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Governor of the Fund and the Bank for Bangladesh**

In the Istanbul meeting last year I shared my thoughts about the Bank-Fund's continued struggle with infrastructure development, eradication of poverty, environment and limits to growth, structural adjustment, private sector development, and development administration and governance issues that have been occupying the centre stage of development dialogue for the last half a century. I devoted some of my time on a new architecture for global financial and monetary system predicated by the crisis of 2007 that is yet to be fully overcome. This Bank-Fund annual meeting is following a new format that does not appeal to an observer of fifty years, who participated in it 41 years ago for the first time. The attraction of the occasion was the grand gathering of the financial world that is missing now. In addition to the official programme there used to be exchange of ideas and building of contacts in the financial world and useful bilateral discussions between official delegations. I would suggest that we reconsider the old format of a week-long gathering and explore avenues of overcoming budget constraint.

2. To a lay person the central role of the World Bank appears to be to address the global development challenges and ease financial intermediation on a global scale and that of IMF to be to facilitate trade, international payments and surveillance of macro-fundamentals of member countries. The unfolding events of last three years focus attention on the Bretton Woods institutions in some new light. The London Conference held in 1929 to stave off the Great Depression ended in utter failure. But eighty years later a similar Conference of G-20 countries held in London in April 2009 tells a different story. This time they emphasized collaboration and coordination and the public sector both in the domestic and the international arena attempted successfully to tide over a similar but more widespread and deeper crisis. They provided both resources and direction to national economies as well as to IMF and World Bank.

3. Many developing countries, including Bangladesh, entered the new age of the global turbulence after years of macro-economic stability and faced an acute development crisis. Their hard-earned gains in poverty reduction and achieving targets of MDGs have been substantially impeded by the food and fuel price hikes followed by the global financial crisis. The investment environment is still to pick up, trade is slowly coming out of negative growth syndrome and decline in external demand is still there. These shocks, mainly external to the low income countries, have, however, caused them loss of revenue, increase in unemployment and slow-down in investments in education, health and infrastructure. On top of it these countries are confronting the challenge of

climate change, where technology innovation is even more important than massive investment. The big question is how we are going to face the complexity of such a difficult future.

4. In the face of many global challenges, the winds of change in the post-War public institutions are perceptible. It is very obvious in the United Nations, but let me leave out that story now. The IMF quickly overhauled its lending instruments and upgraded the support for LICs to tackle increased vulnerabilities arising out of the global economic crises. The creation of its new Poverty Reduction Growth Trust and its three windows of credit facilities has become operational from January this year. These flexible facilities are likely to be of great help to countries with balance payment problem as well as others needing budget support. The benefit of issuance of new SDRs topping up the reserves is already offering leeway to the beneficiary countries and arrangement of zero interest credit facilities through 2011 would greatly benefit the affected countries as short-term relief. There is no disagreement that the surveillance function of the IMF should be strengthened and made symmetrical and early warning capacity should be enhanced. There is also some thought on better regulation of the financial sector and a more coordinated approach here between the public and the private sectors. It looks to me that we are skirting the issue of currency volatility that should be attended at an appropriate time. In devising innovative financing for implementation of MDGs a global tax on currency transactions has been suggested and this possibly deserves serious consideration.

5. I commend the World Bank in its leadership in administering the Global Climate Investment Fund (CIF) and the Global Agriculture and Food Security Programme (GAFSP). These two initiatives are timely and important. In passing I would congratulate the Bank for its very useful and informative report on climate change issue in the current WDR.

7. The Bank, however, is seen to be slow in responding to many challenges. Its counter-cyclical measures and the Crisis Response Window lending made available to the poor countries besides being rather narrow in scope were slow in disbursement. IBRD's scaled-up resources for the emerging countries have not been matched by provisioning of additional IDA resources for LICs. The Bank limited its operation of crisis management to front-loading the regular resources. I reiterate the demand for a discrete fund outside of country IDA allocation for the LICs to provide fast disbursing budget support. Experience suggests that the Regional Development Banks (RDBs) have better understanding of local problems and their focus on timely intervention is more helpful. Aid funds are most appreciated when conditionalities and triggers are minimal, response time is shorter and disbursement is quicker. The Bank should think about modalities to fulfill these expectations. I should take the opportunity here to express our grave concern

about the prospect for the 16th replenishment of IDA resources, mainly because many of our development activities in education, healthcare, transport, energy and such crucial sectors are primarily financed by IDA resources. Despite substantial reflow of resources in terms of debt repayment from the IDA borrowers, its replenishment beyond the first two decades has not grown in real terms. A gesture of real humanity in the face of current resource squeeze calls for the replenishment to grow at least by one-third to a minimum level of \$ 52 billion and participation of more contributing countries.

8. For quite a while now the issue of aid effectiveness represents a strong commitment of both the development partners and the recipient countries. The resolve of Paris Declaration and the Accra Agenda for Action must be followed both in letter and spirit by the agreeing parties. Donor harmonization and true alignment of aid policy with the country system under a mutual accountability framework must be achieved. Loans and credits should be available based on a “minimum convergence criteria” and eligibility framework and should not have restrictive strings and triggers. Procurement of goods and services should coast around country requirements while ensuring strict adherence to internationally accepted good practice. We are happy to report that the Bank’s CAS for Bangladesh has been developed with our full collaboration and we have even been able to sign a Joint Cooperation Strategy with eighteen members of the Development Forum recently.

9. Over the last couple of decades there has been a dramatic shift in not only the global economic power but also in its definition and accounting. Pressures have been mounting for a rebalancing of the voice and quota in the Bank, Fund and other IFIs more adequately reflecting the dynamics of global economic power. We are fully supportive of the current quota and voice reforms both at the Fund and the Bank. Resistance to reform would only impair the credibility, legitimacy and effectiveness of the IFIs. Economic weightage of countries should be measured on the basis of PPP GNI criteria and simultaneously modernization of national account statistics and updating system of PPP should be emphasized. By the by, I reiterate my country’s support to the General Capital Increase of the IBRD for its expanded operation. At the same time I underscore the need for a special IDA replenishment to help LICs tackle the effects of global crises and climate change, which were triggered and caused by the actions of the developed world.

10. Just a few days ago, there was the United Nations Summit on Millennium Development Goals. Generally it was noted that a large number of countries are on track in achieving the MDGs during the next 5 years. But in respect of some goals, some countries not only are not on track but also have regressed to some extent. Generally, the trade and investment climate has not been very hospitable. Commitments made have not been fulfilled by the development partners, not to speak of 0.7% of GNI as development aid even the 0.2% target for the Least Developed Countries has also not been fulfilled. Of course, I must admit that there has been good provision of resources for the debt initiative. The global system seems to be punishing countries who have managed their

economies and their policies in a prudent and healthy manner. Those who have well-managed balance of payment deficits and avoided debt crises; and on the contrary emphasized domestic resource mobilization as well as domestic demand acceleration have not been treated well by the financial system. They are depending on resources which are expensive, which are not easy for them to access and which are available for short-term in the commercial market. This is undoubtedly a failure of the global financial system and we have to find some way to rectify the situation.

11. In a few months time we shall have the fourth LLDC conference in Istanbul for which preparations are now in high gear. The review of the implementation of the Brussels Plan of Action has also brought out the fact of mismatch between commitment and performance. I notice limited interest in this event by the Bretton-Woods twins. The reality of the hard struggle for survival in the LLDCs must be given high priority in deciding as to what to do with the international public sector and how to restructure it. Mere modification of voice and participation in Bank-Fund group or opening of new windows of financing in these institutions may not be enough.

12. So far I have refrained from talking much about the situation in my country except citing it as typical example now and then. The Government I work for came to office a year and nine months ago with a very popular mandate. The Honourable Prime Minister has targeted graduation from the current status of the country as a least developed one into a middle income country by 2021, when the country will celebrate its golden jubilee. We are counting on domestic resource mobilization in a big way and expanding Private Public Participation not only in infrastructure projects (power, transport & communication) but also in health, education and housing. Our Government is working hard for transparency and openness in government functions, notably in budget preparation and implementation. We are depending very elaborately on consultation and consensus on national issues. The economy has withstood the onslaught of the global financial crisis by keeping up domestic demand, saving export sector from going under, undertaking special employment programmes, maintaining manpower export and flow of remittances, emphasizing agriculture and rural sector, and expanding social safety net and improving its targeting. We maintained an output growth rate of 5.7 percent in FY 2009 and 6 percent in FY 2010 and hope to do better in the current year. By and large we implemented our budget to the satisfaction of the nation for one and a half year and the current budget is also on target.

13. Our Government has brought the subject of regional cooperation to the centre stage. We are emphasizing energy trade, joint river basin development and environmental cooperation while following the free trade schedule for the SAARC. Taking advantage of our location we are opening up our country for transit traffic between Indian states on our west to the north-eastern states of India. We are also developing links with Bhutan and

Nepal through India and with Myanmar and through it to China, Thailand and South-east Asia. The country has also adopted the strategy to exploit the advantages of the Information and Communication technology and establish a Digital Bangladesh by 2021.

14. The progress in the ICT sector is phenomenal particularly for a country bogged down by the twin curses of huge concentration of poverty and widespread illiteracy. But the country really is one for impossible attainments, things happen in the country that are theoretically unfeasible as per standard requirements. It is a country where demographic transition has begun, it is leading in women empowerment, it has high density of mobile telecom, it is the model for microcredit operations and it has set up an effective system of non-formal education. The nation received the MDG award for reducing infant mortality. The Government has been able to establish its credibility and arrest the slide in corruption and mal-governance. There are many impediments, the most important of which is an energy and power crisis. The poor condition of physical infrastructure and the dire impact of climate change are very serious, indeed. Malnutrition is widespread although immunization coverage is very high. The challenge is to accelerate investment and to improve the quality of manpower.

15. The current global recovery, led by Asia, is expected to open up new windows of opportunity for countries. A country with a firm commitment to socio-economic development endowed with some proven skills and competitive labor force is destined for new opportunities. Domestic demand acceleration has proved to be very crucial as an engine of future growth but export-led growth has not just withered away for all economies. Urbanization demands provision of modern services but rural habitations are also demanding municipal services. For different countries to move ahead what is needed is the indomitable human spirit and an enabling environment for its endeavour. This warrants a change in the global setting.

16. Indications of such a change are recognized even in submissions by the Bank in the papers for the Development Committee. The recovery effort, for example, is detailed separately for various groups of countries as well for separate regions but in prescribing the way forward the separate findings are all mixed up. We have to find modus operandi to come out of this mindset and question the status quo. We have to confront the issues of migration and development - economic or environmental migration along with political migration - and labour mobility on a global scale. We have to consider market expansion in investment-starved countries despite the obstacles there for doing business without hassle, barriers of transit trade and lack of standard transport and communication facilities. We have to acknowledge that ICT can leapfrog many difficulties even if it means enclave development in a nation. The contribution of ICT to good governance and flourishing of creative energies are beyond imagination. Further, we must believe that climate change is a scourge and technology and resources are equally required to arrest this crisis.

17. Many of the vulnerable or fragile or threatened economies like Bangladesh require a different kind of approach in development cooperation and mere facilitation of financial intermediation is not enough there. We have to try out special efforts in such countries. Public Private Partnership must be promoted there, where domestic and foreign investment must move freely. ICT initiatives must be out of the ordinary in otherwise backward countries, where possibilities are beyond any limits as is so obvious in Bangladesh. A new group of countries, not all the 79 LICs, should be specially identified as countries with vulnerable economies, disadvantaged by geography as land-locked and sea-locked, having problems of market integration in the wide globe, climatically thrown into danger zone for no fault of their own and as traditional baggage having inordinate pressure from population growth, poverty concentration and illiteracy.

18. Such a group of countries must be reclassified, say as 'vulnerable economies'. Measures for their development must be planned and executed in a new style. Resources for their development endeavour should be obtained on grant and concessional terms. That development of this group of countries should be accepted as the onerous charge for the enormous progress of civilization and the huge increment of global wealth. It is, indeed, a tall order and perhaps a dream. But as mankind is at a crossroad no harm can be there in such a dream. The time of global turbulence is also the time of great opportunities to charter the way for a better future. Let us hope that in order to defray this virtuous charge collaboration and cooperation and coordination and consensus will be reached between nations, between agencies in the international public sector and also between non-governmental organizations.

May Allah bless us all.