AmCham JOURNAL
Volume 16 • No. 3 • July-September 2022

BANGLADESH MOVING FORWARD

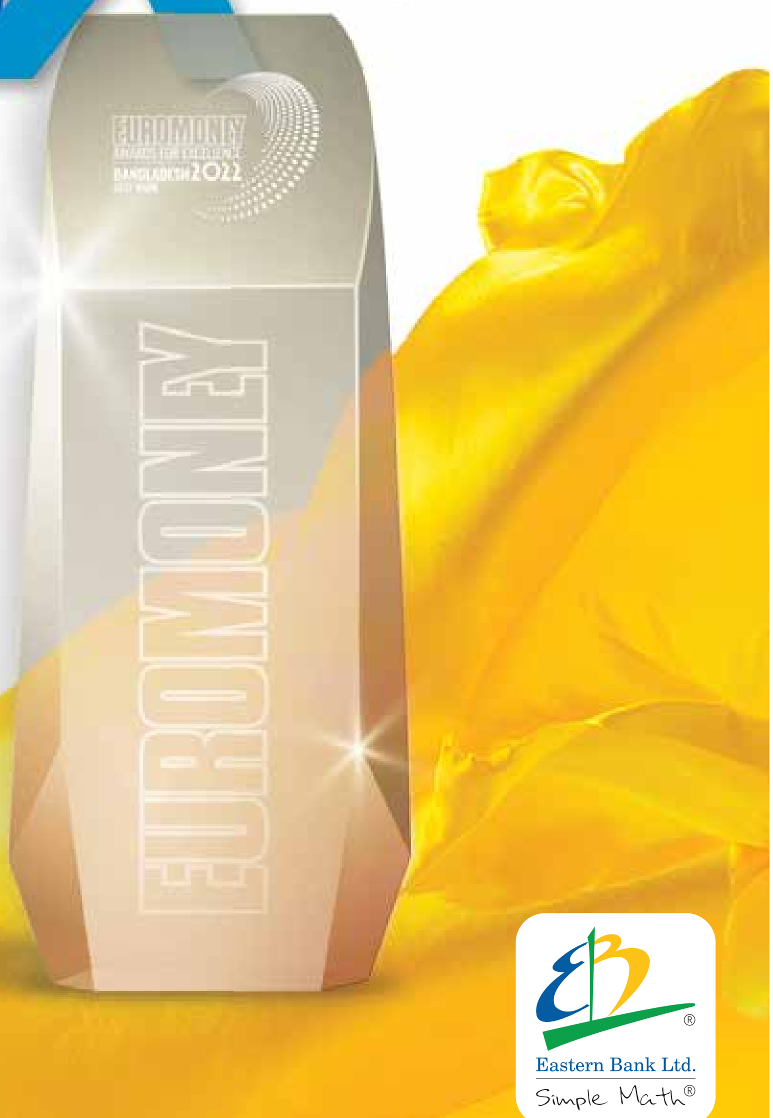
MACROECONOMIC MANAGEMENT IN BANGLADESH
FIFTY YEARS OF BANGLADESH ECONOMY

INVESTING IN INFRASTRUCTURE
BANKING SECTOR IN BANGLADESH
ENERGY AND THE BANGLADESH ECONOMY

EUROMONEY
AWARDS FOR EXCELLENCE
BANGLADESH 2022
BEST BANK

EUROMONEY

4X Best Bank in Bangladesh



EBL wins Euromoney **Best Bank in Bangladesh Award** at the Euromoney Awards for Excellence 2022 in London.

EBL is the only bank in Bangladesh to win the coveted award for the fourth time from 2016-2018 and in 2022.

We thank all our customers, well wishers for banking on us and the board and regulators for guiding us in our journey to excellence.

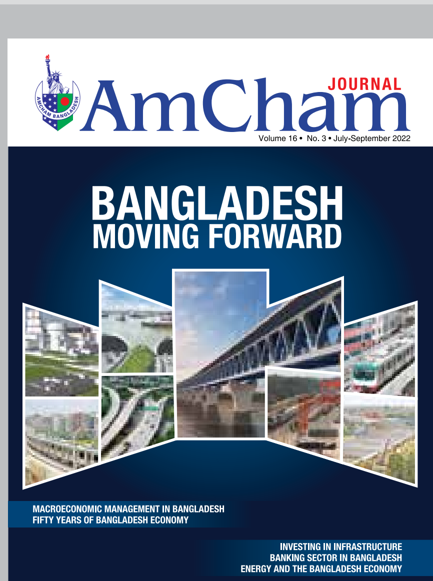
EBL 24X7 CONTACT CENTER 16230 or 09612316230

ebl.com.bd

myebl

Eastern Bank Ltd.
Simple Math®

AMCHAM NEWS AND VIEWS



The AmCham Journal is published for private circulation by the American Chamber of Commerce in Bangladesh (AmCham). AmCham assumes no responsibility for the correctness of the items quoted in the Journal although every effort is made to give information from sources believed to be reliable.

Contact:

AmCham Directorate
The Pearl Trade, Centre (11th Floor)
Plot # Cha - 90/3, Pragati Sharani, Dhaka–1212, Bangladesh.
Telephone : +8802-55048585, Fax: +8802-55048586
E-mail : amcham@amchambd.org
arahman@amchmabd.org
Web : www.amchambd.org

Design & Printed by : Graphnet Ltd. graphnet@gmail.com, 01715011303

Investing in Infrastructure: A Framework for Good Governance Over the Last Fifty Years

Professor Mustafizur Rahman, PhD

Introduction

Issues relating to the quality of investment concerning public infrastructure projects, in developing country contexts, have been attracting increasing attention in recent times, for several reasons: firstly, as countries move forward along development trajectory, the demands for socio-economic infrastructure and the associated services tend to rise significantly; secondly, since these infrastructures are by nature public goods, the state and public sector have to take up the responsibility of underwriting these investments; thirdly, since large sums are involved in implementing the public investment projects (PIPs), ensuring good governance has assumed heightened importance in view of implementing the PIPs; fourthly, lack of good value for money has emerged as a major concern in many developing countries; and fifthly, resource-constrained developing countries often struggle to come up with appropriate and contextualised frameworks to ensure and embed good governance practices in PIP implementation. In this backdrop, the paper focuses on four areas, presented in four dedicated sub-sections,which concern issues of raising quality of implementation of PIPs in Bangladesh: the growing importance of PIPs to sustain and accelerate socio-economic development of developing countries such as Bangladesh; the emerging good governance deficits in PIP implementation in Bangladesh; OECD good governance framework as a reference point for Bangladesh; and recommendations in going forward.

Growing Importance of Infrastructure

Economic and social infrastructure is one of the key foundations that drive the development of any country. Broadly speaking, infrastructure embraces all basic systems and structures and facilities and services which are required for smooth functioning of an economy at various levels. It will not be an exaggeration to state that an economy's growth and sustainability hinge critically on the state of its infrastructure and the quality of services it delivers. Indeed, infrastructure systems that include basic facilities such as transportation facilities, energy and power, telecommunications networks, water supplies and logistics, and social services including health and education, is the fulcrum and supporting framework on which the development structure of an economy is built. However, as was noted above, infrastructure building involves a significant amount of resources for planning, implementation, monitoring and maintenance. In view of this, issues of good governance and ensuring good value for money in infrastructure-related investment are of critical importance for any country, and more particularly, for resource-constrained developing countries such as Bangladesh.

One of the distinctive features as regards investment in infrastructure is that there is a high possibility of market failure. A large number of infrastructures is in the nature of public goods.Pay-off period for many infrastructure projects tends to be rather long, and also the returns from investment can be uncertain and risky. Private sector may not necessarily come forward to invest in those i.e., investment in infrastructure will be lower than the optimal level if it is left to market forces alone, particularly in the developing country contexts where, for understandable reasons, private sector's willingness and ability to invest in large infrastructure projects remain limited. This often necessitates governments to come forward to invest in infrastructure, either singly or in partnership with the private sector. Thus, in varying degrees, in almost all countries, the public sector is significantly involved in investing in infrastructure projects. Accordingly, ensuring good governance in implementation of public investment projects (PIPs) has assumed heightened importance in developing country contexts.

It should be noted that good quality infrastructure not only leads to higher economic growth, but also promotes the cause of inclusive growth when implemented with transparency, accountability and good governance. In its turn, inclusive growth creates opportunities for marginalised citizens leading to higher pace of poverty alleviation and further reduction in income inequality. Many studies have found a strong causal relationship between transport, communication and social infrastructure and poverty alleviation. The criticality of investment in infrastructure for the development of developing countries is also reflected in the fact of significant involvement of multilateral and bilateral development partners in the infrastructure sector of many low and lower middle income countries such as Bangladesh.

As may be recalled, Bangladesh's development vision over the medium term has been articulated in its Perspective Plan (2021-2041), the Vision 2041 document. The perspective plan considers infrastructure as a key driver of the country's sustainable growth and underpins the need for building the required communication and transport infrastructure to achieve high rates of GDP growth and poverty reduction and attain the development targets set out in the plan.

Not surprisingly, infrastructure also lies at the core of efforts to attain the SDGs. Indeed, infrastructure has direct and indirect implications for attainment of all the SDGs, starting from poverty alleviation and reducing inequality to education and health services for all to affordable access to clean water, sanitation, and energy. As is known, there is a dedicated Goal that focuses particularly on infrastructure, SDG 9, which identifies resilient infrastructure as one of the key global aspirations. As one study points out, infrastructure is related, in varying degrees, to 72% of all the 169 SDG targets.

However, financing of infrastructure remains as a major challenge for the developing countries. Indeed, infrastructure financing gap in these countries continues to remain quite significant. According to the World Bank estimates, developing economies need to invest about 4.5% of their GDP to achieve the SDGs associated with infrastructure, a significant resource involvement by any measure.

According to the Global Infrastructure Outlook, by the year 2025, Bangladesh will need about $25.0 billion worth of investment in infrastructure including investment in building the required infrastructure to meet the SDGs. According to some estimates, there is a gap of $10 billion in Bangladesh between the demand for resources and resource availability. According to the study titled "SDGs Financing Strategy: Bangladesh Perspective" of the GED, between FY2017 and FY2030, Bangladesh will need an additional $928.48 billion to implement all the SDGs; $798.69 billion will be required between FY2021 and FY2030. Highest amount of resources would be required for implementation of SDG 7, 8 and 9, the last involving infrastructure. An additional amount of $535.64 billion was estimated to be needed to implement the aforesaid three SDGs during the FY2017-FY2030 period. According to the GED report, Bangladesh will need an additional $250.2 billion between FY2017 and FY2030 to implement SDG 9; this is about 26.9% of the overall additional funds required to implement all the SDGs.

Bangladesh's 8th Five Year Plan (8FYP) sets the target to raise the overall investment rate to 37% of the GDP in FY2025 in view of the projected annual GDP growth rate of 9%. To achieve this, public investment will have to play a defining role. The 8FYP objectives, in alignment with Vision 2041, puts emphasis on building the 3R (Rail, Road and River) inter-modal connectivity to link Bangladesh's hinterland with the country's ports, and for construction of sea ports to connect with international maritime transport corridors. The plan intends to put in place robust inter-district connectivity and deepen inter-regional connectivity to establish transport linkages with neighbouring countries and the broader Asian region. The plan also mentions about improving the quality of transport infrastructure.

As may be recalled, the Bangladesh government has allocated 225,324 crore taka for the ADP in the national budget for FY2022; of this a large share is earmarked for implementing infrastructure projects including the megaprojects which have been prioritised by the government.

In view of the significant public resources being deployed to build the public infrastructure projects, good governance in PIP implementation has emerged as a key concern in Bangladesh.

The Emergent Governance Deficit

As is well-understood, while good governance has many direct and positive externalities in the form of significant economic and social benefits, lack of it has equally high cost to the economy and the people. Absence of good governance in PIP implementation undermines the efficacy of infrastructure and impacts negatively on potential results and returns on investment. Concerns in this regard include selection and design of the PIPs, cost and time overrun, corruption, lack of proper management, procurement anomalies, questionable tendering and contracting process, absence of independent monitoring, lack of proper oversight by concerned authorities, absence of involvement of potential beneficiaries, and weak transparency and accountability in PIP implementation.

To recall, the Implementation Monitoring and Evaluation Division (IMED) of the Bangladesh Planning Commission is mandated to monitor the implementation and progress, and assess quality of implementation of the PIPs. In its various reports, the IMED has identified a number of challenges facing PIP implementation which speak of the widely prevalent poor state of management and implementation of many of the PIPs in Bangladesh. The reports point out the lack of good governance in the various stages of PIP implementation in the country which is having adverse impact on the quality and timeliness of project implementation and undermining resource efficiency, delivery of services and project outcomes and impacts.

Some of the key challenges and deficits mentioned in successive IMED reports are the followings:

In Project preparation and approval phase: (a) Not taking into account stakeholders' choice and priorities in project selection; (b) Absence of comprehensive work plan in case of project implementation; (c) Weak quality of feasibility study; (d) Not taking primary approval for land acquisition from concerned District administration before selecting a project; (e) Lack of adherence to the financial ceiling mentioned in the medium-terms budgetary framework (MTBF) while selecting projects; (f) Not storing baseline data in connection with the concerned project; (g) Not preparing the exit plan of the project in a proper manner.

In Project implementation phase: (a) Not implementing the project according to the work and procurement plan mentioned in the DPP; (b) Coordination failure involving project implementation agencies at the field level; (c) Absence of transparency and accountability in project implementation; (d) Lack of regularity in holding PIC and Steering committee meetings; (e) Awarding contracts to contracting agencies beyond implementation capacity which leads to time overrun of projects; (f) Frequent appeal on the part of concerned contracting agencies to extend timeline of completion of packages; (g) Frequent change of Project Directors; (h) PDs being vested with the responsibility of overseeing multiple projects

In Post-implementation phase of the project: (a) Not submitting Project Completion Report (PCR) to the IMED within the stipulated three months of project completion; (b) Lack of adequate budgetary allocation for maintenance of project after the project has been completed; (c) Lack of proper preservation and supervision of infrastructures and equipments used in a project; (d) Absence of homegrown skilled human resources which results in signing long term service agreements with foreign contractors.

Bangladesh's global ranking reflects rather poorly on the quality of infrastructure in the country and the widely prevalent lack of good governance in PIP implementation. As is known, the Global Competitiveness Index (GCI) reports include infrastructure as a key pillar of assessment as regards the state of competitiveness of a country. The infrastructure pillar takes into account the state of transport as also of utility infrastructure. According to the GCI 2019, Bangladesh ranks at the bottom even among the South Asian countries, with a score of 51.1 out of 100; it was ranked 114th out of 141 countries globally.

Quality of road infrastructure is one of the sub-indicators of the infrastructure indicator. According to GCR 2019, Bangladesh ranked 108th out of 141 countries globally according to this indicator, the lowest in South Asia barring Nepal. Indeed, Bangladesh's score has been hovering around 3 (out of 7) over the last ten years which also speaks of lack of any visible improvement over the past years.

Infrastructure governance has the objective to ensure that right projects are implemented in a cost-efficient and timely manner, generate the expected outcomes and impacts, and are implemented in a way that is trusted by citizens, users and beneficiaries. It concerns accountability, transparency and efficiency of government agencies and involved institutions. According to an OECD study, at both national and sub-national levels, the quality of public governance is found to be highly correlated with quality of public investment and delivery. Managing public infrastructure efficiently, throughout its life cycle, is expected to generate substantial benefits to the economy, both upstream and downstream. Strengthening PIP implementation by taking advantage of human resources developed at well-equipped public investment management institutions is found to lead to higher productivity and better outcomes. Improvements in infrastructure implementation management generate substantial savings and significantly enhance infrastructure productivity. Investing in preparing government officials to undertake PIP implementation efficiently can thus generate high dividends to the economy.

As a report prepared by the Asian Infrastructure Investment Bank (AIIB) shows, per -kilometre cost of construction of four-lane urban arterial road (including traffic-controlled intersections) is the highest in Bangladesh when compared to some of the other developing countries: it is 4.4 times that of India, 3.7 times that of Turkey, 1.6 times that of China and 2.1 times that of Pakistan. The high cost of road construction in Bangladesh is also corroborated by research findings carried out by BUET. According to BUET estimates, per kilometre expenditure for a four-lane highway in Bangladesh should be between Tk12-15 crore ($1.41-1.76 million). However, the actual expenditure is way above this. Per

kilometre cost of upgrading DHK-CTG highway to a four-lane turned out to be Tk21 crore ($2.47 million). Same was the case for Joydebpur-Mymensingh four-lane highway. Per kilometre cost of construction of Rangpur-Hatikumrul four-lane was Tk55 crore ($6.47 million). Per kilometre cost of the DHK-Sylhet highway, which is currently under construction, has been estimated to be Tk60 crore ($7.06 million). According to a newspaper report, the Dhaka MRT-6 cost would be about $234.0 million (if the proposed revised estimates are endorsed) which is about three times higher than that of the ongoing Jakarta N-S metro line.

One often hears that the cost of implementing transport infrastructure is high in Bangladesh because the cost of land acquisition is high, riverine conditions necessitate building of a large number of bridges and culverts, soil condition is not suitable etc. These are not to be denied. However, the important question that need to consider is, even if these are factored into the cost estimates, are these high per kilometre costs justified. Problems with formulation of DPPs, time escalation, design faults, lack of coordination, bad quality of works, procurement and bidding anomalies, lack of professionalism, frequent maintenance work, enforcement of load-limits, frequent changes of projects directors, corruption – all these lead to high cost of infrastructure building in Bangladesh. Those identified problems remain to be addressed through concrete institutional measures towards good governance in PIP implementation. Indeed, many of the existing problems afflicting PIP implementation, and the required steps to mitigate those, have been pointed out in various IMED reports.

In recent times the government and the IMED have taken several steps to address some of the attendant concerns. These include revised and improved DPP formats, citizen portal, Right to Information Act 2009, whistleblower Protection Act 2011, Competition Act 2012, Open Government Data Strategy, introduction of Annual Performance Agreement, introduction of e-procurement, digitisation, not changing PDs frequently, more frequent inspection, appointment of consultants and a number of others. It is also to be noted that the IMED is in the process of taking a number of other measures to address some of the gaps and deficits. This work should be pursued in all earnest as is demanded by the emergent scenario and more energetic steps should be taken to ensure that these are implemented without exception.

Better governance in PIP implementation will generate good dividends in the form of better quality of PIPs, high economic and financial returns on investment, and relatively low price of services provided for producers, enterprises, entrepreneurs and citizens. All these will raise consumer welfare and lead to higher competitiveness of the Bangladesh economy.

In view of the above, it is critically important to proactively search for an appropriate mechanism and framework to ensure good value for money and improve the cause of good governance in PIP implementation in Bangladesh.

A Framework for Good Governance

A comprehensive framework to improve governance of PIP implementation has emerged as a demand of the time as far as Bangladesh is concerned. In this connection it may be noted that, in view of the significant challenges that afflict PIP implementation, and keeping in the perspective the potential formidable benefits that could accrue from addressing and mitigating the attendant concerns, OECD has developed an Infrastructure Governance Framework towards better and cost-effective management of infrastructure implementation. The framework draws on the experience of implementing development projects in a wide range of cross-country settings. The OECD framework has ten pillars. The pillars focus on how governments should plan, interrogate, prioritise, budget, deliver, manage, and assess in connection with investing in infrastructure. The framework is an excellent tool which can be customised and adjusted to assess the quality of a country's infrastructure governance.

The framework also provides insights on how to improve the various measures in place to improve the state of governance in PIP implementation in concrete country settings. It could thus serve as an excellent reference point for assessing and ensuring good governance in PIP implementation in Bangladesh.

The ten pillars of the OECD framework are: (a) Develop a strategic vision for infrastructure; (b) Manage threats to integrity; (c) Choose how to deliver infrastructure; (d) Ensure good regulatory design; (e) Integrate a consultation process; (f) Coordinate infrastructure policy across levels of govt.; (g) Guard affordability and value for money; (h) Generate, analyse and disclose useful data; (i) Make sure the asset performs throughout its life; (j) Public infrastructure needs to be resilient.

Each of the ten pillars has three elements. These are: (i) why the pillar is important; (ii) what are the key policy questions; and (iii) what are indicators to assess the state of the pillar. Thus, the framework presents justification for the pillars, policy questions associated with the pillar and also indicators to assess quality of implementation and monitoring of progress in connection with the investment.

As was noted, the Bangladesh government is at present investing a significantly large sum of money to put in place the much-needed economic and social infrastructure. These are geared to providing better quality services to citizens, crowding-in private sector investment and attracting large amounts of FDI. Deepening of regional multi-modal connectivities through transport networks is expected to provide rich dividends in the form of helping develop regional value chains and production networks. Triangulation of transport-investment-trade connectivities is being seen as a critically important strategy for sustainable dual graduation of Bangladesh-middle income graduation and LDC graduation—and SDG implementation.

The OECD pillars concern both processes and outcomes and impacts as regards PIP implementation. The pillars call for careful prioritisation, selection of projects based on objective criteria and transparency, accountability and good governance in implementation of PIPs through deployment of appropriate monitoring tools, ensuring good value for money, deployment of tools to ensure financial integrity, audit by potential beneficiaries, and all these to be geared to ensuring good value for money and attaining project objectives and goals. There are ample scopes to improve quality of PIP governance in Bangladesh concerning each of the ten pillars and the associated indicators when juxtaposed to the identified deficits.

Going Forward

Bangladesh policymakers need to take concrete measures to raise the quality of governance in PIP implementation. In view of the preceding discussions some of the suggested measures are presented in the following sub-sections.

4.1 Develop a Good Governance Framework

In view of the governance deficits in PIP implementation in Bangladesh, policymakers should develop an appropriate framework which would address the various concerns along the entire spectrum of the chain, beginning from prioritisation, selection, conceptualisation of the project idea to implementation, monitoring and evaluation and assessment of impact. The objective would be to ensure good value for the money spent on the PIPs. The OECD framework can serve as a good reference point to design an appropriate PIP governance framework for Bangladesh. However, it is well understood that each country has its own specific demands and the framework will need to be contextualised and adjusted to local needs. Institutions, human resources and technical capacities will have to be put in place towards operationalisation of the framework which is designed. An institutional arrangement will need to be put in place to also monitor that the framework is being followed in PIP implementation in a coordinated way. Some elements of the recommendations articulated in the following part of the discussion could also be included in the proposed framework for it to work effectively and address the governance needs adequately in the particular context of Bangladesh.

4.2 Implement IMED Recommendations

IMED in successive reports have drawn attention to recurring problems that impede PIP implementation in Bangladesh. It has also made a number of suggestions to address the attendant problems. These include filling up vacant posts, proper training of human resources, more effective use of digital platforms, setting up of a dedicated project implementation institution, setting up a specialised lab to help carry out monitoring and assessment work appropriately and greater capacity to carry out post-project completion monitoring activities.

Concerned authorities may like to take needed steps to implement these suggestions which would contribute significantly to improving the state of governance in PIP implementation in Bangladesh.

Indicators for measuring whether this has been actually done could be:

(a) A plan to implement IMED recommendations

(b) Progress made in view of the aforesaid plan

(c) Assess improvements in view of implementing the plan

4.3 Take APAs to Field Delivery Levels

The APA introduced by the GoB is an excellent initiative towards good governance and accountability. This can be further strengthened by ensuring vertical accountability, i.e.; taking it beyond sectoral Ministries, Divisions and agencies to more micro-level, to the level of, for example, assessing performance of PDs of important projects. Till now APA has worked primarily on the basis of rewards but not sanctions based on the level of performance. The framework for Bangladesh could include both.

(a) Indicators of the proposed Pillar "Take APAs to Field Delivery Levels" may include:

(b KPIs to assess performance of PDs

(c) Presence of an independent body to monitor the assessment process of implementing agencies to ensure better accountability

(d Reward and sanctions based on performance of PDs of nationally important PIPs

The above two suggested pillars could also be subsumed under the existing pillars of the OECD framework and put as indicators of performance of PIPs under the concerned Pillar.

4.4 Ensure Adequate Legal Support

The GoB doesn't have any dedicated law cadre in the Ministries to deal with various court cases when an infrastructure project's implementation is contested by an 'aggrieved party' on various legal grounds. In Bangladesh these often concern ownership and acquisition of land, relocation, compensation and others. Project implementation is delayed for unacceptably long periods when cases are lodged and stay orders are issued by the lower courts. Legal experts sent from the pool of law Ministry to the various Ministries and government entities tend to be frequently transferred and the concerned officials also lack the motivation to work outside of their parent Ministry. There is a need for developing legal capacities of their own particularly in Ministries that have large number of PIPs such as Ministries of energy and roads and highways. Such professionals may be deployed at the disposal of PIP implementing authorities. This requirement may be added to the OECD framework.

Indicators to "Ensure Adequate Legal Support" may include:

(a) Presence of a dedicated law cadre in Key Ministries to deal with legal issues involving PIP implementation

(a) Number of cases which have been successfully dealt with

(a) Development of appropriate legal document articulating how land acquisition related transactions should be carried out to ensure minimum legal hassles.

4.5 Strengthen Monitoring and Evaluation

As was mentioned earlier, citizens' monitoring initiatives could be a powerful ally in the evaluation work carried out by the IMED. There is a need to strengthen both the formal (IMED) and informal (citizens' initiatives) forms of monitoring towards better governance in PIP implementation in Bangladesh.

The OECD framework has a dedicated pillar and indicators that concern strengthening monitoring and evaluation of PIP implementation which, in the particular context of Bangladesh, could be addressed and further strengthened through the followings: (a) Enhance IMED's human resources (123 out of 338 posts in the IMED remained vacant as of FY 2020-21); (b) Take concrete initiatives to raise IMED's M&E capacity by setting up a dedicated professional development institute; (c) Decentralise IMED work through Divisional level offices; (d) Put in place a dedicated laboratory at the IMED for testing quality of construction works; (e) Set up a media wing towards greater transparency and accountability in the work of the IMED; (f) There is a need for capacity building of non-state actors in areas of monitoring the quality of PIP implementation in their localities.

The pilot exercise that has been initiated by the BRAC Institute of Governance and Development (BIGD), in agreement with the GoB, should be strengthened and promoted further. Lessons learned from the pilot initiative should be carefully assessed for its wider dissemination and scaling up. Such an exercise will advance the cause of accountability in PIP implementation in Bangladesh. This will also strengthen pillar 5 of the framework (Integrate a consultation process).

Indeed, the above concern cross-cutting areas which could contribute to improving PIP implementation across all the Pillars.

Concluding Remarks

It needs to bekept in mind that the significant resources being invested for PIP implementation are either tax payers' money or borrowed money repayment of which will also need to be serviced through tax payers' money. It is also to be noted that the cost of borrowings is going up because of Bangladesh's middle income graduation. It is now a blend country with a mix of concessional and non-concessional loans. In near future, Bangladesh will be a non-blend country, with mostly non-concessional loans underwritten by high interest rate, stringent conditionalities and lower maturity and grace periods for loan repayment. The need for good governance in PIP implementation is thus becoming increasingly important from the perspective of avoiding any likely*debt-trap* and not falling into the dreaded *middle income trap*. Ensuring transparency, accountability and good governance in PIP implementation will thus become even more important in going ahead.

There is no denying the fact that if the investment ensures the expected internal rate of return and financial and economic returns and generates socio-economic benefits in the form of higher GDP growth rate and better quality of service delivery, higher investment in PIPs would no doubt generate good value for taxpayers' money. It is from this vantage point that a comprehensive framework for ensuring good governance in PIP implementation could generate high dividends for Bangladesh. The aforesaid OECD framework could serve as a useful reference point to draw necessary insights in this connection, with adjustments that will need to be made in view of the specificities that inform the particular context of PIP implementation in Bangladesh.

....

The writer is a Distinguished Fellow of the Centre for Policy Dialogue (CPD), a leading think tank in private sector in Bangladesh