainable poverty reduction, and not only during crises or shocks. While impressive progress has been made in developing capacity for disaster management, continued progress in this area would be critical, given the vulnerability to natural disasters. The staffs urge that, for the full PRSP, PSIA be initiated and a comprehensive social protection strategy be defined to encompass public actions for the capacity building of, and resource transfer to, poor, vulnerable, and socially excluded groups (e.g., tribal population, scheduled caste, woman victims of violence, people with disabilities, street children, child labor, people who become victims of recurrent natural calamities (e.g., floods/cyclones), and people living in disaster prone areas/fragile land). Recent social and poverty assessments indicate that existing poverty reduction programs (micro credit, vulnerable group development, food for work, etc.) are inadequate for reducing poverty of the poorest and vulnerable groups in a sustained manner. Existing micro credit programs are not targeted to the poorest and vulnerable groups and safety net programs focus only on short-term survival, not sustainable development of the vulnerable groups. Therefore, the full PRSP needs to analyze the gaps, redundancies, and inefficiencies of existing programs, and to identify integrated support services, such as safety nets, training, provision

of seed capital, marketing services, awareness raising, and building of social capital and cohesion.

36. **Finally, to achieve “environmental sustainability” will require *inter alia* the management of the environment and natural resources.** The planned poverty reduction initiatives are likely to increase future pressures on the environment and natural resources. This suggests that greater efforts will be needed to achieve the environment MDG (“ensure environmental sustainability”) in order to support the envisaged growth within the sectors. The realism of the environmental strategy would be greatly enhanced by inclusion in the PRSP of an environmental annex, establishing the cross-cutting nature of the reforms, and indicating the funding necessary for their implementation.

VI. RISKS AND CHALLENGES

37. **There are several risks to the strategy laid out in the I-PRSP.** These include risks related to implementation, political uncertainties, as well as those derived from exogenous factors. Several mitigation strategies are being adopted, which will help address some of these risks.

38. **There are a number of implementation risks.** First, given the powerful vested interests who stand to lose substantially from improvements in governance, existing political support for the strategy could erode. Second, implementation may be slower than planned because of limited experience, inadequate institutional and human capacity, and uneven support for reform within the government, especially given the deep-rooted nature of the problems and wide-ranging reforms that are called for. Third, the reform costs to the budget could be higher than estimated if banking and SOE reforms proceed at a slower pace or if adjustment-related counterpart funds are invested in unviable projects.

39. **In terms of political risks, the government came to power with a strong mandate from the electorate** and now commands an absolute majority in parliament. Nevertheless, if the favorable impacts of reforms take time to materialize, while the short-term costs are severe or more transparent (e.g., job losses in SOEs, NCBs), opposition to reforms could be disruptive. This could slow down the reform process or even derail it. Therefore, it will be critical for the government to closely consult the opposition during preparation of the full PRSP.

40. **Finally, in terms of exogenous shocks, the current global economic slowdown has stifled Bangladesh’s export performance over the past two years.** But this risk appears to be fading. According to the Fund’s *World Economic Outlook*, projections for 2003–04 point to a recovery in growth of world trade, which should improve the external environment, leading to an acceleration in the rate of export and economic growth. It is the phasing out of the MFA in January 2005 that could pose a major threat if the country is ill prepared to face global competition in RMG exports. It could significantly weaken the balance of payments, and lead to closures and layoffs not just in the RMG sector but also in linked industries and

services. Conscious of this threat, the government is developing a coping strategy with support from the Bank.

41. **Several specific measures are being implemented to minimize these risks.** First, the new government held numerous consultations with civil society groups throughout the country on the need to implement reforms. The government has also engaged in substantive dialogue with labor leaders and workers to ensure that their concerns are taken into account in the design of the retrenchment program. As the government deepens its reform efforts, it will be important to ensure that an effective monitoring system is put in place to assess the social impact of adjustment. Finally, Bangladesh enjoys considerable goodwill among the donor community, which has indicated that their support to the country would increase if the reform effort is sustained and broadened. Substantial technical assistance support is also being lined up to help design and support the implementation of future reforms and to provide the government with a cushion against external risks. In addition to the Bank and the Fund, such technical assistance support will be provided by the United Kingdom Department for International Development, the Asian Development Bank, and the United Nations Development Program.

VII. CONCLUSION

42. **The staffs assess that Bangladesh's I-PRSP constitutes an adequate framework for the overarching objective of enhancing growth and poverty reduction.** The I-PRSP has made a good beginning in providing a coherent and operational framework for implementation of poverty reduction policies.

43. **However, the Joint Staff Assessment identifies some gaps that require further work to be done leading up to the full PRSP.** In particular, the staffs recommend that the PRSP should include, *inter alia*: (a) a clear prioritization of near-term policies in key sectors and antipoverty programs; (b) costing of the proposed sector strategies and programs; (c) a selection of indicators and baselines to monitor the implementation of the program and progress toward establishing a public expenditure management system; and (d) initiating PSIA of the reform strategy.

44. **Given the challenges that lie ahead for the completion of the full PRSP,** in light of the various assessments made in this JSA, and in view of the capacity constraints envisaged, the proposed timeline of December 2004 for completing the full PRSP appears reasonable. A lot depends, however, on the early operationalization of the Poverty Focal Point with clear directives emanating from the forthcoming NPRC chaired by the prime minister.

45. **The staffs of the Fund and the Bank consider that this I-PRSP provides a satisfactory basis** for the development of a fully participatory PRSP and for Bank-Fund concessional assistance. The staffs recommend that the respective Executive Directors of the Fund and the Bank reach the same conclusion.