

UNCLASSIFIED

# Country Development Strategy Statement

**FY 1985**



## **BANGLADESH**

January 1983

Agency for International Development  
Washington, D.C. 20523

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BANGLADESH  
COUNTRY DEVELOPMENT STRATEGY STATEMENT  
FY 1985

January 18, 1983

James A. Norris  
Mission Director

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EMBASSY OF THE  
UNITED STATES OF AMERICA  
Dhaka, Bangladesh

January 18, 1983

Mr. M. Peter McPherson  
Administrator  
Agency for International Development  
Washington, D.C. 20523

Dear Peter:

The FY 1985 Country Development Strategy Statement for Bangladesh takes a different form from that of the predecessor submissions for FYs 1983 and 1984. As a country with an approved CDSS, the Mission has taken the opportunity provided by AID/Washington to describe progress made and plans with respect to the Agency's four priority areas of policy dialogue, promotion of the private sector, technology transfer and institutional development.

The past year has been an extremely difficult one for Bangladesh. Economic decline, largely caused by circumstances beyond the country's control, and a loss of confidence in the ability of the existing democratic institutions to cope with the situation, led to the proclamation of martial law under a military government in March 1982. The country's economic difficulties have persisted, reflecting in part the ongoing recession in the industrial countries, and in part a succession of disappointing foodgrain crops beginning with the vital aman rice crop of a year ago. The impact, in terms of declining living standards in a country characterized by extreme poverty, can hardly be overstated.

Notwithstanding the difficulties facing it, the new government has acted with great courage to increase domestic resource mobilization through reduction of foodgrain and fertilizer subsidies, substantial increases in power rates and petroleum prices, and new tax measures. The planning mechanism has been revamped to ensure a better focus on areas of priority importance, and for

the first time planning targets have been limited to prospective resource availabilities. Perhaps most heartening of all, the government has taken a number of steps to encourage the development of private enterprise, including the divestiture of large portions of the nationalized jute and textile industries.

The Mission believes it has played an important role in helping to bring about these and many other reforms. Major policy changes evolve as the result of a constant process of dialogue involving the World Bank and other donors, as well as ourselves. Numerous other government measures, such as the continued phasing down of the food-grain ration system and the ongoing process of privatization in fertilizer distribution, can be traced more directly to specific USAID project activities. Future projects will continue to have a high policy content, most notably perhaps the Rural Finance Project, to be negotiated in FY 83, which will aim at a fundamental restructuring of the country's rural banking structure.

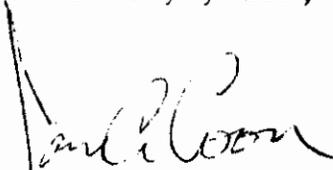
We have been making good progress also in the areas of institutional development and technology transfer. Particular mention may be made here of the extension of the farming systems concept through the Agricultural Research II Project, which we believe promises large pay-offs in terms of future production increases. Relatively new are the institution-building aspect of the Rural Finance Project and the effort to build a local-level road maintenance capacity through the Zilla Roads Project.

Despite the government's best efforts, neither the economic nor the political climate has been conducive to large-scale private sector undertakings. However, we firmly believe that the greatest hope for an eventual move toward economic self-sufficiency lies in the potential for a vigorous private sector. Meanwhile, we have continued to press for privatization in areas subject to our direct influence, such as fertilizer distribution and foodgrain marketing.

A resumption of economic progress will indeed be essential, given the relentless and rapid rate of population growth in this already overcrowded country. The martial law government has taken great political risks in enacting

unpopular reform measures at a time of severe economic stress. One can only speculate as to how long it can continue to do so in the absence of an economic upturn. Clearly, however, the Bangladesh Government has been doing its part. As a moderate Islamic state, normally supportive of U.S. interests in international forums, and one that has more than demonstrated a willingness to help itself, Bangladesh is deserving of the fullest possible U.S. support.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Jane A. Coon". The signature is written in a cursive style with a large, sweeping initial "J".

Jane A. Coon  
Ambassador

## TABLE OF CONTENTS

	<u>Page Nos.</u>
I. Introduction	1
II. The Economy; Recent Developments	1 - 5
III. The Basic Strategy:	
A. Reducing Fertility	6 - 7
B. Agriculture	7 - 8
C. Rural Industries/Employment	8 - 9
D. Increasing Energy Resources	9 - 11
IV. Responses to Questions Posed in Guidance:	
A. Policy Dialogues	11 - 16
B. Private Sector Development	16 - 18
C. Technology Transfer	18 - 20
D. Development of Indigenous Institutions	20 - 24
E. Participant Training	24 - 26
F. Food Aid as a Development Tool	26 - 28
G. Relation to Other Donor Activities	28 - 30
H. Implications of the Priority Areas for CDSS Strategy and AAPLs	30 - 34

## I. INTRODUCTION

The FY 1985 Country Development Strategy Statement takes the form of the shortened version for countries with approved CDSSs, per the guidance contained in 82 State 305746. The Mission's FY 83 CDSS received Bureau approval, and an FY 84 CDSS Update was submitted one year ago.

This submission contains a review of Mission activities and intentions with respect to AID's four priority areas of policy dialogue, private sector development, technology transfer and institutional development, presented in the context of responses to the eight questions posed in paragraph M of the guidance. Also included are brief reviews of the economic situation and Mission strategy, stressing revisions to the program as outlined in last year's submission.

The Mission will submit separately, within the near future, a review of Women in Development activities and an Agriculture Sector Assessment which we expect to form the basis for the agriculture sector strategy to be presented in the FY 86 CDSS.

## II. THE ECONOMY: RECENT DEVELOPMENTS

The Bangladesh economy continues in the recession in which it has been mired since the fourth quarter of CY 81. The original causes of the recession were a balance of payments crisis precipitated by withdrawal of the IMF's 3-year SDR 800 million (\$U.S. 1 billion) Extended Fund Facility (EFF).

at the outset of FY 82\*, the restrictive monetary and fiscal measures taken by the BDG in response to that crisis, and the climate of instability and general loss of confidence in the wake of President Zia's assassination (in May 1981). An important contributing factor was the poor FY 82 aman rice crop. Last year's aman crop, which accounts for half of total food-grain production and is harvested during November-January, amounted to 7.1 million tons, sharply lower than the record 7.8 million ton crop of FY 81, and the worst aman crop, in per capita terms, since Liberation in 1971.\*\*

According to official estimates, GDP rose by 0.9 percent in FY 82, with agricultural output down by 1.9 percent and industrial production higher by 3.5 percent. Other sources estimate a decline in GDP of up to 2.5 percent, but in any case, the demarcation by fiscal year obscures the extent of the recession. Thus, for the 12-month period beginning with the FY 82 aman crop and extending through the aus (summer) rice crop of FY 83, foodgrain production was 5 percent lower than in the previous 12-month period; and industrial output has trended steadily downward since October 1981. The persistence of stagnation is reflected in weak demand for bank credit and imports, notwithstanding an easing of credit policy by the Government.

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\* Withdrawal of the EFF was the climactic event in a crisis that had been developing throughout FY 81. See FY 83 CDSS and FY 84 CDSS Update for analysis of the balance of payments and budgetary factors leading up to the IMF action.

\*\* The flood-affected 1974-75 crop may have been as bad, depending on the population assumption used in the calculation.

The balance of payments situation has improved during FY 83. Exports are doing somewhat better owing to a mild pick-up in demand for jute products; wage earner remittances may reach \$480 million this year as against \$384 million in FY 82; and foreign aid disbursements will be somewhat higher than last year's \$1,236 million. The increased income from these sources will, however, be applied to maturing short-term debt obligations to foreign banks and foodgrain suppliers; imports will decline by about 3 percent to \$2.25 billion, following on last year's decline of 8 percent, and foreign exchange reserves will remain in the area of \$100 million.

Thus, there is not now a balance of payments crisis in the usual sense of the term. The ongoing decline in imports reflects lack of demand rather than a balance of payments constraint, and the situation will be further eased if the BDG and the IMF come to terms on a new standby credit. (The credit would be approximately \$75 million). The improved situation is, however, a relative matter. With reserves remaining at bare minimum levels, there is no scope for an upturn in imports sufficient to sustain a significant economic revival. When that occurs, and barring very marked increases in exports or commodity aid, the balance of payments will reassert itself as a constraint on economic growth. The need for aid, especially in cash or commodity form, will remain acute.

At this point, it is difficult to envision a source of stimulus that might lead to economic recovery in the near-term.

The FY 83 aman crop, now being harvested, has again been adversely affected by inadequate rainfall. The crop is projected at no more than 7.2 - 7.4 million tons, or about enough of an increase over last year's aman crop to offset the intervening increase in population. The overall budget is in balance thus far this year, and the government is firmly committed to a policy of no deficit financing. This year's Annual Development Plan (ADP) is being held to Taka 27 billion, unchanged from the FY 82 level (and down 10 to 15 percent in real terms).<sup>\*</sup> Finally, while we have no formal way of assessing the progress of small-scale rural off-farm activities, urban private sector activity remains at a low level, evidently afflicted by a general crisis of confidence. Overall, the outlook is for yet another year of declining per capita GDP. Given the extremely low living standards of the Bangladeshi people, the impact, in terms of individual hardship, can well be imagined.

On the brighter side, and notwithstanding the dismal state of the economy, the government has taken numerous courageous measures to reinstate fiscal discipline and mobilize domestic resources. Subsidies have been markedly reduced through sizeable increases in the prices of rationed foodgrains, fertilizer, petroleum and electricity; ADP implementation procedures have

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<sup>\*</sup> Actual FY 82 ADP expenditures are reported to have been Taka 22.84 billion, or 15.4 percent below the plan target. Similarly, ADP disbursements in FY 83 are lagging behind schedule and may again fall short of target.

been greatly simplified, with ADP targets for the first time tailored to prospective resources; and the BDG has taken a number of measures to promote private sector activity. Most significantly, the BDG has moved to disinvest large portions of the all-important jute and textile industries. The country will remain heavily dependent on foreign aid for the foreseeable future, but the Government has been doing its part to squeeze additional resources from a very meagre resource base.

### III. THE BASIC STRATEGY

As described in the FY 83 CDSS and the FY 84 CDSS Update, USAID is pursuing a sectoral strategy encompassing the areas of family planning, agricultural development, rural industries/employment and energy. The sector approach is viewed as the best means of designing coherent Mission approaches to the range of development problems within each area, of providing a suitable framework for significant policy dialogue with BDG officials, and of marshalling the financial resources with which to focus on development policies. One of the major interests, the promotion of an appropriate policy dialogue within the host country, is, therefore, a basic justification for the sector strategy. The extent to which the Mission is using this and the other major AID development tools - promotion of the private sector, technology transfer, and institutional development - will be covered below in the answers to the questions submitted in the basic CDSS guidance.

The determination of the sectors themselves is dictated largely by the country's economic circumstances - its extreme poverty, lack of natural resources, and heavy dependence on agriculture - and by its appalling demographic situation. At the present population growth rate of 2.5 percent,\* the population of 94 million would double in 28 years. Indeed, the population will exceed 100 million by FY 85, barely half way through the period covered by this report.

#### A. Reducing Fertility

Reduction of fertility continues to have top priority among Mission objectives. Previous CDSSs, have indicated that the current contraceptive prevalence rate of modern method use, 10.9 percent,\*\* can be raised to 30 to 35 percent through the effective delivery of family planning services. Strategies for reaching the prevalence target remain essentially as described in the FY CDSS, with some increased reliance on NGOs and greater attention to improvement in the BDG's delivery systems. The voluntary sterilization program has been a highlight of the past year's activities; the average number of sterilizations has risen from 19,000 a month in 1981 to 33,800 during January-November 1982.

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\* Mission estimate. Other informed estimates range from 2.5 to 2.8 percent.

\*\* Current use, as measured in BDG's 1981 Contraceptive Prevalence Survey. The overall contraceptive prevalence rate, including traditional as well as modern methods, was 18.6 percent.

Further measures must be developed if the prevalence rate is to go beyond 35 percent and enable achievement of the Government's ultimate goal of  $NRR=1$ .<sup>\*</sup> These include greater attention and support to female education and employment, and perhaps also the introduction of individual and community incentives. Major donors in the population area are planning a coordinated effort to address these "beyond family planning" considerations, as well as the course of ongoing activities (see further section IV.D).

#### B. Agriculture

Agriculture must remain a primary area of concentration, given the country's continuing inability to feed itself. Unfortunately, owing to adverse weather conditions in FYs 82 and 83, and notwithstanding successes in the advancement of basic research and the spread of HYV technology, the self-sufficiency goal has continued to recede into the future. Assuming the population continues to grow at the present estimated rate of 2.5 percent per annum, foodgrain production would have to increase at an annual rate of 4.7 percent for self-sufficiency to be reached by 1988, even assuming the nutritionally inadequate consumption rate of 15.5 ounces per person per day on which this calculation is based. It is not realistic to suppose that this can happen by that date, but it is fully appropriate to work toward the ultimate goal of self-sufficiency.

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<sup>\*</sup> Net reproduction rate.

USAID's agriculture sector activities are intended to develop and disseminate agricultural technologies, to increase access to institutional credit and agricultural inputs, and to improve foodgrain security, management and marketing. Major projects remain essentially as described in the FY 84 CDSS Update, though the proposed Rural Finance Project (RFP) has assumed a significantly greater dimension than envisaged a year ago. Now conceived as a 3-year \$75 million project, the RFP will have as its goal a major restructuring of the country's rural banking system.

The agriculture sector study mentioned in the FY 84 CDSS Update has been essentially completed and will shortly be submitted for AID/W review. This paper will help to form the basis for the Mission's long-term agriculture sector strategy, to be outlined in the FY 86 CDSS.

#### C. Rural Industries/Employment

The importance of this sector arises from the country's high unemployment/underemployment rate, estimated at upwards of 30 percent, and the inability of the agricultural sector to absorb more than a portion of the annual new entrants to the labor force. The growth rate of the rural labor force, before allowance for migration to urban areas, is about 2.6 percent. Even if agricultural output can grow at a rate of 4 percent, about the upper limit of what can be expected, the resulting growth in agricultural employment would be no more than 1.5

to 2.0 percent. Unless adequate off-farm employment opportunities arise, therefore, the rate of unemployment/underemployment is certain to increase, whether in the rural areas or in the rapidly expanding cities.\*

USAID's efforts to promote rural non-farm employment continue to be in four main areas: (a) continuing to provide seasonal employment directly to the most needy through Food for Work; (b) assisting indigenous private organizations and Government agencies in their efforts to provide needed information and services through the Rural Industries Project; (c) providing credit to small rural industries through the Rural Finance Project; and (d) emphasizing the productive uses of rural electrification. Elements of the sector effort, within each of these categories, are essentially as explained in the FY 84 CDSS.

#### D. Increasing Energy Resources

Bangladesh has sizeable natural gas reserves (currently estimated at about 10 trillion cubic feet), but they are in an early stage of development, and the country remains heavily dependent on petroleum imports. In FY 83 falling world oil prices and a slumping Bangladesh economy are combining to produce the first reduction in expenditures on petroleum after

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\* The extent of internal migration is not precisely known, and cannot be extracted from available census data. On the basis of Mission estimates, the urban population is expanding at a rate of 6.5 to 9 percent annually. Assuming an urban growth rate of 6.5 percent, the rural population is growing at 1.95 percent. To some extent, then, the rural unemployment problem is being shifted to the cities and towns.

many years of rapid increase. Nevertheless, they will absorb over 70 percent of the country's export earnings this year, and the upward trend is expected to resume in line with the country's increasing energy demand, at least until new gas-powered generating capacity is created and distributed.\* At the same time, use of traditional energy sources, particularly fuelwood, is depleting and damaging the environment.

The energy strategy outlined in the FY 84 CDSS has undergone certain revision, largely for budgetary reasons. We have, for example, decided to leave the field of conservation to the IBRD, which is developing a conservation program, and, after some research into the area, have decided that small-scale hydro-electric generation is uneconomic in Bangladesh. Other elements of the strategy outlined a year ago remain basically in place. Rural Electrification (RE), the most cost efficient and immediately effective means of providing energy to the rural areas, has been the cornerstone of Mission energy programs. Within the RE area, the Mission has been shifting its resources from the construction of lines and poles to technical assistance in the application and uses of electric power. The Mission will be altogether out of the construction area by

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\* The East-West Power Interconnector Project, completed in December 1982, allows electric power generated in the gas-abundant eastern half of the country to be distributed across the Jamuna River to western Bangladesh, where power is produced in oil-fueled generators. Similarly, the Bakrabad-Chittagong gas pipeline, scheduled for completion in 1983, will allow Chittagong factories and power plants presently fueled by imported oil to convert to gas.

FY 85 even as other donors continue to move into it (the IBRD, Kuwait and Finland have already followed the Mission's lead in the area).

In a far smaller project, just getting underway, the Mission is providing assistance to the Ministry of Energy and Petrobangla to develop dependable estimates of natural gas reserves and recommendations for improvement of existing gas production and transmission facilities. Other energy initiatives will be the subject of an energy sector assessment now underway.

#### IV. RESPONSES TO QUESTIONS POSED IN GUIDANCE

The following are responses to the specific questions posed in the guidance (State 305746) for Missions with approved CDSSs.

A. What is your Mission doing to increase use of policy dialogues as a mode of AID operation? What is the need and potential for policy change in your country, and what resources should AID contribute to help effect such change? What goals can and should be set in the area of policy reform over the CDSS five year period?

The need for improvement of public policies is as great in Bangladesh as in most LDCs. A statist philosophy prevailed for several years following the achievement of Independence, but a trend toward liberalization began under the administration of President Zia during 1976-81, and the present martial law government has evidenced a clear desire to accelerate the trend. Recent BDG measures to disinvest large portions of the

jute and textile industries, and a major move toward decentralization of government are examples of recent major policy actions that have improved the climate for policy dialogue.

The Mission's policy input most often comes at the sectoral level, where program and project activities give USAID both expertise and influence. Recently, however, it has broadened to encompass macroeconomic concerns. The improved policy environment in Bangladesh has provided ample scope for AID to continue and broaden its involvement in the formulation or improvement of selected public policies.

One of the principal areas of ongoing policy dialogue is in food policy. USAID's experience in the distribution of foodgrains in Bangladesh dates from the start of the large P.L. 480 Program following Independence. A recent major program innovation was the 3-year Title III Agreement, signed in March 1982, which provides for a flexible commodity mix according to changing host country requirements, subject to annual joint program evaluations. Under the new agreement, substantial progress has been made toward achievement of Mission goals of:

- (a) ensuring effective floor prices for the procurement of foodgrains to provide incentives for the adoption of HYV technology;
- (b) reducing the size of the ration system through increasing prices of rationed foodgrains, while reducing the size of individual rations;
- (c) promoting open market sales of foodgrains to moderate prices at times of scarcity; and
- (d) reducing restrictions on the private wholesaling of grain.

Similarly, the Mission and the BDG have been engaged in a continuing dialogue over the marketing of another crucial commodity, fertilizer, since 1978. Under the terms of the Fertilizer Distribution Improvement Project, the Government has removed restrictions on the private movement of fertilizer, closed down 243 government sales centers in favor of private wholesalers, and decontrolled retail fertilizer prices in a large region of the country. Price decontrol will eventually be extended to the rest of the country. USAID and the Ministry of Agriculture are now designing a successor project to expand the role of private fertilizer distributors from the local level to the national level in order to improve the overall reliability and efficiency of fertilizer distribution.

Recently USAID has attempted to broaden the policy dialogue from the sectoral and subsectoral arenas to the macro-economic stage. In response to dire shortages of foreign exchange and local currency revenues in 1982, USAID offered the BDG a large multi-year grant of quick disbursing commodity assistance in support of reform of key macroeconomic policies. This offer of commodity assistance was linked to the BDG reaching agreement on several policy issues with the IMF, as discussed in the PID for the Policy Reform Grant (PRG) submitted to AID/W in May 1982.

Largely because the concept of a Commodity Import Program was subsequently found to be difficult to implement effectively in Bangladesh, the PRG evolved into a substantially enlarged

Rural Finance Project (RFP), which is focused on a fundamental reform of the country's rural banking system. However, we feel that the dialogue engendered by the PRG concept contributed importantly to the willingness of the BDG to come to terms with the World Bank on reducing the size of the ADP, establishing a core investment budget, reducing the principal subsidies, and improving the performance of public sector corporations.

Meanwhile, the dialogue continues with respect to the RFP and reform of rural financial institutions. The major issue under discussion is the restructuring of interest rates to enable profitable operations by the banks, and to encourage reliance on savings as opposed to central bank refinancing as the principal source of bank funds. When agreement is reached, the multi-year grant of foreign exchange offered to the BDG in 1982 will be programmed through the Rural Finance Project, beginning in 1983.

During the five year period covered by the CDSS, most of USAID's policy input will be in the selected sectors to which the Mission's project and program resources are currently directed. Although USAID will continue to analyze and participate directly in the policy dialogue regarding fiscal and monetary policy, exchange rate adjustments, etc., the lead in these broader areas of macroeconomic policy will likely remain with the IMF and the World Bank, the institutions which provide general import credits. USAID's one major area of involvement

cutting across all sectors will continue to be that of credit policy. Following are areas in which specific sectoral or sub-sectoral goals can be identified.

Foodgrain Marketing. During the planning period, USAID expects to press for continued improvement of Bangladesh's system of foodgrain marketing through the P.L. 480 Title III Program. In negotiating a new agreement for FY 85, the Mission will continue to press for phasing down of the ration system and institutionalization of open market interventions as the principal means of dampening unacceptable movements in foodgrain prices. By the end of the five-year period, hopefully sooner, the food ration system will be phased out save perhaps for a residual element targeted exclusively at the truly poor. An effective system of open market interventions will maintain incentives to producers while protecting consumers from unacceptable short-term price rises. (Other uses of P.L. 480 are discussed in section IV.F below.)

Fertilizer. In the fertilizer subsector, USAID hopes to negotiate the transfer of fertilizer distribution and marketing from public to private sector, accelerating a process initiated at the local level under the Fertilizer Distribution Improvement Project. This national level transfer will occur in the course of a successor project programmed for FY 84-88. The exact timetable for the transfer, as also for the nationwide decontrol of retail fertilizer prices, is uncertain at this point. Fertilizer offtakes have stagnated over the past two years,

after many years of rapid increase, and some BDG officials believe the New Marketing System has been a factor in the slowdown. The Mission believes the slowdown is attributable to other factors, notably drought conditions during recent planting seasons and fertilizer price increases,\* and that the NMS will act to increase fertilizer use if, indeed, it has not already done so. We are studying the situation. Meanwhile, the uncertainties surrounding the subject will add to our difficulties in putting together the Phase II Project.

Financial Markets. Under the Rural Finance Project (FY 83-85), USAID plans to negotiate higher interest rates on loans and savings at several rural banking institutions and institute reforms of banking practices. Before the end of the planning period, the reforms implemented in these banks will be extended to all rural financial institutions.

B. What is your Mission doing to increase use of the U.S. and indigenous private sectors as development tools, and how does that differ from what you have done in the past? What goals can realistically be set in this area?

Promotion of the private sector and development of the country's market economy are key elements of USAID's program in Bangladesh. Current Project Agreements have broadened the role of private traders in distributing and marketing fertilizer, foodgrains and contraceptives; reserved a portion of the local processing of Title III commodities for private industry;

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\* Fertilizer prices were raised an average 14 percent on Dec. 7, 1981 and another 21 percent on July 1, 1982.

required that the local currency proceeds from the sale of Title II, Section 206 wheat be placed in private banks; created an organization (Micro Industries Development Assistance Society) to provide assistance to non-governmental organizations in their efforts to assist small-scale entrepreneurs; and begun a Women's Entrepreneurship Development Program in the Bangladesh Small and Cottage Industries Corporation. The Rural Finance Project will increase the availability of institutional credit to the wholly private farm sector and to private off-farm businesses.

In addition to these negotiated institutional and policy changes, the Mission has sought to develop the capabilities of local firms through host country contracts. Bangladeshi firms and workers are gaining valuable experience in engineering and construction activities through their participation in the Phase II and Phase III fertilizer warehouse construction programs. Similarly, funded with the proceeds of Section 206 wheat sales, local contractors will build bridges and culverts on the roads constructed by the Food for Work Program. Under the rural electrification projects, local private sector capacity is being developed to engineer, design, and construct electrical distribution systems and to manufacture and supply construction commodities, electrical equipment, appliances, spare parts, and services.

Although most of the Mission's training resources have been devoted to upgrading the technical and managerial skills of BDG employees, two recent training programs have sought to

develop private capabilities. Under Fertilizer Distribution Improvement, the BDG, with assistance from the International Fertilizer Development Center, has begun a training program in marketing for private fertilizer dealers. Under Rural Electrification over 1,000 village electricians have been trained and have returned to their villages as private businessmen. Similarly, included in the future Water Management Systems Project will be a training program for private technicians in the installation, maintenance, and repair of irrigation equipment.

C. What is your Mission doing to increase technology transfer and research as a development tool, and how is that different from what you have been doing? What are your goals?

USAID's activities and goals in technology transfer and research have remained essentially unchanged over the past year. The Mission is actively promoting research and technology transfer in all four program sectors.

Development of appropriate, cost-effective agricultural technologies is basic to increasing the productivity of Bangladesh's agricultural sector. The Agricultural Research II Project continues the Mission's ongoing commitment to strengthen the national institutional capacity to generate appropriate agricultural technologies. To ensure the relevance of this research to the farmers of Bangladesh, an inter-disciplinary farming systems research approach focuses on the findings of trials conducted in farmers' fields. By the end of the planning period, the project will have contributed to diversification of

the national cropping system, increased land use intensity, adaptation of new varieties to local conditions, and the training of over 900 agricultural scientists, technicians, and managers. The Mission's most highly technical project in support of the agriculture sector is the Agro-Climatic/Environmental Monitoring Project. This project provides equipment, training and technical assistance to build a capability within the BDG to receive and analyze remotely sensed data to improve crop forecasts and manage natural resources. By project's end, Bangladesh will be using this capability to monitor water and forest resources, predict storms and droughts, and aid in forecasting harvests (especially the winter crops where cloud cover does not interfere with satellite observations).

In the population sector, the Mission is promoting research as a development tool through support to (1) a series of Contraceptive Prevalence Surveys run by the Ministry of Health and Population Control, (2) research by the International Center for Diarrhoeal Disease Research to test the transferability of an experimental family planning project in Matlab Thana to the Government's Family Planning Program, and (3) an Operations Research Program in the National Institute of Population Research and Training. While the first two of these activities show good promise for developing research capabilities and providing reliable statistical program guidance, the Operations Research Program has faltered due to the low priority assigned to research by the Ministry. Consequently, the Mission may cancel support to operations research in 1983.

In the rural industries area, a grant to the Asia Foundation finances the fabrication of an external combustion Sterling engine, using locally available materials, and its introduction to Bangladesh. Presently under consideration for rice milling, this engine is powered by burning rice husks and is thermally twice as efficient as a diesel engine. By the end of the planning period, the Mission expects to see this machine in widespread production and use by the private sector.

In the energy sector, AID has already provided \$24 million in technical assistance and training through the Rural Electrification Project to improve the maintenance and management of the most efficient conventional energy source available to rural Bangladesh. Other possible energy activities with significant R&D content under consideration for future Mission funding include technical and limited capital assistance to: spread the use of fast growing trees in small farm homesteads, improve the efficiency of animal traction methods, improve the combustive efficiency of traditional fuels used in industrial processes, and develop peat resources.

D. What is your Mission doing to help indigenous institutions in critical development sectors? What are your goals?

The Mission has been involved with several significant institution-building efforts directly related to our policy concerns. The Rural Finance Experimental Project, which concluded in 1982, pointed to changes required to make Bangladesh's banking institutions more responsive and more efficient. These

changes will form a basic policy component for the follow-on Rural Finance Project. By the end of the Rural Finance Project, the banking system should be essentially transformed from a highly subsidized, inefficient institution to one which is accessible to small farmers and entrepreneurial villagers and which pays its own way.

Agricultural research and extension organizations which have pursued narrowly defined specialist inquiries are being linked and supported through the Agricultural Research project. The dynamics of Bangladeshi farming strategies in a difficult physical and economic environment are analyzed at fifteen centers, with direct and frequent meetings between specialists and farmers at farm-sites. This practical approach has led to the development of more appropriate research projects and a wider diffusion of research results than previously existed.

Under the Fertilizer Distribution Improvement Project, a technical assistance team from the International Fertilizer Development Center has been placed in the offices of the Bangladesh Agricultural Development Corporation (BADC) and charged with improving the management of BADC's fertilizer distribution and marketing operations. Working with the officers of BADC, the consultants have introduced (among other things) improved systems of inventory accounting, warehouse management, least-cost routing, and dealer training.

At the suggestion of USAID and the World Bank, the Food Planning and Monitoring Unit (FPMU) was created within the

Planning Commission in 1980 to provide the analysis necessary for sound decision making in the areas of agricultural policy formulation and food procurement and marketing. USAID supports this unit, now relocated to the Ministry of Food, with technical assistance, training, and logistical support. By the end of the planning period, FPMU should be a well established unit with an analytical capability relied upon regularly by BDG decision makers in this critical sector.

In the population sector, USAID is interested in developing institutions both within and outside the Government program. Over 40 percent of the Mission's family planning resources are programmed through non-governmental organizations (NGOs), both Bangladeshi and expatriate sponsored. The indigenous NGOs offer important opportunities for institutionalizing non-traditional role models for women, since women staff and manage many such organizations and women field workers supply family planning services to traditional households. It is recognized that in order to reduce fertility alternative opportunities for employment for women and increased participation in the economy and society must be provided. Thus, these organizations assume a symbolic significance beyond the numbers of women involved.

Within the Government's family planning program, the Mission is considering a number of initiatives to effect what it sees as desirable institutional changes. The participation/assistance of other donors would be required in varying degrees. First, the Mission will urge the BDG to separate its population

control and family planning program from the aegis of the Ministry of Health, thereby freeing the former from the administrative constraints involved in the present arrangement. Secondly, we will urge the establishment of a semi-autonomous institution similar to the Indonesian model, BKKBN. The new organization should develop short, medium and long-term objectives in the family planning area, stressing the need for institution building, including enhancement of technical and management skills in such areas as planning, logistics, training, research and data management. Finally, assuming achievement of the first two objectives, the Mission would consider encouragement of a fundamental change in program funding whereby donor assistance would increasingly take the form of program grants and loans channeled through the new administrative agency. Ultimately, the new agency would assume most of the project coordination and implementation functions now spread among many disparate, sometimes conflicting donor organizations.

Recently the BDG has begun efforts to decentralize administrative authority to the thana (county) level. Three ongoing AID projects support this initiative. Decentralized administration of electricity distribution through autonomous Rural Electrification Societies under the Rural Electrification Projects has been underway for several years; the Mission's Zilla Roads Maintenance Project, now underway in three districts, is aimed specifically at developing decentralized capability not only for planning and execution of maintenance, but also the

generation of revenue to support such maintenance from local sources, rather than depending upon central grants; and under the Food for Work Program final project approval authority has been shifted to the local level.

In so far as the term "indigenous institutional development" implies encouragement of private sector activity and development of marketing systems, this area was covered in Section IV.B. Special mention may be made here, however, of a national association of fertilizer distributors, now being formed in anticipation of the Fertilizer Distribution Improvement II Project.

E. What plans do you have for participant training?

Participant training has been a vital adjunct to USAID's programs in Bangladesh. A recent Mission study showed that some 96 percent of returned participants were functioning in the areas for which they were trained. However, the Mission feels the program needs strengthening. Future efforts will include the following:

- (1) Broadening of program focus. Rather than look on training as a supplementary input to most projects, the Mission will attempt to broaden the participant training program to include (a) areas of critical manpower constraint not directly related to particular USAID projects (data processing and statistical analysis, for example) and (b) areas in which AID may develop future projects (e.g., irrigation). The Technical Resources Project will be the vehicle for such training programs.

(2) Institution building. The Mission will encourage the BDG to play a more active role in planning, designing, and evaluating training programs, roles until now left largely to USAID. In this regard, the BDG will be requested to formulate a manpower needs assessment for the short, medium, and long term.

(3) Expanding training opportunities for women. To encourage greater utilization of overseas training funds reserved for women under the Technical Resources Project, the BDG has transferred responsibility for managing this activity from the Ministry of Women's Affairs to the External Resources Division, Ministry of Finance. This change, along with USAID's recent waiver of the requirement that the BDG fund airfare for female participants on routes served by Bangladesh Biman Airlines, should enable considerably more Bangladeshi women to participate in USAID-funded training during the planning period.

(4) Training for the private sector (discussed under question IV.B, above).

(5) Improvement of predeparture orientations. USAID's 1982 survey of returned participants revealed that many Bangladeshis who received overseas training found their predeparture orientations inadequate. The Mission has just begun a series of follow-up interviews to determine how these orientations can be improved. The first need to emerge is for a detailed review of course outlines, which the Mission will

institute immediately.

F. What is your Mission doing to increase the use of food aid as a development tool?

The Mission considers and has always treated food aid as one of its principal means of attaining policy objectives in the agricultural area. Under the Title I/III Programs (and as discussed in Section IV.A), these have included the provision of incentive foodgrain prices, phasing down of the foodgrain ration system and its gradual replacement by an open market sales (OMS) system, and measures to expand private sector activity in the grain trade. The principal objective of these measures is to assure the farmer a return to production sufficient to encourage investment in HYV technologies, thereby indirectly promoting the goal of self-sufficiency in foodgrains. Another significant policy achievement obtained through the Title III Agreement has been the creation of the Food Planning and Monitoring Unit, which is providing the BDG with a capacity to organize and plan the optimum use of its available resources in the foodgrain area.

With the evolution of the Title I Program to a Title III Program in 1978, the proceeds of sales of USG-supplied foodgrains have been directed toward specific agriculture development projects. However, the development of sound policies is our top priority and will remain so. And with the adoption of a multi-commodity approach under the 3-year Title III Agreement signed in March 1982, we have been able to use

food aid resources to achieve policy objectives in non-food areas. One example is the promotion of private sector activity in the textile industry through the removal, under the terms of the present Agreement, of the 12,500 spindle limitation that had hitherto hindered investment in the industry.

The Title II Food for Work Program was conceived mainly as a provider of off-farm employment for landless laborers. However, the upgrading of roads and canals (3500 miles of roads in FY 82 alone, for example) under the program has always served an important development function, and recently, in line with AID/W policy directives and audit recommendations, long-term development aspects have become a major concern. Under Title II Section 206, the sales proceeds of 75,000 tons of grain shipped during FY 82 will be used to construct bridges and culverts on FFW roads; project management is including an increased engineering component; and the Mission has undertaken a study to increase development factors in program activities.

The need for food aid will almost certainly continue through the period covered by this review. As noted in Section IV.A, USAID expects the ration system to be virtually phased out by FY 88. While there will be a continuing need for Food for Work for the foreseeable future, USAID should eventually turn over to the BDG its existing managerial and monitoring functions. In so far as we do retain a management role, it should be in the Section 206 area where we can have the maximum development impact. These changes may not be accomplished by

FY 88, but the necessary planning can begin during the period under review.

The Mission will continue to seek ways of expanding the role of the private sector in the grain trade to provide a more cost effective means of moving/handling this commodity. One possibility now under consideration is to encourage private sector involvement in direct off-shore procurement. This is a likely policy issue to be discussed in future years. Another possible intervention would be the use of Title III sales proceeds for credit purposes and the attainment of policy objectives related to the Rural Finance Project.

G. How does the AID program relate to the activities of other donors? Can other donor programs be coordinated in a way that will support AID's objectives?

Coordination among international donors is improving in Bangladesh. Under the leadership of the World Bank, the Local Consultative Group (LCG) of bilateral and multilateral aid agencies meets regularly. Matters for discussion include an annual review of the national economy, sectoral issues (e.g., energy) and topical concerns (e.g., problems in implementation). Occasionally working groups are established to undertake protracted studies of common concern (e.g., a current working group on agricultural credit).

In addition, the Mission meets individually and in small groups with donors active in the four sectors of USAID concentration. In the Mission's priority area of family planning, USAID, UNFPA, and the World Bank together provide funding for

90 percent of the national program. The three agencies divide responsibilities for funding different portions of the program, and they meet monthly to plan and coordinate project activities. This group and the BDG have recently approached other donors about participating in the joint financing of the growing program.

In the agriculture sector, the numbers of donors and projects are much larger. The WFP coordinates food import issues. USAID works with the World Bank on food policy issues, i.e., the ration system, procurement prices, and agricultural input pricing. USAID and other donor financing of fertilizer imports and construction of fertilizer warehouses is coordinated by the Bangladesh Agricultural Development Corporation. USAID and seven other donors co-financed construction of the Zia Fertilizer Factory. About fifteen bilateral donors, multilateral agencies, and foundations meet quarterly under the leadership of the Bangladesh Agricultural Research Council to plan and coordinate assistance to the national network of ten agricultural research institutes. Until recently, coordination in the area of agricultural credit has been notoriously lacking. A recent USAID survey of three Bangladeshi banks revealed 23 agricultural credit projects financed by international donors, featuring widely varying interest rates and lending policies. USAID and the World Bank are working jointly with the BDG in a working group on rural finance which should help to bring order to the situation. The outcome of the working group

sessions will have an important bearing on prospects for USAID's Rural Finance Project.

Coordination between AID and other donors is relatively undeveloped in the rural industries sector and will have to increase if the Mission's activities expand in this new area. USAID's planned industrial sector survey will identify the activities of other donors in the sector and recommend appropriate coordination.

USAID's largest capital assistance project in the energy sector, Rural Electrification, has been undertaken jointly with I.D.A., Kuwait, and Finland. (The U.S. provides technical assistance, and all four donors provide commodities.) The BDG and USAID are currently soliciting the support of a fifth donor to co-finance commodities for the project. Sectoral coordination has recently broadened, however, with the creation of an LCG working group on energy, which meets approximately bi-monthly to discuss planning, research, project proposals, and implementation progress. Most donors are involved in capital assistance projects in conventional energy production and distribution. FAO, UNDP, IBRD, and ADB are also involved in forestry programs, an area of potential USAID project activity.

H. What implications do the four priority areas have for the validity of your CDSS strategy and AAPLs?

The Mission feels that its activities in the four priority areas have advanced the Mission's overall strategy to a high

degree, and will continue to do so during the period under review. Our success in applying these principles has, however, varied according to host country circumstances, degree of receptivity to change, and even the extent to which the policy themes invariably should be pursued, bearing in mind that they are considered "the most effective way the U.S. can help the poor majority of people in developing countries participate in a process of equitable growth" (Guidance, Para. D) and are not ends in themselves.

Reviewing briefly the four policy themes:

(1) Private Enterprise: As discussed in Section IV.A, the Bangladesh Government has made clear its intention to move away from its old statist philosophy toward a free enterprise orientation. It is not clear, however, that the higher authorities fully recognize the need to follow liberalizing decrees and pronouncements with effective implementation at the middle and lower levels. The bureaucracy, for the most part, has been willing to adjust to new ways of thinking when given a clear lead from the top. In the absence of such direction, old attitudes may occasionally prevail, constraining the initiative of the private sector and limiting the Government's ability to facilitate growth.

We are, for example, encountering strong mid-level resistance in our efforts to move beyond our initial successes with the New Marketing System in the Fertilizer Distribution Improvement Project. Similarly, in our P.L. 480 Title III

Program we were unable for years to persuade the BDG Ministry of Food to embrace our concept of an open market sales system, whereby dealers would be free to buy and sell whole truck loads of grain basically without constraints. However, the mechanism eventually worked out, though it does involve limitations on resale price and lot size, is now functioning well and is meeting the system's basic objectives (sales on an equitable basis at near-market prices, as needed to constrain rising grain prices). The watchword, therefore, would seem to be flexibility, as well as commitment, in promoting private sector activity.

(2) Technology transfer has played an important role in Mission strategy, notably in the agriculture sector through the Agricultural Research II Project. Overall, though, technology transfer has been secondary to policy dialogue and reform. Some of the reasons for this are:

- the relatively high manpower requirements implied in a technology-oriented strategy, and the Mission's low (relative to other area missions) manpower to program size ratio. Technology transfer requires constant interaction with host country personnel at all levels;

- the opportunities for achieving policy change in a country with enormous resource needs and a government receptive to change;

- the country's limited absorptive capacity. At the present time, Bangladesh does not have the financial resources

to absorb all of the project aid pipeline available to it.

Notwithstanding this background, Mission policy should evolve toward an increasing technology input as current policy issues are resolved. We would hope, for example, to have achieved all or most of our objectives in the areas of rural credit reform and foodgrain security by FY 88. The focus will be on appropriate, productive technologies that do not impose severe resource strains.

(3) Institutional Development: The Mission has been widely involved in indigenous institutional development, as discussed in Section IV.D. The major challenge for the FY 83-88 period will be to support, and assist as appropriate, the BDG's decentralization drive; to further our efforts in the "farming systems" approach to a better coordination of agricultural research and extension activities; to improve the country's rural credit institutions; and to work with the BDG and other donors toward the building of an effective institution for coordinating family planning activities.

(4) Policy Guidance: Success in promoting policy objectives requires resources as well as the capacity to conceptualize and design appropriate policy measures. Our sector strategy was designed, in part, to provide both the marshalling of resources and an appropriate framework for dialogue. The strategy has met with some success in family planning and agriculture where objectives are relatively clear and resources sizeable. In agriculture, we have managed some

additional mileage by combining food and DA resources at appropriate points, and we expect to further this process in coming years. However, in seeking to achieve major policy objectives in what we consider to be vital policy areas of family planning, rural finance, and fertilizer distribution, we have mortgaged a high proportion of our available DA funding for the next several years. The result, given prospective AAPL levels, is very little remaining for the rural industries/employment and energy sectors. As long as Mission strategies in those areas are in the formative stages, it has been possible to leave this problem on the back burner. Looking ahead, however, we will either need substantially more funding for those sectors or will have to redesign the sector strategy as now conceived. The matter will be resolved by the time of the FY 86 CDSS.