

Bangladesh: Joint Staff Assessment of the Poverty Reduction Strategy Paper Status Report

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Status 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.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

BANGLADESH

Joint Staff Assessment of the PRSP Preparation Status Report

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the International Development Association (IDA)

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Background

1. In June 2003, the Bangladesh government presented to the Executive Boards of the IDA and the IMF its interim Poverty Reduction Strategy Paper (I-PRSP). The Boards agreed that the document provided a cohesive policy framework for implementing a pro-poor growth strategy and a sound basis for the preparation of a fully participatory Poverty Reduction Strategy Paper (PRSP). The government, in close consultation with various stakeholders, is now in the process of preparing the full PRSP, which continues to be on track for completion, as originally planned, by December 2004.
2. Since the PRSP will not be finalized within one year of the completion of the I-PRSP, the authorities have issued a PRSP Preparation Status Report (henceforth, the Status Report) for presentation to the Boards of the IDA and the IMF. The Status Report highlights and endorses the four main policy pillars of the I-PRSP: (i) macroeconomic stability; (ii) improving governance; (iii) investing in human development; and (iv) social protection for reducing vulnerabilities and improving income generating opportunities. It also provides an update on the institutional arrangements for preparing the PRSP and the on-going participatory process.
3. The Joint Staff Assessment (JSA) of the I-PRSP identified some important areas that would need to be addressed in the transition to the full PRSP. These include: (i) a sharper prioritization of near-term policies in key sectors and anti-poverty programs; (ii) incorporating the costing of the proposed sectoral projects and programs into the medium-term budgetary framework; (iii) improving the monitoring and evaluation mechanism of social development; and (iv) initiating poverty and social impact assessment (PSIA) of the reform strategy.
4. Prudent macroeconomic management in the past year has contributed to robust growth and moderate inflation, in line with the I-PRSP's medium-term macroeconomic framework. External conditions have improved with a significant buildup in international

reserves. The exchange rate has remained competitive in real effective terms and rigidities in interest rates have been reduced. The authorities have also pursued tax administration and banking reforms, with implementation broadly on track under the PRGF program, despite some initial delays. Furthermore, the trade regime has been liberalized in the context of the FY05 budget. However, the lack of significant improvement in the financial performance of the energy sector state-owned enterprises (SOEs) remains a concern.

Assessment and recommendations

5. **Prioritization.** The most significant move in this direction has been the formation of twelve interministerial thematic groups for the preparation of the PRSP covering key cross-cutting areas such as infrastructure, environment, and rural development. The staffs encourage the authorities to build on this and continue with their efforts to establish priorities and link them to cross-sectoral programs, especially given the severe resource constraints.

6. In developing prioritized programs, enhanced attention to the following areas would be welcomed: (i) a comprehensive approach to addressing governance and law and order problems, particularly related to the judicial system, the police, and anti-corruption institutions; (ii) the role of decentralized decision making and the potential role of the private sector in the provision of goods and services important to the poor; and (iii) financial sector, tax administration, and trade policy reforms. In addition, the staffs believe that priority should be placed on strengthening public expenditure management to safeguard implementation of the Medium-Term Expenditure Framework (MTEF) and a more effective use of limited resources for meeting the PRSP's objectives.

7. **Costing.** The staffs encourage the authorities to begin costing the proposed pro-poor policies, projects, and programs, and incorporating them into a medium-term expenditure framework.

8. **Monitoring and evaluation.** The PRSP would need to flesh out the monitoring framework, building upon the initiatives that have been taken, including the pilot projects for public expenditure tracking in three social sectors and ranking of municipalities based on performance indicators. Cross-sectoral discussions and inputs from various stakeholders, including civil society, would strengthen this process. Substantial capacity strengthening and technical assistance will be required from development partners in this area.

9. The national poverty data will be updated soon with the implementation of the next round of the Household Income and Expenditure Survey (HIES) scheduled in September 2004. The staffs welcome the authorities' decision to continue the practice of the previous two rounds of having built-in education and health modules in the HIES to track outcomes of poverty and social indicators.

10. **Initiating PSIA.** PSIA would benefit the design of some of the most critical policy reforms being considered by the authorities, including restructuring of SOEs and trade liberalization. The JSA of the I-PRSP had recommended conducting PSIA analysis to support development of the government's poverty reduction strategy. Although some social sector tracking is taking place in the context of the various donor-supported programs, the staffs further encourage the authorities to consider more in-depth assessment of these issues.

11. **Institutional arrangements.** The I-PRSP is (and the PRSP will become) the only development strategy document of the government, replacing the earlier five-year plans: the fifth, and last, plan ended in 2002. As a result, the degree of country ownership of the process is considerable, and, accordingly, the government has taken important steps to improve the institutions underpinning the preparation of the PRSP. A twenty-one member National Steering Committee (NSC) was constituted in July 2003 under the Chair of the Principal Secretary to the Prime Minister. The General Economics Division (GED) of the Planning Commission, identified as the National Poverty Focal Point (NPFP), is to coordinate work with the NSC under direct supervision of the Finance Minister. To reinforce ownership of the PRSP across the whole government and ensure full participation of a broad range of stakeholders, the NSC has appointed twelve inter-ministerial thematic groups. The national research institute, Bangladesh Institute of Development Studies (BIDS), has been assigned to provide technical inputs. Two important milestones in the road map adopted by the NSC are preparation of a draft PRSP by September 2004 and finalization of the PRSP by December 2004.

12. **Participatory consultations.** As spelled out in the Status Report, the authorities have initiated a series of participatory consultations at the national and regional levels. One national level and six divisional level meetings have been held so far. The first round of consultations provided a comprehensive set of recommendations on poverty reduction. Based on these, the full PRSP is expected to emphasize pro-poor economic growth anchored in macroeconomic stability, an enabling business environment, employment promotion, development of infrastructure and information and communications technologies, agricultural and rural development, and better water resources management. Social development issues, including well-targeted safety nets and programs for women and children, would be the other strategic blocks of the full PRSP. Some other common themes, which have emerged from stakeholder consultations, include improvement in law and order, women's empowerment, disaster management, better and more equitable access to provision of basic social services (education and health in particular), and access to public institutions such as the police and courts.

13. Moving forward, the consultation process would benefit from a strengthened and more extensive community level dialogue. In the Status Report the government proposes to organize dialogue with small but uniform groups of the poor and vulnerable segments of the society. The staffs believe that the process will also benefit from wider public discussions including media debates. Effective dissemination of the consultations would help in the implementation of the PRSP. The draft I-PRSP was circulated to all members of parliament, who did not however discuss or formally endorse the strategy. To be successful, the PRSP must be a document supported by all key stakeholders. The major challenge for the authorities is to ensure that the full PRSP will address these concerns.

14. **Risks.** The implementation of the PRSP faces important risks. A key external risk emanates from the phasing out of the Multi-fiber Agreement at the end of 2004, with potentially significant adverse impact on growth and employment. On the domestic front, the key risks identified by the JSA of the I-PRSP remain relevant, including: erosion of political support for improving governance, slow implementation due to limited experience, inadequate institutional and human capacity and uneven support within the government, and

higher-than-estimated reform costs if banking and SOE reforms proceed at a slower pace or if adjustment-related counterpart funds are invested in unviable projects. The latter risk has, in fact, exacerbated since the writing of the I-PRSP, as reforms of SOEs slowed down and energy prices did not adjust to the full extent in line with changes in import parity prices. The government's efforts at communicating the content and rationale of these difficult measures have been inadequate, which risks undermining future progress in these areas.

15. These risks, although heightened in some aspects, remain within manageable bounds in view of the continued commitment of the government to the overall reform process. The government, nonetheless, would need to intensify efforts to ensure that the reform process gains momentum and translates into tangible improvements for the poor.

16. **Timetable.** The staffs believe that the timetable presented in the preparation status report—with completion of the PRSP in December 2004—is realistic. While the government has not sought specific technical support to complete the PRSP at this time, the staffs of the Bank and IMF are working closely with the government to ensure that any needs for technical support are adequately met.

17. **Recommendation.** The staffs of the World Bank and IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report (Attachment), is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and IMF reach the same conclusion.