



2012 TOKYO  
ANNUAL MEETINGS  
INTERNATIONAL MONETARY FUND  
WORLD BANK GROUP

Governor's Statement No. 17, Rev.

October 12, 2012

Statement by the Hon. **ABUL MAAL A. MUHITH**,  
Governor of the Fund and the Bank for **BANGLADESH**



**Statement by the Hon. Mr. Abul Maal A. Muhib,  
Governor of the Fund and the Bank for Bangladesh**

Let me begin by expressing our sincere thanks to our gracious host for making us feel so important during the days of the 67<sup>th</sup> Annual Meeting of the Fund-Bank Board of Governors in Tokyo. I would like to put on record our appreciation of the courage of the nation, who withstood the fury of nature only a year and a half ago and yet undertook to organize this grand assembly and overwhelm us with their fabulous hospitality. Thanks also to the conference secretariat for the elaborate arrangements.

Let me at the outset welcome the new President of the World Bank Prof. Jim Yong Kim. At a very critical time we have new leadership in the Bank Group and we wish him all success.

We are grateful to His Imperial Highness Crown Prince Naruhito for honouring us by inaugurating the conference yesterday. It was very uplifting to listen to the three addresses at the inaugural session. The road ahead is certainly “fraught with difficulty”, but we have to confront it with confidence, cooperation and clarity of strategy. Managing Director Madam Christine Lagarde wants “an IMF for all seasons, for all peoples”. President Dr. Jim Kim is energized by “the path where we come together to bend the arc of history and accelerate progress”. These are lofty ideas and tall wishes and we look forward to a new financial and developmental architecture.

Last year I regretted the absence of the financial fair that went along with the Annual Meeting of the 1970s or 1980s and suggested reinstatement of a more prolonged Annual meeting. My reason is facilitation of multilateral action in these days of a more integrated global economy facing too many uncertainties as discussed in the meeting of the Commonwealth Finance Ministers here on 11 October. A return to grand gathering of the past affording more inter-actions, more exchange of ideas, more coordination of policies, more concerted actions and more contact building appears to me to be very important.

## **Uncertainties and the Bank-Fund Helping Hand**

The last four years have witnessed our world slide into a prolonged recession, initially engulfing the advanced economies like wild fire and later spreading like a contagion to the middle and low income countries. Each passing day has offered a new challenge to a finance minister of a Low Income Country because of limited fiscal or monetary space at his disposal. The constant jugglery to balance growing demands for resources with meager supplies and yet maintain macro-economic stability has kept him awfully busy. This year the global economy is gravely troubled by uncertain prospects of employment and demand in USA, the financial crisis of Eurozone as well as falling growth rates in China and India. It is questionable if the good performance of the emerging economies and Asian resilience can keep the world economy from a deeper slide. On top of it are the destabilizing factors such as global food price hike and volatile and soaring oil prices. On these two fronts once again I would recommend steps by the international public sector.

The exogenous factors that have made uncertainty the only issue relevant for weaker economies deserve serious attention. The steps so far taken by the G 20 and the Fund and the Bank have not really benefited the least developed countries commensurate to their needs. The small, vulnerable and island developing countries find it difficult to keep their heads above water. The debt ridden countries are afraid that lack of subsidy contribution would dry up the HIPC programme. The ECF conditionalities are not easy to comply with by most least developed countries. The benefits of SDR allocation, the advantage of compensatory financing or any special allocation of IDA type funds are eluding the least developed and vulnerable countries. I have been suggesting for the last three years that the special attention that these countries warrant is not available from the existing mechanisms and a separate arrangement is needed for this category of fragile and vulnerable countries. I am encouraged by the new thinking articulated by yesterday in the inaugural session. The priority attached to poverty alleviation on a sustainable basis must be reflected more clearly in the actions of the Fund and the Bank. I would only suggest that lumping together of all countries in this drive against poverty should be reconsidered. Surely poverty is a disgrace that cannot be permitted in any society but meeting this

problem in the developed or the middle income countries is very different from that in the low income countries and especially in the least developed countries, particularly the small, vulnerable and fragile countries. Both the Fund and the Bank have to think rather urgently about a separate wing in each of them to handle the problems of these countries.

### **Creating Jobs and the Phenomenon of Youth Unemployment: Bangladesh Strategy**

The World Bank very rightly devoted the WDR this year to the topic of job creation. It is estimated that for the next decade the world needs 600 million new jobs but presently we are experiencing a worsening unemployment situation with 200 million seeking jobs now. The recession has taken a heavy toll on employment creation and the prescription for recovery is not that straightforward. It has been clearly established that although jobs are mainly created by the private sector, appropriate public policy is essential for job creation and provision of public goods must be in the strategy for job creation. In the low income countries jobs are created by division of work in the informal sector but they do not really provide new opportunities as compensation is only divided between more people. In these countries self employment does create income earning capability but this cannot be a main strategy for job creation. Wage employment in industry and infrastructure must be emphasized for job creation and reduction of inequality. Above all employment strategy must be country specific.

A very frightening development is youth unemployment both in the developed and the developing countries. Unemployment among the under twenty-fives in America is 17 percent, in Italy 25 percent, in Ireland 30 percent and in debt-ridden Spain it is a staggering 43 percent. In my country Bangladesh disguised unemployment is as high as 29 percent and it is young people who are the worst victims of unemployment. Female workers constitute around 90% of total workforce employed in the garment industry, which contributes 75% of total merchandise exports of Bangladesh. However, only 27% of our women are engaged in income generating activities compared with double that percentage for men. With the fast progress in emancipation of women in Bangladesh, in

which the country holds a very distinguished record, it is expected that female labour force will catch up with the male force in a decade.

The primary goal of poverty alleviation demands large-scale employment generation in Bangladesh. Bangladesh has developed an employment strategy focusing on the major role of the private sector and skills development. The strategy covers (i) job expansion in rural economy by integrating it with the national economy, promoting rural electrification and providing municipal services in rural habitations; (ii) creation of wage employment that calls for large industrial investment and expansion of sub-contracting between final producers and intermediate small and medium industries; (iii) preference of labour intensive policy in infrastructure works; (iv) promotion of self-employment through micro-credit in particular; (v) attuning labour laws to flexibility in labour markets and (vi) promotion of labour export. Annually we have 1.8 million job-seekers and unemployment backlog is about 1.2 million. Nearly half a million find jobs abroad. It is, therefore, that migration policy is very important for the country. With the continuing recasting of global productive capacities in goods and services and emergence of new major actors in the global economy, Bangladesh stands to gain from the relocation of labor-intensive industries. For example, garments, textiles, shoes and consumer durables demand large-scale employment of labour in Bangladesh as they shift from their existing locations in China, India and other Asian countries. Bangladesh's geographical location, recent decision to be a transit country and good skills base make it a haven for massive Foreign Direct Investment. What is required for Bangladesh is to develop good infrastructure, adequate and dependable power supply, a strong legal system to enforce protection of FDI, guarantee of unhindered repatriation of profits and business friendly financial institutions.

### **Support for Transformational Project:**

The current Country Assistance Strategy of the World Bank for Bangladesh and the policy directives of the Bank underscore the need for World Bank engaging in large projects that would bring in transformational impact in terms of growth and poverty

reduction. The Padma Bridge project is one such important venture and it will reduce poverty in the south-west region by 1 percentage point and raise GDP of the region by 1.7 percent. In the national context poverty would be reduced by 0.8 percent and GDP would get a boost by 0.56 percent. We were very disappointed when the World Bank halted the financing of the project recently and hence we are very happy at the decision of the Bank in favour of re-engagement. This is a project of the highest importance to our nation and I would like to reassure that it will be implemented in the most transparent manner with zero tolerance for corruption.

Although Bangladesh is committed to clean energy, due to the debilitating energy shortfall we face, we have decided to pursue coal-based power despite its environmental pitfalls. I would reiterate my request made last year to the Bank to finance power plants using coal and help the country in securing the least polluting option for coal-based power plants. I would also reiterate my request for financing of large projects for transport development, especially in roads and railways, where the demand has escalated as a result of the country choosing to become a transit territory in South and South-west Asia.

### **Miscellaneous Issues**

I am refraining from talking about climate change and disaster management as I have talked about it time and again because Bangladesh is an innocent victim of environmental mismanagement by others and manages natural disasters to the best of its abilities with considerable success. I would like to refer to my comments on environment in my address at the Annual meeting last year.

Bangladesh welcomes the introduction of Corporate Scorecard which is seen as a serious step in bringing together all forms of reforms and development results under its purview. The Scorecard can be a useful instrument of accountability to the Governors and will facilitate strategic dialogue between the Board and the management of the World Bank.

With the new ideas of President Kim as aired in the Town Hall meeting of 2 October and further confirmed yesterday, I am sure there may be redesigning of the Scorecard.

Bangladesh has already put in place two programs under results-based lending instruments, the disbursements of which are linked to the achievement of certain preset, mutually agreed indicators. The World Bank's initiative for a new contingent financing instrument in form of Immediate Response Mechanism (IRM) is a laudable initiative. Presently we are working out the modality to give effect to this contingent financing arrangement. We look forward to be an experimental station for President Kim's "science of delivery", because delivery effectiveness and rapidity is what the least developed countries seek.

Bangladesh's investment as a proportion of GDP has remained stagnant at 24 percent for quite a few years. With this limited investment it is managing a real growth above 6 percent for nearly the last decade and a half. A higher trajectory of growth target of 8 to 10 percent as envisaged in the country's perspective plan can only be achieved with a more conducive and supportive export sector, a higher flow of FDI and active role of the IFIs.

While we appreciate the generous support we receive from the Bank on projects involving human development and in other social sectors, we would like to see it more substantively engaged in financing the infrastructure deficit. The IMF did not pay enough attention to the least developed countries as it took up the challenge of the global financial crisis. Only recently the ECF has come to our assistance and we congratulate the Fund for it. But it is still to come up with new windows for meeting trade financing needs of these countries or helping the small, fragile and vulnerable group of countries.

#### **New Architecture for the Global financial, monetary and trade Regime**

I cannot conclude without talking about a new architecture for the global financial institutions bequeathed to us in the post-war era. I would like to repeat my usual appeal,

being made since the commodity price hike of the 1970s, for restructuring of the international public sector initially designed by the Bretton Woods conference. We should now take up simultaneous and complementary restructuring of the three organizations namely World Bank, IMF and WTO - the original three legs of the Bretton Woods system.

- We have found the G20 informal mechanism highly effective. This should be given some legal clout.
- We are convinced that the IMF must improve its monitoring and surveillance responsibility, especially by exercising symmetric jurisdiction over all countries, big or small and rich or poor. That should be its main function and to this may be added an early warning system as its main concern.
- We have felt that the global banking sector should be better regulated and public intervention should have a role in it. The Basel mechanism must be coordinated with IMF's watchdog responsibility.
- We have observed that the requirements of a small group of countries (the least developed, land-locked, small island developing and climatically vulnerable countries) is qualitatively different and cannot be solved by the usual economic demand and supply equation. Both the IMF and the World Bank should devise separate institutional mechanisms to provide assistance to them covering both relief and development needs.
- Despite the urgent need for it we have not yet been able to design a facility for trade financing for the low income countries although plenty of liquid resources lie idle with big savers. IMF, IFC and WTO have a duty to devise a trade financing system for the future so that they do not have to resort to expensive short-term financing from commercial banks.
- All economies are confronted with the volatility of commodity prices, especially of food grains and petroleum and the low income countries are devastated by it.

Management of the two markets has to be internationally coordinated and regulated. All the three institutions have to be involved in the action.

Thank you for providing me the opportunity again to share my thoughts and anxieties with you. Thank you again for reading my statement on the website.