

Chapter 5

The Poverty Reduction Strategy

A. The Strategy: All Routes Matter

5.1 Bangladesh faces three strategic challenges. First, consolidation of the past successes witnessed during the nineties, as described in Chapters 1 and 2, will not be an easy task. These included improvements in child nutrition, expansion in primary and secondary education, reduction of gender inequality in education, decrease in chronic food shortage and insecurity, enhanced capacity for disaster management, and declining trends in income-poverty. Consolidation of the past efforts would be critical in the attainment of the MDGs consistent with the national priorities, as set in Chapter 4. Second, combating the negative tendencies unfolded over the past decade, as indicated in the participatory consultations discussed in Chapter 3, poses an additional strategic concern. Issues range from the problem of law and order, deteriorating investment climate, economic misgovernance such as persistent “system loss” and avoidable leakages, policy inconsistency and lack of coordination among the development agencies, poor quality of education, health and public services, ill-consequences of polarized politics to name a few. Attacking these economic and social ills will be a priority though admittedly a very difficult task. Third, there are also emerging concerns over managing the risks and uncertainties posed by the changing global economic environment especially with respect to trade, aid, and investment, confronting the new tensions in the wake of MFA withdrawal, growing urbanization, deteriorating environment, and new public health concerns and security threats. Sustaining the past positive trends over the next decade while overcoming the accumulated negative trends and facing up to the new agenda posed by globalization would be the central task of the poverty reduction strategy. This task would dictate new ways of managing the development process, demanding a new mix of poverty reduction strategies and policy priorities, and inviting a new ensemble of change-agents both within and outside the government. This would require taking initiatives on all fronts.

5.2 With many roots and multidimensional characteristics, all routes matter for the poverty reduction strategy. These routes will combine measures to address underlying causes and practical interventions to mitigate poverty. The strategic elements of anti-poverty policies and institutions will cover five broad avenues. The first set of policies would accelerate and expand the scope for *pro-poor economic growth* for increasing income and employment of the poor. The second set would foster *human development* of the poor for raising their capability through education, health, nutrition, employment-oriented skill training and social interventions. The third set of policies would support *women’s advancement and closing of gender gaps* in development. The fourth set of policies would provide *social protection* to the poor against anticipated and unanticipated income/consumption shocks and vulnerabilities to disasters through targeted and other efforts. Environmental sustainability will be a key factor here as a cross-cutting issue. The fifth set would favorably influence *participatory governance*, enhance the *voice* of the poor, and improve *non-material dimensions* of well-being including security, power and social inclusion by improving the performance of anti-poverty and disaster preparedness and mitigation institutions and removing institutional hurdles to social mobility.

5.3 The above interventions will have maximum impact on poverty, especially in minimizing the severity of poverty, when these are targeted to the poor regions and with special focus on the needs of the most disadvantaged population and ethnic groups. Policies

and institutional actions delineated under the poverty reduction strategy will be designed to reach out to the poorest and the remote rural areas, which are vulnerable to adverse ecological processes (including cyclone-prone coastal regions, *chars* and river erosion affected areas) and those with high concentrations of socially disadvantaged and marginal ethnic groups. Special attention will be given to the development problems of the hill people of CHT and tribal population residing in other parts of the country.

5.4 While the strategy adopts a comprehensive approach covering all routes, the important task would be to spell out *appropriate prioritization and sequencing of actions* needed to replace the business-as-usual scenario with a changed agenda so as to ensure accelerated poverty reduction and achieve the proposed targets. Within the five broad avenues, the present document spells out several policy and sectoral/subsectoral concerns *based on the priorities identified by the poor during the consultations* and available analysis of the issues. This medium term agenda would be further elaborated while preparing the more specific mix of macroeconomic, sectoral and governance policies and programs through participatory interactions with the poor and other stakeholders during the process of formulating the full-blown strategy.

Emphasis on Employment Generation

5.5 Along with integrating economic and social policies, the strategy aims at expanding decent employment opportunities through both wage and self-employment. For this, an integrated approach would be followed to create an employment-expanding macroeconomic framework through (i) adjusting public expenditure, ensuring monetary and fiscal prudence, and promoting employment friendly private investments; (ii) addressing sectoral employment concerns with appropriate investment and trade policies and promoting ‘lead’ sectoral and sub-sectoral activities; (iii) strengthening special and targeted employment programs for the vulnerable poor; and (iv) implementing measures for skills upgradation of the labor force on the basis of demand-oriented skills mapping. In view of the importance of congenial labor relations and an efficient and equitable regulatory framework in attracting domestic and foreign investments, the strategy would broaden the social dialogue on labor policies to include dispute settlements along with issues related to skills development, social protection, productivity, gender discrimination, and child labor.²³

5.6 For maximizing direct and indirect employment multipliers, both vertical and horizontal linkages and macro and micro-level interactions will be emphasized. With the dominance of the informal sector in overall employment, thrust will be given on raising productivity, dynamic informal activities and expansion of women’s productive employment. The emphasis will be on promoting entrepreneurial skills, creating information channels on appropriate technology and better organization of production; strengthening rural-urban and external linkages and marketing chains; ensuring necessary infrastructure support; providing credit facilities, business advisory and development services; and ensuring conducive investment and policy regimes. Along with self-employment generation and micro-enterprise development through government and NGO interventions, public works and other labor-based infrastructure and social capital development programs will be stressed to increase employment and income earning opportunities for the poor. Carefully designed credit and support services will be provided for establishing productive enterprises to address the problem of unemployed educated youth and for promoting women entrepreneurs. Special efforts will be given to avail the opportunities of exporting skilled manpower to meet the

²³ For major policy issues relating to employment and labor market see Annex 2.

demands in developed (e.g. OECD) countries over the medium term through adequate training and skill-developing measures for the youth.

B. Accelerating Pro-poor Economic Growth

5.7 Accelerating pro-poor economic growth will be one of the key elements in achieving success of the Strategy. The sources of increased growth would involve several areas: (i) higher private investment in all sectors and increased inflow of foreign direct investments (FDIs) through ensuring good governance and installing measures to reduce transaction costs and promote investment-friendly environment; (ii) increased efficiency and technological progress across the economy including promotion of information and communication technologies (ICTs) and biotechnology; (iii) expanded growth of industry (particularly small and medium enterprises) and service sectors; (iv) diversification in crop production and nonfarm (e.g. livestock) sector growth; and (v) expansion and diversification of the export sector. The aim would be to increase GDP growth to around 7 per cent per year, on an average, during the next decade along with a rapid expansion of the rural economy. For ensuring such growth, priorities, sequencing and interrelationships of macro and sector policies would be taken into account. Within the medium term framework, priorities would be given to ensure the following: (i) stable macroeconomic balances; (ii) strong institutions and improved governance; (iii) private sector-led and outward oriented growth; (iv) Government-private sector (including NGOs) partnership; and (v) gender sensitive macro and policy framework and the national budget. The priorities of sectoral and sub-sectoral activities will be worked out in such a way that the growth elasticity of poverty reduction can be increased. For the purpose, emphasis will be given to the activities that contribute to a lowering of the incremental capital-output ratio across the economy. Such a strategy would favor more labor-intensive sectors and sub-sectors, which would simultaneously contribute to higher GDP growth and higher employment elasticity of growth leading to higher growth elasticity of poverty reduction.

5.8 Accelerating growth and bringing a pro-poor orientation in the growth process with special emphasis on the most disadvantaged social groups including women would be achieved through emphasizing four priority areas: (i) accelerated growth in rural areas and development of agriculture and non-farm economic activities; (ii) small and medium manufacturing enterprises; (iii) rural electrification, roads, water supply and sanitation, and supportive infrastructure including measures to reduce natural and human induced shocks; and (iv) information and communication technologies. The rural growth strategy would be driven by policies to intensify rice production and spur crop diversification and nonfarm production requiring more effective water management, improved rural infrastructure and institutions, strengthened research and development efforts, enhanced credit access, and expanded domestic/export marketing and distribution channels. To catalyze growth of non-farm activities and small enterprises, expansion of infrastructure facilities and supportive policies would be given priority. The rural growth policies would address environmental problems ranging from widespread resource depletion and ecological degradation, arsenic contamination of water, and vulnerability to natural disasters to ensure sustainability of the outcomes. The development of ICTs would be used as an expanding source of growth of the economy. For the purpose, appropriate strategies would be adopted to harness the employment generation and welfare-enhancement potential of ICTs by creating an enabling environment for comprehensive technology acquisition and its diffusion through developing required infrastructure, creating legislative and policy framework, supporting entrepreneurial activities, facilitating and fostering community initiatives, and developing partnerships among public-private institutions. In all these efforts, the private sector would play a key

role. To facilitate the process, a strong and competitive private sector would be fostered, infrastructure capacity (especially power, telecommunications, roads and ports) would be expanded, financial markets would be strengthened, environment for foreign investment would be improved, quality of the labor force would be raised, administrative and legal systems would be reformed, law and order situation would be improved, and public transparency and accountability would be increased. Similarly, the potentials of tourism will be exploited for employment generation and poverty reduction following the guidelines suggested in the National Tourism Policy 1992.

B1. Ensuring Macroeconomic Balances

5.9 The recent developments indicated strains in several macroeconomic indicators.²⁴ The fiscal and external imbalances were aggravated, pressure on foreign exchange reserves mounted, export earnings and industrial production slowed down, and overall growth rate of the economy declined in 2001/02. In addition to domestic imbalances, a weakened global economy fueled the events. Nonetheless, the per capita GDP grew by about 3 per cent during FY02 which was no small achievement for Bangladesh in a turbulent year.

5.10 The Government implemented several measures to improve the macroeconomic situation during FY02. The monetary policy was made more accommodating: lending rate was lowered for exports of RMG items, frozen food, and agro-industrial products; refinance facility was provided for lending for RMG exports; bank rate was lowered which led to reduction of lending rates by commercial banks. Efforts to contain fiscal pressures included lowering of interest rates on savings certificates; containing public expenditure by rationalizing ADP spending, introducing hiring freeze in public sector employment, reviewing some contracts under suppliers' credit, and canceling the Non Aligned Movement (NAM) summit in Dhaka; introducing measures to increase revenue collection; and increasing fuel, power and gas prices. For improving external balance and mitigating foreign reserve losses, the exchange rate was refixed, regulatory duty on import of several nonessential products was imposed and several administrative measures were effected e.g. enhanced enforcement of foreign exchange regulations, discouraging the use of *hundi* system for remittances through enactment of Money Laundering Prevention Act 2002 and by improving bank services and opening more exchange houses abroad, and increasing L/C margins on imports on selected non-essential and luxury goods.

5.11 The Government's priority would be to improve external and domestic imbalances expeditiously to pave the way for implementing the comprehensive medium term stabilization and reform measures under the poverty reduction strategy. Within the program, fiscal measures would be taken to contain fiscal deficit; limit deficit financing and domestic borrowing; mobilize domestic resources (tax and non-tax) through better compliance, collect arrears, reduce exemptions, extend the VAT net, and improve tax and customs administration; rationalize public expenditure and ensure gender equality and equity through improving quality, reducing subsidies to SOEs, implementing non-productive expenditure control measures, and improving procurement and financial accountability. The monetary and exchange rate policies would undertake a strict credit program to reduce pressure on foreign exchange market and, if necessary, employ market based instruments to achieve inflation and reserve objectives; and take measures to move towards more flexible exchange rate management. Several structural measures e.g. improved performance of nationalized commercial banks (NCBs) and development financial institutions (DFIs), better enforcement

²⁴ For a brief review of the trends and major issues in the macroeconomy see Annex 3.

and elimination of loopholes in the Bankruptcy Act, privatization or liquidation and reforms of the SOEs to contain their demand on budgetary and bank resources would be implemented to support the stabilization policies in the short term. Several measures along these lines have already been proposed in the budget of FY03.

5.12 While the above measures would contribute to re-establishing the macroeconomic stability, the Government would remain vigilant against the potential threat to price and exchange rate instability, adverse effects on resource allocation, credibility of its policies and restoring confidence. In the medium term, a strategy for moving forward would be adopted covering two elements: (i) developing a medium term macroeconomic framework including a coherent set of policy measures to guide future efforts; and (ii) establishing an early warning and effective economic information system to guard against possible slippage and prevent any deterioration of the macroeconomic environment that would undermine growth and poverty reduction. The approach would ensure that the underlying macro-framework is moving in the right direction which is essential for successful implementation of the poverty reduction strategy.

5.13 A stable macroeconomic framework e.g. low and stable inflation, low budget deficits, and sustainable external debt would be critical for implementing the poverty reduction strategy. This would create an enabling environment for higher growth with greater scope for poverty reduction. Within the medium term, four areas would be emphasized: (i) increased domestic resource mobilization; (ii) rationalized and improved quality of public expenditure; (iii) a prudent monetary policy; and (iv) improved foreign sector management. The task of macroeconomic management will be extended beyond the core concern of stability to create favorable impact of various instruments like taxes, tariffs, exchange rates, and interest rates for employment and poverty reducing outcomes in the economy.

5.14 For effective resource management, the Government would limit the use of non-concessional loans, broaden the tax base and enhance the efficiency of the tax system, and rationalize the SOEs (Box 2). The Government has already set up a Public Expenditure Review Commission and a Commission on Reforming the Public Revenue System for reviewing expenditure and revenue decisions, respectively. A similar review mechanism has already been institutionalized as an ongoing internal activity of the Ministry of Finance. The budgeting process would be made more transparent through increased pre-budget consultations and creating institutional mechanisms for participation of various groups and the civil society. The Parliamentary oversight of the budget will be strengthened through ensuring more effective roles of the Public Accounts Committee, Public Estimates Committee, Public Undertakings Committee and the thirty-five Parliamentary Standing Committees on individual Ministries.

Box 2: Reforming State-Owned Enterprises

Given the large fiscal drain by the SOEs and their overall inefficiency, a key ingredient of the Government's deficit reduction strategy would be to bring a balance in their financial accounts. The Government would implement a comprehensive program aimed at privatization and downsizing of the state-owned sector. For the purpose, a sequenced approach would be followed beginning with privatizing or liquidating the manufacturing enterprises. Until FY2001, 502 public enterprises out of 586 have been sold or disinvested and another 40 have been selected for sale. The Adamjee Jute Mill has been closed down. A time bound action plan has been taken up to stop losses of the remaining SOEs and make them profitable. The process of privatization will continue in a phased manner. In the case of utilities and services (e.g. gas, power, water, railways, shipping and telecommunications), appropriate modes would be adopted like outsourcing, divestiture, public-private partnerships and others. While liquidation of non-viable enterprises and privatization of manufacturing SOEs would be the priority agenda to ease the administrative and financial burden in the short run, remaining SOEs would be given operational autonomy and allowed to operate along commercial lines under hard resource constraints. In case any SOE is required to pursue noncommercial objectives, the costs of such constraints would be calculated and compensated through the budget in a transparent manner. For ensuring a successful privatization program, the priority would be to create the basic environment for attracting private investment so that the enterprises can be sold at fair prices. For this, the regulatory and policy environment will be rationalized so that public monopolies do not turn into private monopolies, and attention will be given to creating the non-distortive environment for the private sector to function in a level-playing field. In such cases, the interim strategy would be to allow private entry and competition in industries where such SOEs exist and take time-bound and concrete steps for privatization. The cross-sectoral linkages of SOE reform would also be considered.

For those SOEs which would be retained in the public domain, clear guidelines would be specified. These would be corporatized and required to operate under hard budget constraints. Such enterprises would access financing from the banks on their own financial strength along with mobilizing funds from the capital market.

5.15 Several reforms would be considered for improving budget preparation and implementation and increasing its effectiveness and pro-poor orientation. The budget will be made gender sensitive in order to ensure that the benefits are distributed in an equal and equitable manner. In addition to adopting a medium-term framework, the quality of budgeting would be improved through using strict criteria for project selection, instituting strategic planning through budget committees in ministries/agencies, streamlining financial management and procurement procedures, and strengthening internal control and audit systems. The process of adopting a modern accounting system, initiated under the Reform in Budget and Expenditure Control (RIBEC) project, would be geared towards providing an effective management information system for expenditure control and rationalization. The capacity of the Implementation Monitoring and Evaluation Division (IMED) would be enhanced to undertake effective performance audits and evaluation along with follow up actions to improve quality of projects. For making public expenditure more pro-poor, the Government would reallocate budgets more towards basic services emphasizing quality of service delivery and ensuring improved targeting. An integrated budget framework will be adopted that effectively incorporates the fiscal, monetary and external sectors.

Leveraging Globalization

5.16 The move towards globalization, with its significant social and economic impact, has brought both challenges and opportunities. The strategy would be to pursue the process of globalization and seize the opportunities by effectively managing the process. This would require strengthening institutional capabilities, addressing structural weaknesses, and

improving the policy regimes. For managing the process in a successful manner, the measures will be appropriately sequenced to generate higher investments and productivity improvements needed for increased economic growth. This will be supported by sound policies in areas such as infrastructure, market facilitation and access and competitiveness particularly to meet the challenges of the post-MFA era. Measures will be taken to increase the supply response of the poor households and their ability to cope with risk and uncertainty through complementary public policies for developing SMEs and agro-based industries, improving access to the credit market, ensuring better asset distribution, increasing labor market flexibility, disseminating market and technical information and investing in human and skill development. The process would take account of the ability of the poor households to cushion themselves against the costs of adjustment and would be supported by appropriately targeted social protection measures for the affected poor and guided by institutional capacity to manage the transition period. For exploiting the globalization opportunities, the government would emphasize a sound investment climate, affordable access to ICTs, capacity building in trade and investment promoting services, and investments in human capital and skills to exploit new opportunities, market access, and regional collaboration for increasing global competitiveness.

5.17 Considering the significant role of the external sector, the Government has taken several measures including liberalization of import and export regimes and provision of incentive packages for export promotion since the early 1990s. In order to effectively steward the trade sector towards progressive expansion, specific strategies and concrete plans of action would be taken up in several areas including reforms in trade policy; diversification of the export base and increasing export competitiveness; strengthened system of standardization to ensure good export quality; development of food safety, plant and animal health services; development of Intellectual Property Rights (IPR) regime in conformity with the WTO standards; expansion of skilled manpower exports; strengthening trade support capacity to cope with emerging changes in the global trade environment; and increased and effective participation in regional blocks and the WTO negotiations.

Developing the Private Sector

5.18 Under the strategy, the private sector will be the engine of economic growth. The Government will create an investment-friendly environment and act as a facilitator through pursuing policies to create a stable macro economy, improve law and order, promote good governance, maintain competitiveness, remove infrastructure bottlenecks, ensure cost effective fiscal and financial services, and provide market information and support services. With increasing role of the private sector, competition and transparent rules would be framed for protecting consumer's rights and trust in the market, minimizing the cost of information and enhancing sustainable growth of the private sector. Women's participation in private sector activities will be effectively supported both as participants in the labor market and as entrepreneurs.

5.19 Under the 1999 Industrial Policy, restrictions on private sector participation in all sectors except defense, nuclear energy, printing of currency notes, and forest plantation and mechanized extraction in reserved forests, have been removed. The Government is aware of the constraints hindering the growth of the private sector and would implement effective measures to remove the hurdles through effective and coordinated policies and actions. The key areas would be: infrastructure development (e.g. power, telecommunications, roads and

ports), strengthened financial and capital markets, quality of the labor force, reduced costs of doing business by reforming institutional and regulatory framework, improved law and order condition, and better environment for foreign investment. Specific measures would be worked out in consultation with the private sector. For proper functioning of the private sector, physical improvements and management reforms in the basic infrastructure including power, water supply, port and telecommunications will be given priority along with private sector participation. The government would take effective measures to encourage the private sector to become gender sensitive, facilitate women's participation in private sector activities and create institutions like childcare centres to facilitate women's enhanced participation.

Financial Sector Management

5.20 For implementing the strategy, a sound and well-functioning financial system is required for ensuring growth and providing access to financial resources to the poor. The Government will address three major issues in the financial sector: (i) weak regulatory power of the Bangladesh Bank; (ii) poor governance of the public financial institutions; and (iii) deficiency of the legal framework. The Bangladesh Bank will be strengthened with adequate autonomy and accountability to function effectively. For this, relevant laws will be amended to provide operational autonomy and extend the operational authority over the banking system and reorganize its functions along with measures to rationalize staff and strengthen human and management capacity.

5.21 The poor governance of the nationalized and domestic commercial banks and specialized development banks has resulted in high share of classified loans, low loan recovery rates, lack of discipline and other symptoms limiting access to credit to genuine investors, raising interest rates and acting as a drag on economic growth. Along with necessary legal amendments, the Government would improve overall governance of financial institutions through several measures e.g. appointing suitable persons on the boards and in the top management of public financial institutions with adequate restructuring authority and autonomy, strengthening loan approval departments, and enforcing the requirement to regularly publish financial statements prepared in accordance with International Accounting Standard (IAS). A banking sector policy will be formulated which will define the role of the NCBs and suggest appropriate restructuring including an efficient regulatory framework for the microfinance institutions (MFIs). The government would establish strict financial discipline by encouraging all banks to use both legal and moral pressure on the defaulters to pay back their loans and would take steps for repayment of the overdue loans by the SOEs.

B2. Promoting Good Governance

5.22 A broad consensus on the need to improve governance exists along with the recognition that poor governance is a strong impediment to current poverty reduction efforts. Keeping a long-term vision, the strategy of improving governance will cover three major areas: (i) creating a competitive environment across all segments in the society along with unhindered flow of information; (ii) establishing and enforcing clear rules and regulations for public sector administration supported by separation of power among three branches of governance (the legislature, the executive and the judiciary) along with pragmatic oversight arrangements; and (iii) promoting voice and participation of the civil society, including women, the poor and disadvantaged groups, as a step towards a transparent and 'open' government. The mass media and information channels will be used in moulding public

opinion and creating awareness on issues of good governance and poverty reduction including population control, women's development and empowerment, reproductive health and gender, nutrition, literacy, arsenic mitigation, environment and pro-poor development issues.

5.23 The Parliament, being the apex institution for ensuring accountability, will be made more effective and women's effective representation in the Parliament will be promoted. The role of the Parliamentary Committees will be strengthened through providing research and logistic support so that these Committees can submit detailed reports. These reports will be discussed in the Parliament and the deliberations will be made open to the civil society and the media. The Government's action on the observations and recommendations will be similarly reported. The Parliamentary Committees would be encouraged to address gender issues.

5.24 The Government's commitment is to guarantee the constitutional rights of the citizens through an efficient legal system. To this end, a judicial reform program has been developed and the process of implementation has started. Measures to separate the judiciary from the executive, which is a constitutional requirement, have been taken on the basis of time-bound and specific directions of the Supreme Court. The process of establishing separate Judicial Service Commission and Judicial Pay Commission has started. The Government's priority is to take all necessary measures for ensuring a strong and independent judicial system.

5.25 With increasing concerns regarding law and order situation and violence against women, comprehensive and fundamental reform in the police service is a priority agenda for the Government. The measures will include review of the structure of incentives, training and modernization of the police force, steps to remove undue political and other interference in performance of duties, rapid action against negligence of duty and corruption, strict enforcement of existing laws relating to violence against women, and mechanisms to institutionalize civilian oversight. The Citizen's Charter enshrining the rights of individuals to access public services would be framed and advocated for the information of all. Initially such efforts will focus on the rights of the poor and the most disadvantaged in accessing the most essential services like primary health, education and RH.

5.26 For ensuring accountable management of public resources, the Government would undertake measures for establishing effective planning and budgeting system supported by timely accounting and auditing with feedback for corrective actions. Several changes are contemplated in the budget system e.g. framing the budget within a consistent macroeconomic and medium-term expenditure framework, preparing a consolidated budget to better integrate the revenue budget and the development budget, improving the quality of projects, and enhancing the planning and oversight capacity of the ministries. A more effective and independent role of the Comptroller and Auditor General's (C&AG) office would be ensured. For this, the separation of accounting and auditing functions would be effected. The Public Accounts Committee of the Parliament will be made more effective within the chain of accountability.

5.27 Improvements in public purchase and procurement systems are closely linked to financial accountability. For improving efficiency, transparency and accountability, several measures will be adopted e.g. introduction of effective and well-specified public procurement rules and guidelines, standard bidding documents, procurement laws, public procurement

website and electronic bid processing, rationalization of procedures and approval process, framing of code of conduct and procurement auditing and monitoring indicators. For this a Central Procurement and Technical Unit in the IMED has been created. The management capacity will be improved through training and institutionalizing monitoring and evaluation of performance.

5.28 The Government would take steps to promote unhindered flow of information and enhance the role of the press and mass media as agents of accountability. Decentralization and developing effective local government institutions would be taken as a key element in improving accountability of public service delivery. The progressive building of networks of civil associations and social capital of the poor would be encouraged to ensure their equitable access to public services and strengthen ability to influence policy.

5.29 A competent and motivated public administration system is central to achieving the poverty reduction and development goals of the strategy. Along with providing adequate compensations and right incentives and promotion on the basis of merit and efficiency, a credible oversight system will be installed which is results-directed and regulations-driven rather than inputs-oriented. The Government would establish the office of the Ombudsman and establish an independent Anti-Corruption Commission along with measures to expedite investigation procedures to ensure better governance. The recommendations of the Public Administration Reforms Commission (PARC) would be implemented in phases starting with those that are critical to visibly improve efficiency, effectiveness, accountability and transparency in the short run e.g. rightsizing the Government, redesigning performance appraisal system, appointing competent persons from the private sector on contractual basis at senior policy levels, and transferring relevant government support services to the private sector on a contract basis.

5.30 The use of modern information and communication technologies (e.g. e-governance) has a significant scope in addressing weaknesses in governance. The Government's aim is to use informatics to improve governance in multiple ways e.g. as a tool to enhance productivity and improve service quality, institutionalize management systems to reduce the scope of rent-seeking opportunities, and strengthen information flows both across government agencies and with the private sector and the civil society, including the poor and women. Recognizing that good governance requires time to ensure, the Government would initiate time-bound action plans with clearly defined objectives, responsibilities and performance evaluation systems to measure progress.

B3. Agriculture

5.31 For rapid poverty reduction, the Government's priority is to develop the rural areas where most of the poor people live. This requires accelerated growth of agriculture and the rural nonfarm sector. A rapid agricultural growth will sustain high growth with better capacity to reduce poverty through enhancing rural wages, creating synergies for diversifying the rural economy, and enabling the supply of low-cost food to improve nutritional status and food security of the people.

5.32 Encouraging agricultural growth requires various policies ranging from new technology and extension services to credit for small farmers. The past growth in agriculture was helped by new HYV technology, particularly in rice, in which both the state and the market played important roles. The Government would continue its pro-active role in key public goods in agriculture particularly in improving the ability of the farmers to adopt new technology and providing appropriate mix of incentives to pursue profitable operations. Efforts would be made to ensure the preservation of

indigenous knowledge with respect to seeds, plants and herbs, where tapping the traditional knowledge base of both rural men and women would be important. Particular attention would be given to developing and adapting technologies and improved agricultural practices in ecologically vulnerable areas such as flood and drought prone locations.

5.33 The recent growth of agriculture was greatly influenced by macroeconomic and sector specific policy changes. Reforms in trade and exchange rate policies created favorable incentive structures and dismantling of state interventions, market-oriented reforms and reduced regulations favored growth in agricultural production and productivity. The reforms led to faster growth in minor irrigation, increased the supply of fertilizer and seeds, helped in wider adoption of HYVs, and encouraged the farmers to go for more rational input use and production decisions. The Government's priority would be to intensify efforts such that positive achievements are expanded and the constraints limiting their potential are resolved.

5.34 The Government would create a policy environment that is (i) supportive of agriculture and rural nonfarm sectors; (ii) oriented towards small farmer development; (iii) capable of providing right incentives to adopt new technologies; (iv) conducive to higher investments in social and economic infrastructure in rural areas; and (v) adequate to ensure proper functioning of rural institutions and provide market access for rural products (see Annex 4 for detailed policies). For the purpose, the Government has taken up a Plan of Action (PoA) to implement the National Agricultural Policy 1999, which indicates specific areas where interventions would be needed. Forestry, fisheries and livestock sub-sectors have high potential to accelerate growth and create employment, including social development multipliers. In these areas, specific target-oriented policies and programs would be taken up. While a significant share of the participants in different sub-sectors of agriculture is women, their participation will be strengthened further particularly in non-field crop production and non-farm activities for which marketing, information, technology and extension services will be specifically directed towards women. Measures will be taken to recognize women's contribution to GDP, especially by way of homestead production.

5.35 The development of water resources including irrigation development, flood control, and drainage improvement has played significant roles in increasing agricultural production and food security. Following the vision of the National Water Management Plan (NWMP), policies would be undertaken to (i) promote rational management and optimal use of the country's water resources; (ii) improve the people's quality of life by ensuring equitable, safe and reliable access to water for production, health and hygiene; and (iii) ensure availability of clean water in sufficient quantities for multipurpose use and reservation of the aquatic and water dependent eco-systems. Along with facilitating the cultivation of HYVs of rice and other crops and increasing the yield levels of *boro* and *aman* crops, the interventions would contribute to saving properties and lives by controlling river erosion, monsoon flooding and saline water intrusion; and improving irrigation and drainage congestion and mitigating drought through re-excavation of khals and canals. Measures would also be taken to enhance the social impacts of flood control drainage and irrigation (FCDI) projects through rationalization of existing projects, and promoting stakeholder participation and multi-purpose use of flood embankments. The National Water Policy and the National Water Management Plan will be periodically reviewed and revised to guide the management of the country's water resources.

5.36 The important aspect of the food security policy relating to access to food would require both increasing the purchasing power of food-insecure households and providing access to government food assistance programs. While the long run solution to food insecurity would require sustained

increase in income of the poor households, greater efforts would be directed to address the short-term and transitory food insecurity of the poor households through increasing coordination across various food assisted programs at both national and local levels to ensure maximum efficiency and coverage; improving infrastructure to reduce price variability and marketing margins; strengthening disaster prevention and mitigation particularly in disaster-prone areas; maintaining quality foodgrain security reserve; and strengthening the development role of food-assisted programs.

Rural Non-farm Growth

5.37 Through rapid expansion of non-farm activities, the Government's strategy is to make the rural non-farm sector as the leading sector of Bangladesh's rural economy. Given the characteristics of the rural labor market and the structure of farm holdings dominated by small and marginal farmers, both farm and non-farm incomes would be increased along with incentives for movement of labor from farm to non-farm sector. This requires a steady growth in productivity in the non-farm sector. The access to non-farm income is critical in raising household income along with enhancing the capacity of the farmers to invest in agriculture. The non-farm activities would also serve as important safety-nets during post-calamity periods which experience large-scale damages to crop agriculture and loss of agricultural wage employment.

5.38 In the past, rural non-farm activities played an important role in generating new sources of employment in the rural area, but the productivity growth in the sector has been modest. The way-out from the situation requires some degree of upscaling with improved technology and marketing support. The process can be further stimulated by forging urban-rural links at design, production, and marketing stages and focusing more on selected dynamic activities within the non-farm sector. Three key elements will be emphasized: (i) education and skills; (ii) roads and communication network; and (iii) access to credit. For this, a decentralized industrial process will be pursued.

5.39 For accelerating rural non-farm growth, measures would be taken to strengthen both backward links e.g. agricultural equipment and repair services, marketing of fertilizer, seed and other inputs as well as forward links to agricultural activities like processing and marketing of agricultural products. Since increasing urbanization and higher incomes would increase the demand for processed food products links with urban and export markets would be used as a major factor in increasing the beneficial interactions. The role of women workers in the supply of processed food products will be emphasized. The thrust will be on rural non-farm activities in and around growth centres having high growth potential and in periurban fringes of major cities to take advantage of better transportation networks and urban spillover benefits. Specific measures would be taken to exploit the vast potential of rural growth through rural-based textile activities such as sericulture and silk industry, handloom and small power loom units. In order to make these products competitive in the local and export markets, measures like technology dissemination through client-focused extension and training, product and market development, and other supportive infrastructure and policy measures would be emphasized.

5.40 Along with a trade regime that focuses on correcting the policy distortions that hurt rural non-farm activities and rationalizing tariffs on raw materials and inputs used by these industries, the Government would address infrastructural problems e.g. power, communication, information, transport facilities, roads, market places, ports and other facilities needed to improve their competitive edge and growth potential.

5.41 For ensuring product standardization, quality control and flow of information necessary for access to foreign markets, the Government would encourage formation of small enterprise associations to support respective activities. These would provide market information, quality guidelines, and link rural enterprises to large enterprises or export houses through contracting arrangements. The Government would devise mechanisms to access required levels of credit by the rural non-farm entrepreneurs from formal financial institutions. The NGOs will also be encouraged to expand their coverage of credit programs to include rural small and medium scale enterprises. Investments in education and skill training would be considered crucial in improving rural productivity and incomes. The efforts would also emphasize on promoting appropriate technology for year-round operation of non-farm enterprises particularly during critical periods of crop failures following disasters.

B4. Rural Development

5.42 The Government has formulated the National Rural Development Policy 2001 to guide the comprehensive development of the rural areas. The Policy attaches importance on creating efficient and effective local government institutions as the decentralized decision-making framework within a participatory mode. The Government would operationalize the integrated approach of the Policy to expand employment and decent income earning opportunities in rural areas along with measures to enhance the capacity and power of the rural poor to develop, protect and sustain their livelihoods.

5.43 For accelerating rural development, an integrated approach would be taken consisting of effective policies, institutional measures, and other policies to generate economic activities and strengthen administration and support services in rural areas. Along with increased flow of resources to the rural areas, several actions will be considered for accelerating rural growth including reorganization of existing government facilities at the local level with the union as an important focal point; encouraging rural industrialization through infrastructure investment, marketing and quality control facilities and effective incentive and credit mechanisms; introducing policy guidelines for rural housing to encourage rural cluster of houses and promote optimal use of agricultural land; encouraging agro-processing industries by small entrepreneurs in unused land in industrial estates; supporting women entrepreneurs; revamping the cooperative sector; improving local governance and creating platforms for ensuring participation and voice of the poor in local development; promoting the poor's empowerment through human resource and skill development; expanding information and communication technologies to the rural areas; and covering the deprived population of *char* areas, coastal and hard-to reach areas under special rural development programs through both government and NGO/CBO efforts. Area specific programs will be emphasized for integrated development of the disadvantaged localities and population groups. A National Cooperative Policy will be framed keeping in view the dynamic changes in the rural economy.

B5. Manufacturing Growth

5.44 For sustained growth and poverty reduction, the Government would pursue a globally competitive industrialization strategy dictated by the dynamic comparative advantage of the country. This means an employment-intensive industrialization based on competitiveness with emphasis on small and medium enterprises (SMEs) and export-oriented industries. Manufacturing growth in the country still remains narrowly based with only a few industries (e.g. readymade garments) spearheading recent growth. While trade liberalization measures in the early 1990s provided easier access to imported raw materials particularly for small industries, several factors e.g. increased imports of competing products due to lowering of tariffs, illegal imports from India encouraged by unfavorable movement in Bangladesh's exchange rate vis-a-vis Indian rupee, dislocations caused by natural and manmade factors, and deterioration in the overall investment climate led to a slow and fluctuating manufacturing growth. Moreover, Bangladesh needs to take concrete steps to face the challenge of the RMG sector as the MFA is phased out and to move aggressively to encourage export-oriented labor intensive manufacturing to locate in the country.

5.45 The FDI flow into the manufacturing sector is small. Foreign investment in Export Processing Zones (EPZs) accounted for less than 10 per cent of total manufacturing investment in the 1990s. Bulk of the investments in the EPZs went into garments, textiles, footwear and other labor-intensive industries with little in high-tech industries. The FDI outside of the EPZs went mostly into gas and power sub-sectors. The limited size of the domestic market and lack of a facilitating environment discouraged the inflow of FDI into manufacturing industry outside the EPZs. For stimulating FDI flows, the role of the Board of Investment and the Bangladesh Export Processing Zones Authority (BEPZA) will be strengthened to increase employment, foster technology transfer and enhance foreign exchange earnings.

5.46 Slow manufacturing growth and the emergence of industrial sickness have many roots. The problems relate to deficiencies in industrial finance, slow pace of privatization of public sector enterprises, mixed impact of rapid trade liberalization, lack of a competitive exchange rate policy, discriminatory fiscal incentives, and the persistence of a legal and regulatory framework that is characterized by pervasive, archaic and unnecessary laws, vague and discretionary regulations, and flawed and weak enforcement. Infrastructure bottlenecks e.g. inadequate transport, power, telecommunications, ports and other facilities, lack of investment-friendly labor relations and procedural complexities make setting of viable industrial enterprises very costly in the country.

5.47 The Government's efforts to accelerate manufacturing growth and increase its poverty reduction role would emphasize several elements. The employment-oriented growth strategy for the manufacturing sector would emphasize a two-pronged approach: a primarily export-oriented segment consisting of labor intensive manufactures, and a domestic market-oriented segment with major contributions from medium, small and cottage industries. Specific strategies for the broad-based growth of both segments would be worked out and policies formulated and implemented accordingly. While the private sector will be the principal actor, the government will act as a facilitator in creating the enabling industrial environment. The role of the Bangladesh Small and Cottage Industries Corporation (BSCIC) will be focused on promoting and supporting small, cottage and rural industries. For the privatization program, a firm timetable would be set to assert the Government's political will and send clear signals to those who oppose the program. The Industrial Policy 1999 will be appropriately revised to include future plan of action and strategic vision of different enterprises. Necessary measures would be taken to reduce social costs of labor

adjustment through appropriate safety-nets and help retrenched workers to reintegrate into the labor market. The growth in the manufacturing sector will focus on creating jobs for women along with measures to address the issue of displaced women workers from the RMG sector. While emphasis on development of SMEs would be continued as a medium term measure, long term vision must be to achieve large scale industrialization. (see, Annex 5 for details on industrial policies).

B6. Infrastructure Development

5.48 The impact of roads and bridges on poverty is well documented in Bangladesh. Similarly, along with the spread of literacy, improvement in road network, and higher household savings through microcredit operations, the availability of electricity is important in promoting private investment in rural areas. In rural Bangladesh, a large part of the growth impact of electricity is realized through its cost-reducing effects on use of irrigation equipment. In addition, provision of electricity will directly impact on the modernization of rural industry, contribute to longer working hours for commercial enterprises, along with favorable influence on social development. The provision of infrastructure support (e.g. gas, electricity, water supply and sanitation facilities) to the household sector is also important for women to undertake income generating activities. In general, power sector investments would be given priority over other investments in physical infrastructure in the coming years along with reforms in the port sector for improving competitiveness and facilitating export-led growth. For ensuring effective and efficient infrastructure development, integrated national and regional plans will be taken up keeping in view the increasing importance of urban infrastructure development and access of the urban poor to basic services.

5.49 Telecommunication is the third critical element in the infrastructural package for pro-poor growth. The relative importance of telecommunication has increased manifold following the revolution in information technology. Telecommunication will help in regional market integration, increase the effectiveness of the early-warning system for prevention and preparedness for disasters, improve the system of governance and, serve as a useful means for public service delivery to the poor and poor areas (e.g. satellite learning, tele-medicine etc.). The policies will also support the development of ICT at all levels of education, including development of institutions on vocational and technical education and technology transfer.

5.50 The organizational restructuring of the Bangladesh Railways under the Organizational Reforms Project will be pursued with the aim of separating operations from the infrastructure, greater involvement of the private sector, manpower rationalization through job analysis, traffic costing and modernization of accounts. Similarly, the navigability of inland waterways will be improved to provide an integrated network in the rural areas served by the system to facilitate movement of people, efficient marketing and distribution of agricultural inputs and outputs and products of agro-based industries. (see Annex 6 for detailed policies).

5.51 Improved and safe water supply and sanitation services will be emphasized for reducing health costs, improving malnutrition, and increasing productivity of labor. The problem of arsenicosis related with arsenic contamination of drinking water from tubewells, to which the poor are more

vulnerable, will be addressed through effective measures and exploring alternative sources. This will also contribute to reducing the time spent by women and children in water collection and domestic chores resulting in more productive use of time and resources by the poor households. Following the National Water Supply and Sanitation Policy 1998, a development framework will be worked out to address the issues in a comprehensive manner.

B7. Technology Policy

5.52 A comprehensive technology policy (especially ICT and biotechnology) would be adopted for purposes of eradicating poverty in the country. New technology is critical in developing seeds of new varieties for agriculture and in their adoption in adverse agro-ecological environments. A Task Force, formed to recommend policies and steps needed to promote biotechnologies suitable to the climate and socio-economic conditions of the country, has submitted its report which will be implemented following the guidelines of the National Agricultural Policy. Development of information technology will be an important source of future economic growth and play a critical role in employment generation, fostering productivity enhancing human development (impacting on both knowledge as well as service delivery dimensions) and improved governance. It will also help linking hitherto disintegrated national and local markets with global markets.

5.53 The present institutional infrastructure for delivery and adoption of new technology, however, is inadequate. Enhancing technological capability in the public sector and removing barriers in the private sector remains the strategic challenge. Innovation and adoption of technology requires skills that depend on vocational and technical education, transfer of appropriate technology and more reliance on “learning by doing” in the globalized supply chains of production. It is also important to ensure that women benefit equally from the technological advancement in agriculture and from ICTs.

5.54 The scope of employment creation through ICTs, particularly for the young women and men, will be harnessed through providing them with opportunities to develop ICT literacy through the education system and ICT training facilities and providing affordable access to computers and the internet. The government would also provide credit and support services for exploiting opportunities of paid and self-employment and entrepreneurial activities offered by international and domestic-oriented ICT industries and deployment of ICT across different industry groups; promote greater use of ICT as tool for development and for ensuring greater voice and empowerment for all groups in collaboration with employer’s organizations, ICT service vendors, NGOs, youth and other organizations; take actions to bridge the ICT gender divide and maximize the potential of internet to women as a means of access to knowledge and information; create an enabling environment for ICT diffusion through infrastructure development and appropriate trade and fiscal policies and legislative framework; use ICT to improve the quality and efficiency of public service delivery systems by strengthening internal information flows, increasing accountability and transparency, and enhancing efficiency of procurement systems; and foster community initiatives and partnerships between public and private institutions to bridge the digital divide between the rich and the poor. In addition to supporting training facilities on hardware maintenance and troubleshooting, several areas will be emphasized like electronic book/library, including cyber-cafe, cyber kiosks, call centres, telemedicine and other internet-based activities;

electronic mail and web-site design; electronic journalism; on-line education; medical transcription; ICT in banking and health sectors; multimedia and web technology; and telework for self-employment. The long term vision of the technology policy would be to leap frog the development divide and transform the society from being the receiver of technology to one of producer of technology.

B8. Microcredit Policy

5.55 Microcredit will play an important role in the poverty reduction strategy. Bangladesh has achieved impressive success in extending microcredit facility to the assetless poor households who were earlier considered “non-bankable” under the traditional collateral-based financial practices. The success of the microcredit model in providing credit access to the poor, as pioneered by the Grameen Bank, has been widely acknowledged in the world and has spread out to over 50 countries. A large number of NGOs as well as government agencies now have adopted the microcredit model in extending credit support to the poor, especially women. The Government has also set up a very successful example of creating a special umbrella support institution, *Palli Karma Sahayak Foundation* (PKSF) under the public sector for providing funding to mainly local level small and medium sized NGOs in order to expand the credit reach for the poor.

5.56 The idea of microcredit rests on four key pillars. These are relative homogeneity, social collateral, individual ownership and access to developmental knowledge at the grassroots level. First, the poor are organised into relatively homogeneous groups in terms of initial asset endowments, which helps bonding and bridging, leading to mutual trust, support and networking. Second, while lending in most cases is made to the individual it is the group as a whole that remains responsible for the repayment of the individual loans. The cost of individual default is high since non-repayment of any one member may bar any future loans to other members of the group. This results in peer screening, monitoring and pressure to ensure full repayment except under some extraordinary circumstances such as unexpected income shocks. Third, the system harnesses the entrepreneurial potential of the poor, rewarding innovation and risk-taking while penalising inefficiencies. The choice over the loan project entirely lies with the borrower who usually takes decision in consultation with the group. Fourth, the external agency (or animator) plays an important role in facilitating the development of institutional capability of the poor, especially by providing them access to the domain of developmental knowledge traditionally reserved for the non-poor. The knowledge in this case encompasses information and training (and mutual sharpening) of diverse nature ranging from training on how to “do organisation”, keep financial accounting, get access to primary and promotive health, and raise the level of social awareness.

5.57 There has been a rapid expansion of microcredit programs over the last two decades. The programs are implemented under various institutional arrangements run by NGOs, CBOs as well as (increasingly so) by government organizations (GOs). The average annual disbursement of loans from these programs stands over Taka 5000 crores (about US\$ 1 billion), far exceeding the scale of total rural operations of nationalised banks and specialised banking institutions taken together. The Grameen Bank, one of the pioneers of microcredit, alone has expanded to 40,000 villages. Indeed, except for the very distant charlands (low-lying areas) and some inaccessible hill-areas, it is difficult to find villages now-a-days without the presence of any microcredit program. One recent estimate suggests that the aggregate number of borrowers would be about 5 million. About 90 per cent of these are poor women. The general repayment performance is outstanding by any standard:

the share of cash recovery as proportion of the total dues is over 90 per cent (it is over 70 per cent even in a flood-affected or agriculturally bad year). This stands in sharp contrast to the performance of the traditional banking system where the weight of non-performing loans is about 32 per cent. On the whole, these are believed to be conservative estimates regarding the reach of microcredit and the pace with which it has expanded in Bangladesh. But, the figures speak for themselves. The aggregate coverage is truly formidable.

5.58 Successive evaluations have found microcredit programs to be beneficial to their members. The results are robust as to the method of comparison (before vs. after, project vs. control, modified control group comparisons), the choice of survey year, area and data. The economic effects in terms of broad based growth opportunities (as measured by income, expenditure, asset, employment) generated because of these programs have been rather modest, however. This is primarily because the average size of loan disbursed under microcredit is rather modest limiting the possibility of a big-push. These programs have various non-credit components as well. Available evaluations tend to suggest that poor members who get enrolled in such programs receive social awareness training, often packaged with health and education. The aggregate social effects seem to have been higher than the income or asset generating effects. While the employment effects consisted in reducing the extent of total household underemployment, in most cases the activities promoted by microcredit did not graduate beyond the reach of part-time self-employment. The aggregate effects of microcredit have been poverty reducing both as part of enhanced “voice” and increased income/employment. The poverty and human development situation could have been much worse in the absence of these programs. But, there is hardly any scope for complacency given the modest nature of these interventions in the general backdrop of enormous challenge of poverty reduction that the country faces.

5.59 This calls for a rethinking on the present nature of financial interventions involving issues such as credit upscaling, interest rate practices, vertical integration, loan packaging, higher access to knowledge (including new information and agricultural bio-technology), greater use of savings instruments and insurance provisions against risks and uncertainties. The new approach also requires putting more explicit emphasis on strengthening social capital, designed to harness the developmental potentials of the entire community—and not just that of the target group—to maximise the poverty-reducing impact and explore the synergies. These are much harder set of reforms demanding innovation and commitment. Currently, some of the advanced NGOs are experimenting with various innovative ideas listed above in responding to some of the emerging “second-generation” challenges. Two types of programs have emerged in recent years within the MFI market, one to specifically address the problems of the extreme poor (as with the case of PKSF and BRAC’s ultra-poor program), while the other responds to the needs of the ‘middle poor’ and ‘vulnerable non-poor’ through microenterprise loans. These programs would receive special attention in the poverty reduction strategy.

C. Fostering Human Development of the Poor

5.60 In the medium term, policies that have a direct bearing on the basic capability and human development of the poor will be emphasized. Three main elements of human development will be targeted: education, health and nutrition.

5.61 The development of human capital has strong poverty reducing effects in Bangladesh. Several aspects of human development will be given priority. *First*, while there has been considerable quantitative expansion of education, health and nutrition remain relatively neglected. Within the health sector, although some success has been achieved in preventive health care, a small proportion of poor people has access to public health care services. In short, addressing the pro-poor concerns in health remains an unfinished task and the sector needs to be given the priority it deserves. Developing a pro-poor agenda within the rubric of a sector-wide approach to health represents the biggest institutional challenge in this regard.

5.62 *Second*, the control of communicable diseases and improved maternal and child health to reduce high child and maternal mortality remains the highest public priorities. The main causes of avoidable deaths in the low-income countries including Bangladesh are tuberculosis, childhood infectious diseases, maternal and perinatal conditions, micronutrient deficiencies, and malaria and tobacco-related illnesses. The epidemiological evidence from Bangladesh and elsewhere conveys a crucial message: the vast majority of the excess disease burden is the result of a relatively small number of identifiable conditions, each with a set of existing health interventions that can dramatically improve health. The problem is that these interventions do not adequately reach the poor. A package of essential health interventions with enhanced programs of family planning catered to the needs of the poor would have strong poverty reducing effects as the improvements in health would translate into higher quality of children, lower income erosion due to health shocks, higher productivity, and higher economic growth. Implementation and access of current essential service package (ESP) under the sector-wide approach need to be ensured with special focus on the health needs of the poorest and the most vulnerable both in rural and urban areas. Even though the priority focus is currently on communicable diseases and maternal and perinatal health, non-communicable diseases (NCDs) are also of great significance. Many of these non-communicable diseases, including cardiovascular disease, diabetes, mental illnesses, and cancers, can be effectively addressed by relatively low-cost interventions, especially using preventive actions relating to diet, smoking, and lifestyle. The coverage of current ESP needs to be broadened to include some of the key NCDs as well. Subsidized provisions in the supply of birth-control technologies especially for the poor women would be continued. Emerging public health problems such as arsenic and dengue would receive priority attention in the medium term period. Adequate measures would be taken to check the prevalence of HIV/AIDS as well as enhance the capacity to address the problem. Enhancing the capability of the public health sectors to address past slippage and manage new threats to health of the population would be a crucial part of the new strategy. A new policy statement on the health sector for the next phase of health sector development is currently underway.

5.63 *Third*, such a re-orientation towards wider coverage of the poorest as well as broadening of the scope of essential health package will have considerable resource implications. According to the recent estimate by the WHO Commission on Macroeconomics and Health 2001 the set of essential interventions costs, on average, about \$34 per person per year, which is much higher than the current level of public spending of around \$5 recorded

for Bangladesh. The huge resource gap in financing the health needs of the poor cannot be met without additional resource mobilization from external resources. The key recommendation of the WHO Commission on Macroeconomics and Health is that the world's low-income countries, in partnership with high-income countries, should scale up the access of the world's poor to essential health services, including a focus on specific interventions. This issue merits consideration under the proposed poverty reduction strategy. A plea for higher resource allocation for the health sector should, however, accompany strong commitments to substantially improve the present level of health sector governance within the shortest possible time. Generic prescription for good governance may not be good enough for the poor unless a more disaggregated view is taken of the handicaps of various groups (especially of the chronic poor as well specific health needs of women) among them. In addition, major program interventions in the form of decentralized service delivery, increased local participation, particularly of the poor and women, access to modern health services, increased inputs for dealing with diseases and adverse health conditions that make the poor most vulnerable, and adequate capacity would be designed and implemented. The NGOs can emerge as an important actor in this regard by delivering high-quality health care services, especially at primary and secondary levels (see Annex 7 for strategic issues in health sector development).

5.64 *Fourth*, malnutrition in Bangladesh remains high despite some improvement in the last decade. Such a high degree of undernourishment has adverse implications for future poverty reduction. The introduction of NNP to address the malnutrition of children under two as well as pregnant and lactating mothers through the provision of food supplements, nutrition and health counseling is a positive step to address the problem. These programs will be strengthened institutionally, with special focus on poor areas and communities. Existing food-targeting programs such as VGD and RMP (Rural Maintenance Program) will also be used to reach the poorest and the most vulnerable with nutrition-support package.

5.65 *Fifth*, even in basic educational indicator such as enrollment, the country is yet to achieve complete enrollment at the primary level. The combined dropout and non-enrollment rate is estimated at 35 per cent at the primary level, with poverty being the most proximate cause. Incentives that are currently provided for enrollment of children from the poor households as well as for girl's education will be strengthened in the future. Special emphasis will be given to technical and vocational education of women.

5.66 *Sixth*, the issue of quality cuts across all the above components of human development. As for education, this implies that mere graduation from the primary level would not give the desired results on the skill level. At the secondary level, more emphasis will be given to vocational and technical education, including dissemination of improved agricultural practices. The quality of tertiary level education also needs to be improved given the rising demand for higher order skills in the context of globalization. A high-quality educational system at all levels will also have additional resource implications. The current pattern of public spending on education in the order of 2.2 per cent of GDP appears inadequate in the light of suitable international comparisons and merits increase to at least 4.5 per cent by 2010, as has been suggested by the National Education Policy 2000. However, desired progress in raising the quality of education can be achieved provided a radically improved system of governance (including the reform of the examination system) within the education sector is in place. Addressing the issue of widening "quality divide" in education between the rich and the poor as well as ensuring the enhanced access of the poor to various levels of education represent two critical areas where much improvements need to take place under the proposed poverty reduction strategy. NGOs can be involved in providing high-quality education in the country along with the government and private sector.

5.67 *Seventh*, the mis-match between the development needs of the society and basic form, content and orientation of the education system is obvious from the fact that even a large section of the educated people is unemployed. The success rate in the combined result of all public examinations held in 2000 was about 41.6 per cent (SSC 41.1 per cent, HSC 39.6 per cent and at the tertiary level 46 per cent) indicating a colossal system loss of around 58 per cent in the education sector. Further, 35 per cent of the enrolled students at the primary level do not complete the full cycle and less than 2 per cent of those who complete pass the relevant competency test. Thus a realistic estimate of system loss in the education sector will be much higher because the weight of students at the primary level is greater and failure to complete the full cycle and pass the competency test is quite high. It needs to be realized that education is both a process and a system. The inputs of one stage are fed into the next and completors of a certain stage of education get involved as providers of knowledge for earlier stages. The unsatisfactory performance of primary education vitiates the whole education system and contributes to the colossal system loss in the education sector as a whole. For Bangladesh, the priority need to be given to improving the quality of primary education and making it universal, and then prepare adequately to expand secondary and tertiary education by substantially increasing investments in these levels.

D. Women's Advancement and Removing Gender Gaps

5.68 The strategy has attempted to factor the gender concerns into both diagnostic and prescriptive modules concerning economic growth, poverty reduction and social development. To this end, gender concerns have been identified both at sectoral and sub-sectoral levels. This section provides the salient summary points of the proposed strategy as applied to the specific development objective of promoting gender equality.

5.69 The burden of poverty continues to fall disproportionately on women. The underlying factors are low literacy rate, low nutrition, low income with discriminating wage differentials compared to men, low life expectancy, and high morbidity. Empowering the women is crucial both for its intrinsic value as a development goal and as *instrument* for bringing about favorable social and economic change. Bangladesh has made considerable progress to bring about greater women's empowerment, which, in turn, led to significant development effects. Most of the micro-success stories of Bangladesh are associated with the pronounced role of women in economic and social spheres. The strengthening of these measures would further contribute to decline in fertility rate, improvement in child and maternal nutrition and greater welfare for the women themselves. Improvement in the well-being of women and children will have wider beneficial effects for the society as a whole.

5.70 While the gender-gap is closing in Bangladesh for most social indicators, the overall level of empowerment measured in terms of literacy, work force participation, property rights, and credit access leaves much to be desired. A related institutional issue is to increase the political voice of women, especially poor women, which will further enhance their agency role and hence, contribute to faster progress in the well being of children and women. Several areas of critical importance will be emphasized for furthering women's advancement. These include: policies and institutional actions to combat continuing negative sex ratios, violence against women, high maternal mortality, restrictions on women's employment and economic

opportunities, policies to ensure formal equality, supporting affirmative actions at all levels and in all spheres, creating women-friendly institutional environment, and generating gender-disaggregated statistics.²⁵

5.71 In light of the above, programs and projects will be considered under the strategy and the TYRP which would include, but not be restricted to, the following: (a) reviewing existing policies and institutional measures, which have influenced entitlements and undertaking priority projects to improve entitlements, (b) setting up of women producer's marketing centers from the grassroots to the national level, (c) enhancing and easing women's access to banking services; (d) developing micro enterprises training, production and networking centers, (e) establishing linkages and enhancing capacity of women entrepreneurs for the export market, (f) establishing employment information and skill development network centers for the urban migrant female labor and international migrant female labor. Specific affirmative measures such as child care and safe transport facilities will be initiated for sustaining and supporting women's employment.

5.72 The Government would actively promote policies for increasing women's participation in all spheres of development under the poverty reduction strategy. These policies outlined earlier in various chapters of this paper (including the ones described in Annex 8 which detail out the major concerns and thrusts of the strategy and should be seen as an integral part of the strategy) would be further concretized in the context of preparing the full-blown strategy and the TYRP.

E. Strengthening Social Protection

5.73 Four sets of policies would be emphasized for the poor to cope better with various income (consumption) shocks. These policies would help increase the crisis-coping capability and form important risks-insurance policies for the poor. Besides, a significant aspect of Bangladesh's growth process, which will be given greater attention in poverty reduction, is the continuing gap between employment creation and increase in labor supply. While antipoverty and employment-oriented growth that increases income opportunities for the poor in both rural and urban areas would be given priority, direct interventions will be used to make the process more employment friendly in the short run. By addressing the critical needs, well-executed and well-targeted direct interventions would be used to significantly improve the welfare of the poor.

5.74 The first set of policies will focus on the *social safety net* for the poor through works and income transfer programs. These include various food-assisted and cash-assisted programs such as VGD/IG-VGD, FFW/TR, old-age pension schemes in rural areas, support for the female destitutes, and traditional relief programs. There is a critical need to address the specific problems of chronic poverty and socially disadvantaged groups (street children, elderly poor, the disabled population, to name a few). The second set of policies will address the vulnerabilities of the 'new poor' like the retrenched workers. This will form an increasingly important component of the social protection policies in the backdrop of privatization, labor restructuring, market reforms and globalization. The third set of policies will put emphasis on the development of *social solidarity*. This is a relatively new area but would be used as an increasingly important route for social interventions. The newly set up umbrella support organization such as the Social Development Foundation (SDF) will play an

²⁵ For a brief review of issues related to women's advancement see Annex 8.

important role in fostering social capital formation by promoting CBOs and local associations in building and maintenance of small-scale community infrastructures. Encouraging the bonding and bridging across self-help groups under GOs and NGOs at the local level will be an important area of intervention. The fourth set of policies will relate to *risks insurance*. Policies for preventing and/or mitigating risks will cover four categories. *First*, providing access to credit to the poor in times of emergency to ease the burden of shocks, reduce distress sales and “negative” methods of coping. *Second*, ensuring good public health services to reduce health hazard related income and consumption shocks. This would be particularly relevant in the context of emergency health care provisioning (as in the case of health hazards due to injuries and accidents) as well as major public health problems such as arsenic and dengue fever. *Third*, strengthening disaster preventing and mitigating mechanisms to enhance the coping capability of the poor in times of natural disasters. This is important from the perspective of averting large-scale entitlement failure, which may result in as a consequence of severe natural disasters (including river erosion). The GO-NGO-local community collaboration can play an important role in enhancing disaster management capacity and reduce the adverse effects of such disasters on the poor (as evidenced from the experience of the 1998 flood). Early warning system needs to be further strengthened through better topographical mapping and effective information sharing between the neighboring countries. *Fourth*, the poor, especially women, often suffer more from violence and personal insecurity. Costs of coping with such shocks impose enormous burden on the poor. Counterveiling measures will be adopted through a broad-based action program including improvement of law and order, accountability of police administration, ensuring better human rights, decentralizing and democratizing the functioning of state institutions to reduce harassment and transaction costs, simplifications of rules and procedures, legal and judiciary reforms to reduce high coping costs involving legal/ court expenses, supporting citizen actions against gross violations of human rights, and ensuring the freedom of the press and the media.

5.75 Reduction of vulnerability to natural disasters would be an integral aspect of the national strategies for poverty reduction. The major policy thrust would be strengthening of the coping mechanisms of the poor through enhancement of community resilience and empowerment. This task can be achieved through a comprehensive approach that unites the government, the communities, NGOs and the private sector in a joint strategy for effective risk reduction. Marginalised groups would be specifically targeted with a view to minimising the personal negative consequences of disaster impacts. The importance of a comprehensive approach that encompasses all aspects of vulnerability reduction and risk management will be emphasized under the strategy. Disaster risk management would be integrated within the mainstream development planning and program/project design validation processes.²⁶

F. Supporting Local Government and Broadening Participation

5.76 Policies and institutional measures for broadening participatory governance and enhancing the “voice” and “influence” of the poor would involve several actions. The policy and institutional measures would mainly relate to strengthening the system of good governance, especially decentralization at the local level. Decentralization and devolution of power will be regarded as an essential pre-condition for good governance. Policy consultations on poverty reduction strategy at the grass-roots level have unequivocally favored the creation of a multi-

²⁶For a review of issues related to disaster vulnerability and risk reduction see Annex 9.

tier ensemble of effective local government bodies at union, thana, and district levels. The consensus view emerging from the consultation supported the idea of a strong (with adequate financial and administrative power) and popular (elected with people's mandate) local government. Local government was seen as one of the key instruments for ensuring improved quality and enhanced accountability of public services both in rural and urban areas. The local bodies would be given adequate budget allocations on a matching grant basis keeping in view the poverty ranking of the area. There would also be emphasis on capacity building at the local level. Measures would be taken to ensure women's effective participation in local government bodies.

5.77 An additional group of measures would emphasize building grassroots level initiatives—outside the domain of local government—to create a demand-driven receiving mechanism “from below” to act as a pressure mechanism on the quality of governance. To this end enabling environment needs to be created for the development of local-level democracy through the promotion of grass-roots organizations of men and women as well as fostering community activities that encourage greater social solidarity. Functioning local level democracy will help combat the negative influence of special interest groups as well as minimize the risks of ‘elite-capture’ of local level bodies and development activities.

G. Policies and Institutions for Reducing Inequality

5.78 Along with economic growth, policies would be emphasized to promote improved distribution of assets and income in favor of the poor, including women. Just preventing any serious worsening of income distribution to ensure poverty reduction as average income increases would not be enough for meeting the MDGs set out in the strategy. For the purpose, one important avenue would be to ensure broad-based asset access to the poor. While traditional asset (e.g. land) distribution has limited scope in Bangladesh, other measures for reducing inequality will be emphasized. The poor can get access to land through the tenancy market and benefit considerably through enforcement of better terms and conditions for tenancy. Moreover, the problem of reducing inequality will be addressed in terms of a broad asset framework. Since the access to physical capital is technically constrained by limited availability, access to other assets on the part of the poor will be considered. Notwithstanding the limited availability of re-distributable land, several aspects of more equitable land-use pattern would be encouraged. First, special emphasis will be given to effective distribution of *khas* (state-owned) lands and ponds to the landless families. This will require considerable social mobilization and support from the grassroots and class organizations of the poor, especially landless and women, with support from the national level CSOs and NGOs. Second, land would be allocated for supporting a pro-poor rural housing policy, possibly on the model of compact cluster housing. Third, the urban land-use policy would be reviewed to stop indiscriminate utilization of public lands for private housing purposes. This would be an important area of intervention as public lands earmarked for spaces such as low lying areas, lakes, parks, and playgrounds are increasingly being illegally brought under the private housing plan, leading to environmental problems and low quality civic life. Fourth, measures will be undertaken for ensuring tenurial security, especially for the poor farmers. Fifth, measures would be taken for substantive improvements in the prevailing system of land administration including computerization of the land record system thereby reducing the endemic burden of land disputes, with adverse implications for the poor.

5.79 Providing access to human assets such as basic education and higher level of skills will help the poor to access better employment and income. Similarly, ensuring expanded

access to financial assets via microcredit would help the poor to undertake income-generating activities. Access to natural assets such as common property resources would help the poor in mitigating risk in times of distress. Access to social assets will be expanded by building grassroots organizations of the poor at the village level, leading to better networking capacity and act as a risks-insurance mechanism. Finally, the access to political assets—greater empowerment—would help the poor to ensure a fair share in public resources and benefits of development.

5.80 Further, the efforts would emphasize policies to further democratize and strengthen the *organizations for the poor* (such as NGOs and CSOs) as well as the *organizations of the poor* (such as CBOs). This will *create an environment whereby social entrepreneurs can play a role*. Social entrepreneurs will include a range of actors including NGOs/CBOs, corporate bodies, trusts with social charity initiatives, and individuals with philanthropic motives. This will also include socially motivated class of managers specialized in serving the organizations of the poor. The purpose will be to involve the NGOs/CBOs into a permanent collaborative framework with the government in all relevant spheres of poverty and vulnerability reduction which will not be limited, as at present, to the traditional roles of delivery agents in the sphere of microcredit and safety net.

5.81 As the economy expands under the open market system, there is a general risk that the poor would be left out on the margin unless appropriate and effective public policies are targeted towards them. The policies would be directed to *developing institutional capability of the poor* for making the *agencies accountable to the poor*. All pro-poor agencies including large and small NGOs/ CBOs would be encouraged to remain accountable to the poor much the same way that corporate bodies are accountable to their shareholders. A faster pace of poverty reduction would require greater voices of the poor.²⁷ Greater voices would be ensured through moving beyond the narrow domain of micro-empowerment measures such as access to credit. For greater *agency role* of the poor, measures would be taken for building *institutions for the poor* at sectoral, sub-national and national levels with emphasis on developing new institutional ways and means for their collective empowerment. This would be needed not just for catalyzing the active pressure group function of the poor, but also for increasing their aggregate claims in the distribution of overall benefits of economic growth and social progress.

5.82 Measures would be taken for *removing existing legal and institutional barriers* for free entry and effective functioning of social entrepreneurs and the organizations of the poor. Fostering social entrepreneurialism and developing institutional capability of the poor would be promoted through changing the “institutional rules of the game”, e.g. enacting appropriate legal and institutional reforms.

H. Caring for Environment

5.83 The link between environment and poverty can hardly be overemphasized. Factors influencing poverty like inadequate access to physical asset bases, preponderance of risks, uncertainties and vulnerabilities and spatial problems affecting livelihoods and crisis coping capacities do indeed originate from environmental factors and one can, therefore, find certain access to financial assets via microcredit would help the poor to undertake income-generating activities. Access to natural assets such as common property resources would help the poor in mitigating risk in times of distress. Access to social assets will be expanded by building grassroots organizations of the poor at the village level, leading to better networking capacity and act as a risks-insurance mechanism. Finally, the access to political assets—greater empowerment—would help the poor to ensure a fair share in public resources and benefits of development.

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H. Caring for Environment

5.83 The link between environment and poverty can hardly be overemphasized. Factors influencing poverty like inadequate access to physical asset bases, preponderance of risks, uncertainties and vulnerabilities and spatial problems affecting livelihoods and crisis coping capacities do indeed originate from environmental factors and one can, therefore, find certain linkages between the two. The more visible environmental problems are mostly associated with regenerative resources, which are in danger of exhaustion from excessive use. These resources include not only animal, bird, plant and fish populations, but also land, water and air. They can complement other goods and services and can also supplement income at time of stress. So depletion of many of these environmental resources can make some categories of people destitute even when an economy is growing. That there is an intimate relationship between environmental degradation and an accentuation of destitution is recognized under the strategy. Women and children are particular victims of environmental degradation and the poor are not necessarily polluters. They are mostly forced to face an adverse environment (e.g. shrinking opportunities of gathering water, inadequate access to local commons) with significant implications for deprivation. Their workload goes up and sources of income dwindle. They then suffer from malnutrition and ill health with further impact on income erosion.

²⁷ For example, while commercialization of health and family planning services and competition among the providers are likely to benefit the better off, inability of the poor to access such commercial services may exacerbate their status unless public interventions are carefully designed and implemented.

5.84 degraded environment implies that there are less resources available not only for the present but also for the future generations meaning greater risk of unsustainability. It creates adverse impact on both production and consumption activities of the poor. Bangladesh is still an agrarian country and the livelihoods of the poor depend largely on agriculture, forests, and fisheries. Indeed around 80 per cent of the total population depend to some extent on the utilization of natural resources or on processing of the resultant products which can be categorized as environmental resources. So the policies would strike a realistic balance between the existing livelihood requirements of the people and sound environmental resource management that can ensure sustainability. A special emphasis will be given to addressing the problems of river erosion affected areas.

5.85 Under the strategy, environmental conservation would be integrated into national poverty alleviation strategies. Given the large number of environmental problems across various ecological zones, some target groups of people are always at high risk of exposure to poverty and environmental degradation. They would be identified clearly. The nexus among poverty and environment as well as with development and population policies would then be understood in a holistic manner. Isolated poverty alleviation strategies will not be effective if these are not environmentally sound, participatory in nature and focused on building local and national capacities for self-reliance. Incorporating people's knowledge, perception and attitudes in planning and implementation will be taken as vital for environment friendly development. The environment strategy will draw upon the Environmental Policy 1992, the Dhaka Declaration 2000, the National Environmental Management Plan (NEMAP), and the Declaration of the World Summit on Sustainable Development 2002 with support from national CSOs and NGOs working in the area of environment.

I. Summary Points

- There are five main avenues of the poverty reduction strategy. These are: *pro-poor economic growth* for increasing income and employment of the poor; *human development* of the poor for raising their capability through education, health, nutrition and social interventions; *women's advancement and closing of gender gaps* in development; *social protection* measures for the poor, especially women, against anticipated and unanticipated income/consumption shocks through targeted and other efforts; and *participatory governance* for enhancing *voice* of the poor and improving *non-material dimensions* of well-being including security, power and social inclusion by improving the performance of anti-poverty institutions and removing institutional hurdles to social mobility.
- Policies and institutional actions delineated under the poverty reduction strategy will be designed to reach out to the poorest and the remote rural areas, which are vulnerable to adverse ecological processes (including *chars* and river erosion affected areas) and those with high concentrations of socially disadvantaged and marginal ethnic groups. Special attention will be given to the development problems of the hill people of CHT and tribal population residing in other parts of the country.