

*Initial Draft  
For Comments Only*

# **BANGLADESH'S EXPERIENCE WITH STRUCTURAL ADJUSTMENT: LEARNING FROM A PARTICIPATORY EXERCISE**

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***Dhaka; March 13-15, 2001  
Second National Forum of SAPRI Bangladesh  
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## ACKNOWLEDGEMENTS

The conception, planning and organisation of SAPRI in Bangladesh have benefitted from a great many individuals and organisations. In addition to the accomplished researches who authored the background reports and members of the Bangladesh SAPRI Steering and Technical Committee, contributions of participants at various regional consultations, focus group discussions, and representatives of civil society organisations are gratefully acknowledged.

The support provided by **Proshika**, the lead organisation and **Centre for Policy Dialogue (CPD)**, the study secretariat, is particularly appreciated. The cooperation extended by **Government of Bangladesh** and **World Bank** is acknowledged.

## SAPRI BACKGROUND REPORTS

- Atiur Rahman, MM Shafuqur Rahman, Abul Quashem, Zulfiqar Ali and Arifur Rahman: *Impact of Structural Adjustment Policies An Assessment Using Participatory Techniques*
- Sajjad Zohir: *Impact of Reforms in Agricultural Input Markets on Crop Sector Profitability in Bangladesh*
- K.A.S. Murshid: *Implication of Agricultural Policy Reforms on Rural Food Security and Poverty*
- M. Ali Rashid: *Impact of Trade Policy Reforms on Industrial Employment in Bangladesh*
- Toufic Ahmad Choudhury and Ananya Raihan: *Implications of financial Sector Reforms*
- Rushidan Islam Rahman: *Consequences of Structural Adjustment Policies on Poor*
- Nasreen Khundker: *Impact of Structural Adjustment Policies on Women*
- Kazi Ali Toufique: *Impact of Structural Adjustment Policies on the Environment*
- Muzaffer Ahmad: *Governance, Structural Adjustment and the State of Corruption in Bangladesh*

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## List of Acronyms

ADAB	Association of Development Agencies of Bangladesh
BADC	Bangladesh Agricultural Development Corporation
BARC	Bangladesh Agricultural Research Corporation
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCI	Bangladesh Chamber of Industries
BCIC	Bangladesh Chemical Industries Corporation
BFIDC	Bangladesh Forest Industries Development Corporation
BIDS	Bangladesh institute of Development Studies
BJMC	Bangladesh Jute Mills Corporation
BKB	Bangladesh Krishi Bank
BRDB	Bangladesh Rural Development Bank
BRRI	Bangladesh Rice Research Institute
BSB	Bangladesh Shilpa Bank
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BSRS	Bangladesh Shilpa Rin Shangstha
BTMC	Bangladesh Textile Mills Corporation
CASA	Citizens Assessment of Structural Adjustment
CAWS	Category-Wise Average Well-Being Score
CBN	Cost of Basic Needs
CHCI	Category-Wise Household Count Index
CODEC	Community Development Centre
CPD	Centre for Policy Dialogue
DAE	Department of Agricultural Extension
DCI	Direct Calorie Intake
DFI	Direct Foreign Investment
DTW	Deep Tube-Well
EER	Effective Exchange Rate
EPIDC	East Pakistan Industrial Development Corporation
EPZ	Export Processing Zone
ER	Exchange Rate
ERP	Effective Rate of Protection
FGD	Focus Group Discussion
FSAC	Financial Sector Adjustment Credit
FSRP	Financial Sector Reform Programme
FY	Fiscal Year
GoB	Government of Bangladesh
GDP	Gross Domestic Product
GTC	Global Technical Committee
HPSP	Health and Population Sector Programme
IBBL	Islami Bank of Bangladesh Limited
IDA	International Development Agencies

IIV	Intensively Irrigated Village
ILO	International Labour Organisation
IMF	International Monetary Fund
IPC	Import Programme Credits
KAFCO	Karnaphuli Fertiliser Company
LIV	Least Irrigated Village
MFA	Multi Fibre Agreements
MFI	Micro-Finance Institutions
MIV	Moderately Irrigated Village
MP	Member of Parliament
NASCIB	National Association of Small and Cottage Industries of Bangladesh
NBL	National Bank Limited
NCB	Nationalised Commercial Bank
NCMBC	National Commission on Money, Banking and Credit
NGO	Non-Governmental Organization
NPA	Non-Performing Asset
PCB	Private Commercial Bank
PFP	Policy Framework Paper
PWA	Participatory Well-being Analysis
QRs	Quantitative Restrictions
RAKUB	Rajshahi Krishi Unnayan Bank
RCM	Regional Consultation Meeting
REER	Real Effective Exchange Rate
RMG	Ready Made Garments
SAF	Structural Adjustment Facility
SAPs	Structural Adjustment Policies
SAPRI	Structural Adjustment Participatory Review Initiatives
SAPRIN	Structural Adjustment Participatory Review Initiative Network
SBW	Special Bonded Warehouse
SCI	Small and Cottage Industries
SMI	Small and Medium Enterprise
SOIE	State-owned Industrial Enterprises
SOE	State Owned Enterprise
STW	Shallow Tube-Well
TA	Technical Assistance
TDTL	Total Demand and time Liabilities
TIB	Transparency International, Bangladesh

## CHAPTER 1: SAPRI PROCESS IN BANGLADESH

### 1.1 SAPRI: A Multi-Country Exercise

The macroeconomic approach to confronting the internal economic crisis and balance of payment problem of the developing nations witnessed a marked shift in the 1980s. The main creditors of the developing world – the International Monetary Fund (IMF) and the World Bank – designed a new lending programme not to support a single project but a package to restructure the whole economy, beyond debt repayment or attainment of short-term macroeconomic stability. The policy reform package, backed by policy based sectoral lending of the Bank and Structural Adjustment Facility (SAF) of IMF, came to be known as Structural Adjustment Programme (SAP).

Over the years SAP has generated considerable controversy regarding its impact on growth, employment, food security and poverty. Many studies, particularly in the context of a number of sub-Saharan countries appeared to suggest that much of the impact has either been small or even negative while the experience of many Asian countries appear to have been mixed.

A criticism that has consistently been directed at the SAPs relates to the process of the designing of policies, implying that most of these have come from above (i.e. donors) and that there has been lack of consultation with stakeholders. In general, there was no effort made to take on board the views and concerns of poor people, women, small enterprises and so on - groups on whom the impact of SAPs may have been especially hard. Part of the reason for this is of course the absence of institutions or mechanisms (in addition to the lack of awareness) to enable such an exercise(s) to be conducted in developing policy alternatives.

In June 1995, a group of non-governmental organisations approached the then new president of the Bank, James Wolfensohn, with a proposal to address this exclusion by engaging civil society in an exercise with the Bank to assess jointly the impact of SAPs. The idea was to provide Wolfensohn and the Bank a fundamentally different perspective on economic policy, to democratise economic policymaking and to legitimise a role for organised civil society in this key area of development programming. Wolfensohn agreed to the partnership.

Subsequently, the Structural Adjustment Participatory Review Initiative (SAPRI) was launched in Washington in mid-July 1997 by bring together organisations of civil society, their governments and the Bank in a joint review of SAPs and an exploration of new policy options. The countries participating in SAPRI are: Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mali, Uganda and Zimbabwe. In addition to its work with the Bank and national governments, Structural Adjustment Participatory Review Initiative Network (SAPRIN) has extended its reach to include additional exercises in a parallel initiative known as the citizens' assessment of structural adjustment (CASA) in Mexico and the Philippines. Citizens' groups in Canada are involved in a similar process. In a newer initiative that began in 1999 in Argentina and the Central America region, SAPRIN is working with civil-society organisations to facilitate cross-sectoral cooperation in the development of economic-policy proposals as broad-based alternatives to structural adjustment.

SAPRI seeks to legitimise local knowledge in the analysis of economic-reform programmes and to make space for and institutionalise grassroots involvement in macroeconomic decision making. In so doing, it is attempting to help governments and international institutions understand how adjustment measures make their way through local economies and into peoples' lives and to transform economic policymaking so that its outcomes improve rather than undermine the well-being of the local population and the economy.

SAPRI is about critical engagement with the Bank on some of the most central and fundamental issues; it is certainly not co-optation of civil society by the Bank. It is agreed that the World Bank would take cognisance of the concerns of civil society as registered through the SAPRI process and the exercise is intended to promote not just a redirection in the process of policymaking but in the ways in which the Bank builds partnerships with its member countries.

## **1.2 Organisation of SAPRI In Bangladesh**

The SAPRI in Bangladesh has evolved over the last two-year and a half through a process of consultation and joint activities. The Government of Bangladesh (GoB) expressed its commitment by way of agreeing to participate in the country review process. The government's interest in SAPRI is guided by its stated policy that the reform measures being implemented in the country must enjoy the support of the people for whom they are intended. The GOB, as expressed while agreeing to collaborate in the exercise, feels that learning about the impact of the past reform policies can be an important input in making the current policies more effective in achieving the country's overriding economic objective, i.e. poverty alleviation.

Following a series of informal contacts, two meetings, held on 24 May and 10 June 1997, attended by a cross-section of the civil society, led to formation of a 17-member SAPRI Civil Society/NGO Steering Committee and a 6-member Technical Committee. Later, two members were co-opted in the Steering Committee to ensure better balance in representation. The NGO/CS Steering Committee has been formed to include as many active civil society groups as possible, including four representatives from trade unions of different political viewpoints, one unorganised sector representative, one agriculture union representative, one farmers' association representative, two chamber representatives, one small producer representative, one representative from women's organisations, one representative of the media and two research economists. The Bangladesh SAPRI Steering Committee also includes three representatives from NGOs. Proshika was given the responsibility to work as the secretariat of SAPRI Bangladesh.

On July 8, 1997, the representatives of the GoB and the World Bank met with the NGO/CS Steering and Technical Committee to form the SAPRI Bangladesh Steering and Technical Committees.

*Proshika*, a leading NGO of Bangladesh and a member of global SAPRIN, has shouldered the burden of bringing together the relevant organisations and individuals in Bangladesh for the purpose. The Bank's resident office in Dhaka has been cooperative in translating the instruction of its headquarters. The Centre for Policy Dialogue (CPD), a premier civil society think tank, houses the study office.

## **1.3 Implementation of SAPRIN in Bangladesh**

The SAPRI's implementation plan has *four* phases. Each phase entails several steps – some of which are ongoing, the others are already implemented, and the rest will be implemented in future.

### **Phase I: Preliminary Implementation**

*Step 1: Country Selection.* The countries were selected on the basis of country selection criteria.

*Step 2: Formation of Civil Society Committees.* Following a series of informal contacts, two meetings, held on 24 May and 10 June 1997, attended by a cross-section of the civil society, led

to formation of a 17-member SAPRI Civil Society/NGO Steering Committee and a 6-member Technical Committee. Later, two members were co-opted in the Steering Committee to ensure better balance in representation. The NGO/CS Steering Committee has been formed to include as many active civil society groups as possible.

*Step 3: Formation of National steering Committees.* On July 8, 1997, the representatives of the GoB and the World Bank met the NGO/CS Steering and Technical Committee to form the SAPRI Bangladesh Steering and Technical Committees

*Step 4: Selection of Issues by the National Steering Committees.* The national steering committees selected three thematic issues: *agriculture, trade and industry* and *fiscal restructuring* and three cross-cutting issues: *gender, poverty* and *environment*.

*Step 5: Compilation of Available Data on Country Adjustment Policies.* Following the guidelines laid down in the globally agreed Standard Operating Procedure (SOP), an Information Disclosure Agreement was signed with the World Bank Country office, under which the Bank has been providing documents to the study team relating to structural adjustment and sectoral adjustment loans.

### ***Resource Documents***

Prior to each Regional Consultation Meeting (RCM) along with the invitation letter, five resource documents in *Bangla* were distributed for enabling the participants to involve themselves effectively in this innovative process of evaluating structural adjustment. The documents produced and distributed are captioned in the following fashion:

- (a) SAPRI: Background, Process and Its Importance
- (b) Structural Adjustment Policies and Bangladesh
- (c) SAPRI Activities in Bangladesh
- (d) World Bank's Country Assistance Review
- (e) Themes and Issues of SAP for Field Investigation

For each of the Focus Group Discussion (FGD), four resource documents, based on key issues raised at the Regional Consultative Meetings, were prepared.

The documents supplied to the FGD participants are captioned as follows:

- (a) Structural Adjustment and Women
- (b) Small and Cottage Industries and Structural Adjustment
- (c) Structural Adjustment and Agricultural Sector
- (d) Trade and Industrial Sector Reforms

### **Phase II: First Global Forum**

*Step 6: First Global Forum.* During 14-18 July, 1997 representatives of the three partners participated in the First Global Forum. Ms Khushi Kabir and Mr. Mahbulul Karim, both members of the Steering Committee, spoke at the global Forum on the experience of the SAPRI process in Bangladesh. Dr Debapriya Bhattacharya, a member of the Technical Committee, presented the priority issues.

### **Phase III: National Level Fora and Investigation**

*Step 7: Regional Consultative Meetings* The *first* Regional Consultative Meeting held in Chittagong was organised by a local organization, Community Development Centre (CODEC) on Monday, 6 July 1998 at the Conference Room of the Chittagong Chamber of Commerce and Industries. A total of 41 participants, including representatives of 33 local organizations of varied compositions attended the meeting.

The local body of the Nijera Kori arranged the *second* RCM at the Khulna City Corporation Auditorium on Monday, 13 July 1998. A total of 94 locals including representatives of 33 grassroots organisations of the region participated in the RCM, making it a forum of diversity. The participants included farmers, labourers, agricultural labourers, NGO workers, teachers, women activists, doctors, lawyers, small traders, trade union activists, etc.

The Rajshahi Chapter of the NGO apex body, Association of Development Agencies in Bangladesh (ADAB) organized the *third* day-long RCM at the Caritas Auditorium in Rajshahi on Monday, 20 July 1998. Out of 87 participants of the RCM, 61 were from local organizations — representing entities such as labour unions, small farmer associations, women’s organizations, environmental and professional groups as well as NGOs and prominent individuals — who attended the meeting aimed at assessing the experience with adjustment policies.

*Step 8 & Focus Group Discussions* On Wednesday, 26 August 1998, the *first* Focus Group Discussion of SAPRI Bangladesh was held to discuss the impact of SAP on Bangladesh’s women. Organized by the Nijera Kori in collaboration with a number of women groups/organizations, the FGD was held at the Auditorium of Women Voluntary Association in Dhaka. Participants, 30 in number, ranged from housewives to labourers, small traders to farmers, university teachers to politicians.

The *second* Focus Group Discussion was devoted to the peasants and agricultural workers and was held at Narail Town Club on Sunday, 30 August 1998. 71 locals representing almost every sector involved in agriculture and rural economy attended the FGD, organized by the Bangladesh Khetmojur Union. They expressed their views on the policy changes, which are affecting the viability of their livelihood.

The National Association of Small and Cottage Industries of Bangladesh (NASCIB), an apex body of the sector, arranged the *third* FGD with the entrepreneurs involved in the informal activities at the capital’s Karmajibi Mohila Hostel Auditorium on Wednesday, 2 September 1998. Eighteen entrepreneurs, representing various sub-sectors including handloom, leather and footwear, rubber and plastic, handicrafts, engineering and electrical industries dwelt on the effect of adjustment policies on their enterprises.

On Thursday, 3 September 1998, the Bangladesh Chamber of Industries (BCI), a leading trade body of the industrial entrepreneurs, arranged the *fourth* FGD discussion with its 18 members, each representing a sub-sector, where an exchange on issues related to trade and industrial policy reforms took place.

The first round of Focus Group Discussions before the first National Forum ended with holding of the *fifth* of this kind with labourers at the conference room of Centre for Policy Dialogue (CPD) in Dhaka on Thursday, 15 October, 1998. A total of 44 representatives of workers drawn from various sub-sectors voiced their concerns at the FGD not only on issues related to privatisation, but also on the prospect of industrialisation in Bangladesh in the context of implementation of SAP.

*Step 9: Opening National Forum* The first National Forum of the Bangladesh SAPRI was held on October 20-22, 1998 at the auditorium of CIRDAP, Dhaka. The third syndicate on “Consequences of Fiscal Restructuring on Social Development” of the First National Forum of Bangladesh SAPRI, however, was held on February 17, 1999, which was planned for the morning of October 22, 1998 had to be postponed due to unavoidable circumstances. The third syndicate, however, was held on February 17, 1999, which was planned for the morning of October 22, 1998 had to be postponed due to unavoidable circumstances.

*Step 10: Research Phase* The National Steering Committee and Technical Committee met several times during the first half of 1999 to design the research process, select the researchers, and narrow down the study themes, which had been identified through the consultative process and further refined during the Opening National Forum, into researchable questions. The Committees decided to conduct 10 studies.

*Step 11: Research Methodology Workshop.* A research methodology workshop was held on August 30-31, 1999

*Step 12: Post-research validation.* A process of civil-society validation of research findings began in October and continued into December. There were three regional consultation meetings and three focus-group discussions held, in which researchers presented and received feedback on their findings. Two FGDs on poverty and agriculture were postponed due to unavoidable circumstances.

**Table 1.1: Post Research Validation**

DATE	VENUE	THEME	HOST ORGANISATION
16 Oct 2000	Khulna	Regional Consultation	Nijera Kori, Khulna
25 Oct 2000	Rajshahi	Regional Consultation	ADAB, Rajshahi
11 Nov 2000	Porosh	Environment	POROSH
30 Nov 2000	CIRDAP	Gender	Kormojibi Nari
29 Nov 2000	WVA Auditorium	Corruption	Transparency International
28 Nov 2000		Trade, Industry and Finance	Bangladesh Institute of Labour Studies (BILS)
20 Dec 2000	CCCI, Ctg.	Regional Consultations	CODEC

*Step 13: Second National Forum*

The Second National Forum will be held on March 13-15, 2001 with four-fold objectives:

First, it is designed as a forum to present and discuss the findings from both the Opening National Forum and the field investigation. The first forum listened to the experience, information,

perspectives and analysis related to structural adjustment policies and their impact by a broad range of civil-society organisations. The participatory research that followed deepened the knowledge and analysis on specific issues raised in the Opening National Forum.

Second, it is designed as a forum for discussion and debate -- among civil society, the Bank and government in SAPRI countries -- to determine agreements and outstanding differences on the impact of adjustment policies and about how best to move forward in the economic-policy sphere so as to reduce poverty and inequality and strengthen the national economy.

Third, the Second National Forum is expected to yield recommendations for changes in the national economic programme supported by the Bank, including economic alternatives to adjustment policies, as well as changes in the process of national economic policymaking.

Fourth, a mechanism for follow-up on the conclusions reached should be a product of this Forum in order to foster implementation of recommendations made for changes in national economic policies and the policymaking process.

#### **Phase IV: Second Global Forum**

*Step 14: Second Global Forum.* Findings at the country level and policy recommendations will be presented and discussed at the second global meeting. The findings will be incorporated in a global report on SAPRI's findings, along with lessons learned and recommendations for modifications in adjustment policies.

## CHAPTER 2: METHODOLOGICAL APPROACH: DISTINGUISHING FEATURES

### 2.1 Global Methodological Guidelines

The Global Technical Committee agreed on several general guiding principles. *First*, the field investigations will have a strong participatory element to ensure that the targeted population can contribute fully to the understanding of the effect of a certain policy. *Second*, both qualitative and quantitative types of information will be gathered in the field investigation and compiled from existing sources for an overall analysis. *Third*, the investigation will aim to trace the linkages between macroeconomic policy and micro effects by taking into account such factors as intervening institutions, markets, and implementation processes.

#### *Principles<sup>1</sup>*

- 1) This exercise at its foundation is a participatory one involving civil society, the World Bank, and governments in a broad consultative process as well as in research to review structural adjustment policies. It seeks, in particular, to facilitate the full participation of those that have traditionally been excluded from decision-making in the assessment, deliberations, and research on structural adjustment programs in the participating countries.
- 2) The research component of the SAPRI exercise will be geared toward targeted learning on those issues about which there is an identified need for further understanding as identified through the opening National Forum and deliberations of the National Steering Committees.
- 3) The study will take a gender aware political economy approach, meaning that a key goal of the research is to understand political, social, and institutional structures and processes that shape policy decisions and impacts.
- 4) As such, we are interested in both understanding the complex relationship among policies, intermediating economic, social and political institutions (e.g. markets, regulatory and legal frameworks, government etc.) and outcomes at the individual, family, and community and sectoral level and, to the extent possible, establishing direct attributions of causality. To reach such a full understanding we must look at the full range of groups and sectors both those who have been favourably and unfavourably affected by policies, with emphasis placed on the economically and politically marginalised groups.
- 5) The review will recognise the equal validity of quantitative and qualitative methods of research and, whenever possible, use more than one approach to validate information.
- 6) In light of the participatory and consultative nature of the exercise, and the range of countries and actors involved, there will be flexibility regarding processes employed, methodological approaches utilised, and time frame needed for completion of the study.
- 7) The results of this review will be the basis for serious review of adjustment measures and development of mechanisms for including all parties in policy design in future policy reform operations.

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<sup>1</sup> The tripartite Global Technical Committee agreed in October, 1997.

## 2.2 Identification of Research Agenda in Bangladesh: A Participatory Approach

The participatory nature of SAPRI possibly distinguishes it from many other earlier attempts to understand the impact of SAPs. The agenda of the review exercise was set following a series of regional consultative meetings and focus group discussions with various stakeholders.

For ensuring a widespread participation, an elaborate methodological approach was followed since inception of SAPRI in Bangladesh. A series of consultations, involving the relevant and major organisations of the local civil society, were conducted to extend the set up well beyond immediate network. The focus was on such entities as labour unions, small-farmer associations, small and medium-scale business organisations, and women's organisations, as well as other people's organisations that have been impacted by the adjustment programmes. A strong preference was given to the popular sectors, organisations and groups those have consistently been left out from providing input to the formulation of adjustment policies.

The SAPRI concept attaches high importance to the need to hold a series of public fora for organising a wide-range of exchanges with the stakeholders, to guarantee that a broad range of civil society groups participate in the review exercise. Unlike any academic exercise, it was decided that the research agenda will be set by the participants in the First National listening to the findings of Regional Consultative Meetings (RCMs) and Focus Group Discussions (FGDs).

Three RCMs and five FGDs were organised for recording the adjustment-related experiences of cross-section of the civil society and determining the issues for framing the research agenda. Usually spreading over three business sessions, the consultations sought to capture the 'unheard voices' of the disadvantaged sections of the civil society on key adjustment issues, and the issues which they wanted to be addressed through field research on priority basis. Three one-day RCMs were held at Chittagong, Khulna and Rajshahi (headquarters of three of the country's four greater administrative regions). Four of the five Focus Group Discussions were organised in Dhaka, while the fifth was arranged at Narail. The RCMs and FGDs listened to experiences of more than 600 participants.

Prior to each RCM along with the invitation letter, five resource documents in *Bangla* were distributed for enabling the participants to involve themselves effectively in this innovative process of evaluating structural adjustment. The documents produced and distributed are captioned in the following fashion:

- (a) SAPRI: Background, Process and Its Importance
- (b) Structural Adjustment Policies and Bangladesh
- (c) SAPRI Activities in Bangladesh
- (d) World Bank's Country Assistance Review
- (e) Themes and Issues of SAP for Field Investigation

For each of the FGD, four resource documents, based on key issues raised at the Regional Consultative Meetings, were prepared. The documents supplied to the FGD participants are captioned as follows:

- (a) Structural Adjustment and Women
- (b) Small and Cottage Industries and Structural Adjustment
- (c) Structural Adjustment and Agricultural Sector
- (d) Trade and Industrial Sector Reforms

From 20 to 22 October 1998, over 300 people from all across the country -- including representatives of labour unions, small-farmers' associations, environmental organisations, women's groups, professional associations and members of all the civil-society organisations affiliated with SAPRI-- participated in the Opening National Forum in Dhaka. They were

joined by present and former ministers and other officials from the government and the World Bank, as well as by members of parliament from various political parties.

Over two-and-a-half days, three plenary sessions and three thematic syndicates were organised. The third syndicate, however, was originally planned for the morning of 22 October but had to be postponed due to unavoidable circumstances and was finally held on 17 February 1999. The proceedings recorded the voices of a wide array of citizens on key adjustment issues and, through a participatory process, designated issues on which to focus the SAPRI research process.

In order to facilitate an informed debate by the Forum participants, a resource document titled "Towards Demystifying a Process: The Structural Adjustment Policies in Bangladesh" was prepared by an information team that had been given access to previously confidential Bank documents. The Forum was presented with report on the RCMs and FGDs titled "In Search of Unheard Voices: A Pre-Study Consultations on Structural Adjustment Policies in Bangladesh."

A Global Technical Committee (GTC), comprising of the World Bank staff and representatives from SAPRI, decided that each country team should choose the specific policies and hypotheses for analysis in their own country, rather than establishing a set of hypotheses to be tested in all of the participating countries. The three key hypotheses, suggested by the participants, were endorsed:

- Has the industrial capacity and employment experienced a growth following introduction of SAP? What has its impact been on small producers and workers?
- Has the profitability of the crop sector increased subsequent to the reform measures implemented under SAP? What has their implications been for small/marginal farmers and landless labourers?
- Has the users' cost of quality education and health care services reduced due to changes brought about by the SAP? What has their consequences been for the vulnerable groups

### **2.3 Research Process In Bangladesh**

Based on the identified research agenda during the First national Forum, the National Steering Committee and Technical Committee met several times during the first half of 1999 to design the research process, select the researchers, and narrow down the study themes. The National Steering Committee agreed on a breakdown of three policy areas into various studies. In the area of agricultural policy, two studies focus on:

- the impact of agriculture policy reforms on crop sector profitability; and
- the implications of agriculture policy reforms on the labour market, wages and food security.

In the area of trade, industry and financial sector reforms, three studies focus on:

- the impact of trade and industrial policy reforms on industrial capacity and employment;
- the impact of financial-sector reforms on productive sectors, particularly small producers in rural areas, and
- the impact of industrial restructuring: a case study on the Jute Sector Adjustment Credit

In the area of fiscal reform and social policy, there is one study with a focus on:

- the consequences of fiscal restructuring on social development in terms of health care and population.

The National Steering Committee also decided that, in order to give sufficient weight to aspects that must be considered when using a gender-sensitive, political-economy approach to

research, four specific cross-cutting studies would be undertaken to focus on how adjustment policies impact:

- women;
- the poor and vulnerable;
- the environment; and
- practices of corruption.

In addition, a research team was contracted to take on the responsibility of understanding impacts of adjustment using participatory methods.

An initial selection of researchers was made in April 1999 from lists presented by civil society, on the one hand, and by the Bank and government, on the other.

The terms of reference for the studies were further refined at a methodology workshop held on 30-31 August 1999 with the tripartite Technical Committee and the selected researchers. Following the workshop and based on its discussions, the researchers worked together with the Technical Committee to further revise the terms of reference for each study.

In the final process of revising the terms of reference, there were adjustments made in terms of the number and focus of the studies. The study on the health sector in the area of fiscal reform was eliminated, as policy reforms in the area has just began. At the same time, the second policy area was re-conceived to focus on trade liberalisation, with the central study looking at impacts on industrial development and employment and a separate but a review on the privatisation including case study, while the study looking at the financial sector was expanded so as to be considered a separate study on financial sector reform. Thus, the final terms of reference for the studies on specific policies have been defined as follows.

In the area of agricultural policy:

- the impact of agriculture policy reforms on crop-sector profitability; and
- the implications of agriculture policy reforms on the labour market, wages and food security.

In the area of trade policy:

- the impact of trade liberalisation on industrial capacity and employment; and
- a review of privatisation with case study

In the area of the financial sector:

- the impact of financial-sector reforms on productive sectors, particularly small producers in rural areas.

Most of these research teams started work in October 1999. They began by tracking the conditionalities, cross-conditionalities and actual policy shifts related to the particular adjustment policy initiative under study using documents accessed from the World Bank, as well as from government. Desk research was then carried out using existing information and work done on the relevant issues by independent researchers, as well as evaluations prepared for and by the Bank on the impacts and consequences of the adjustment policies in question. This was followed by fieldwork involving participatory appraisal as well as small surveys.

The participatory team has played a unique role in the research process, a participatory expert worked with the research team for each thematic study to help prepare and adapt the techniques to be used in the field. Then at the field level, the participatory team worked together with each research team to conduct the appraisal using a host of participatory techniques.

Draft research reports were submitted by August 2000, then reviewed and discussed by the tripartite Technical Committee. As part of the review process, two full-day seminars were held, one

in late May and the other in late August, with the presence of researchers, the Technical Committee and members of the national Steering Committee. Based on these discussions and input provided, researchers incorporated changes into their initial drafts and presented revised drafts in September.

A process of civil-society validation of research findings began in October and continued into December. There were three regional consultation meetings and three focus-group discussions held, in which researchers presented and received feedback on their findings. Two FGDs on poverty and agriculture were postponed due to unavoidable circumstances

An integrated synthesis of the research reports will be circulated to the Second National Forum, set for March 13-15, 2001.

#### **2.4 Verification Of Results And Further Consultations**

In keeping with the consultative nature of the research exercise and its contribution to the broader debates on economic policy, the National Steering Committee has call a Second National Forum on March 13-15, 2001 for presentation, discussion, and verification by the public on the findings of research. The results from the opening national forum, together with the findings from the research process, will be distilled at a second national forum in each country. The Forum will deliberate to reach agreement on findings, as well as on recommendations for changes in economic programming. Final country reports will then be produced.

National and synthesised global findings will subsequently be presented with recommendations to Bank at a final global forum in Washington, during mid-2001. Lessons will be drawn for the future of policy-based lending, setting the stage for changes in Bank operations and for democratising economic policymaking.

## CHAPTER 3: ADJUSTMENT AND MACROECONOMIC PERFORMANCE<sup>2</sup>

### 3.1 Structural Adjustment Programme in Bangladesh

Bangladesh is one of the first 35 countries who adopted Bretton Woods institutions-sponsored structural adjustment programme (SAP), although the country's experience with aid conditionalities is not new. Bangladesh joined the BWIs – World Bank and International Monetary Fund (IMF) – on August 17, 1972.

As of June 30, 2000, Bangladesh has 4854 shares in the Bank, amounting to 0.31 per cent while it has voting power number of 5104 standing at 0.32 per cent of total vote. According to the Bank's annual report of 2000, the country, till June, 2000 since independence has received 7524.00 million US dollars as development credits from the Bank, of which 1122.00 million US dollars remains undisbursed.<sup>3</sup>

Although the IDA's loan amount as per cent of nominal GDP is 0.16 per cent in FY1996, the Bank has imaged itself as principal lender and purveyor of ideas.<sup>4</sup> The Bank has been disbursing in almost every sector of the economy: there has been a secular decline in lending in industry and decline in education in recent years and health and population sector and flood management has continued to maintain its share (Annex Table – 1).

As of December 31, 2000, Bangladesh, in general resource account of IMF, has a quota of 533.30 million SDRs<sup>5</sup> while Fund holdings of currency is 631.24 million SDRs, 118.4 per cent of Bangladesh's quota. Bangladesh's outstanding purchases and loans under ESAF arrangements and credit tranches are 67.44 and 98.13 million SDRs respectively. Bangladesh has drawn 726.25 million SDRs under latest financial arrangements (ESAF, SAF and Stand-by) during 1985 – 1990. Based on existing use of resources and present holdings of SDRs, projected obligations to the Fund are 54.8, 72.5, 55.5, 2.0 and 2.0 million SDRs in 2001, 2002, 2003, 2004 and 2005 respectively.

#### *Introduction of Structural Adjustment*

The experience of policy reforms as part of aid conditionalities is not new for Bangladesh. During 1972-1986, the Government of Bangladesh contracted 13 Import Programme Credits (IPC) amounting to a total of \$1165 million. According to the Bank (1986), the first three IPCs supported critical post-independence rehabilitation needs. All other credits had conditionalities addressing sectoral, microeconomic and institutional reforms<sup>6</sup>.

According to the Bank's *Review of the Experience with Policy Reforms in the 1980s*, the policy issues identified in the IPCs 'turned out to require a more extended dialogue and in-depth sector work than the annual IPC framework allowed.' Thus, the Bank shifted its course from annual programme loans to sector adjustment loans and IPCs were phased out after the 13<sup>th</sup> IPC.

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<sup>2</sup> The Chapter is based on Bhattacharya D, Titumir R A M and Rabbani A (2001)

<sup>3</sup> According to Economic Relations Division of Government of Bangladesh, the International Development Association (IDA), the soft-lending arm of the World Bank group, disbursed to a cumulative total of 3475.74 million US dollars, representing 18.48 per cent of total aid disbursement (6424.43 million US dollars) in Bangladesh till the end of financial year 1999.

<sup>4</sup> See Sobhan (1982) for the Bank's preeminence in the policymaking of Bangladesh.

<sup>5</sup> The SDR or special drawing right is a reserve asset created in 1968 by IMF for use to its members, value of which is determined by using a weighted basket of currencies of five countries – France, Germany, Japan, the United Kingdom and the United States.

<sup>6</sup> Salient features of the past thirteen Import Credits, as compiled from the various IPC documents are given in Bhattacharya D and Titumir R A M (1998).

### ***Lending Arrangement with the IMF***

The government in 1986-87 adopted a medium-term adjustment programme administered under a three-year arrangement of the Fund's Structural Adjustment Facility (SAF)<sup>7</sup> and through various sector adjustment and investment credits from the Bank. Bangladesh was one of the first 35 countries contracted to SAF, set up by IMF in March 1986 to provide highly concessional but extremely conditional loans in support of structural adjustment in low-income economies. The policies of the government for the three-year period (FY87-FY89) were given in the Policy Framework Papers (PFP) prepared by the Fund and the Bank, with negligible input from the national agencies. Negotiations took place in August 1989, February 1990, and May 1990 on a further three-year programme under the Fund's Enhanced Structural Adjustment Facility (ESAF) and that became effective on July 1, 1990. Bangladesh again, was among the first 29 countries having recourse to the ESAF, initiated by the Fund in December 1987.

**Table 3.1: Bangladesh's Lending Arrangement with IMF**

FACILITY	APPROVAL DATE	EXPIRATION DATE	AMOUNT APPROVED	AMOUNT DRAWN	AMOUNT OUTSTANDING
Enhanced Structural Adjustment Facility	10-8-90	13-9-93	345.00	345.00	67.44
Structural Adjustment Facility	6-2-87	5-2-1990	201.25	201.25	0.00
Stand By (ordinary)	2-12-85	30-6-87	180.00	180.00	0.00
Total			726.25	711.25	67.44

Instead of short-term macro-stabilisation policies, the Fund and Bank policies prescribed in PFPs broadened to cover structural policies. According to the PFPs, the policies were aimed at improving efficiency of resource use, enhancing the role of private sector, and realising higher rates of domestic savings and investment. The proposed reforms include changes in price incentives; simplification of investment regulations; strengthening of tax policy and administration; improvements in financial management of public enterprises; greater reliance on market oriented monetary policy instruments; intensification of recovery programmes of non-performing bank loans; flexible exchange rate management; and trade and exchange liberalisation.

**Table 3.2: Priority Measures under the ESAF**

#### **I. AGRICULTURAL POLICY**

- MAINTAIN LIBERALISATION OF IMPORT AND DISTRIBUTION OF IMPORT AND DISTRIBUTION OF IRRIGATION EQUIPMENT AND FERTILISER.
- REDUCE SUBSIDIES ON AGRICULTURAL INPUTS.
- MAINTAIN ADEQUATE PRODUCER PRICE INCENTIVES.

<sup>7</sup> Bangladesh, however, first signed a loan from the IMF under the Extended Fund Facility in December 1980. The loan agreement was, however, revoked in July 1980, barely six months after its initiation due to the inability on her part to adhere to the limits imposed on government borrowing. Only SDR 20 million out of a total commitment of SDR 800 million was disbursed at the time of suspension.

## II. Industrial and Trade Policy

- Further simplify investment regulations.
- Eliminate quantitative restrictions on imports except for those required for reasons of religion, health, security and social considerations and a small number of highly sensitive items.
- Rationalise the tariff structure and reduce maximum tariff levels.
- Remove export subsidies.

## III. Public Resource Mobilisation

- Expand the base of the value-added tax.
- Reform personal and company direct taxes.
- Strengthen the tax administration.
- Adjust prices for public goods and services while improving their operational efficiency.

## IV. Public Expenditure Policies

- Implement a three-year prioritised public investment programme.
- Limit the growth of current expenditures to less than the growth of nominal GDP.
- Reduce subsidies and administrative costs.
- Improve project aid utilisation.
- Reduce the operating deficit of Bangladesh railway

## V. Public Enterprises

- Reduce excess labour.
- Enforce payment of debt-service liabilities and eliminate inter-agency arrears.
- Rationalise the jute mills.
- Improve the operational performance and financial management of Bangladesh Power Development Board and other public entities.

## VI. Privatisation

- Privatised selected public manufacturing/ commercial enterprises already approved by government and expedite identification of additional enterprises for privatisation.
- Announce a timetable for implementation.

## VII. Financial Sector Reform

- Implement reforms aimed at a market-oriented system of monetary management.
- Undertake further interest rate liberalisation.
- Strengthen commercial bank loan recovery programmes.

## VIII. External Sector Policy

- Manage the exchange rate to ensure competitiveness.
- Export diversification.
- Efficient import substitution.

## IX. Human Resources and Poverty Alleviation

- Improve the access of women to education and income generating activities.
- Provide adequate funding for primary education, health and family planning services.
- Target food aid to poverty groups and reduce cash subsidies to monetised food distribution.

## X. Environment

- The government will articulate a clear policy on environmental issues and prepare environmental assessments for major new projects.

*Source: Bhattacharya D and Titumir, R A M (1998)*

### **World Bank's Adjustment Lending**

The adjustment programme was supported by various sector adjustment and investment credits from the International Development Association (IDA), soft-term lending window of the Bank. These loans go under the generic names of “structural and sectoral adjustment loans” (SALs and SECALs). These World Bank loan agreements included tight conditionalities, under which money was released only if the government complied with with triggers.

Adjustment lending constituted a third of total commitments of IDA to Bangladesh during FY80-FY96. IDA commitments to Bangladesh during that period amounted to 5.965 billion US dollars, involving 93 projects. Disbursement during the said period totalled 4.65 billion US dollars.

The scale of adjustment lending has declined in the nineties to about 15 per cent. The World Bank explicitly stated that the adjustment lending would decline in future. The categorically states: “(The adjustment lending) will undoubtedly decline further in the absence of key reform initiatives in certain sectors (e.g. finance).”

The following table shows the commitments of IDA loans to Bangladesh by sector and the amount of adjustment credit.

**Table 3.3: Share of Adjustment Loans in IDA's Commitment to Bangladesh**

SECTOR	IN MILLIONS OF US DOLLARS		IN PER CENT OF TOTAL	
	All loans	Of which Adjustment	All loans	Of which Adjustment
Agriculture	1186.6	--	20	--
Education	411.6	--	7	--
Power	636.3	177.3	11	4
Industry and Finance	677.8	438.4	11	7
Multi-sector	1237.0	1141.0	21	19
Oil and Gas	453.0	--	8	--
Pop. Health and Nutrition	239.8	--	4	--
Telecommunications	35.0	--	1	--
Transportation	815.7	--	14	--
Urban Development	47.6	--	1	--
Water supply and sanitation	50.0	--	1	--
Other	173.0	--	3	--
Total	5965.4	1756.7	100	30

*Source: Financial Database of the World Bank, quoted in Country Assistance Review, 1998*

Out of six SALs and SECALs, three (i.e. Second Industrial Adjustment Credit, Jute Sector Adjustment Credit, Public Revenue Management Adjustment Credit) were cancelled because of the government's ‘failure’ to adhere to the policy conditionalities<sup>8</sup> attached with these credits.

<sup>8</sup> The policy conditionalities are given in Bhattacharya, D and Titumir, R A M (1998).

**Table 3.4: Summary Statistics of SALs and SECALs in Bangladesh (Upto June 30, 1999)**

DONOR REFERENCE	LOAN DESCRIPTION	AGREEMENT DATE	AGENCY	LOAN AMOUNT NET OF CANCELLATION (MILLION SDR)	DISBURSED (MILLION SDR)	REPAID (MILLION SDR)	INTEREST/SERVICE CHARGE RATE (%)	GRACE	REPAYMENT PERIOD (YEARS)
1816	Industrial Sector Comm. Credit	22/06/1987	GOB	147.8	147.8	2.956	0.75/0-0.5 CC	10	40
1816.1	Industrial Sector Comm. Credit	29/03/1989	GOB	1.9	1.9	0.019	0.75/0-0.5 CC	10	30
1999	Energy Sector Adjustment	11/04/1989	PDB	137	137	1.37	0.75/0-0.5 CC	10	30
2000	Export Development Project	26/04/1989	NBR, EPB	19.349	19.349	0.193	0.75/0-0.5 CC	10	30
2152	Financial Sector Adjustment	18/06/1990	GOB	132.7	132.7	0.193	0.75/0-0.5 CC	10	30
199.1	Energy Sector Adjustment	10/11/1989	PDB	1.8	1.8	0.018	0.75/0-0.5 CC	10	30
2152.1	Financial Sector Adjustment	16/01/1991	GOB	2.5	2.5	0	0.75/0-0.5 CC	10	30
2152.2	Financial Sector Adjustment	15/01/1992	GOB	2.2	2.2	0	0.75/0-0.5 CC	10	30
2340	Private Sector Industrial Credit	27/04/1992	GOB	17.446	17.446	0	0.75/0-0.5 CC	10	30
2361	Public Sector Resource Management	13/05/1992	GOB	72.378	72.378	0	0.75/0-0.5 CC	10	30
2472	2nd Industrial Sector Adjustment	06/11/1992	GOB	36.1	36.1	0	0.75/0-0.5 CC	10	30
2472.1	2nd Industrial Sector Adjustment	22/01/1993	GOB	2.53	2.53	0	0.75/0-0.5 CC	10	30
2567	Jute Sector Adjustment Credit	25/02/1994	M/O. Jute	35	35	0	0.75/0-0.5 CC	10	30
2567.1	Jute Sector Adjustment Credit	25/02/1994	M/O. Jute	2.41	2.41	0	0.75/0-0.5 CC	10	30
7.2	Sector Adjustment Credit	09/1995	M/O. Jute				5/0-0.5 CC		

Source: Flow of External Resources in Bangladesh (As of June 30, 1999)

## 3.2 Major Macroeconomic Adjustment Policies

### *Public Resource Mobilisation*

The Bank-Fund advised in PFP to raise the government revenue to 10.5 percent of GDP. The BWIs to shift towards domestic output/consumption based taxes from trade-related taxes with improved tax administration. There were also suggestions to move towards a broad-based, elastic and progressive tax structure. The Bank asked for introduction of value-added tax and expansion of the base of the VAT and reduction of tax holidays. Policy measures are given in Table 3.5.

**Table 3.5: Policies Related to Public Resource Mobilisation**

MEASURES	TIMING
Implement improved tax administration and required increase in rates.	by 1988/89
Undertake a detailed technical study of (a) the tax system; (b) scope for improving tax administration, and achieve higher rates of collection.	1986/87
Introduce tax reform, after review of recommendations of tax reform studies.	1988/89 onward
Reorganise NBR to increase tax collection and reduce tax evasion.	1987/88 onward 1990/91
Increase revenue ratio to GDP by 0.5 per cent in 1990/91 budget and steadily increase ratio thereafter.	January 1, 1998
Introduce value-added tax and implement from January 1, 1991.	1992/93 onward
Expand base of VAT. Include within VAT all goods currently subject to excise tax. Remove exemption.	1990/91
Improve custom duty collection by raising tariff valuation of imports including introduction of a pre-shipment valuation system.	1990/91 onward
Reform direct tax administration as recommended by Tax Reform Study by reducing tax-deductible allowances, limiting tax holidays for companies and introducing withholding of tax.	1990/91 onward
For personal income taxation, include employment-related allowances in tax base, establish a realistic annual ceiling on extent to which investments in approved assets can be deducted from the tax base, and eliminate special exemptions for dividends.	1992/93 onward
For company income taxation, review alternative incentive scheme to replace current tax holidays.	

### *Public Expenditure Policies*

The objective of the public expenditure policies was to reduce budget deficit and rationalisation of public expenditure. The other measures suggested in relation to the public expenditure policies are to bring efficiency in the public expenditure, restrain growth of current expenditure, rationalise and increase public investment and improve efficiency of planning and implementation, improve budget execution and review, develop multiyear budgeting system and improve project implementation (Table 3.6).

**Table 3.6 Measures Related to Public Expenditure Polices**

MEASURES	TIMING
Tailor expenditure to level of available resources.	ongoing
Undertake comprehensive review of public expenditure.	1988/89
Restrain overall current expenditure growth to less than GDP growth; restrain wage increases, and reduce subsidies and funding for administration and overhead functions; increase recurrent spending for operation and maintenance and development-oriented activities.	1990/91 onward
Substantially reduce the cash deficit on the food account.	1990/91
Reduce operating deficit of Bangladesh Railway and Post Office.	1990/91 onward
Increase recurrent spending for priority programmes in primary education, primary health and family planning , and for non-wage expenditures for operation and maintenance of roads and flood control and irrigation infrastructure.	1992/93 onward
Establish clear priorities in public expenditure programme by designing a core investment programme, and reducing/eliminating lower priority projects, provide adequate funding to high priority projects, reduce funding for locally financed projects.	1990/91 onward
Prepare three-year public investment programme for 1991/92 – 1993/94 in co-operation with World Bank. Restrict approval of new projects to those related to cyclone rehabilitation unless offsetting changes are made in other projects. Limit locally funded projects and block grants to 25 per cent of local resources available for ADP.	1991/92
Undertake a study to identify key constraints affecting efficiency of public administration in key ministries.	Study 1986/87*
Initiate programme to improve budgetary and expenditure control procedures. Strengthen the monitoring system for current and development expenditures.	1990/91 onward

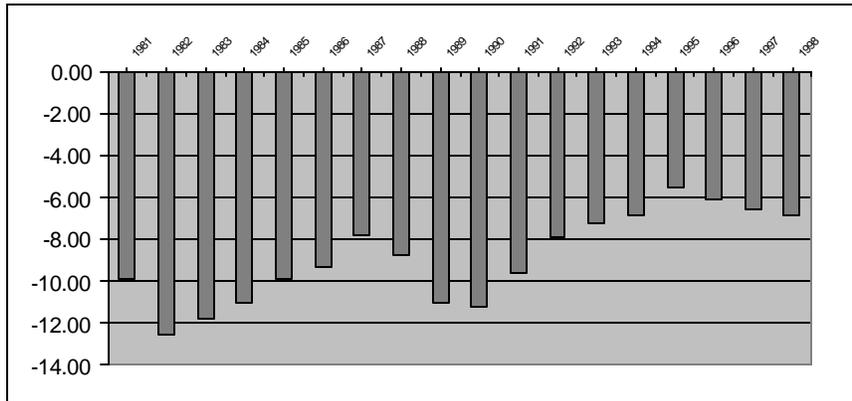
***External Sector Policy***

The main goal of the external sector management was to strengthen balance of payment position. Exchange rate management, as it has been suggested, will have to be maintained flexible to improve and promote export diversification. Other agenda include unification of dual exchange rate markets, limit debt service obligations to sustainable levels, raise utilisation rate of aid pipeline and eliminate multiple currency practices.

**3.3 Macroeconomic Performance*****Resource Imbalance of the Economy***

Bangladesh had to turn for soft loan from IMF as the country's resource balance deteriorated to an alarming level (Figure 3.1). The resource balance improved for the next couple years, though in the recent years the resource balance has shown a declining trend. While the deficit in earlier days of 1980 could have been met with short-term loan disbursement, this could not be continued due to limited aid availability in recent time. One may argue that the restoration of macroeconomic viability was achieved by cutting back investment, especially public development expenditures, thus undermining the economy's production potential.

**Figure 3.1: Resource Imbalance as Percentage of GDP**



**GDP Growth**

During the last two decades Bangladesh has achieved a modest growth rate of 4.1 percent. The growth rate has been increasing in recent time. The post-SAP decade have attained an increase of 1 point over the pre-SAP period (Table 3.7).

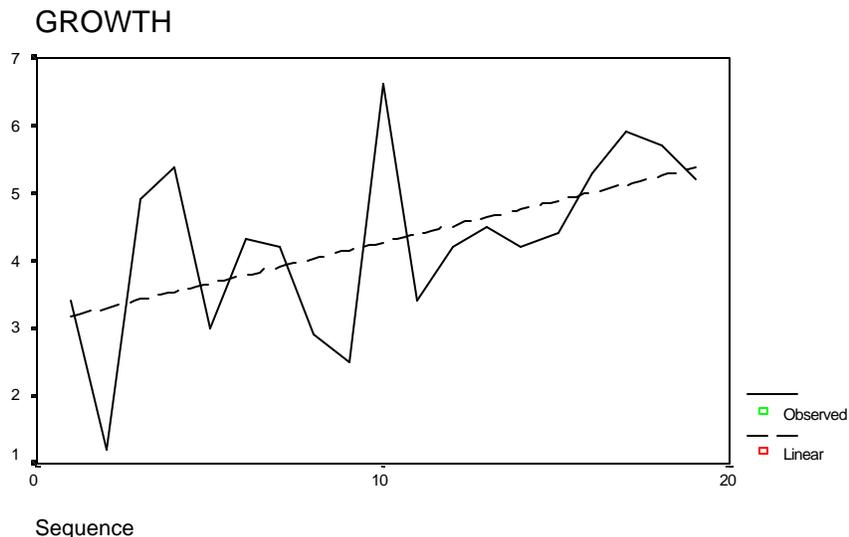
**Table 3.7: Real GDP Growth Rate over Last Two Decades**

PERIOD	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99	FY91-FY99
GROWTH	3.6	4.1	4.1	5.3	5.9	5.7	5.2	4.8

Source: Bangladesh Economic Survey (2000).

The growth rate is quite erratic, has gone up and down the trend line and the variance has been quite high (Figure 3.2). The recent performance of the economy in terms of a higher growth rate has mainly been contributed by the bumper yield in the agricultural sector, implying a lack of structural transformation of the economy. Moreover the 5 percent per annum growth rate is not impressive compared to the neighbouring countries that has achieved a growth rate of 8 to 9 percent.

**Figure 3.2: Linear Curve Estimation over Real GDP Growth Rate**



### Savings

Saving has always been an important issue in the context of any LDCs. Bangladesh has not been any exception. This has been one of the main causes that brought about the acute resource imbalance in the mid-80s. Domestic savings have not gained any impressive pace over the period of 1980s and was only 2.3 percent of GDP. Over the period of two decades the gross domestic savings (GDS) was only 4.3 percent, requiring external finance to fill the resource gap. National savings are better compared to the GDS due to workers' remittances coming in the country from overseas (Table 3.10).

**Table 3.8: Savings as percentage of GDP**

SAVINGS	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99
Domestic	1.6	3.0	6.5	7.5	7.5	8.6	8.7
National	9.2	9.9	13.9	14.3	14.8	14.8	14.5

Source: Economic Survey (2000) and BBS (Twenty Years)

The recent stagnation in the savings rate is a matter of concern as it represents a reversal of the macroeconomic gains of the earlier period. This can be explained by the weak efforts in the public resource mobilisation. This may be accentuated due to the reversal in the positive trend in remittances. Import liberalisation, in the absence of a strengthening of domestic tax efforts may also have adversely affected domestic savings.

The standard theory of adjustment has traditionally depended upon real rate of interest (RRI) as the main explanatory variable for savings and the major policy instrument to mobilise savings. Econometric exercise, however, shows that RRI has not been able to exert its expected influence over the saving rate of the country. The main explanatory variable is income level of the country, quite logical for a low-income country like Bangladesh. However, without proper accumulation and/or channelling of the domestic saving it is not possible to enhance the productive base of the economy. This in turn weakens the growth potential of the country's income. The lack of improvement in saving indicates persisting structural weakness of the country.

### Box 3.1: Regression Results for Savings Function<sup>9</sup>

The real rate of interest has sufficiently been positive throughout the recent years. This has been possible because of comparatively low level of inflation. It has been found that GDP at market price in both of the cases is a significant regressor while real rate of interest not only has a negative influence over the savings but it is also statistically insignificant. Thus in Bangladesh real rate of interest may not have any effect on the savings behaviour. The argument that real rate of interest may fail to mobilise savings can be a rightful claim. The following table shows regression results.

$$\begin{aligned}
 LS &= -19.74 + 2.22 LGDP & \text{Adj-R}^2 &= 0.837 \\
 & \quad (9.42^{***}) \\
 LS &= -22.28 + 2.43 LGDP - 0.038 RRI & \text{Adj-R}^2 &= 0.832 \\
 & \quad (6.37^{***}) \quad \quad (-0.7)
 \end{aligned}$$

**Figure 3.3 (a) & (b): Trend in Growth Rate Savings: Domestic and National**

<sup>9</sup> In the regression exercises of this chapter, \*\*\*, \*\* and \* means significance at 1%, 5% and 10% levels respectively.

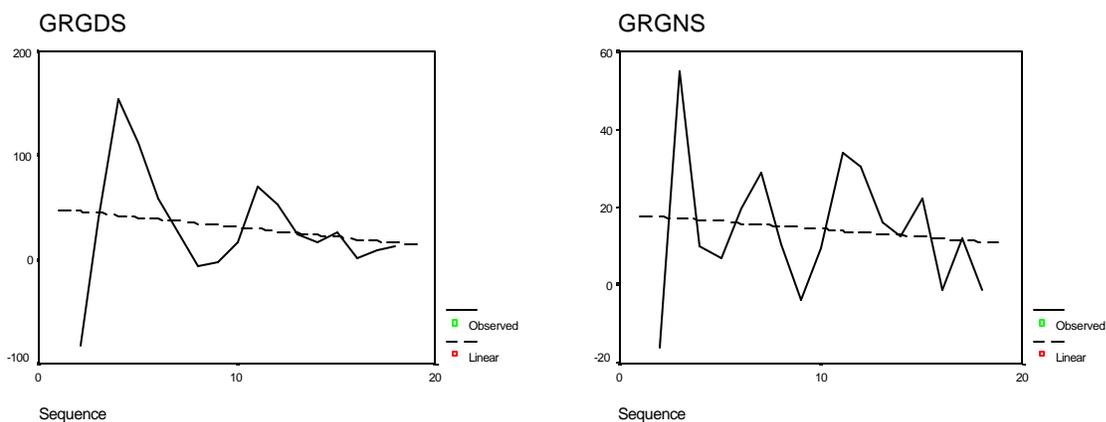
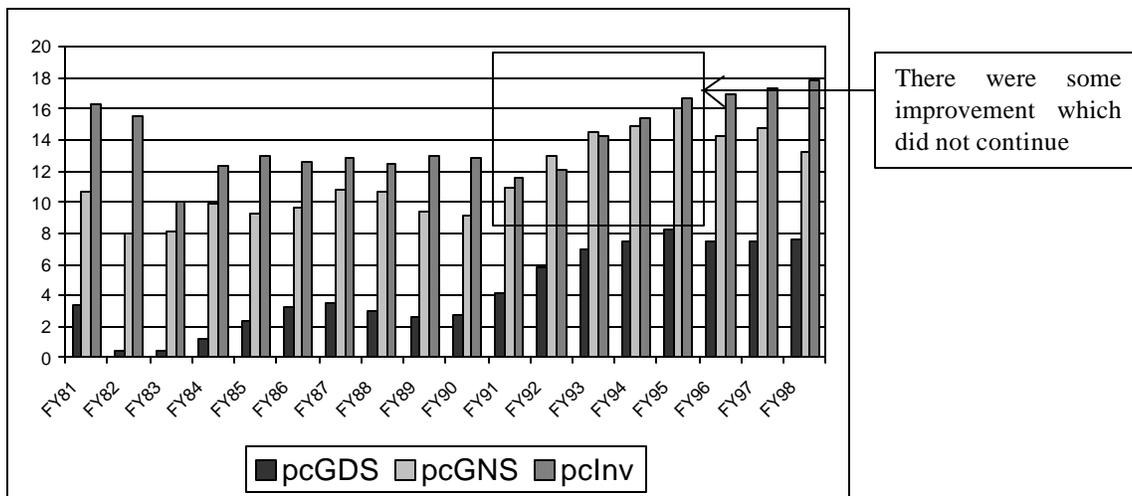


Figure 3.3 shows that initially there has been extraordinary growth rate in savings' behaviour. This can be explained by the fact that initially the savings rate was so meagre that it was possible to double the country's savings.

**Savings and Investment Gap**

There have been persistent savings and investment gaps over the whole period. The gap shows some ups and downs (and somewhat cyclical pattern). This again points to the structural weakness of the economy (Figure 3.4).

**Figure 3.4: The Savings and Investment Gap**



Another simple econometric exercise shows that that public investment is the major determinant of investment in the country. The credit to the private sector though is significant at 10 percent level of significance it does not have the expected sign – it divulges a negative influence over the investment function. This implies that public investment has a critical role in improving Bangladesh productive capacity, contrary to the downsizing of economic role of state as advocated by the Bank.

**Box 3.2: Understanding Public-Private Investment Behaviour**

The correlation exercise tests whether in Bangladesh the public counterpart of the private investment has considerable effects, known as the "crowding in" effect of the public productive expenditure.

$$\text{LPVINV} = -0.97 + 0.99 \text{ LPUBINV} + 0.098 \text{ LGDP} \quad \text{Adj-R}^2 = 0.92$$

(2.15\*\*\*)      (0.2)

$$\text{LPVINV} = -2.45 + 0.99 \text{ LPUBINV} + 0.098 \text{ LCRPVT} \quad \text{Adj-R}^2 = 0.93$$

(5.07\*\*\*)      (-1.78\*)

$$\text{LPVINV} = -2.45 + 1.64 \text{ LPUBINV} + 0.0005 \text{ RRI}$$

(4.74\*\*\*)      (-0.003)

$$- 0.36 \text{ LCRPVT} \quad \text{Adj-R}^2 = 0.93$$

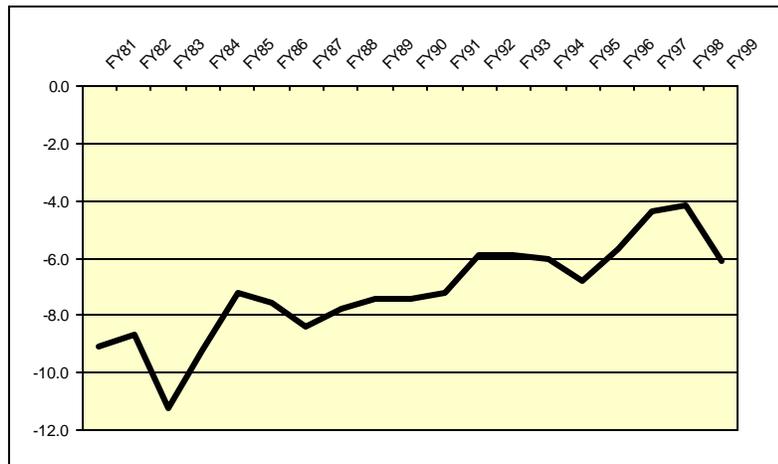
(-1.51)

The credit to the private sector is significant at 10% level of significance, it does not have the expected sign - it divulges a negative influence over the investment function. This signifies that public investment is the major determinant of investment in the country.

### ***Fiscal Gap***

The fiscal gap caused by the public consumption of the government has come under severe criticism in the orthodox policy designs. During the 1980s the fiscal deficit has been wide. The gap came down in the early 1990s. However, the situation deteriorated again and in recent period the gap again increased, may be caused by the flood of 1998.

**Figure 3.5: Fiscal Gap as Percentage of GDP**



The overall budget deficit has revealed some improvement in the recent past, though the FY99 has again shown a reverse performance. This to an extent indicates weakness in long-term sustainability in the fiscal area. Aid disbursement has declined in recent past.

Local currency financing of the ADP has claimed a much more bigger portion of the GDP, than it used be in early 1980s, a total dependence on aid.

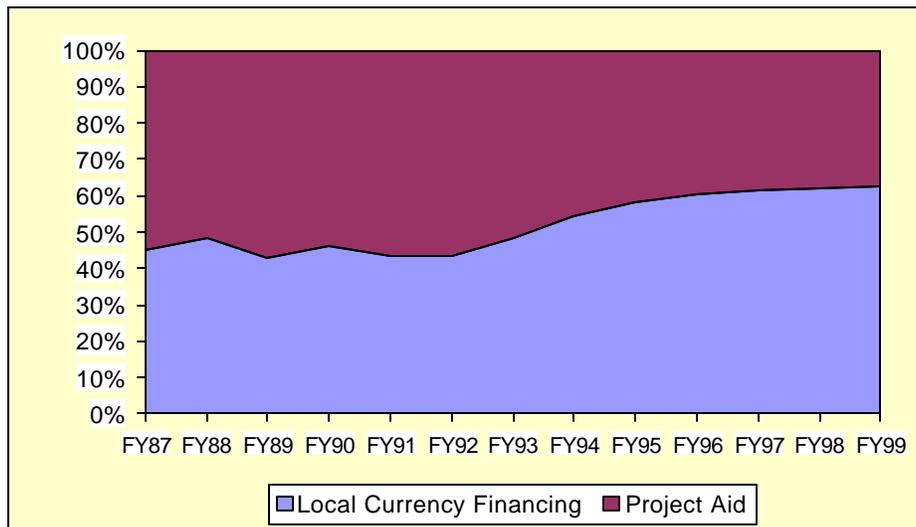
Total credit to the government from the financial sector has shown a secular upward trend. This may be an evident that government is increasingly drawing up resources from the hands of the private sector.

**Table 3.9: Fiscal Account as Percentage of GDP**

YEAR	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Total Revenue	8.75%	8.62%	8.83%	9.19%	9.37%	10.50%	11.67%	11.92%	12.14%	11.92%	12.22%	12.13%	11.34%
Tax Revenue	7.16%	7.31%	7.42%	7.84%	7.65%	8.54%	9.52%	9.59%	9.49%	9.40%	10.03%	12.13%	11.34%
Total Expenditure	15.57%	14.87%	16.36%	16.89%	15.08%	15.36%	15.88%	17.60%	17.61%	16.77%	16.80%	16.49%	16.85%
Current Expenditure	7.34%	7.92%	9.35%	9.14%	8.76%	8.71%	8.98%	8.88%	8.80%	9.08%	8.93%	9.36%	9.65%
Annual Development Plan	8.23%	6.95%	7.01%	7.75%	6.31%	6.65%	6.91%	8.72%	8.80%	7.70%	7.87%	7.13%	7.20%
Budget Deficit	6.82%	6.25%	7.53%	7.70%	5.70%	4.87%	4.22%	5.68%	5.46%	4.85%	4.58%	4.37%	5.51%
Local Currency Financing	3.71%	3.37%	3.01%	3.60%	2.75%	2.90%	3.34%	4.74%	5.12%	4.66%	4.85%	4.41%	4.51%
Project Financing	4.53%	3.58%	4.00%	4.15%	3.56%	3.75%	3.57%	3.98%	3.68%	3.04%	3.02%	2.72%	2.68%
Aid Disbursement	9.06%	8.58%	8.13%	8.08%	7.41%	6.78%	6.92%	6.05%	5.97%	4.53%	4.51%	3.67%	4.25%
Local Currency Financing	3.71%	3.37%	3.01%	3.60%	2.75%	2.90%	3.34%	4.74%	5.12%	4.66%	4.85%	4.41%	4.51%
Project Financing	4.53%	3.58%	4.00%	4.15%	3.56%	3.75%	3.57%	3.98%	3.68%	3.04%	3.02%	2.72%	2.68%
Aid Disbursement	9.06%	8.58%	8.13%	8.08%	7.41%	6.78%	6.92%	6.05%	5.97%	4.53%	4.51%	3.67%	4.25%
Local Currency Financing	45.01%	48.55%	42.95%	46.41%	43.59%	43.66%	48.29%	54.38%	58.17%	60.50%	61.66%	61.82%	62.71%
Project Financing	54.99%	51.45%	57.05%	53.59%	56.41%	56.34%	51.71%	45.62%	41.83%	39.50%	38.34%	38.18%	37.29%
Total Credit to Government	4.58%	4.81%	4.00%	4.61%	4.73%	6.49%	7.20%	6.79%	6.95%	7.23%	8.02%	8.51%	9.15%

Source: Economic Survey (2000) and Economic Trends (Various Issues)

**Figure 3.6: Structure of ADP Financing**



### **External Balance**

It is obvious that Bangladesh in the pre-SAP period had only limited integration with the world (Table – 3.10). The export was only 7.4 percent of the GDP. The post-SAP period experienced a

modest increase of 12.7 percent of GDP. The overall export's contribution to GDP was only 9.7 percent which was far from satisfactory given the success of the export-led countries in the recent past.

On the other hand import had been robust for the whole period (19 percent of the GDP for the whole two decades). In recent times import has been rising, and has created a pressure on the country's foreign exchange reserve.

**Table 3.10: External Balances**

*(as percent of GDP)*

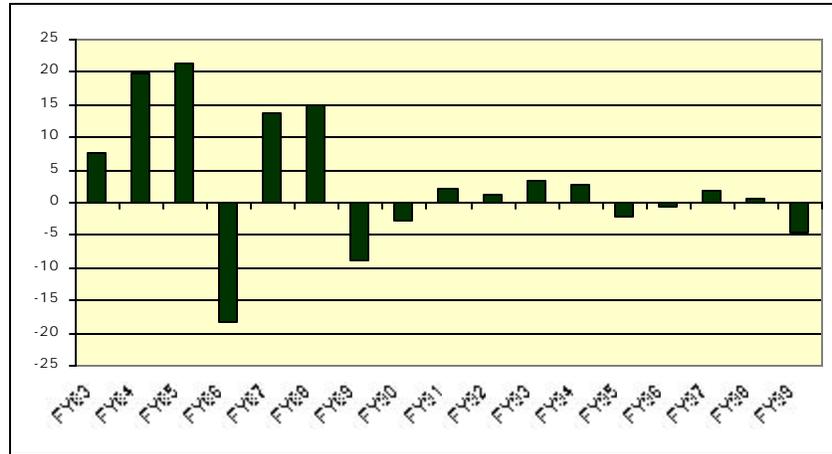
BALANCE OF PAYMENTS	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Merchandise Imports	14.89%	15.62%	16.45%	16.78%	14.85%	14.80%	16.81%	16.27%	20.04%	21.80%	21.80%	22.09%	22.18%
Primary Goods	2.66%	3.93%	2.97%	2.61%	2.72%	2.24%	1.92%	1.79%	2.98%	3.22%	1.87%	2.38%	4.00%
Industrial Goods	2.03%	2.49%	2.74%	2.53%	2.95%	2.86%	2.63%	2.77%	3.17%	3.38%	3.97%	3.36%	3.05%
Capital Goods	4.86%	5.70%	5.21%	5.78%	5.26%	5.42%	5.56%	5.05%	5.80%	6.17%	5.90%	6.08%	5.45%
Merchandise Exports	6.10%	6.44%	6.30%	6.80%	7.35%	8.39%	9.84%	9.84%	11.93%	12.18%	13.47%	15.19%	14.73%
Traditional	1.69%	1.50%	1.47%	1.44%	1.31%	1.13%	1.30%	1.35%	1.55%	1.49%	1.60%	1.47%	1.17%
Non-traditional	4.41%	4.94%	4.83%	5.36%	6.03%	7.26%	8.54%	8.49%	10.38%	10.69%	11.87%	13.71%	13.56%
Net Factor Income	2.88%	3.43%	3.42%	3.02%	3.18%	3.73%	4.09%	4.72%	4.76%	4.61%	5.06%	4.86%	4.35%
Workers' Remittance	3.96%	3.86%	3.76%	3.38%	3.27%	3.58%	3.90%	4.23%	4.11%	3.82%	4.49%	4.41%	4.73%
Exchange Rate	30.63	31.24	32.14	32.92	35.68	38.15	39.14	40.00	40.20	40.84	42.70	45.46	48.06
Real Exchange Rate	101.3	100.3	106.3	100.0	98.2	92.2	91.7	91.2	92.4	92.1	96.7	104.1	

### ***Terms of Trade***

Bangladesh as a part of the adjustment process has unilaterally liberalised its import regime. There has been a frequent claim that the liberalisation process has been quite rapid given the country's state of industrialisation.

The aim of any trade strategy is to achieve terms of trade in favour of the domestic produces. During the 1990's, the terms of trade has declined compared to pre-SAP period. There has been a negative terms of trade in FY99.

**Figure 3.7: Change in Terms of Trade in Bangladesh**  
*(% change over previous year)*



This follows to examine whether the terms of trade has any considerable influence over export and import behaviour of Bangladesh. An econometric exercise shows that export price elasticity is positive and statistically significant, implying that any deterioration in the terms of trade may jeopardise the development efforts of the country.

The exercise also shows that real exchange rate does not have considerable statistical significance, pointing to the fact that the traditional exchange management policy may have failed to exert the required influence over the export behaviour.

### Box 3.3: Export Determinants

The following exercise shows that export price elasticity is positive and also it is statistically significant. This implies that any deterioration in the terms of trade may seriously jeopardise the development efforts of the country.

$$\text{LEXPORTS} = -2.164 + 2.89 \text{ LEXPORTS PRICE INDEX} \quad \text{Adj-R}^2 = 0.58$$

(4.65\*\*\*)

$$\text{LEXPORTS} = 23.03 + 1.72 \text{ LEXPORTS PRICE INDEX} - 4.29 \text{ LREER}$$

(2.86\*\*) ( -1.77)

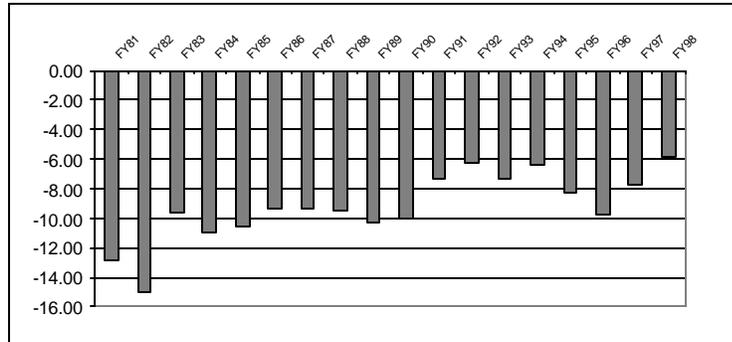
$$\text{Adj-R}^2 = 0.72$$

The price that domestic producers face may be important determinant of the trade balance of the country. The simple exercise shows that real exchange rate does not have considerable statistical significance. Thus the traditional exchange policy may have failed in influencing the export behaviour.

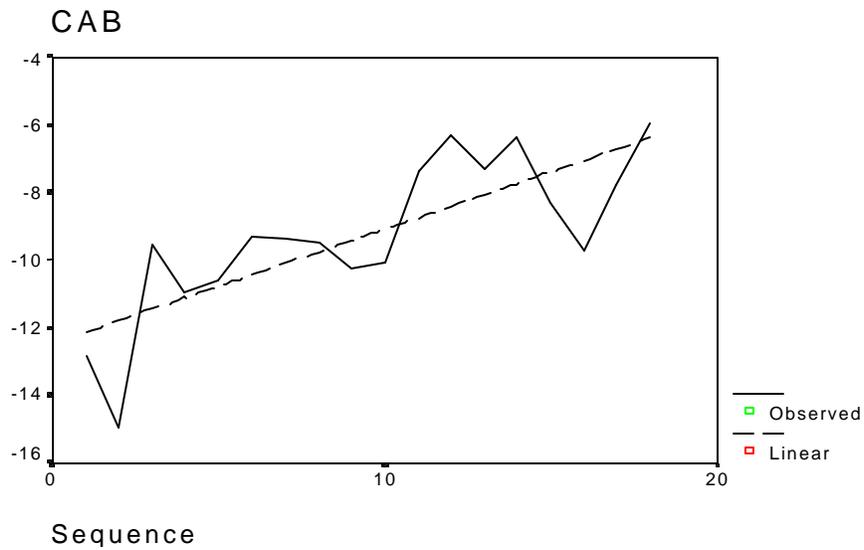
### Current Account Deficits

During the mid-1980s the current account deficit moved around 9-10 percent of the GDP (Figure 3.8). There have not been any secular patterns in the current account balances, though on the average the current account deficit has been declining (Figure – 3.9).

**Figure 3.8: Current Account Deficit as Percentage of GDP**

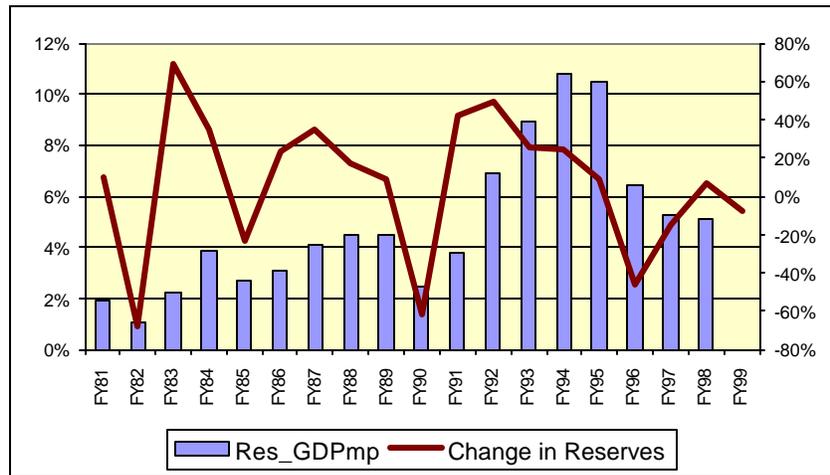


**Figure 3.9: Trend in Current Account Balance**



**Foreign Exchange Reserve**

**Figure 3.10: FOREX Reserve (as % of GDP) and Change in Foreign Reserve (as % over previous year)**



Persisting current account deficit exerts a pressure on the foreign exchange reserve of the country. The first half of the 1990s was marked by an unprecedented build-up of external reserves. The development can be interpreted as a result of implementation of stabilisation policies. But this also signifies that economy stagnated from severe demand management policies. The situation however changed after 1994-1995. During the late 1990s there have growth in the foreign exchange reserve appears to be in declining territory.

### **Public Resource Mobilisation**

#### *Revenue Growth*

There has been a persistent fiscal deficit in Bangladesh throughout the two decades. The gap has remained, though it has been closed in the last decade, indicating two problems. First, the gap was financed through borrowing from the banking sector, pressurising on the private sector investment credit availability. The gap was also financed by external assistance, accruing a heavy debt and interest payment. Secondly, the persistent gap weakened the government's ability to invest in the priority sectors like social sector and infrastructure.

The total revenue collection as percent of nominal GDP could not reach a two-digit figure in last two decade (Table-3.11). The direct or income tax remained quite an insignificant part of the total tax receipt for Bangladesh. It has stagnated around 15 or 16 percent and the direct tax receipt has been declining in the later half of the 1990s. The indirect tax such as supplementary tax, import tax and value-added tax have filled the gap while the direct (and progressive tax) have not been able to establish its foothold.

The value added and supplementary taxes have been the major share of total tax collection after the introduction of these tax components in 1992. In-post 1995 these taxes have contributed to around 50 percent of the total collection. It is argued that these taxes have been regressionary in nature because these are levied on commodities.

**Table 3.11: Tax as Percentage of GDP and its Breakdown**

YEAR	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99
Tax as % of GDP	6.90	6.80	8.42	8.74	8.91	8.88	8.48
Income Tax as % of Total Tax	14.55	15.49	17.65	13.48	13.32	14.21	15.90
Customs Tax as % of Total Tax	43.09	42.43	35.68	33.18	32.10	33.01	31.98

### ***Public Expenditure***

Public expenditure reform has been another area where SAPs were actively pursued. One of the main criticisms against demand management policy is that the austerity policies have cut back government expenditure in important development sectors.

Over the years, revenue portion of the government budget has shown increasing trend. Revenue budget mainly comprises of the spending on current costs of running the government that is the salary of government servants and corresponding line items. On the other hand development budget has been curtailed compared to the pre-SAP period.

**Table 3.12: Government Expenditure**

*(as percent of GDP)*

YEAR	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99
Revenue Budget	6.2	8.4	8.8	9.08	8.93	9.36	9.58
Development Budget	9.0	7.6	7.5	7.70	7.87	7.13	7.15

### ***Monetary Sector***

The demand side management calls for a contraction in the growth of the monetary aggregates. The monetary contraction mainly aims at curtailing the resource imbalance or shortfall in the economy and inflation, if it stands out to be very high and out of control. Targets for monetary and credit expansion are fixed on the basis of the IMF financial programming model so as to control domestic inflation and maintain external sector balance. The credit to the public sector is also restrained to check symptoms of crowding out. The record shows that aggregate demand management succeeded to a certain extent in containing the fiscal and external deficits at a manageable level.

The monetarist model used by the IMF assumes a fixed velocity of money, but velocity of money has changed over time. This calls for a more structuralist view in managing the monetary sector. Empirical studies on Bangladesh context show that monetarist approach alone cannot explain inflation behaviour in Bangladesh and that structuralist concerns such as cost-push pressure, wage-indexation are relevant as well.

The inflation came down from its double digit history in the 1980s to as low as 2.5 percent. A relative high inflation year of 1999 can be attributed for the preceding flood year. The demand management policy has been credited for containing inflationary pressure. It may be argued that the lack of inflationary pressure stems from infavourable terms of trade enjoyed by agriculture as the accompanying chapter shows that crop sector profitability has declined since agriculture's weightage in inflation basket is high.

On the other hand, low inflation rate however characterises that the economy may well be facing a short run recession. As the government is discouraged to appropriate credit from the banking system there is reason to believe that a potential investment fund may be unduly built up in the banking system.

**Table 3.13: Money and Inflation**

	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99
Money Supply							
Narrow Money	20.18%	8.79%	15.75%	9.71%	4.89%	4.76%	8.57%
Quasi Money	33.45%	20.41%	12.81%	7.60%	13.56%	12.48%	14.50%
Broad Money	26.98%	16.18%	13.66%	8.26%	10.82%	10.17%	12.81%
Total Domestic Credit	25.19%	13.99%	9.48%	20.42%	13.68%	12.64%	13.06%
Government	16.21%	3.87%	20.08%	36.76%	27.05%	15.65%	21.32%
Other Public Sector	17.07%	9.44%	0.01%	11.74%	7.15%	6.40%	-3.67%
Private Sector	37.64%	18.85%	10.99%	19.18%	12.15%	12.99%	13.76%
Income Velocity	-7.84%	-3.71%	-3.19%	0.00%	0.00%	0.00%	-3.57%
Net Domestic Asset	27.11%	15.24%	7.83%	22.70%	13.16%	11.33%	15.38%
Net Foreign Asset	3145.25%	-8.18%	111.09%	-35.63%	-2.84%	3.80%	-5.76%
Inflation							
CPI	11.88%	8.76%	5.55%	6.65%	2.52%	6.99%	8.91%
WPI (Agri)	13.25%	7.62%	3.57%	5.73%	0.31%	5.59%	8.64%
WPI (Ind)	9.45%	5.56%	4.53%	4.81%	1.30%	3.99%	2.54%
GDP Deflator	11.86%	8.18%	5.41%	5.73%	1.47%	4.37%	7.00%

Although *a priori* gross domestic product, import price index and broad money supply are assumed as important determinants for inflation, an econometric estimate shows that three variables are statistically insignificant, similar results were found in the past literature as well. Thus monetary hypothesis of inflation may not be an appropriate model in Bangladesh context, contrary to the orthodox policy of inflation targeting, it may be said that a high growth rate could be conducive to maintain a low inflation rate in Bangladesh. The adverse effect (if there is any) of money supply may be contained by a higher economic growth.

### Box 3.4: Inflation in Bangladesh

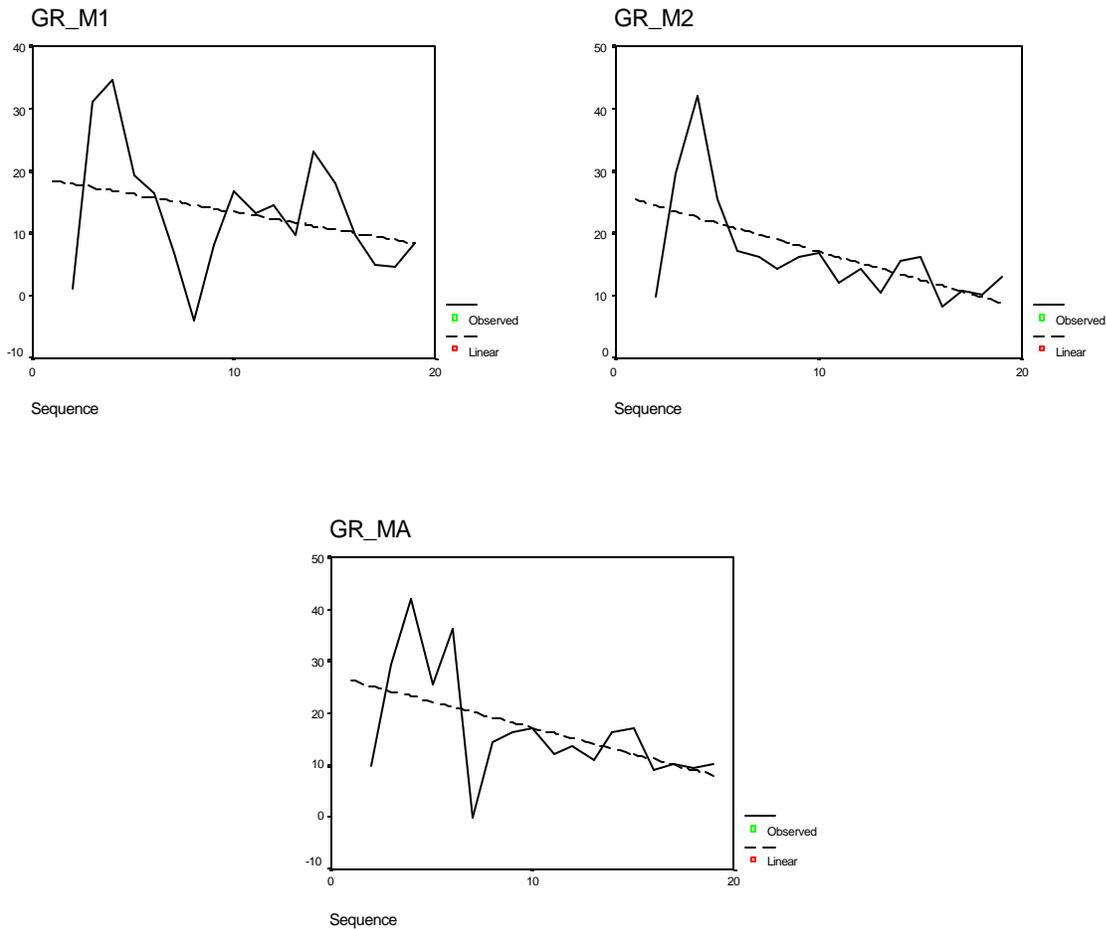
A inflation model, following equations used in Rahman and Shilpi, is estimated for FY81-FY99.

$$\begin{aligned} \text{INFLATION} = & 10.32 - 0.000033 \text{ GDP} + 0.071 \text{ IMPORT PRICE} \\ & (-1.55) \qquad \qquad \qquad (1.31) \\ & + 0.000059 \text{ M2} \\ & (1.14) \qquad \qquad \qquad \text{Adj-R}^2 = 0.54 \end{aligned}$$

Gross domestic product, import price index and broad money supply *a priori* are important determinants for inflation. The present estimate however shows that all three variables are statistically insignificant. Similar results were found in the past literature as well. Thus monetary hypothesis of inflation may not be an appropriate model in the present context.

The Figure 3.11 shows monetary expansion in the economy over the last two decades. All three variables have indicate a declining trend over the two decades. Narrow money has been quite volatile over the time. Broad money had a jump in the mid-80s yet it showed a stable decline up to recent time. Overall monetary assets had also a stable-declining trend over the period except for some ups and downs in the mid-80s.

**Figure 3.11: Growth in Monetary Aggregates**



Though there is no formal automatic wage indexation in Bangladesh, wages and salaries adjust upwards with increases in the cost of living albeit with a lag. Thus in reality the wage-price behaviour reveals indexation. It can be argued that tight monetary policy combined with continuous exchange rate depreciation as a strategy to improve the balance of payments is rendered much less effective in the presence of structural inflation and wage indexation.

***Decomposition of Output***

Conventional wisdom suggests that dynamics of an economy is captured by the structural transformation, in which industrial sector dominates in terms of share of its contribution, followed by growth in service sectors.

It is quite obvious that share of agriculture has to decline (Table – 3.11). The contribution of agriculture has remained at almost one-third of GDP. A comparison of the contribution of the industrial sector between the pre and post-SAP periods shows that the sector's contribution to GDP only increased by 0.9 per cent. During the two decades industry entailed only 10.4 per cent of the GDP.

The contribution of large-scale industries has been rising while those of small-scale industries have gradually eroded. Contributions of construction and power have increased in the GDP. The transport sector contributed positively at a meagre rate of +0.7 percent in last twenty years.

**Table 3.14: Sectoral Breakdown of GDP**

YEAR	FY81-FY85	FY86-FY90	FY91-FY95	FY96	FY97	FY98	FY99
Agriculture	43.20	39.00	35.56	32.20	32.40	31.60	31.60
Industry	10.22	9.86	10.52	11.30	11.10	11.50	11.20
<i>Large</i>	5.34	5.54	6.50	7.40	7.20	7.60	7.50
<i>Small</i>	4.88	4.32	4.00	3.90	3.90	3.90	3.70
Construction	4.92	5.82	6.16	6.30	6.20	6.30	6.30
Power	0.48	0.84	1.60	2.00	1.90	1.80	1.80
Transport	10.96	11.76	11.92	12.10	12.20	12.30	12.40
Trade	9.40	9.16	9.18	10.00	10.10	10.20	10.30
Housing	8.10	7.80	7.52	9.40	7.20	7.10	7.00
PA/Defence	2.78	4.02	4.74	5.20	5.30	5.50	5.60
Banking	1.66	2.08	1.82	1.80	1.80	1.70	1.70
Professional	8.28	9.66	11.04	11.70	11.80	12.00	12.10

### ***Overall Performance of the Economy***

The following exercise has been carried by fitting growth patterns of different sectors. It is interesting to note that some the major performers in the economy are power (14.44 per cent) and mining (30.66 per cent). However, these sectors comprise only a very small part of the GDP. Agriculture achieved only a modest growth rate of 2.22 percent. Other good performers have been public administration and defense which is termed as non-productive sector of the economy. Industry acquired a growth rate of 4.9 percent (Box – 3.5).

### **Box 3.5: Growth by Different Sectors**

Dependent	Mth	Rsqr	d.f.	F	Sigf	b0	b1
AGRICULT	GRO	.920	17	196.54	.000	11.9264	.0222
INDUSTRY	GRO	.963	17	443.81	.000	10.3728	.0490
LARGE_SC	GRO	.971	17	568.11	.000	9.6732	.0652
SMALL_SC	GRO	.942	17	278.37	.000	9.7147	.0256
MINING	GRO	.794	17	65.51	.000	.1537	.3066
TRADE	GRO	.933	17	235.14	.000	10.3062	.0447
CONSTRUC	GRO	.983	17	990.61	.000	9.6741	.0591
TRANSPOR	GRO	.982	17	907.92	.000	10.4525	.0517
HOUSING	GRO	.998	17	9205.62	.000	10.2172	.0339
PA_DEFEN	GRO	.978	17	769.02	.000	9.0444	.0870
POWER	GRO	.971	17	575.41	.000	7.0748	.1444
BANKING	GRO	.914	17	180.22	.000	8.6679	.0443
PROFESSI	GRO	.999	17	21072.0	.000	10.1481	.0674

The exercise reveals the fact there has not been any significant structural change in the economy. Unproductive sectors had a higher growth rate compared to the productive counterparts. Thus Bangladesh is yet to exploit the productive capacity of the economy.

### 3.4 Observations

The Bretton Woods Institutions – Bank and Fund - have established themselves in Bangladesh as principal lender and purveyor of policies due to structural weaknesses of the polity and the economy.

In the wake of severe resource imbalance, a military government of Bangladesh contracted to the BWIs' economy-wide policies footed on neoliberal orthodoxy, resurrected in the changed global politico-economic climate. The minimal national input, restricted negotiations near zero consultation with the public representative and no participation of public in the design of reforms having impacts and implications over their lives rendered the process to a degree of an 'orphan status,' as equally illustrated by party in power and the opposition though they have been pursuing such policies. The framers of the 'one-size-fits-all' policies decried for lack of desired outcome due to failure in the process of implementation. Is it not paradoxical that government, diagnosed as 'source of all distortions' and asked to 'downsize' were faced with the demand for widespread and complex reforms? should it be irrational to say the inability to implement also lie with the design; why one has designed such reforms which can not be implemented?

The SAP package aimed at fostering economic growth through policies of deregulation and liberalisation, centring on the private sector, with a squeezed government having negligible economic role.

There has been a one per cent higher output expansion over the pre-SAP period. The recent performance of the economy has been attributed to a bumper yield in the agricultural sector, implying weakness in making inroad towards structural transformation.

The recent stagnation in the savings rate is a matter of concern and the public resource mobilisation has been far from desired level . Total revenue collection as percent of nominal GDP could not reach a two-digit figure in last two decade. The direct or income tax remained quite an insignificant part of the total tax receipt for Bangladesh. It has stagnated and the direct

tax receipt has been declining in late 1990s. Import liberalisation, in the absence of a strengthening of domestic tax efforts may also have adversely affected domestic savings.

There is a saving-investment gap. The orthodox approach of downsizing or near halt of public investment in economic activities have not been able to bring dynamics to the economy as the econometric exercise shows that public investment is the major determinant of investment in Bangladesh.

The aim of any trade strategy is to achieve a terms of trade for domestic produces. During the 1990's, the terms of trade declined compared to pre-SAP period. Deterioration in the terms of trade may seriously jeopardise the development efforts of the country, as an exercise shows that export price elasticity is positive and statistically significant. Another exercise shows that the traditional exchange management policy followed in the country may have not been able to steer influence over the export behaviour. Monetary hypothesis of inflation may not be an appropriate model in Bangladesh context. The demand management policy has been credited for containing inflationary pressure. It may be argued that the lack of inflationary pressure stems from unfavourable terms of trade in agriculture due to decline in crop sector profitability as food carries a significant weight in inflation basket.

During the last two decades industry entailed only 10.4 per cent of the GDP. The large and medium scale industries have grown. The contribution of small-scale industries has gradually eroded.

The reform package contains a host of structural and institutional policy measures which are desirable, but the thrust of the package and the process which was followed in designing the such package, the part of the design itself are not beyond contest. Notwithstanding it may be said that the assumptions based on which the policies are put in practice are far from realities. The dogmatic followings of neoliberal articulations ignoring structural as well as Keynesian tenets which may not promote growth of a developing country like Bangladesh. Moreover, the role of state needs to re-designed especially in view of segmented and incomplete market structure. There is no denying the fact that market needs regulation and role of the institution should be a matter of high priority in the wake of pervasive misgovernance.

A forward-looking strategy requires to be crafted with the inputs of stakeholders in order to ensure ownership of such agenda. It is recognised that the development partners may provide resources to the endogenously owned and designed development plans. instead of having separate country assistance strategy of their own.

The major goal of Bangladesh development agenda should be reduction of poverty. The basic elements of the agenda as articulated by the stakeholders should include:

- creation of employment through increasing productive capacity of the economy,
- improvement in domestic resource mobilisation using progressive tax structure to contain the extra demands for external assistance and higher allocation to social sectors in order to ensure equitable quality of life
- rekindling of sufficient growth to prevent contraction and restore conditions for sustainable growth
- sustaining of a social consensus through provision of adequate insurance and targeted safeguards for reversing differentiated impacts, especially for the disadvantage

**Annex Table 3.1: IDA Loans: Commitment, Disbursed and Repaid by Sectors**

1970s figures in million US\$  
1980s and 1990s figures in million SDR

REF.	SECTORS	FY72-FY80			FY81-FY85			FY86-FY90			FY91-FY95			FY96-FY99		
		Total Loan	Loan Disbursed	Repaid	Total Loan	Loan Disbursed	Repaid	Total Loan	Loan Disbursed	Repaid	Total Loan	Loan Disbursed	Repaid	Total Loan	Loan Disbursed	Repaid
I	Flood Management	157.28 (10.30)	157.28 (10.30)	30.73 (9.25)	143.78 (10.31)	143.78 (7.27)	7.62 (3.91)	212.11 (14.18)	212.11 (14.26)	2.71 (2.23)	112.50 (11.45)	106.18 (12.38)	...	190.80 (10.23)	146.00 (34.42)	...
II	Infrastructure and Highway	152.51 (9.99)	152.51 (9.99)	37.00 (11.14)	428.86 (30.75)	1011.86 (51.15)	44.80 (23.00)	470.53 (31.46)	462.53 (31.09)	6.18 (5.08)	362.80 (36.92)	298.68 (34.82)	...	1012.34 (54.25)	6.74 (1.59)	...
III	Imports	549.45 (35.99)	549.45 (35.99)	71.08 (21.39)	323.60 (23.20)	323.60 (16.36)	19.89 (10.21)	186.70 (12.48)	186.70 (12.55)	5.60 (4.60)	...	...	...	...	...	...
IV	Industry	67.80 (4.44)	67.80 (4.44)	6.78 (2.04)	24.43 (1.75)	24.43 (1.23)	1.29 (0.66)	169.05 (11.30)	169.05 (11.36)	3.34 (2.74)	56.08 (5.71)	56.08 (6.54)	...	31.90 (1.71)	0.67 (0.16)	...
V	Food/Cereal	51.27 (3.36)	51.27 (3.36)	11.30 (3.40)	...	...	...	...	...	...	...	...	...	...	...	...
VI	Education	66.96 (4.39)	66.96 (4.39)	10.79 (3.25)	92.31 (6.62)	92.31 (4.67)	4.24 (2.18)	93.34 (6.24)	93.34 (6.27)	...	49.50 (5.04)	34.27 (3.99)	...	118.10 (6.33)	5.59 (1.32)	...
VII	Technical Assistantship	21.50 (1.41)	21.50 (1.41)	3.70 (1.11)	57.03 (4.09)	57.03 (2.88)	3.39 (1.74)	...	...	...	18.30 (1.86)	17.89 (2.09)	...	...	...	...
VIII	Debt Liabilities	37.45 (2.45)	37.45 (2.45)	8.80 (2.65)	...	...	...	...	...	...	...	...	...	...	...	...
IX	Population/Health	45.84 (3.00)	45.84 (3.00)	6.61 (1.99)	3.30 (0.24)	3.30 (0.17)	0.30 (0.15)	75.40 (5.04)	75.40 (5.07)	2.64 (2.17)	173.30 (17.63)	143.38 (16.71)	...	185.50 (9.94)	56.22 (13.25)	...
X	Rural/Agriculture	256.46 (16.80)	256.46 (16.80)	43.15 (12.99)	203.59 (14.60)	203.59 (10.29)	13.33 (6.84)	65.29 (4.37)	65.29 (4.39)	1.30 (1.07)	106.06 (10.79)	97.34 (11.35)	...	158.77 (8.51)	71.67 (16.90)	...
XI	Finance	21.47 (1.41)	21.47 (1.41)	4.08 (1.23)	19.41 (1.39)	19.41 (0.98)	1.65 (0.85)	132.70 (8.87)	132.70 (8.92)	...	4.70 (0.48)	4.70 (0.55)	...	72.70 (3.90)	52.82 (12.45)	...
	Total	1526.48 (100.00)	1526.48 (100.00)	332.25 (100.00)	1394.80 (100.00)	1978.26 (100.00)	194.79 (100.00)	1495.67 (100.00)	1487.62 (100.00)	121.76 (100.00)	982.71 (100.00)	857.88 (100.00)	...	1866.00 (100.00)	424.15 (100.00)	...

Source: Flow of External Resources in Bangladesh (As of June 30, 1999)

Note: Parenthesis figures are in percentage.

## CHAPTER 4: IMPACTS OF TRADE AND INDUSTRIAL POLICY REFORMS ON INDUSTRIAL CAPACITY AND EMPLOYMENT<sup>10</sup>

### 4.1 Introduction

The trade and industrial policy reforms centred on trade liberalisation in the belief that regular supply of imported inputs at cheaper prices, together with competition from imports, would goad the manufacturing sector to move at a faster pace. The major objectives of trade and industrial policy reforms, as reflected in the PFPs and summarised in the Table - 1, were: achievement of efficiency in the traded goods sector, facilitating import of industrial inputs to encourage industrial production, providing free trade status for exporters, provision of export credit and encouraging growth and diversification of non-traditional exports. These objectives were to be achieved through pursuing strategies such as: rationalisation of the import regime, reducing customs duty rates, reducing levels of effective protection, simplification of the tariff structure and removing special tariff concessions and exemptions, import liberalisation and elimination of export subsidies.

The major thrust of reform was to stimulate export growth through reducing and eventually eliminating the anti-export bias of trade policy i.e. reduction of effective protection to low levels. No target level of effective protection consistent with the level of Bangladesh's economic development was determined in the Bank-Fund strategy. The donors' advice was, though, to bring down effective protection to those prevailing in internationally competitive developing countries, presumably the East Asian and Southeast Asian countries. This reflects a perception which ignores the socio-politico-economic peculiarities of Bangladesh. Furthermore, the possibility of differential impacts of reform on different manufacturing sub-sectors (according to size), with obvious implications for employment and poverty, was apparently not taken into consideration while designing trade policy reform.

**Table 4.1: Summary of Structural Adjustment Policies Related to Trade and Industry**

POLICY OBJECTIVES	STRATEGIES AND MEASURES	TIMING OF MEASURES
Investment sanctioning	Liberalise and simplify investment procedures	1986/87 onward
Tariff reform: Improve efficiency in traded goods	Rationalise import regime	Ongoing <sup>11</sup>
	Reduce and narrow the band of net effective level of protection for textiles and steel on the basis of TIP study	1986/87-1988/89
Reduce disparities of effective protection	Reduce level and rationalise structure of tariffs in the textile, steel and engineering, chemical and electronics industries	1987/88 onward
	Reduce maximum customs duties to 20% for raw materials, 75% for intermediate goods and 100% for finished goods	1987/88 onward
	Continue reducing number of rates of customs duty and sales tax	1987/88 onward
	Reduce maximum tariff rate (other than for specified luxury goods) to 100%	1990/91
	Further action to be taken to reduce maximum tariff rate and	1992/93

<sup>10</sup> This chapter bases on the background paper prepared for SAPRI, Rashid (2001).

<sup>11</sup> "Ongoing" without the year marked within the parentheses refers to reform measures that have started before the PFP for 1986/87-1988/89.

	compress duty schedule. One-fifth of items with rate above 100% were reduced to 75%. Further action needed.	onward
	Simplify tariff schedule to a 6-digit level of classification and reduce number of different tariff rates to no more than six	1991/92
	Curtail special concessions and exemptions on customs duties and sales taxes	1990/91 onward
Import restrictions Facilitate import of raw materials, intermediate goods and capital goods to encourage industrial production	Eliminate negative and restricted lists for industrial imports, except for items controlled for reasons of religion and public safety and a small number of highly sensitive items.	1986/87 onward. Complete by July 93
	Phase out requirement that barter facilities must be fully used before imports under any other financing sources are allowed	1987/88
Industrial export promotion Provide free trade status for exporters	Remove restrictions on all required imports for direct and indirect exporters	1986/87
	Simplify procedures for obtaining duty exemption/drawback and grant autonomy	1986/87 onward
	Provide additional infrastructure for Export Processing Zone	1986/87 onward
Ensure improved export credit finance	Prepare and implement plan to strengthen provision and guaranteeing of export credit	1987/88
Promote backward linkages	Extend coverage of back to back letters of credit to all products and all indirect exporters	1987/88
Encourage growth and diversification of non-traditional exports	Eliminate all export subsidies other than on jute in 1989/90 and phase out jute subsidies	Ongoing 1990/91-1992/93)
	Remove all import restrictions on items required by exporters	1990/91
	Extend bonded warehousing facility to all exports	1990/91
Exchange rate management Strengthen the BoP position	Exchange rate management will remain flexible to improve competitiveness and promote export diversification	Ongoing/ 1990/91 onward
Unification of dual exchange markets	Steadily increase the proportion of external transactions conducted in the secondary exchange market	1986/87-1988/89
	Narrow spread between official and secondary market rate to 2 per cent	November, 1988

Source: Bhattacharya, D and Titumir, R A M (1998)

The Government of that period which resorted to the ‘shock therapy’ was also desperately striving to achieve political legitimacy. It is suggested that the attractiveness of quick-disbursing of programme loans allure the government to contract to such policies in order to relieve pressure on the balance of payments. According to commentators this may have clouded the government's judgement regarding the medium and long-term impact of import liberalisation on industrial growth at a time when there was macroeconomic instability, an undeveloped financial sector, weak physical and social infrastructure, and a shortage and high prices of essential supportive services like power, transport, water, etc.

The private sector, in its consultation with the Bank, had reportedly argued that trade liberalisation should proceed more slowly (World Bank, 1999). The Bank’s subsequent espousal of

a faster pace of liberalisation indicates that the views of the major stakeholder apparently was not taken onboard.

The following chapter presents an analysis of impacts of trade policy reform on industrial capacity. Section III considers the impact of import liberalisation on employment and also contains analysis on impacts of exchange rate policy reforms. Concluding remarks are presented in Section IV.

## **4.2 Impact Of Trade Policy Reform On Industrial Capacity**

### ***The Speed of Liberalisation***

Trade policy reform has focused on elimination of QRs, rationalisation of the tariff structure, simplification of import procedures, exchange rate liberalisation and various measures to stimulate export growth. These reforms were initiated in the early eighties with the support of the IPCs the speed of liberalisation was accelerated in the nineties. The number of QRs has been brought down from 239 H.S. 4-digit Codes in FY91 to 124 in the Import Policy for 1997-2002; only about one-fifth of the current QRs have been imposed for trade reasons, the remaining ones being applicable on non-trade grounds like health, national security, etc. The number of banned items has been sharply reduced from 135 in FY90 to only 5 at present. The maximum tariff rate has been brought down from 350 per cent in FY91 to 37.5 per cent in FY2000. The number of tariff slabs currently stands at five. The tariff structure has been further compressed through reducing the number of end-user-based tariff concessions. The trade-neutral VAT was introduced in FY94 and its scope and coverage has been further extended in FY2000. A mandatory PSI system has been introduced in February 2000.

During the nineties direct export incentives have been further strengthened. The Special Bonded Warehouse (SBW) facility has been extended to all 100 per cent exporters and deemed exporters. Import of raw materials and capital machinery have been made duty-free for 100 per cent export-oriented industries. Cash compensation of 25 per cent f.o.b value of export is provided in lieu of duty drawback and bonded warehouse facility. Exporters also enjoy income tax rebate, tax holiday of 5-7 years or accelerated depreciation allowance at a rate between 80-100 per cent. The ceiling for foreign currency retention by exporters has been increased to 40 per cent. Export procedures have been simplified by allowing export without L/C but on the basis of a purchase contract agreement, purchase order or advance payment.

Trade liberalisation has increased economic openness. The economic openness index ( the ratio of the sum of exports and imports to GDP) has risen from 19 per cent in FY91 to about 35 per cent in FY99. The unweighted average customs duty rate has been reduced from 88.6 per cent in FY91 to 16.7 per cent in FY2000. The unweighted average nominal protection rate for all tradables has declined from about 87 per cent to 24.7 per cent during the above period. The average effective protection has come down from 75.7 per cent in FY93 to 24.5 per cent in FY2000.

World Bank (1999a) has measured anti-export bias as the ratio of the effective exchange rate (EER) for imports relative to exports. The EER for imports has been derived by adjusting the nominal exchange rate for import taxes and the effect of exchange controls as reflected in scarcity premia. The EER for exports has been derived by adjusting the nominal rate to incorporate the effect of export promotion schemes. This measure is flawed to the extent that it does not take into account the effect of import taxes on inputs. Since import taxes on inputs used by export industries have been reduced at a faster rate than in the case of import-substituting industries, the World Bank

methodology is likely to give an over-estimate of anti-export bias. Using this methodology the WB has found that the policy bias in favour of producing import substitutes was about 26 percentage points in 1997-98, declined from about 66 percentage points in 1991-92. This is likely to be an over-estimate of the degree of anti-export bias. The anti-export bias has been reduced at a fairly brisk pace; furthermore, the anti-export bias declined further in 1999-00.

The speed of import liberalisation has been faster in Bangladesh compared to South Asia as a whole, as the calculations of WB (1999a) show. The ratio of post-reform average tariff to pre-reform tariff, a good measure on the pace of liberalisation, was brought down to 0.26 in Bangladesh during 1989-98 compared to 0.40 for South Asia as a whole (between 1985 and 1998).

### ***Growth Performance of the Manufacturing Sector***

The overall performance of the manufacturing sector, largely dictated by large manufacturing, had improved in the 1990s, with an average annual growth rate of 6.6 per cent between 1992-93 and 1998-99. A declining trend in the growth rate is discernible (Table – 4.2). While the average annual growth rate of large and medium industry during the period 1992/93-1998/99 was 8.2 per cent, small and cottage industry grew at an average annual rate of 4.1 per cent.

While share of the large scale manufacturing in GDP shows a modest upward trend, the opposite is the case with small and cottage industry. Offsetting movements in the shares of large and small industry have resulted in a virtual stagnation of the share of the overall manufacturing sector in GDP at a little over 11 per cent during the nineties, reflecting lack of dynamism for sustained increase in manufacturing growth in the nineties.

**Table 4.2: Growth Performance of the Manufacturing Sector**

*(at constant 1984-85 prices, percentage)*

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
<b>Growth Rate:</b>							
Large & Medium	13.2	10.2	11.2	6.0	3.3	11.0	2.2
Small & Cottage	2.9	4.0	4.2	3.9	3.9	6.8	3.0
Total	9.1	7.8	8.6	5.3	3.5	9.5	2.5
<b>Share of GDP:</b>							
Large & Medium	6.5	6.9	7.4	7.4	7.2	7.6	7.4
Small & Cottage	4.0	4.0	3.9	3.9	3.9	3.9	3.8
Total	10.5	10.9	11.3	11.3	11.1	11.5	11.2

*Source: Bangladesh Bureau of Statistics*

The increase in manufacturing growth reflected by BBS data is argued as an exaggeration of reality due to peculiarities related to its annual estimation.<sup>12</sup> Bakht (1995) re-estimated<sup>13</sup> the QIP

<sup>12</sup> The BBS often uses a quantum index of industrial production (QIP) which is based on production data collected from about one thousand enterprises as the regular source of industrial statistics for medium and large industries, if Census of Manufacturing Industries (CMI) is not available on time. The benchmark year manufacturing GDP figure is extrapolated from the QIP to derive constant value added for the current year. The QIP is still calculated from more or less the same set of enterprises as before, though the coverage of the CMI has been sharply increased to about 24 thousand units from some 4000 units since 1988/89.

and found that the growth rates calculated from BBS's QIP (shown in Table 2) are considerably higher than the growth rates derived from the revised QIP (shown in Table 3). The estimate shows improvement in the nineties compared to the eighties, such improvement is in all likelihood much less striking than the growth rates derived from BBS's QIP.

**Table 4.3: Growth of the Manufacturing Sector**

	1990/91	1991/92	1992/93	1993/94
Rate of Growth of Large Mfg.%)	2.4	6.0	7.6	7.6
Adjusted Growth Rate of Large Mfg. Excluding RMG	1.7	4.1	5.0	4.8

*Source: Bakht (1995)*

The growth rate of the medium and large-scale sector is further diminished if the contribution of the ready-made garments (RMG) is excluded (Table 4.3). The diminution in growth rate has increased from 40 per cent in FY91 to 58 per cent in FY94. As the share of the RMG industry has not declined in the post- 1993/94 period, the observed growth of the manufacturing sector in the nineties can to a large extent be tribute to growth of the RMG sector.

#### ***Imports of Capital goods and Intermediate Inputs***

The volume of imported capital goods can be used as a proxy to measure for investment occurring in the industrial sector, particularly in the medium and large scale industry sub-sector as capital goods sector in Bangladesh is still undeveloped, and heavily dependent on imported capital machineries and equipments. The quantum and growth of imports of intermediate goods can be used as an indicator to gauge degree of capacity utilisation in the economy. The growth rate of capital goods import in FY90 was 55.9 per cent while the average annual growth rate between FY91 and FY98 was about 11 per cent (Table -4). Capital goods import experienced negative growth in FY91, FY93 and FY94 while the growth rate was only 0.2 per cent in FY97 and 3.3 per cent in FY98. The average annual growth rate of imports of capital machinery and parts during the period FY91 - FY98 was 11.2 per cent, compared to a growth rate of 51.5 per cent in FY90. The share of capital goods import in total import has come down from 18.7 per cent in FY90 to an annual average of 16 per cent during the nineties. While an increase in industrial capacity has occurred in the 1990s, this increase has not taken place in a sustained manner (with the result that the share of capital goods imports in total imports has remained more or less the same).

The average annual growth rate of imports of intermediate inputs between FY91 and FY98 was nearly 8 per cent, compared to the growth rate of 4.8 per cent in FY90, indicating an increase in capacity utilisation during the nineties. On the other hand, the observed decline in the share of intermediate inputs import in total import between FY90 and FY98 seems to suggest that either (i) the rate of increase in manufacturing capacity utilisation outside the export enclave has been lower than within the enclave or (ii) intermediate goods produced by local industries have to some extent replaced their import. The first inference is supported by the rapid increase in bonded imports of fabric by the RMG industry under the back-to-back L/C system and a large increase in imports by

<sup>13</sup> Bakht (1995) re-estimated QIP using new industry weights, correcting for bias in the estimate of output growth (by revising it downward using a 'growth bias factor' estimated on the basis of the 1989-90 CMI data), and changing the base year to 1988-89.

industries located in export processing zones (Table - 4.4). The average annual growth rate of fabric import within the export enclave between FY91 and FY98 has been 19.6 per cent, with a clearly discernible upward trend.

**Table 4.4: Growth Rates of Imports of Capital Goods and Intermediate Inputs**

(Percentage)

	1989/9 0	1990/9 1	1991/9 2	1992/9 3	1993/9 4	1994/9 5	1995/9 6	1996/9 7	1997/9 8
Excluding non-SBW bond, baggage and diplomatic									
Intermediate Inputs	4.8 (35.7)	-2.3 (30.5)	3.8 (33.9)	-0.4 (31.4)	6.2 (31.1)	28.8 (27.6)	19.3 (28.7)	3.3 (29.0)	5.0 (27.4)
Capital Goods	55.9 (18.7)	-10.6 (14.6)	20.2 (18.8)	-11.2 (15.5)	-2.0 (14.2)	48.9 (14.6)	39.0 (17.6)	0.2 (17.2)	3.3 (16.1)
a. Capital machinery & parts	51.5 (13.2)	-0.8 (11.5)	22.8 (15.1)	-18.1 (11.5)	-6.8 (10.0)	42.4 (9.8)	44.2 (12.3)	-9.4 (10.9)	15.2 (11.3)
b. Other Capital goods	67.4 (5.4)	-34.4 (3.1)	10.7 (3.7)	17.0 (4.0)	11.7 (4.2)	64.6 (4.8)	28.3 (5.3)	22.4 (6.4)	-16.9 (4.8)
Enclave									
a. B/B L/C SBW Fabric	n.a.	29.5 (16.9)	20.7 (21.8)	16.4 (23.7)	17.9 (26.0)	50.6 (27.0)	-7.7 (21.7)	10.1 (23.3)	19.5 (25.1)
b. Export Processing Zone	113.3 (1.0)	25.0 (1.1)	26.1 (1.5)	68.9 (2.3)	42.0 (3.0)	63.0 (3.4)	32.6 (4.0)	53.6 (5.9)	22.8 (6.6)

Source: World Bank (1999)

Note: Figures in parentheses indicate percentage shares of total imports

The growth of the percentage shares of imports of capital goods and intermediate inputs in GDP can also be used as an indicator of changes in industrial capacity and its utilisation rate over time. If imports of producer goods into EPZs are excluded, there has occurred an increase of a little over one percentage point in the share of capital goods import in GDP in 1993/94 in comparison to 1989/90 (Table-4.5). The share declined from 1.99 per cent in FY90 to 1.68 per cent in FY94, and began to rise in the second half of the nineties. The increase in the share of intermediate inputs has been larger, the share rising from 5.68 per cent in FY91 to 9.2 per cent in FY98. If fabric imports under the bonded warehouse system and imports into EPZ are excluded, the share of imported intermediate inputs in GDP is significantly lower; more importantly, the share has registered a very modest increase from 3.66 per cent in FY91 to 4.83 per cent in FY98.

**Table 4.5: Imports of Capital Goods and Intermediate Inputs as Share of GDP***(Percentage)*

	1989/ 90	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1997/98
EXCLUDING EPZ									
Capital Goods	1.99	1.75	2.08	1.80	1.68	2.23	2.89	2.83	2.83
Intermediate Inputs	5.40	5.68	6.16	6.38	6.76	8.37	8.27	8.57	9.26
Capital Goods & Intermediate Inputs	7.39	7.43	8.24	8.18	8.44	10.60	11.16	11.40	12.09
INCLUDING EPZ									
Capital Goods & Intermediate Inputs	7.50	7.57	8.40	8.45	8.80	11.12	11.81	12.37	13.25
EXCLUDING SBW FABRIC & EPZ									
Capital Goods	1.99	1.75	2.08	1.80	1.68	2.23	2.89	2.83	2.83
Intermediate Inputs	3.81	3.66	3.75	3.64	3.68	4.23	4.71	4.74	4.83
Capital Goods & Intermediate Inputs	5.80	5.41	5.83	5.44	5.36	6.46	7.60	7.57	7.66

*Source: Rashid (2001).*

Fifteen items at the H.S. Code 4-digit level within the sub-category 'capital machinery and parts' which together constituted about 50 per cent of imports of capital goods between 1991/92 and 1995/96 have been listed in Bhattacharya (1996). Two categories of capital goods were found to dominate this list: (a) equipment's and appliances for power generation, and (b) machineries related to textiles and ready-made garments. The second sub-category accounted for two-thirds of incremental imports between 1993/94 and 1995/96 and for 103 per cent of the increment in imports between 1994/95 and 1995/96, indicating that imports of machinery declined in some sectors in 1995/96 and growth has not taken in uniform manner rather concentrated on a few.

### ***The Pattern of Growth of Manufactured Exports***

Manufactured exports have grown at an average annual rate of 26.9 per cent between FY91 and FY98 and manufactured exports dominated in total exports, with its share in total exports rising from 92.3 per cent in FY91 to nearly 97 per cent in FY98. The ratio of manufactured exports to GDP has risen from 5.2 per cent in FY91 to 11.7 per cent in FY98. If the ratio is compared with the ratio of total manufacturing output to GDP, the importance of export-oriented manufacturing in total manufacturing activity has rapidly increased in the nineties; at the same time the share of import-substituting manufacturing output in total manufacturing output has rapidly declined over time, reflecting a degree of dispersion among industrial sectors. The share of RMG (woven as well as knit) in total manufactured exports has climbed from 54.6 per cent in FY91 to 75.8 per cent in FY98, indicating that export-oriented manufacturing activity has concentrated in that sector. The share of woven and knit garments in total export has increased from 50.5% to 73.3 per cent between FY91 and FY98.

One major non-garment manufactured export, viz. jute textile, has experienced negative output growth while tea and leather production has witnessed sluggish growth. Between FY92 and FY98, production of jute textiles has declined by 1.3 per cent (Table-4.6). During the same period, the average annual growth rate of tea production has been 2.5 per cent, while tanning and finishing leather output has grown at a rate of 1.4 per cent. In case of fish and seafood, the average annual

growth rate during the said period has been 1.6 per cent. By contrast, garments have grown at the remarkable rate of 20 per cent per annum. Recalling that the quantum index of production of the BBS is biased upward, it can be said that growth of the tea, leather and seafood industries have been weak and sluggish during the nineties.

**Table 4.6: Quantum Index of Production of Major Export Industries**

(Base: 1988-89 = 100)

BSIC CODE NO.	INDUSTRY	WEIGHT	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
3213	Jute Textile	14.07	81.69	87.52 (7.1)	82.75 (-5.4)	83.46 (0.9)	79.46 (-4.8)	80.13 (0.8)	80.59 (0.6)
3231	Garments	9.13	230.55	268.94 (16.6)	273.56 (1.7)	354.95 (29.7)	439.98 (24.0)	507.10 (15.3)	644.89 (27.2)
3126/27	Tea	7.87	109.41	118.47 (8.3)	123.53 (4.3)	112.93 (-8.6)	123.65 (9.5)	127.82 (3.4)	128.60 (0.6)
3241	Tanning & Finishing Leather	2.49	92.97	108.72 (16.9)	123.44 (13.5)	126.77 (2.7)	174.46 (37.6)	100.84 (42.2)	102.25 (1.4)
3114	Fish & Sea food	1.81	108.95	125.20 (14.9)	143.64 (14.7)	171.07 (19.1)	169.44 (-0.9)	167.60 (-1.1)	121.25 (-27.7)

Source: Bangladesh Bureau of Statistics

Note: Figures in parentheses are annual growth rates

#### **State of Import-substituting Industries**

Some major import-substituting industries, viz., cotton textile, sugar and paper have experienced regression in the nineties. During the period FY92-FY98, production of cotton, textile, sugar and paper have shrunk by 24.2 per cent, 14.8 per cent and 48.0 per cent, respectively. By contrast, pharmaceuticals, 'bidi' cigarettes, re-rolling mills, soap and detergent, and silk and synthetic have experienced average annual growth rates of 13.6 per cent, 11.3 per cent, 8.4 per cent, 36 per cent, 8.4 per cent and 17.2 per cent, respectively. On the other hand, the fertiliser industry has grown at the modest rate of 2.4 per cent per year. The contraction of cotton textile (industry weight = 7.83), sugar (industry weight = 2.78) and paper (industry weight = 2.26), together with modest growth of fertiliser (industry weight = 11.34), have contributed to the inferred decline in the share of import-substituting industries in total manufacturing output.

The contraction of output of both cotton yarn and cotton cloth may appear to be conflicting as it was previously pointed out that spinning and weaving textile machineries were important imports, reflecting creation of new capacities in the spinning and weaving sub-sectors. Although several new spinning and composite mills were set up in the private sector in the early nineties, production levels declined in most of the public sector textile mills, many of which are in the process of being privatised. The decline in the production levels of public sector textile mills have more than offset the production of private sector mills with the result that total output has declined.

**Table 4.7: Quantum Index of Production of Major Import Substituting Industries***(Base: 1988-89 = 100)*

BSIC CODE NO.	INDUSTRY	WEIGHT	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
3524	Fertiliser	11.34	108.57	128.28 (18.1)	148.02 (15.4)	134.22 (-9.3)	140.63 (4.8)	110.89 (-21.1)	127.03 (14.5)
3211	Cotton Textile	7.83	116.49	112.11 (-3.8)	103.15 (-8.0)	84.47 (-18.1)	85.16 (0.8)	84.13 (-1.2)	88.27 (4.9)
	I. Yarn	6.17	123.34	123.51 (0.1)	117.78 (-4.6)	100.14 (-15.0)	103.79 (3.6)	102.22 (-1.5)	107.76 (5.4)
	II. Cloth	1.66	91.01	69.74 (-23.4)	48.78 (-30.0)	26.26 (-46.2)	15.80 (-39.8)	16.86 (6.7)	15.85 (-6.0)
3511	Pharmac- euticals	7.01	158.05	202.84 (28.3)	217.91 (7.4)	254.12 (16.6)	282.12 (11.0)	314.74 (11.6)	309.09 (-1.8)
3143	Bidi	3.85	190.09	221.91 (16.7)	247.37 (11.5)	289.04 (16.8)	299.36 (3.6)	310.18 (3.6)	339.95 (9.6)
3123	Sugar	2.78	178.12	170.89 (-4.1)	201.76 (18.1)	246.22 (22.0)	167.75 (-31.9)	123.34 (-26.5)	151.71 (23.0)
3411	Paper	2.26	103.08	104.74 (1.6)	105.41 (0.6)	96.63 (-8.3)	96.11 (-0.5)	78.78 (-18.0)	53.57 (-32.0)
3141	Cigarettes	2.10	88.98	81.74 (-8.1)	89.83 (9.9)	123.36 (37.3)	115.15 (-6.6)	132.03 (14.7)	141.17 (6.9)
3713	Re-rolling Mills	1.91	58.72	66.54 (13.3)	118.43 (78.0)	195.76 (65.3)	169.35 (-13.5)	184.33 (8.8)	206.67 (12.1)
3533	Soap & Detergent	1.74	82.17	93.39 (13.6)	104.85 (12.3)	126.55 (20.7)	133.48 (5.5)	138.85 (4.0)	130.78 (-5.8)
3214	Silk & Synthetic	1.59	102.99	119.97 (16.5)	132.70 (10.6)	128.46 (-3.2)	164.47 (28.0)	188.84 (14.8)	227.07 (20.2)

*Source: Bangladesh Bureau of Statistics**Note: Figures in parentheses are annual growth rates****Trade Liberalisation and Developments in the Industrial Sector***

There is no doubt that the availability of duty-free inputs, notably fabric, has helped the RMG sector to flourish by enhancing the competitiveness of its products in the international market. The procedure of duty-free import of fabrics and other garments accessories under back-to-back L/C into special bonded warehouses or the procedure of refunding duties paid on imported inputs used in producing garments have evolved within the policy framework of trade liberalisation. Trade liberalisation, to this extent, has indeed stimulated the growth of the RMG industry. However, if duty-free import of inputs is considered as a selective, sector-specific export

incentive, it is difficult to conclude that trade liberalisation has stimulated growth of the RMG industry by reducing anti-export bias through a phased reduction of import duties. More importantly, the MFA quota system and availability of cheap labour have been primarily responsible for the growth of RMG exports from Bangladesh. The MFA quota system had restrained exports from major garments producing countries, and this had resulted in the relocation of import supply to countries like Bangladesh, which had low wage rates. Subsequently, the growth of the Bangladesh garments industry has also been sustained by the MFA quota system. Access to duty-free inputs has certainly helped the process by making Bangladesh's exports competitive.

Trade liberalisation is expected to stimulate export-oriented industrial growth by reducing the anti-export bias through lowering the effective rate of protection (ERP) provided to an activity. The ERP for jute textiles has been halved through import liberalisation and lowered to 48 per cent in FY98, yet this industry has experienced negative growth (Table-4.8). ERP for leather and leather products has been brought down by 91 per cent, but the average growth rate of the industry has been only 1.4 per cent: ERP for the industry in FY98 was only 8.8 per cent. On the other hand, effective protection rate for the garments industry has been reduced by 72 per cent and was about 65 per cent in FY98 (i.e. higher than for jute textiles and leather), and the associated average annual growth rate was 20 per cent. This shows a weak relationship, if one exists, between the level of effective protection and the rate of industrial growth. Evidently, other important factors have been in operation in determining the growth rate than import liberalisation.

**Table 4.8: Changing Levels of Effective Protection for Major Export Industries**

(Percentages)

SECTOR	EFFECTIVE RATES OF PROTECTION (ERP)						PERCENTAGE CHANGE IN ERP BETWEEN 92/93 & 97/98
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	
Jute textile	98.2	93.5	81.0	55.7	56.0	48.4	-50.7
Garments	237.2	130.0	84.1	53.7	57.4	65.4	-72.4
Tea	82.7	85.1	66.0	48.7	48.8	46.4	-43.9
Leather & Leather products	98.6	87.3	42.3	20.7	15.8	8.8	-91.1
Fish	78.4	45.3	45.1	28.4	28.5	27.9	-64.4

Source: ERP estimates by Bangladesh Tariff Commission based on 1992-93 Bangladesh Input-Output Table

There was a contraction in the production of cloth, although ERP stood at high rate of 86 per cent in FY98 implying a decline in the utilisation of existing capacity: the level of protection may not have been adequate for some of the enterprises whose level of efficiency was lower than that required to compete successfully with imports. On the other hand, ERP in the case of the paper industry has been brought down by 81 per cent, local paper production experienced regression. The sugar (including 'gur') industry, ERP was reduced to 40 per cent (with a reduction of 58 per cent in the level of effective protection), also experienced negative growth. Although ERP for the pharmaceutical industry was less than 1 per cent in FY98, industry posted the impressive average annual growth rate of 13.6 per cent due to some statutory control of import and regulatory insistence for setting up of manufacturing units in the country.

**Table 4.9: Changing Levels of Effective Protection for Major Import-Substituting Industries**

(Percentages)

SECTOR	EFFECTIVE RATES OF PROTECTION (ERP)						PERCENTAGE CHANGE IN ERP BETWEEN 92/93 & 97/98
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	
Fertilizer	-5.6	-2.2	-5.0	-3.6	-3.0	0.4	170.1
Cloth: Mill	189.7	147.5	131.6	98.0	110.2	86.2	-54.6
Pharmaceutical	1.5	-2.2	-2.5	-2.6	-1.4	0.7	-53.3
Sugar & Gur	96.3	42.3	52.3	51.1	51.4	40.0	-58.5
Paper	68.3	74.1	48.8	25.4	22.7	12.7	-81.4
Tobacco Products	133.6	69.9	89.7	85.0	86.7	81.9	-38.7
Steel & Basic Metal	40.9	27.2	27.4	25.1	24.6	25.0	-38.9

Source: ERP estimates by Bangladesh Tariff Commission based on 1992-93 Bangladesh Input-Output Table

Arguably trade liberalisation is not a sufficient condition. Efficiency in production depends not only on the level of import competition but also, on the state of business support services, adequate supply of infrastructure, sufficient supply of skilled labour, easy access to credit on reasonable terms, and above all, good governance. If these factors determining efficiency are absent or inadequate, and manufacturing enterprises fail to enhance efficiency and competitiveness, and the result would be their elimination or decline in the face of import competition unleashed by trade liberalisation.

### 4.3 Impact of Trade Policy Reform on Industrial Employment

The section examines how trade liberalisation has impacted on employment in the industrial sector and affected attainment of the declared goal of the government to have economic growth with social justice. In theory, unemployment will increase when (i) workers who are already employed get laid off, and (ii) when productive sectors of the economy are growing at a rate lower than that required for absorbing new entrants into the labour force as well as for providing employment to retrenched workers. Viewed from this perspective, the impact on employment of economic reforms including trade liberalisation can be more easily understood.

The number of unemployed persons has increased from 0.6 million in 1989 to 1.4 million in FY96 while employment has increased from 50.1 million to 54.6 million during the period. The parallel increase in employment and unemployment indicates that the labour force has grown at a faster rate than the creation of job opportunities. Open unemployment had declined consistently from 8.68 per cent to 1.18 per cent between FY74 and FY89. However, the unemployment rate increased to 1.96 per cent in FY91 and 2.50 per cent in FY96. Unemployment of women has increased at a faster rate than that of men.

**Table 4.10: Trend of Total Unemployment**

	LFS 1989	LFS 1990-91	LFS 1995-96
Civilian labour force (million)			
Male	29.7	31.1	34.7
Female	21.0	20.1	21.3
Total	50.7	51.2	56.0
Unemployed population (million)			
Male	0.4	0.6	0.9
Female	0.2	0.4	0.5
Total	0.6	1.0	1.4
Unemployment Rate (%)			
Total	1.18	1.95	2.50
Male	1.35	1.93	2.59
Female	0.95	1.99	2.35

Source: BBS, Labour Force Survey 1989, 1990-91 and 1995-96

The observed increase in open unemployment has occurred during the period when the process of import liberalisation was accelerated. Firstly, industrial restructuring to cope with import competition together with privatisation of state-owned enterprises have led to labour shedding in some large and medium enterprises in the manufacturing sector. The fact that female workers' increased vulnerability to enterprise restructuring partly explains the faster rate of unemployment observed among women workers. Secondly, import liberalisation has adversely affected the output growth of several large and medium-scale industries which compete with imports. Furthermore, employment elasticities of manufacturing output have been falling at both the aggregate and sub-sector levels during the 1990s. This also can be attributed to capital deepening by large and medium-sized manufacturing enterprises in their effort to face import competition through increasing productive efficiency. Under these conditions, it is, though, expected that the rate of labour absorption in the large and medium-scale manufacturing sector to decline, contingent upon impressive output growth achieved by a few selected industries, notably garments and pharmaceuticals, has offset the decline in output growth of major import-substituting industries. As a result, employment in the large and medium-scale manufacturing sector as a whole has increased, but sustainability of such employment creation is future suitability of garments industry in quota-free trading regime, starting from 1 January 2005.

### ***Sectoral Distribution of Employment***

Absolute level of employment has fallen in the industrial sector between FY89 and FY96, from 7.8 million to 5.2 million, i.e. a fall of 33 per cent (Table – 11). The contraction in employment has been steeper for manufacturing industry, from 7 million in FY89 to 4.1 million in FY96. As a result, the share of manufacturing industry in total employment has come down from 14 per cent to 7.5 per cent during the above period. Employment in large and medium-scale industry should have increased in the face of a healthy growth of output, albeit concentrated in a few industries. Hence, the sharp reduction in employment in the manufacturing sector has evidently occurred in the small and cottage industry sector. A large part of this unemployment is likely to have taken place in informal sector industries in both urban and rural areas.

**Table 4.11: Sectoral Distribution of Employment***(million workers)*

SECTOR	LFS 1989	LFS 1990-91	LFS 1995-96
Agriculture	32.6 (65.1%)	33.3 (65.9%)	34.5 (63.2%)
Industry	7.8 (15.6%)	6.5 (12.9%)	5.2 (9.5%)
Manufacturing	7.0 (14.0%)	5.9 (13.0%)	4.1 (7.5%)
Services	9.5 (19.3%)	10.4 (21.2%)	14.8 (27.3%)

*Source: Rashed (2001)**Note: Figures in parentheses are respective percentage shares in total employment***Employment in Non-formal Sector**

The predominance of the non-formal sector in employment generation in Bangladesh is manifested by the sector accounting for about 88 per cent of total employment in the country in FY96 (Table- 12). The share of the informal sector in total manufacturing employment has fallen radically from nearly 82 per cent in FY84 to only 4.6 per cent in FY96. This drastic fall in the employment share of the informal manufacturing sector has been the result of a negative annual growth of 18 per cent in employment in the sector.

**Table 4.12: Estimated Growth of Formal and Non-Formal Employment during 1983/84-1995/96***(in percent)*

SECTOR	ESTIMATED NON-FORMAL EMPLOYMENT AS PER CENT OF TOTAL EMPLOYMENT IN 1983/84	ESTIMATED NON-FORMAL EMPLOYMENT AS PER CENT OF TOTAL EMPLOYMENT IN 1995/96	GROWTH RATE OF FORMAL EMPLOYMENT DURING 1984-96	GROWTH RATE OF NON-FORMAL EMPLOYMENT DURING 1983/84-1995/96
All sectors	96.4	88.4	13.7	2.3
Agriculture, forestry & fishery	99.4	99.8	-6.9	1.9
Manufacturing	81.8	4.6	19.4	-18.2

*Source: BIDS (1997),*

*Notes: 1. Percentage shares of non-formal employment in total employment in 1983/84 and 1995/96 have been calculated by the author using data available in BIDS (1997)*  
*2. Formal employment is defined as employment in establishments employing 10 and more workers.*

Trade liberalisation can affect output and employment growth in the informal sector from both the sides - supply and demand. On the supply side, trade liberalisation may reduce costs of production and thereby improve the competitiveness of informal sector manufactures vis-à-vis similar products produced by domestic formal sector industries and imported goods. The magnitude of the competitiveness-enhancement depends on the extent of imported inputs used in production in the informal sector. On the demand side, liberalisation can directly affect informal sector by exposing the tradeables to import competition. It can also exert an indirect effect by influencing the growth of sectors which are the source of demand for goods produced by informal sector industries.

The beneficial effects of import liberalisation are likely to be very limited on the supply side since locally produced raw materials are used by informal sector manufacturing enterprises and cost of raw materials dominates the production cost of manufacturing enterprises in the informal sector in Bangladesh, while capital constitutes only a small proportion of the cost of production (ILO, 1998). On the demand side, many of the goods produced by informal industry face competition from imports as well as goods produced by manufacturing enterprises in the formal sector. Import liberalisation, therefore, has exerted some negative influence on the production of goods by informal industry, particularly due to their lack of standard. Sluggish growth in demand would be a more important factor which has constrained output and employment growth in the informal manufacturing sector. Import liberalisation together with the reduction in crop sector profitability is likely to have contributed to slackening demand for informal sector manufactures since agricultural households constitute majority of the consumers of the informal sector produces.

The results of participatory appraisal show that small and cottage industries have been worst affected by import liberalisation in terms of output and employment loss. Many small enterprises including small engineering workshops, rural industries, bakery and biscuit factories have been forced to close down due to easy inflow of foreign goods. Self-employment has also been adversely affected due to the pressure of import competition on small and cottage industries. The participants in FGDs emphasised that many small industries (e.g., khadi of Comilla) are being wiped out from the market by cheaper and better-quality imports.

#### **4.4 Exchange Rate Depreciation and Competitiveness**

The Bank-Fund advises that an ‘appropriate’ ER policy will complement trade liberalisation by enhancing export competitiveness and help contain import growth in the face of ongoing import liberalisation.

The Real Effective Exchange Rate (REER) index (1990=100) constructed by the IMF and quoted in World Bank (199a) shows a 5.6 per cent real devaluation of the Taka between 1990 and 1996; however, by 1998 the REER had appreciated by about 4 per cent.<sup>14</sup> An exercise in the presenting section have found insignificant correlation.

The objective of maintaining a competitive price by lowering the REER for exportables through devaluation could be frustrated if export activities depend significantly on imported inputs, which is generally the case in Bangladesh. The competitive price outcome would be eroded as higher import costs would force exportable prices to rise. In some cases, direct subsidies may be the more efficient policy rather than devaluation to protect the gains of exporters in the face of adverse international relative price movements.

Mahmud (1998) has suggested another explanation of how currency devaluation may lead to inflation in Bangladesh. Bangladesh’s dependence on external aid and remittances may have given rise to a variant of the ‘Dutch disease’, whereby demand from dollar denominated inflows causes returns in the non-traded service sector to rise relative to the traded commodity producing sectors. This would draw resources away from the tradables sector to the non-tradables sector. Nominal

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<sup>14</sup> Difficulties surrounding the measurement of the degree of misalignment of the currency are well-known; these difficulties may stem from the need to choose appropriate price indexes, the choice of base year, etc. Hossain et.al. (1997) constructed six alternative measures of the real exchange rate (RER) and concluded that there was little sign of currency misalignment upto 1994.

devaluation may further reduce the relative returns in agriculture and industry compared to services and cause further inflation, rather than lead to any real depreciation.

Empirical studies give mixed results regarding the link between devaluation and inflation. A study by Jamsheduzzaman (1998) has reported two-way Granger causality between inflation and devaluation. Estimating a regression model linking inflation with money supply and devaluation, the study reported a 0.564 per cent rise in inflation for 1 per cent devaluation over a period of two months. On the other hand, Hossain and Kapoor (1998) used data for about the same period (July 1995 to April 1998) and reported that the null hypothesis of devaluation not causing inflation could not be rejected. Using a somewhat differently specified regression model linking inflation with devaluation and money supply, the authors found a stronger correlation of money supply with inflation but no statistically significant correlation at all between devaluation and inflation. The conflicting results of the two studies regarding the devaluation - inflation linkage may have stemmed from multi-collinearity which resulted from using two inter-related variables, money supply and devaluation, as determinants of inflation, with consequent failure of both model specifications to precisely pick up the separate effects of each.

Even if ER depreciation is successful in maintaining price advantage in world markets, it can only be a temporary solution. Overvaluation of the ER basically suggests high domestic production cost of exportables. The disease cannot be cured by continuously depreciating the domestic currency; the resulting inflation will eventually frustrate the aim of the devaluation itself. A more fundamental and lasting cure would be to increase factor productivity and lower costs of production in the long run.

#### **Box 4.1: Impact of Trade Liberalization: Voices of the People**

‘It is necessary to prepare the economy and the society before making any policy change. By preparation I mean to make necessary changes in social condition, working culture, technological preparedness, skilled workforce, access to capital market, administrative and judicial reform etc. Bangladesh has liberalized its trade regime without such preparation.’ – An Entrepreneur.

‘Due to liberalization without preparing industrial base in the country, many finished products are now coming into the local markets which our entrepreneurs can produce as well. As a result, many small industries (e.g., khadi of Comilla) are being wiped out from the market. Our producers can produce good quality biscuits. However, biscuits are being imported. Consequently, many of the local biscuit producing industries are being forced to close down.’ – An Entrepreneur.

‘Ours is the country of khoi-muri-chira. We can produce them cheaply and easily and have them fresh. However, we are importing corn flacks which is not necessary at all.’ – An Entrepreneur.

‘As a small country, we should have been able to expand our export-oriented industries. But the government has not been able to provide necessary support for investment. Ministry of Industry is not doing anything substantial for industrial development in the country. Government should have taken initiative to popularize our indigenous products (e.g., organic food product like khoi-muri-chiragur etc.) in the international market which didn’t happen. As a result we are falling behind in export.’ – An Entrepreneur.

‘We are now unemployed. We have tried hard but nobody is willing to provide us with employment at this age. Even when they come to know that we were workers of a closed industry, then they think that we are not good workers. We also do not find any self-employment opportunity.’

which we can carry on'. – A Worker of AB Biscuit Factory of Tongi.

'We can now have many foreign goods cheaply. But government should take care of our own industries as well'. – A Rural Consumer

'I was a labourer of AB Biscuit Industries of Tongi. The factory is now closed for last eight years. I am unemployed. I am not getting any other job and I do not find any self employment opportunity to carry on. Now I can not support educational expenses of my children. My elder daughter is a student of class VII. Her admission fee is Tk. 500 but I am unable to pay the fee. I could not send my only son to school. He is 11. He is now sent to a workshop to do something for the family. I am now in a sea of problems.' – A Female worker of AB Biscuit Factory.

'My husband tortured me physically after I had lost my job. He is unemployed. I have one child. I am now living in my brother's house. I have invested the money that I received but the return is insufficient to maintain my family.' – A Female worker of a Textile of Tongi..

'In the competitive market, the entrepreneurs are less careful about the environment of the work place. There is no proper system of discharging industrial effluents in many industries. Workers have no voice in this regard as they are concerned to keep their employment sustained.' – A Labour Leader.

'Corruption has not reduced. Many items are now coming into the country under the package of computer since computer items have zero tariff' – An Entrepreneur.

'My salary was Tk. 2,000. I was able to bear the necessary expenditures of my children. In fact, I was able to manage two private tutors for my children. One of my daughters is a student of class ten and the other one is the student of class five. I have lost my job. Now I find it very difficult to send my daughters to school. I don't know what I should do now. I have tried my best to find another job but couldn't find any. I will probably have to stop sending my daughters to school. My husband is a low paid worker. The wage he gets is not sufficient to maintain our family. So, I am now in a crisis after I have lost the job. Some of my old colleagues are even working as maidservant. Some of them are facing torture from their husbands. Families of some of them have also been broken down due to losing their jobs.' – A Female Worker.

'Female workers are also in worse situation with respect to using the money that they got at the time of retrenchment as compared with their male counterparts. Male workers could spend or invest that money on their own but the female workers had to give that money to their husbands. Many of them can't even ask where and how that money was spent or invested. Some of their husbands have also fled away with that money. Some of their husbands have deserted them and married again with that money. Some of their husbands have left them saying that 'I married her only because of her job, now she has lost her job, I don't need her anymore'. How awful the situation can be for those who are the victims of such desertion.' - A Female Worker. 'Hundreds and thousands of workers are now becoming unemployed due to closing down of both state owned and private industries but the government is virtually not doing anything for them. The workers who have lost their jobs are now living a sub-standard life. Many of them have been compelled to withdraw their children from schools. Their children have now become child labour, sex labour. They have become maidservants. They are now breaking the bricks on the streets. Should the government do anything for them?' - A Female Worker.

#### **4.5 Concluding Remarks**

A closer look at the manufacturing sector points out a undiversified and squeezed sector, although at the aggregate level, trade policy reform is found to have been associated with an increase in the growth rate of manufacturing output and increased levels of imports of capital goods and intermediate inputs in the 1990s compared to the 1980s. Firstly, large and medium-scale industries appear to have benefitted from import liberalisation while small and cottage industries have been adversely affected. Secondly, within the large and medium-scale manufacturing sector, a handful of export-oriented industries, notably ready-made garments, and a few import-substituting industries like pharmaceuticals have posted growths during the era of import liberalisation. A large segment of the import-substituting industrial sector appears to have been adversely affected by liberalisation.

A contraction in industrial employment has occurred during the phase of accelerated liberalisation; employment in the manufacturing sector has fallen. While employment in the large and medium-scale manufacturing sector may have increased, employment in the non-formal industrial sector has shrunk. A qualitative analysis of existing data seems to indicate that import liberalisation has exerted some negative effect on employment in the non-formal sector.

Policies should be put in place to increase factor productivity in the country rather than using devaluation to stimulate export growth. Such policies may include skill training of labour and the introduction of new and more efficient technology.

There were of course other factors such as absence of efficient performance in transport, telecommunication and bank, etc. had inhibited a supply response to trade policy reforms.

## CHAPTER 5: IMPACT OF FINANCIAL SECTOR LIBERALISATION<sup>15</sup>

### 5.1 Introduction

The financial sector reform is one of the key elements of the structural adjustment package. The sectoral reforms were backed by a number of adjustment credits and large-scale technical assistance programme. The chapter tests the hypothesis: Has the financial sector in Bangladesh experienced an efficient allocation of resources in terms of access to credit and market mediated equilibrium price for credit, following the financial sector reform programme?

The liberating government nationalised and reorganised all financial institutions excepting a few foreign bank branches out of historic necessity. The total number of branches increased 13.36 percent annually during 1973-83. At the same time, population per branch reduced from 50,946 to 20,716. The urban-rural proportion of branches, deposits and credit improved in favour of rural areas during the period to satisfy the objective of the government of extending banking services to the rural area. The profitability, defined by net profit deflated by balance sheet total, of nationalised commercial banks (NCBs) fell down from 0.32 percent in FY74 to 0.23 percent in FY83.

As the policy of the GOB regarding the role of private sector changed particularly since 1976, the government decided to denationalise and privatise to generate competition and improve the level of operational efficiency of the sector. The profitability of the banking institutions went down from 0.23 percent in FY83 to 0.19 during FY86. The period also witnessed unprecedented undue influence of vested interest groups in credit decision making process of the financial institutions (both nationalised and private) resulting in not only misdirection of credit but also non-repayment of credit. Nearly 30 percent of NCBs loan portfolio became non-performing by 1986 (Watanagase, 1990). The pervasive political patronage of the military government during FY82-FY90 in the allocation of resources choked the sector and in June 1990 defaults on loans from BSB/BSRS alone amounted to Tk 10.5 billion.

The morasses of the financial sector called for immediate vitalisation and the GoB in 1986 set up a National Commission on Money, Banking and Credit. Subsequent to the contracting of policy based lending, the World Bank prepared the Financial Sector Reform Programme (FSRP) during the period 1987-1989. Following the government's letter of development policy of 5<sup>th</sup> of June, 1990, credits for a total of US\$ 190 million were disbursed during the fiscal years 1990 to 1994. A key component of the FSRP was a grant of 18.4 million US dollars from USAID which supported a high-level advisory group aiming to create intellectual and informational basis for policy reform across the financial sector. The reform agenda included measures to liberalise interest rates, improve effectiveness of monetary policy, abolish priority sector lending, strengthen central bank supervision and regulation of banks, improve environment for debt recovery and broaden capital market development. The salient features of the financial sector reform as outlined in the PFPs are given in Table – 5.1.

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<sup>15</sup> The chapter is based on the background paper Choudhury and Raihan (2001).

**Table 5.1: A Summary of Structural Adjustment Polices Related to Financial Sector**

POLICY OBJECTIVE	STRATEGIES AND MEASURES	TIMING
<p>Monetary policy: Support economic growth while steadily reducing the rate of inflation.</p> <p>Encourage savings and efficient allocation of resources.</p> <p>Improve efficiency of monetary management.</p>	Growth of broad money to be consistent with targeted growth in nominal GDP.	Ongoing <sup>16</sup>
	Maintain positive real interest rates.	Ongoing
	Enhance technical and legal aspects of monetary management, including creation of technical unit at Bangladesh Bank.	1987/88 onward
	Shift from direct credit controls towards indirect and more flexible monetary instruments. Bangladesh Bank to manage flexibly the liquid assets and reserve requirements, introduce general rediscount window, issue its own interest-bearing securities, and conduct open market operations. Identify interest subsidies and shift burden of such subsidies from state-owned banks to govt.	1987/88 onward
Interest rates: Liberalise the structure of interest rates.	<p>Move towards a more market-determined level and structure of interest rates; adjust monthly.</p> <p>Allow banks to charge different lending rates based on borrower credit risk.</p> <p>Phase-out interest rate subsidies.</p>	<p>1988/89 onward</p> <p>1990/91 onward</p> <p>1990/91 onward</p>
<p>Financial sector reform</p> <p>Improve operation of the financial system and credit recovery.</p>	Setting of annual overall recovery targets subject to close monitoring. Establish targets for repayments by 100 defaulters of loans from state-owned banks. Improvement of information system on defaulters.	1986/87 onward*
	Meet targets for repayments by the largest 100 defaulters of loans from NCBs.	1990/91 onward
	Minimise fiscal impact of agricultural loan forgiveness and compensate credit institutions.	1990/91 onward
	Expansion of credit passbook system for agricultural crop loans.	1986/87*
	Establishment of a new comprehensive data base on credit recoveries and a new credit information system at the Bangladesh Bank; and creation of a high-level committee comprising the Cabinet Secretary, Governor of Bangladesh Bank, Finance Secretary, Agriculture Secretary, and the Home Secretary to take policy decisions on agricultural and industrial credit reforms.	1986/87
	Introduce legal and administrative changes necessary to take action against loan defaulters.	1988/89*
Complete study by Bangladesh Bank on agricultural credit institutions' capacity to collect.	1986/87	

<sup>16</sup> "Ongoing" without the year marked within the parentheses refers to reform measures that have started before the PFP for 1986/87-1988/89.

	Implement recommendation of the study.	Ongoing
Strengthen rural credit institutions.	Establishment of Agricultural and Rural Guarantee Fund (AGRF) with participation of Bangladesh Bank, the banks and the government.	1986/87-1987/88*
Encourage development and deepening of financial sector over the medium term.	Based upon Banking Commission recommendations (July, 1986) and the follow-up study in November 1986, identify and implement medium term reform programmes.	1986/87 – 1988/89
Strengthen financial institutions.	Strengthen bank supervision and establish Legal Department in Bangladesh Bank. Extend supervision to non-bank financial intermediaries.	1987/88 onward
	Improve the loan classification system to identify non-performing debt and provide adequate provisioning for debt.	1988/89*
	Raise the minimum requirement for paid-up capital and reserves for nationalised commercial banks.	1988/89* onward
	Increase bank autonomy by allowing private sector participation in state-owned banks.	Ongoing.
	Recapitalise nationalised commercial banks. Strengthen bank supervision by Bangladesh Bank.	1990/91 onward

Source: Bhattacharya, D and Titumir, R A M (1998): *Towards Demystifying a Process: The structural Adjustment Policies in Bangladesh*, Dhaka: SAPRI, Bangladesh.

## 5.2 Assessments Of Policy Outcomes

### *Interest Rate Policy*

The financial market structure is an important factor to determine nature of pricing and competition. Nominal interest rate spread can be treated as a proxy for competition in the banking sector. In a competitive market, relationship between the lending interest rate and deposit interest rate can be derived as follows:

$$i_l - i_d = \frac{k}{1 - k} i_d$$

where,  $k$  = required reserve ratio  
 $i_d$  = Interest rate on deposit  
 $i_l$  = Interest rate on lending.

$$i_l = \frac{1}{1 - k} i_d$$

During 1990s the interest rate spread remains very high, equal to or more than 7 percent (Table- 5.2). The interest rate spread was rather low during 1980s. With a reserve requirement of 20 percent, spread between lending and deposit rate should have been around 2 percent in a

competitive market. There appears to be no observed relationship between bank rate and market interest rate. If the bank rate alongwith the interest rate spread is considered, the Bangladesh financial market is still distorted and fragmented.

**Table 5.2: Indicator of Market Structure through Interest Rate Spread**  
(In percent)

YEAR	BANK RATE	LENDING INTEREST RATE	DEPOSIT INTEREST RATE	DESIRABLE LENDING RATE	DESIRABLE SPREAD	ACTUAL SPREAD	SPREAD ADJUSTED FOR PROVISION
1986-87	10.75	14.7	8.59	10.74	2.15	6.11	
1987-88	10.75	14.66	8.69	10.86	2.17	5.97	
1988-89	10.75	14.68	8.88	11.1	2.22	5.8	
1989-90	9.75	14.83	9.06	11.33	2.27	5.77	
1990-91	9.75	14.99	9.11	11.39	2.28	5.88	
1991-92	8.5	15.12	8.11	10.14	2.03	7.01	2.282035
1992-93	6.5	14.39	6.51	8.14	1.63	7.88	1.922938
1993-94	5.5	12.78	5.34	6.68	1.34	7.44	1.498254
1994-95	5.5	12.22	4.86	6.08	1.22	7.36	1.375155
1995-96	6.5	13.41	6.11	7.64	1.53	7.3	1.790887
1996-97	7.5	13.69	6.67	8.34	1.67	7.02	1.960303
1997-98	8	13.97	6.98	8.725	1.745	6.99	2.074451
1998-99	7	14.15	7.08	8.85	1.77	7.07	1.77

Source: Bangladesh Bank, *Economic Trends, various issues*

Note: Lending and Deposit Interest rates are taken as weighted average. The data of spread adjusted for provision is not available for the years upto 1991-91 as the provisioning was introduced in 1992.

On the lending side, government still has considerable influence on the interest rate structure due to the dominance of NCBs in the market place. On the deposit side, the interest rate structure is still distorted due to the presence of several special government savings schemes with high rates of return. The interest rate remained high in real terms (Table 3). Theoretically, the high real interest rates following a period of interest rate deregulation may be expected in a market with oligopolistic structure and other imperfections like inadequate prudential regulations and supervision framework and weak and inefficient financial institutions.

One may argue that non-performing of assets (NPA) in banking sector is responsible for high interest rate spread. But estimates show that NPA cannot fully explain the high interest rate spread in Bangladesh. As regards price fixation, the banks simply follow one another. The relatively smaller banks of each club (one club comprising NCBs and the other private banks) generally follow the relatively bigger ones. In addition to government's influence and NPA, collusive behaviour and misconceived price strategies have resulted in the persistence of high interest spread.

**Table 5.3: Interest Rate Structure in the Scheduled Banks (weighted average)**

YEAR	INTEREST RATE ON DEPOSIT	INTEREST RATE ON ADVANCES	INFLATION RATE (1990 = 100)	REAL RATE OF INTEREST ON DEPOSIT	REAL RATE OF INTEREST ON ADVANCES
1987	8.62	14.59	10.55	-1.83	4.14
1988	8.80	14.62	11.30	-2.5	3.32
1989	8.94	14.66	8.03	0.91	6.63
1990	9.12	14.87	...	9.12	14.87
1991	9.07	14.91	8.90	0.17	6.01
1992	8.11	14.98	5.14	2.97	9.84
1993	6.60	14.17	1.31	5.47	12.86
1994	5.48	12.79	1.81	3.67	10.98
1995	5.04	12.47	5.25	-0.21	7.22
1996	6.20	13.37	4.02	2.18	9.35
1997	6.83	13.82	3.87	2.96	9.95
1998	7.12	14.04	4.48	2.635	9.56
1999	9.12	14.01	5.12	3.995	8.89

Source: 1. Bangladesh Bank. *Economic Trends, Various Issues*

2. ADB. 1998. *Key Indicator of Developing Asia and Pacific. Volume XXIX, Oxford University Press.*

### **Resource Allocation**

The level of disbursement of loanable funds, after complying the reserve requirements can be interpreted as efficiency of resource allocation. Alternatively, efficiency is a proxy for how much loanable funds are available for productive sector. The efficiency of credit allocation in terms of advances-deposits ratio of all banks has declined from 0.91 in 1990 to 0.82 in 1998. The advances-deposit ratio after adjusting for reserve also indicates the same trend.

The sectoral distribution of advances by the scheduled banks of the country shows drastic reduction of banks advances to the agriculture sector, largest contributor to GDP, over 1987 – 1998 from 24.94 percent to 12.23 percent (Table 5.4). The small and cottage industry's share in total bank advances also declined from 3.32 percent in 1987 to only 1.53 percent in 1998. Large and medium scale industry sector experienced a little higher share in banks advances over the period, 1987 – 1998, yet this is the sector which also experienced highest loan default. As a whole, the pre and post reform comparison of sectoral distribution of bank advances does not show better allocation of resources in favour of productive/ priority sectors. The PCBs provision of advances to productive sectors are not significant in both before and after SAP financial reforms

**Table 5.4: Sectoral Distribution of Advances by Scheduled Banks (% of Total)**

SECTORS	1987	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	24.94	22.93	21.07	16.62	17.75	16.70	17.32	16.31	15.36	14.09	12.23
Fishing	1.51	1.58	1.62	1.62	1.59	1.51	1.42	1.29	1.08	1.08	1.43
Forestry	0.03	0.03	0.01	0.01	0.01	0.01	0.01	0.03	0.02		0.02
Large and Medium Scale Industry	24.30	19.56	25.39	26.48	25.76	26.22	24.16	26.71	25.72	26.56	27.99
Small Scale & Cottage Industry	3.32	3.49	1.13	1.35	1.41	1.39	1.61	1.51	1.09	1.43	1.53
Working Capital Financing	4.72	4.79	9.72	9.94	9.14	9.07	11.09	9.35	11.73	11.43	10.45
Large and Medium	4.33	4.46	8.69	8.73	8.05	7.91	9.73	8.01	10.30	10.02	9.08
Small Scale & Cottage Industry	0.39	0.33	1.03	1.22	1.09	1.15	1.36	1.34	1.43	1.41	1.36
Construction	3.22	3.33	3.89	4.92	5.12	5.19	5.57	5.40	5.35	5.60	5.36
Electricity, Gas Water and Sanitary	0.60	0.50	0.18	0.26	0.02	0.09	0.21	0.10	0.20	0.03	0.02
Transport and Communications	2.97	2.50	1.47	1.58	1.51	1.33	1.37	1.56	1.48	1.50	1.41
Storage				0.87	0.83	0.80	0.94	0.89	1.25	1.12	1.47
Trade	33.70	37.39	46.25	31.76	32.69	32.18	29.94	29.59	28.93	29.00	28.41
Export	5.75	5.84	9.08	4.64	5.31	6.09	6.20	5.81	5.27	5.63	5.98
Import	7.46	8.41	19.67	6.12	6.66	5.61	6.43	6.55	6.21	7.03	6.71
Miscellaneous	3.40	3.67	1.14	4.60	4.77	4.92	6.37	7.26	7.74	8.17	8.69

Source: Bangladesh Bank. Scheduled Bank Statistics, Various Issues

Loan-output ratio, as an indicator of efficient credit allocation (Table 5.5) also substantiates the argument of inefficient allocation of resources. The ratio, in case of agriculture, fell from 0.677 to 0.428 during 1987 – 1998. During the period, the contribution of agriculture sector to GDP also decreased but decline of agricultural advances by banks was much more pronounced, as a result, loan-output ratio of agriculture decreased. In case of industrial sector, the ratio increased over 1987-1998, which indicates that the rate of growth of bank advances for industry sector was much higher than the increase of share of industry in GDP. The loan-output ratio for small industry declined from 0.859 in 1987-1998 to 0.398 in 1998, because of significantly larger reduction of bank advances than decline of share in GDP.

**Table 5.5: Credit Allocation Index: Ratio of Advance Proportions to GDP Proportions**

SECTOR	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	0.677	0.649		0.598	0.49	0.52	0.513	0.557	0.542	0.509	0.474	0.428
Industry	2.955	2.832		3.68	3.795	3.519	3.478	3.315	3.313	3.434	3.491	2.631
Construction and Housing	0.237	0.238		0.29	0.36	0.376	0.38	0.406	0.395	0.396	0.419	0.401
Power, Gas, Water and Sanitation Services	0.769	0.537		0.15	0.187	0.013	0.054	0.117	0.053	0.105	0.016	0.011
Transport, Storage and Communication	0.257	0.208		0.124	0.207	0.197	0.179	0.191	0.202	0.223	0.214	0.234
Trade Services	3.687	4.038		5.11	3.5	3.612	6.542	3.194	3.01	2.872	2.854	2.783
Small Scale Industry	0.859	0.894		0.524	0.629	0.62	0.636	0.745	0.721	0.648	0.734	0.398

Source: Choudhury and Raihan (2001)

### ***Strengthening Financial Institutions***

The loan classifications and provisioning status of the banking system of Bangladesh show that classified loans as percentage of total outstanding loan has increased from 27 percent to 43 percent over the years, 1990-99. As it is difficult to compare the figures of proportion of classified loans in total loan portfolio due to the regular change in classification criteria, some ratios were used. The growth rate of classified loans of all banks exceeded the growth rate of advances in most of the years, especially since 1996 (Table 5.6), meaning that situation is yet to improve as the growth rate of classified loan is higher than the growth rate of advances.

**Table 5.6: Impact of Loan Classification**

YEAR	NCBS		PCBS		FCBS		ALL BANKS	
	Growth Rate of Advances	Growth Rate of Classified Loan	Growth Rate of Advances	Growth Rate of Classified Loan	Growth Rate of Advances	Growth Rate of Classified Loan	Growth Rate of Advances	Growth Rate of Classified Loan
1993	15.63	35.51	12.70	62.32	10.21	-8.79	14.45	43.78
1994	4.35	3.42	12.63	11.42	19.88	1.01	7.62	6.51
1995	15.97	12.57	17.46	3.92	40.14	-14.22	17.74	8.67
1996	13.45	19.14	12.05	-0.63	12.12	-2.01	33.82	54.23
1997	11.74	25.54	13.84	2.74	17.96	-10.43	11.17	13.03
1998	9.38	20.78	12.81	18.48	16.30	34.42	13.78	24.68

Source: Bangladesh Bank.

As compared to 1992, the provisioning shortfall of the banking system went to 48.73 percent in 1999 from 31.97 percent in 1992. In case of NCBs, the provisioning shortfall increased to 64.11 percent in 1999, for the PCBs it is 41.23 in 1999.

In January 1996 banks were asked for re-fixation of capital requirement approach (from 6 percent of total demand and time liabilities to 8 percent of risk weighted assets). As on 1998, the actual capital as percentage of risk weighted assets on the part of all banks, NCBs, and PCBs stood at 7.43 percent, 6.42 percent and 7.90 percent respectively. The re-fixation or raising of asset risk based capital standard might have negative impacts on efficiency of resource allocation. As D'Souza (2000) puts it, "apart from reducing their asset holdings, banks might react to capital requirements [E/A; where E is equity, (8 percent of RWA) and A is assets] by switching from high risk weighted assets to those assets with a lower risk weighting. Thus, finding it costly to increase capital, banks adjust both the composition and level of lending."

The huge NPAs and continuous non-compliance of provisioning and capital requirements of the banks indicate that the central bank, Bangladesh Bank (BB)'s inability to enforce effective supervision

The new legal system also has not proved to be effective in realising money from defaulters. The Money Loan Court, till 1999, has been able to realise 9.41 percent of fund out of total suited amount. The newly established Bankruptcy Courts have not come across any major problems, yet because of the delays from the government, the process of taking possession of the assets of the persons adjudged bankrupt is being delayed.

The impact evaluation of FSRP-TA Project (1995) itself recognised that many of the operational instruments needed to permit NCBs to function in sound manner had been provided successfully by FSRP. Cookson and Alamgir (1993) says that "the expected improvement of the

management of NCBs has not been forthcoming after the financial sector reform measures taken in Bangladesh."

### ***Rural Banking and Restructuring of Rural Branches of NCBs***

The share of rural deposit increased but the share of rural credit decreased during 1980s and 1990s. The net flow of agriculture credit (disbursement minus recovery) was negative (Table 5.7). The proportionate share of rural deposit was higher than that of credit throughout 1990s, indicating that mobilised deposits, was transferred to urban areas. The low rate of recovery, coupled with the withdrawal of refinance facility due to financial reform measures induced the banks, especially NCBs to reduce their provision of credit to the rural sector. Furthermore, the situation has been further aggravated by the GOB's branch rationalisation programme, which has only selected the rural branches for closing down.

**Table 5.7: Net Flow of Agricultural Credit by All Banks**

*(Tk in million)*

YEAR	DISBURSEMENT	RECOVERY	NET-FLOW	% OF RECOVERY
1981-82	4238.4	3143.4	1095	48.49
1982-83	6785.5	3423.3	3362.2	41.89
1983-84	10053	5175.7	4877.3	41.8
1984-85	11528.4	5839	5689.4	38.54
1985-86	6317.2	6071.5	245.7	25.56
1986-87	6672.8	11075.6	-4402.8	41.27
1987-88	6563.1	5957.8	605.3	23.57
1988-89	8076.2	5779.6	2296.6	18.98
1989-90	6867.8	7019.4	-151.6	17.61
1990-91	5956	6253.2	-297.2	13.72
1991-92	7945.9	6621.1	1324.8	15.88
1992-93	8418.5	8692.3	-273.8	18.42
1993-94	11007.9	9791.2	1216.7	19.04
1994-95	14900	11241.1	3658.9	19.96
1995-96	14820	12730	2090	21.64
1996-97	15173	15942.7	-769.7	23.61
1997-98	16428.4	16990.7	-562.3	24.46
1998-99*	30190	19583	10607	13.73

Source: *Scheduled Banks Statistics*

\* *Research Department, Bangladesh Bank*

\* *Excluding Private Banks*

### ***Women in Banking***

The share of women in banking services has been measured in terms of their share in number of accounts and amount in deposits as well as credits. Although women are contributing 26.26 percent in total deposit amount, the share in credit is only 1.79 percent. The survey by Saha et. at (1995) shows a skewed picture of banking services provided to women. Irrespective of the types of branches (ladies branch, branch headed by lady manager, or branch headed by male manager) the women are contributing more than what they are getting in terms of accessibility to credit (Table – 5.8). Even in Ladies branches, women are getting credit access only to 21.52 percent of total loanable funds. The actual share of women in deposits and in credits would be much less than shown in the table. This is due to the fact that a very high proportion of ladies branches and

branches headed by the lady managers have been taken in the survey sample. Secondly, male members are found to run substantial number of female accounts. Finally, the sample branches are in urban areas, number of female accounts in urban areas are higher than in rural areas.

**Table 5.8: Share of Women in Banking Services**

BRANCH TYPE	SHARE IN DEPOSIT						SHARE OF LOANS AND ADVANCES					
	Total		Female		Share of female (%)		Total		Female		Share of female (%)	
	No. of A/Cs	Amt. (in million)	No. of A/Cs	Amt. (in million)	A/Cs	Amount	No. of A/Cs	Amt. (in million)	No. of A/Cs	Amt. (in million)	A/Cs	Amount
Ladies Branches	22380	519.6	11438	290.3	51.10	55.87	278	25.2	66	5.4	23.74	21.52
Branch headed by Lady Manager	22785	733.7	5358	98.0	23.51	13.35	148	46.3	28	3.1	18.92	6.80
Branch Headed by Male Manager	39896	560.0	8868	88.0	22.22	15.71	1645	1085.8	124	12.2	7.54	1.13
Grand Total	85061	1813.3	25664	476.3	30.17	26.26	1971	1157.3	218	20.7	11.06	1.79

Source: Saha B et. al 1995. *Women in Banking*, p. 36.

The survey by Saha et. al (1995) observed that both male and female customers hold a positive attitude regarding services rendered by women employees. Nonetheless, the share of women employees in the banking sector (increased from 4.74 percent to 6.23 percent) is still far lower as compared to that of government sector of Bangladesh and banking sector of other countries.

The gender aspect was completely missing in the financial sector reform project.

### ***Asset Concentration***

The post SAP period witnessed the increase in the asset concentration into the hands of few large borrowers. The largest 1 percent borrowers availed more than 70 percent of total available funds in the banking sector. They lowest 95 percent of borrowers received only one-seventh of the total available funds. Asset concentration of the small borrowers decreased gradually over time.

**Table 5.9: Asset Concentration**

YEAR	SHARE OF LARGEST 1% BORROWERS IN TOTAL ADVANCES	SHARE OF LOWEST 95% BORROWERS IN TOTAL ADVANCES
1987	72.36	17.92
1988	72.05	18.19
1990	71.69	18.59
1991	70.29	16.63
1992	72.23	15.96
1993	73.86	14.81
1994	72.52	16.36
1995	72.30	14.98
1996	72.91	14.34
1997	73.61	13.34
1998	75.63	12.80

Source: Bangladesh Bank, SBS, Various issues

### 5.3 Stakeholders' Perception on Access to Credit: Rural Financial Market

#### *Rural Stakeholders' Perception: Demand Side*

In the rural Bangladesh, credit is supplied by the formal, semi-formal and informal sectors. The formal sector includes the regulated financial institutions and agencies while the semi-formal sector includes micro credit and micro finance institutions and programmes mostly organised by NGOs. The informal sector covers private transactions falling outside the regulated operations sources like money lenders, traders and dealers in agricultural markets, shop-keepers, land lords, friends and relatives. The formal sector comprises the public sector banks especially two agricultural banks (BKB and RAKUB) and the rural branches of the nationalized commercial banks, two co-operative networks under BSBL and BRDB and to a very limited extent, private banks (NBL and IBBL). About two-third branches of the commercial banks are located in the rural areas.

Before analysing the access to credit the general features of the rural stakeholders (borrowers and non-borrowers) are given: among the respondents 55.8 percent are marginal farmers, with land holding within 0.49 acres. 21.7 percent respondents belong to the land holding class between 0.50 acres to 1.49 acres. Land holding between 2.5 acres to 4.99 acres comprises 7 percent of respondents. Among the respondents only 6.8 percent are large farmers. In terms of occupation 71.58 percent of stakeholders depend on agriculture as their primary source of income. Of the respondents, 41.91 percent are wage labourer. It is also observed that wage labour also constitutes as an important source of income for many marginal farmers.

The sources of finance for the rural stakeholders are diverse. Among the sources, bank, micro finance institutions and moneylenders are prevailing in the rural credit market with a market share of 34.75 percent, 33.16 percent, and 25.19 respectively. The majority of the stakeholders largely depends on the bank credit, thanks to the directed credit policy of the government for the agricultural sector. Among other sources, Samity captures a 5.83 percent share of the total market. Relatives or friends are not the major source of funds in the rural area (market share less than 1 percent).

If access to individual market of credit [e.g. bank credit market or MFI credit market etc.] is considered, 65.69 percent of stakeholders have no access at all to the bank credit, 46.62 percent of

stakeholders have restricted access to the bank credit, and only 31.67 percent of stakeholder have unrestricted access to the bank credit (Table – 10). Bank and MFI's market segments are different in general, bank credit are focused mainly to the agricultural loans, where as MFI loans focused mainly on non-farm loans. MFI emerged as one of the major market participant in the rural credit market with a one third of the market share, but 43.52 percent of stakeholders of that market segment have still no access to this credit. It is assumed that a majority of the stakeholders in this group may belong to the hardcore group of poor. Another important finding of the survey is that money lending is still prevalent in the rural area, moneylenders capture one –fourth of the market share. Furthermore, 37.12 percent of the stakeholders do not have any access to this source of finance. The rural credit market is largely unsaturated; the market saturation level is 49.17 percent.

**Table 5.10: Access to Credit by Sources**

SOURCE	RESTRICTED ACCESS	UNRESTRICTED ACCESS	NO ACCESS AT ALL
Bank	46.62	31.67	65.69
MFI	80.65	71.61	43.52
Money Lender	90.48	85.72	37.12
Samity	-	69.09	30.91
Relatives/Friends	-	100	-
Others	-	100	-

Source: SAPRI Rural Survey, 1999

Note: Restricted access was calculated as the percentage of respondents who have approached for credit to a particular institution and got credit but with or without some restrictions (e.g. got partial amount applied for). Unrestricted access is the subset of restricted access, it is percentage of respondents who have approached for credit and got the credit without any restriction (e.g. full amount applied for). No access was calculated as the percentage of respondents who have been refused and who did not apply for credit for the reason other than financial solvency.

Most of the respondents (68.97 percent) who have borrowed from more than one source said that insufficient amount of loan made them to borrow from multiple sources.

Among the rural non-borrowers 76.79 percent complained about the rent seeking by the banker as the major reason for not seeking loan. 53.57 percent of the non-borrowers mentioned inability to fulfill the loan requirements, 44.05 percent did not seek loan due to the time consuming process of lending, 32.74 percent complained against the complex lending procedures.

The respondents who were refused bank credit mentioned mainly the lack of collateral security. The second important reason was refusal to provide bribe (26.67 percent). It is noteworthy that among the non-borrowers, 76.79 percent of respondents mentioned bribe as a major barrier to credit, while for the loan seekers the frequency of complaining against bribe is much low. One possible explanation may be that most of the borrowers consider bribe as a part of system of lending.

### ***Rural Stakeholders' Perception: Supply Side***

Rural credit has to be closely supervised for ensuring proper end use and timely repayment, but their ability to undertake supervised credit operations is extremely limited. There are conspicuous built-in weaknesses in the system of credit operations by the bank officials affecting the profitability of the branch itself.

The autonomy and discretion of the banks, especially the specialised agricultural banks, is often compromised by the formal and informal intervention. This has the effect of gross distortion in the credit discipline in the rural finance market and a great set back to the financial condition of the banks.

The rural banking is considered risky for commercial lending due to the frequent natural calamities, which affect the repayment capabilities of the borrowers. Currently, there is no safety net (crop insurance, credit guarantee schemes or compensatory funds for agricultural credit) for covering unforeseen risks.

The PSBs sometimes also face the problem of shortage of loanable funds in the rural area. Shortage of funds in absence of good recovery is becoming a great problem for the banks.

#### 5.4 Stakeholders' Perception on Access to Credit: Small And Medium Enterprises (SMEs)

##### *Stakeholders' Perception: Demand Side*

Small businesses are numerous in Bangladesh and form a large majority in the domestic markets. According the estimate of BSCIC there are about 523 thousands of small enterprises including cottage industries in the country employing about 2.3 millions of people, which is around 82 percent of total industrial labour forces (Khan, 1999). According to the Bangladesh Small and Cottage Industries Corporation (BSCIC) a company with Tk. 10 Crore or less assets or employing not more than 50 is considered as SME.

Most SME entrepreneurs finance the major portion of their businesses using a combination of their own savings and loans from family and friends. Many SMEs use trade credit arrangements to supplement this. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from banks, although only a half-of them gets loan from banks. Trade credit is second most important source to many small entrepreneurs with relatively little problem, although provided at a much higher rate of interest than banks. Money lenders are not excluded from the source list of SMEs, they only use moneylenders in emergency situations.

**Table 5.11: Sources of Loans Sought and Received by SMEs**

SOURCE	PERCENTAGE OF RESPONDENTS SOUGHT LOAN	PERCENTAGE OF RESPONDENTS RECEIVED LOAN
Bank	59.6	53.57
Trade Credit	27.7	100
Relatives/friends	21.3	100
Money Lender	6.4	100
Samity	6.4	92.31
Others	2.1	100

*Source: SAPRI SME Survey, 1999.*

Most of the borrowers (58.1 percent) expressed their dissatisfaction with "bribe", as it becomes pervasive in the banking sector. Complex procedures were mentioned as second most acute problem in bank credit. Almost half of the borrowers expressed dissatisfaction for collateral requirements of banks. Borrowers also complained of the long delay and guarantees required in sanctioning loans (45.2 percent). The other sources of dissatisfaction as expressed by the borrowers are: high interest

rate (32.3 percent), inadequate volume of credit (22.6 percent), high sunk cost (19.4 percent), and harassment (12.9 percent).

Collateral was mentioned both by the borrowers and non-borrowers (79.4 percent) as most serious barrier of access to credit. The second most important barrier is bribe (66 percent). Most non borrowers indicated that the requirement for "excessive collateral" was a major barrier for them to access bank loans. Borrowers noted that raising sufficient collateral had been a problem for them. The kind of collateral usually considered by banks, as appropriate security is land or buildings.

SME respondents noticed that a major barrier to accessing bank credit is the complexity of the procedures, which leads to delays. They indicated that the documentary requirements are not made explicit by bankers and are also huge. Borrowers who have direct experience of pursuing a loan application particularly emphasised the long time required to prepare and follow up on a loan application. A borrower has to visit a bank on average 15 times to pursue a loan with a maximum number of 60. Trade credit takes a minimum number of visits, average 1.67 times. However, most of the borrowers has to visit 8-15 times to pursue a bank loan.

Delays in processing loan applications are noted as between two months and one year, leading borrowers and non borrowers alike to rank banks as the worst among the available credit sources in this criteria. Both borrowers and non borrowers indicated that such delays could be extremely damaging, preventing the business from meeting seasonal demand, stocking at low season prices, expanding a business at a critical time and meeting deadlines of orders. The traditional moneylender or trade credit provides the only alternative in such situations.

According to the survey estimates bribe to income tax officer takes first position, 34.70 percent of sunk cost is spent on income tax documents. Potential borrowers particularly noted the difficulty in accessing land-related documents such as C/S, R/S and S/A documents; 8.64 percent of sunk cost is spent on collection of these documents (Table 5.12).

**Table 5.12: Sunk of Cost of Loan**

EXPENSE ITEM	AVERAGE AMOUNT IN TAKA	AS % OF TOTAL LOAN	AS % OF TOTAL EXPENSES
Bribe to income tax officer	17750	4.61	34.70
Bribe to Banker	11425	2.97	22.33
Preparation of security documents	9535.71	2.28	18.64
Commission of Banker	3200	0.83	6.26
TIN	1567	.41	3.06
Commission of Broker	1150	.30	2.25
Transportation	875	0.23	1.71
Own "Away from home" fooding cost	840	.22	1.64
Income statement from banks	800	.21	1.56
Account opening	750	0.19	1.47
Trade license	650	0.17	1.27
Assistance in preparation of documents	480	0.12	.94
Stamp	238	0.06	0.46
Loan Application Form	87.50	0.02	0.17
Nationality Certificate	50	0.01	0.10
Others	1760	0.46	3.44
Average sunk Cost per loan		5.89	
Maximum Sunk Cost per loan		21	

Source: SAPRI SME Survey, 1999.

### ***Stakeholders' Perception: Supply Side***

The banks have too little market pressure on them to develop banking services for small businesses. The small businesses tend to be much less dynamic and less competitive because technical and administrative standards are generally inferior. Most of them subsist on the informal sector and have no access to loans through formal channels. On the one hand, there is massive potential in terms of entrepreneurial talent and initiative; too little of this potential is actually realised in the form of investment, competitiveness and growth.

Standardised banking norms and procedures are usually applied very strictly and as a result SMEs are deprived of funds. Among the reasons why the SMEs did not receive the loan applied for are: non-fulfilment of loan condition (58.3 per cent of applicant), lack of collateral securities (30.4 percent) insufficient income (17.4 percent) are directly linked to the strict lending rules.

Financing SMEs became further difficult by the policies of prudential and supervisory regulations adopted because of financial reforms measures, which are similar for all categories of borrowers: requiring by banks to provide detailed financial statements, emphasising on solvency and liquidity ratios as well as projected cash-flow statements, equity declarations, and income tax declarations for each client hindered the access to credit by the SMEs.

In the last quarter of 1980s, BB asked all the commercial banks to set aside at least 5 percent of total demand and time liabilities for providing finance to small and cottage industry sector. In addition to that, there was one special credit programme for small and cottage industries (SCI) and one small loan scheme (for which banks used to set aside 2 percent of total demand and time liabilities (TDTL) for providing fund to small business). However, all these "directed credit" programmes have discontinued after financial reform. Therefore, banks do not set aside any funds for providing loans to SMEs, rather they are treated on residual basis.

Legal provision regulating the recovery of default loans may also have a negative effect on access to formal credit on the part of SMEs. Collateral is not always possible to be provided by a small borrower.

### **5.5 Revisiting Policy Design**

The FSAC related documents of the World Bank have indicated that the financial sector reform agenda was determined following the economic and sector work by the Bank and the recommendation of a GOB task force, NCMBC.

The Commission's recommendations primarily focussed on fundamental problems of the banking system rather than giving priority to economic deregulations. Specifically, the commission was concerned with the problems of overdue loans of DFIs (BSB and BSRS) and agricultural credit, capital adequacy requirement of NCBs and DFIs, supervision and inspection of financial institutions including DFIs and legal framework affecting loan recovery and overall banking. The Commission rather suggested to channelise the flow of credit from local private and foreign banks to agricultural and rural sectors at least to the extent of 15 (fifteen) percent of their lending operation. They may either lend the funds directly or through any NCB or BKB. Banks that would fail to attain the target should be obliged to deposit the required fund with the Bangladesh bank. (NCMBC Report. p-34).

As regards interest rate deregulation, the Commission acknowledged that proliferation of lending rates arose because of concessional rates prescribed for target groups under the priority sector lending reflecting social concerns and considerations. The Commission also observed that no scheme of rationalisation relating to interest rate structure should ignore the social concerns and considerations. Moreover, in the context of the present stage of development of the financial

markets in Bangladesh, it would not be desirable to leave the determination of interest rates entirely to market forces, which may result in wide fluctuations in interest rates and may cause excessive uncertainty in the financial market. The Commission suggested a fair degree of regulation of interest rates. (NCMBC Report, p. 82).

Refinance by Bangladesh Bank constitutes an important step for ensuring adequate flow of credit to the priority sectors. The Commission prescribed that there should be matching between quantum of refinance and reserve money creation in order to have effective monetary control. The Commission asked to link refinance with recovery performance of the banks, specially agriculture credit providing institutions.

The Commission report dealt elaborately with the problem of DFIs (namely BSB, BSRS and BKB), specially their default problem. Surprisingly, DFIs were dropped in the broad reform measures prescribed by IDA and adopted by Bangladesh Bank. Not only that, even the restructuring measures for BSB and BSRS as suggested by ADB and other donors (in 1985) were also not incorporated in adopted reform actions.

According to the opinion of the Task Force on Financial Sector (1991), formed during the regime of interim government in 1991, restoration of "financial discipline" was adjudged as the most urgent requirement in the financial/banking sector. The Task Force report said, "Banks and financial institutions cannot grow in the absence of (i) autonomous decision-making on economic and commercial consideration; (ii) strict enforcement of contractual obligations between the financial institutions one the one hand and their clients on the other, and (iii) effective authority of their management over personnel. Absence of these elements manifests in inefficiency as well as indiscipline in the financial sector." SAP financial sector reform measures were obviously inadequate to bring back financial discipline in the financial sector (UPL, 1991).

The performance audit report (of the World Bank) related to FSAC conceded, "the project was not successful (p.12)". According to the PAR, the causes for this failure are various: government ownership of the reform programme and a strong political will to make it succeed were absent. Debt recovery environment did not improve. The laws are in place to improve bank supervision, bank operating practices and methods of debt recovery, but commitment to enforce these laws has been dilatory and lacked resolve. Expectations regarding bank operating practices and the central bank supervisory practices through training and technical assistance (FSRP TA) were unrealistic and overly optimistic. Finally, there were flaws in the design and sequencing of the reform agenda.

The reform agenda emphasised on economic deregulations rather than broadening prudential regulation and supervision. The experience suggests that wide economic deregulation in presence of weak prudential enforcement creates moral hazard problems on the part of the banks already having a lot of problems and thus further deteriorates their overall financial health, instead of improving.

The incorrect sequencing of reform measures as adopted in Bangladesh has been recognised by PAR of the Bank, when it said, "for fundamental financial sector reform, the sequence of reforms is critical for the overall success of the reform effort and to avoid detrimental side effects. Interest rate liberalisation with a banking structure characterised by oligopoly, public sector ownership, inadequate central bank supervision and a poorly functioning debt recovery system will not necessarily improve resource allocation or the efficiency of financial intermediation. As was shown, real interest rates simply rose as financially weak banks sought to cover higher costs of provisioning for past bad lending decisions. It would have been more appropriate in Bangladesh to introduce measures to deal with the "debt default culture" and the management of the NCBs, prior to a more general interest rate liberalisation.

The final report on FSRP TA also states that interest rate reform efforts alone are not sufficient to address banking problem, without introducing efforts to tackle the structural weakness of the banking sector, such as its bad debt and their source and the lack of adequate competition (p.8). The report also recognises that non-performing loans, which in turn have an impact on lending rates and capital adequacy, are one problem that the FSRP was unable to ameliorate (p.2). The Capital adequacy and other regulatory requirements have generally not been enforced nor have changes in the interest rate flexibility created the kind of competition desirable among NCBs and PCBs. Indeed the reforms in interest rate may have contributed to a decline in the financial viability of the PCBs as higher permissible lending rates and related factors may have contributed to more risky lending practices.

The mismatch between demand side constraints and supply response (in the sense of implementing certain financial reform measures), FSAC/SAP was not able to bring desired changes in the sector. However, it does not necessarily mean that re-imposition of interest rate control and directed credit would ensure efficient allocation of resources. Being forced/directed to achieve a higher level of disbursement does not indicate allocative efficiency. Removal of demand and supply side constraints, in addition to interest and portfolio decontrol, would have ensured sustainable improvement in allocation of resources by the banks.

## **5.6 Conclusion**

The analysis shows that the FSAC/SAP has not been able to achieve efficient resource allocation in terms of access to credit by productive sectors. The credit allocation index deteriorated in the post reform period. In agriculture, credit allocation index steadily fell from 1987 to 1998, in 1987 the index was 0.677, whereas in 1998 it stood at 0.428. For SME the index fell more than twice for the period in question, from 0.859 in 1987 to 0.398 in 1998. From the stakeholders' perception survey pre and post reform situation could not be compared, but the prevailing situation indicates the access to credit by the priority sectors is unsatisfactory. For the rural sector, 52.68 percent of stakeholders have no access at all to credit (either formal or informal). Only 42.25 percent of stakeholders enjoy unrestricted access to credit. Although MFI emerged as one of the major sources of credit encompassing 33.16 percent of the whole rural credit market, more than half of the rural people is beyond the credit market. 50.53 percent of the SMEs do not have any access to the credit. Only 35.79 percent of the stakeholders enjoy unrestricted access to credit.

Competitiveness is still absent in the financial market of Bangladesh as shown using the interest rate spread criteria. The analysis found that the interest rate deregulation was a premature step before making any dent on government led distortion, NPA, collusive behaviour, misconceived price strategies are main reasons of failure to reach the desired outcome.

Although a lot of measures were implemented under FSAC for controlling lending risk and improving management efficiency, the financial discipline is still in disarray. The newly implemented loan classification, provisioning and capital adequacy standard are far from infusing dynamism in the sector. The management efficiency in the NCBs could not be achieved despite implementation of new operational and management/ loan quality assessment tools. The reasons are: sheer negligence of the banks, supervisory and regulatory forbearance, ineffective legal system, lack of leadership, expertise and motivation, mismatch between loan classification requirement and improvement in loan screening and monitoring skill, mismatch between economic deregulation and enforcement of prudential regulations.

The net credit flow was negative in post reform years. Poor recovery, withdrawal of refinance and interest rate band aggravated the negative flow. The other reasons of inefficient rural banking are: faulty borrower selection, over-staff, inefficient staff, complex procedure, low-volume of business, and wrong marketing and institutional policy.

Although the market share of the NCBs was decreased due to intervention of PCBs and new FCBs, the dominance of the NCBs is still in place. Moreover, the PCBs failed to improve resource allocation among the productive sectors.

The most severe problem of the Bangladesh financial system is NPA. The FSAC correctly identified the policy agenda, but the NPA did not reduce.

A credible future policy design should aim at rectifying and preventing the recurrence of unacceptable trends and at the same time ensuring sustainable financial sector development. Though macroeconomic environment has been somewhat favourable, yet political support (especially in the sense of government ownership of reform) for effective implementation of reform measures has been absent and there has been design problem. The FSAC has hardly followed recommendations driven indigenously. The policy framework lacks comprehensiveness, especially in comprehending and suggesting measures to combat demand and supply side constraints.

**Annex Table 5.1: Chronology of Financial Default in Bangladesh**

YEAR	OBSERVATION
1985	Nearly 30 percent of the Nationalised Commercial Banks (NCBs) loan portfolio is impaired by overdue repayments (IMF estimate, using NCB's own classification)
1990	Nationalised Commercial Banks: 23 per cent of total loan portfolio is overdue and 24 per cent of largest 100 borrowers. Overdue amount to the four NCBs from 100 largest borrowers amount to Tk 7.4 billion (\$ 208 million) whereas total over dues to NCBs only are approximately \$ 800 million (NCB own estimates, quoted WB 1990, p. 22).
1992	Finance Minister discloses that bank defaults amount to Tk 81.5 billion (\$ 22 billion), representing one-third of the total outstanding bank loans.
1995	30,000 cases brought under the Financial Loan Courts Act involving \$ 600 million without any legal suit leading to actual recovery. 31 per cent of loans of NCBs are now classified as non-performing (20 per cent of all advances), whereas this is 39.5 per cent for private sector banks (12 per cent of all advances)- indicating that on 32 per cent of all advances payment arrears persist.
1999	Of total commercial bank loans Tk 46101 billion (\$ 10 billion) 38.3 percent is classified, of which 80 percent as 'bad'. Including the specialised development bad debts amount to Tk 197.4 billion (\$ 4.3 billion). Provision short falls exceed \$ 1.0 billion, eighty per cent of which are with the NCBs (June 1999).
2000	Finance Minister claims that classified loans in the private sector have reduced to 26.5 percent of all loans. An Tk 18 billion (\$ 360 million) bonds issue to NCBs is announced to deal with the 'dead weight' debt of SOEs (June 2000)

*Sources: Transparency International-Bangladesh Chapter; The Daily Star (various items); World Bank (1900, 1995 and 1997); Ministry of Finance, 1999; World Bank 1997; CPD, 1997 and 1998; IMF, 2000; Monem, 2000; The Daily Star, 2000, quoted in van der Geest (2001).*

## CHAPTER 6: THE EXPERIENCE OF PRIVATISATION: A REVIEW<sup>17</sup>

### 6.1 A Chronology Of Privatisation

#### *Post Independence Dominance of the Public Sector*

Bangladesh inherited a large number of public enterprises, partly because of the active role of the East Pakistan Industrial Development Corporation (EPIDC) and in part due to the need to take over, manage and operate the industries abandoned by the Pakistani owners who had dominated Bangladesh's private sector till the liberation of the country. A small segment of Bangladeshi manufacturing enterprises were also taken over in March 1972. The composition of manufacturing ownership at the time of liberation is presented below:

**Table 6.1: Ownership of Fixed Assets in the Manufacturing Sector as of March 1972**

PAKISTANI PRIVATE OWNERS:	47%
E.P.I.D.C.	34%
Foreign Owners:	1%
Bangladeshi Owners	18%

43 per cent (by assets value) of the abandoned industries were legally taken over in March, 1972 while the remaining 4 per cent small scale units with asset values below Tk. 1.5 million were offered for sale. As part of the Awami Leagues' 11-point electoral pledge of 1970 campaign, 15 per cent of the fixed assets of the manufacturing sector were nationalised on March 26, 1972. Thus the size of public sector rose to 92 per cent of all large scale manufacturing fixed assets, of which 87 per cent were either inherited from EPIDC or abandoned by the Pakistanis.

### 6.2 Speed of Privatisation of SOEs

The government began to denationalise the state-owned enterprises since independence, but the process speeded up in post 1975 era. Although, a large number of units were disinvested during 1975-1981, yet average size and value of disinvestments units were much higher during 1983-1990.

**Table 6.2: Phasing of the Privatisation Process**

PERIOD OF DISINVESTMENTS	NUMBER OF ENTERPRISES
Pre liberation	13
1st Jan. 1972-30 June 1975	114
1st July 1975-30 June 1981	247
1st July 1981-30 June 1991	125
1991-1995	17
Total	516

<sup>17</sup> The chapter is based on several studies done at CPD as no background paper was commissioned. The reports are: Akash and Sobhan (1999), Raihan S (2000), Azad (1999a, b) and Rahman et al (2000)

### ***Is state-ownership intrinsically inefficient?***

A number of studies point to the inherent non-viability of State-owned Industrial Enterprises (SOIEs) on the premise that state-ownership inhibits the efficient functioning of any industrial enterprise. Privatisation is advocated as the answer to improve both micro enterprise and macro-economic performance.

Bangladesh's SOIEs during FY74-FY98 earned positive real net profits at one time or another, though the sustainability of profits varied, as did the performance of the different industries (Table 6.3). Both BSFIC and BFIDC the smaller corporation, presented a more sustained record of performance compared to BJMC which registered profits in only 3 out of 25 years and BTMC which returned profits in only 4 years.

**Table 6.3: Profit Trends in the SOIEs**

	NO. OF YEARS (DURING 1973-74 TO 1997-98) IN WHICH POSITIVE REAL NET PROFIT IS EARNED
BSFIC	11
BCIC	5
BSEC	8
BFIDC	10
BTMC	4
BJMC	3

*Source: Raihan (2000).*

### ***Trends of Aggregate Real Net Profit***

BSFIC, BSEC, BFIDC made positive aggregate real net profits during period 1. BTMC and BCIC losses were modest and even BJMC kept its losses to an amount of Tk. 72 million. During period 2 all the six corporations incurred aggregate real losses and the extent of loss increased significantly for all these corporations. During period 3 these aggregate real net losses escalated by a significant margin. Period 2 escalation in SOIE losses coincides with the acceleration in the process of disinvestment. The astronomic SOIE losses in the 1990 coincides with the virtual abandonment of the SOIE as from the concern of the GOB and a commitment to total privatisation.

**Table 6.4: Aggregate Real Net Profit of Six Industrial Corporations for Three Different Periods**

*(at 1984-85 prices, in million Taka)*

	PERIOD 1 (1973-74 TO 1982-83)	PERIOD 2 (1984-85 TO 1990-91)	PERIOD 3 (1991-92 TO 1997-98)
BSFIC	27.18	-19.76	-102.49
BCIC	-18.07	-76.47	-276.5
BSEC	32.69	-19.94	-70.77
BFIDC	0.72	-2.0	-6.59
BTMC	-5.73	-29.04	-159.69
BJMC	-71.6	-111.0	-135.24
All	-34.8	-258.15	-751.28

*Source: Raihan (2000).*

### ***The 'Myth' of Loss***

The annual average of the aggregate real net profit/loss of the six state-owned industrial corporations during those three periods have been calculated and the figures are: In period 1 = - Tk. 7.87 million, in period 2 = - Tk. 35.2 million and in period 3 = - Tk. 128.2 million

There has been a 'popular' saying that another Jamuna Bridge can be constructed if the losses of the state industrial sector is saved for at least a year. The cost of building the Jamuna Bridge was more than Tk. 250 billion, whereas, during those 24 years the maximum average real net loss made by the total state industrial sector in a year was Tk. 128 million. Furthermore all these losses were not compensated from the budget as line item subsidies.

### **6.3 Performance of the Privatised Sector**

There are several studies on the relative performance of public and private industries. Each has its own policy biases. It is quite difficult to find out the exact performance change that could be attributed exclusively to the change in the form of ownership.

The GOB has made no effort to ascertain the fate of the privatised units except for a brief survey commissioned during the interim government of President Shahabuddin Ahmad to see if the privatised units were actually functional. That survey in February 1991 found over 50 per cent of the privatised units were not operational. No other major studies have been attempted. Recognising the limitations of all studies on this subject in Bangladesh, a CPD paper drew upon the evidence from the few available studies of privatisation in Bangladesh.

During 1991-96 of the 13 enterprises privatised, the performance before and after was analysed in a World Bank study. The basic data on enterprise level performance, provided in the review, is summarised below:

<b>Error! Bookmark not</b>	<b>PRE-PRIVATISATION</b>	<b>POST-PRIVATISATION</b>
Ctg Cement clinker and Grinding Co.	Cap utilisation=52% Sales 49.68 cr tk. Total no. of workers (Ws)=316 Profitable	Cap.Uti=72% Sales=86.45 cr. tk. Ws=252 Profitable
Kohinoor Chemicals	Highest Loss incurred = Tk. 6 cr. Losing just before privatisation	Now Profitable. Profit=79 Lac tk.
5 R. Ltd.	Losing. Loss=5.64 cr. tk.	Losing. Loss=47 Lac Tk.
Kishoreganj Textile Ltd.	Losing Loss=64 lac tk.	losing. loss=2.16 cr. tk.
Eaglebox and Carton	Losing. Loss=1.85 cr. Tk.	Losing. Loss=3.13 cr.tk.

<b>Error! Bookmark not</b>	PRE-PRIVATISATION	POST-PRIVATISATION
Style Fabrics	Losing Loss=13 lac	Losing. Loss=30 lac tk.
Hamidia Textile Mills	Operational	Non-operational. The unit could not be traced
Dhaka Veg. Oil	Operational	Closed
BD Cycle Inds.	Operational	Closed
Madaripur Textile	Operational	Closed
Sinha Textile	Operational	Closed
Quantum Pharmaceutical	Operational	Closed

*Source: Akash and Sobhan (1999).*

The above table derived from the units privatised since 1991 and surveyed for the World Bank study show very mixed results. Obviously Chittagong Cement Clinker improved its profits after privatisation: was profitable under public ownership and remained so after privatisation. Kohinoor Chemicals also a success story turning losses into profits after privatisation. Four other units continued to make losses after privatisation, of which three increased their losses. Of the remaining 5 units under review in the table one, Hamidia textiles, appears to have disappeared. Four others are closed. In the case of Dhaka Vegetable Oil there is some indication of defraud to the banks which is the subject of a criminal investigation. The case of Eagle Box also points to malfeasant behaviour by the private owner which has culminated in the closure of the enterprise.

The World Bank study covers only a fraction of the SOEs privatised if aggregated, as was done in the World Bank studies, gives a positive picture because of the performance of a large unit such as Chittagong Clinker those results influence the aggregate analysis. The disaggregated data cited in the above table provides no clear evidence that the performance of SOEs has improved after privatisation.

The BIDS study of the textile mills show that 74 per cent of private textile mills made losses for at least 5 years out of 7 years i.e. 1985 to 1991. In the public sector, 62 per cent of BTMC mills made losses in the same period.

35 jute mills were transferred to the private sector by 1982-83. To date most of these mills are not profitable and face large default problems. It is evident in the jute sector that the main problem lies not in the ownership but in the policy regime and the management. The specific problems faced by the jute sector include: the export price of all jute mills tends to be 20-30 percent lower than their production cost. The main reason for this is the very decrepit nature of the 20-30 years old machinery in these jute mills. In spite of jute being an export-oriented industry it did not receive any special policy concessions from the GOB. The jute sector still has to pay double rates for its electricity bill while producing at peak hour. If a mill uses its own generator it has to pay VAT on the electricity generated in its premises. Interest on credit to the jute sector is 15.5 percent whereas the rate for other export-oriented industries is only 9 per cent.

Interestingly at present the government still retains a partial ownership (up to 49 per cent) over some of the privatised mills. When the GOB sought to hand over the remaining shares held by it in the jute mills to the owners, a number of them have rejected this offer preferring partial retention of GOB ownership.

A study by the of BJMC points out that in case of the jute mills both the private and the public sectors were equally making losses. WB also recognises this in one of its own documents, "As the past performance convincingly shows, under the present policy environment the jute mills cannot operate efficiently in either the private or the public sector, improvement in policy environment is therefore a precondition for a successful privatisation" (WB., 1992).

Industry-wise labour productivity data showed that labour productivity does not depend on ownership, it depends on managerial efficiency (Sahota, //).

A Sample Survey of 498 disinvested enterprises by the GOB in 1993 (see *Sangbad*, 8/5/93) found that 133 were closed, 141 were not traceable i.e. in total 274 privatised units were not operational and only 214 were still in production.

#### **6.4 Social Costs of Privatisation**

It is assumed that most SOEs have excess labour and needed downsizing. However the process of downsizing carries a social cost in the way of disemployed workers and loss of income to their families since there is no access to unemployment insurance for such affected families.

A BIDS study based on a sample of 112 currently operating enterprises out of the 205 surveyed privatised units the post divestiture employment was 24 percent lower in the case of production workers and 25.5 percent lower for the non-production employees. If the workers employed in the 93 mills which were found closed in the BIDS survey were taken into account, over 1 lakh workers or close to 40 per cent of the workers employed in 205 surveyed SOEs have lost their jobs.

Another influential study of the employment situation in the privatised jute industries by Bhaskar and Mushtaq (1995) points to the tendency of replacing permanent workers with casual labour by the private employers thereby reducing the overall security of the workers in the privatised jute mills.

#### **6.5 Participatory Impact Assessment of Privatisation of Jute Manufacturing Industries**

All of the participants of the focus group discussions and interviews (i.e., the mill owners, labourers, and trade union leaders) have unanimously expressed the views that the government of Bangladesh has initiated the process of privatisation of jute manufacturing industries in the country quite mechanically. They have pointed out that without preparing a clear-cut guideline for privatisation and before preparing the private sector to take over the responsibility of jute sector the government has initiated its privatisation policy. They have also added that privatisation has been initiated before taking any measures in the mills to correct the inefficiencies that have been cropped up during the nationalised regime. As a result, the process has now been stalled and the objectives of privatisation have not been achieved at all over the last one and a half decades. Most of the sick jute industries, which have already been privatised, have now turned into dead industries.

The participants have also pointed out that nationalisation was also done mechanically immediately after liberation. All the jute mills at that time were nationalised irrespective of their nature of ownership – Bengali or non-Bengali. There were only a few Bengali managers in the 77

jute mills of the country before liberation. Consequently, there were vacuums in the managerial positions of the mills and those positions were then filled up from mid level officials and even from clerks in some occasions. Many others at various levels were also then recruited politically without any prior expertise in the field. Many of them were employed against positions were not necessary. The number of officers and staffs therefore had been increased by about 35 to 40 per cent as compared with that of pre-liberation period. After the change of regime in 1975, the number of officers and staffs had again been raised by another 35 per cent to 40 per cent without necessity as compared with that of the previous regime. The main consideration for recruitment was political.

After nationalisation, the higher authority, mill management and the CBA leaders (with only a few exceptions) started misappropriation of the funds and resources of the mills. This has obviously hampered the quality of the production and ultimately led the mills to a situation where the mills started incurring losses year after year. As the participants have pointed out, the mill authority had reported more raw jute than they had actually purchased in many occasions. To hide this fact, they intentionally had set fire to the jute godowns and reported that all the jute stocks were blazed. In fact, since 1972 till to date, different regimes, instead of trying to bring positive changes to the mills, have actually paved the way of privatisation showing gradual losses of those mills.

Workers and employees have reported that large scale corruption and looting have also taken place in the privatised jute mills and the owners of the mills have done it with help of their close associates (relatives) who have been employed by the owners and given the responsibilities of key positions of the mills. Corruption and looting has taken place at all levels. Workers and employees have categorically cited some examples in this regard. Suppose, the actual market price of raw jute is Tk. 300 per mound. The jute purchase officer, who is generally a pet of the owner, invoices it at Tk. 400. The owner takes away the difference instantly during the purchase of raw jute in this way. They do the same thing while purchasing the other raw materials, machine parts etc. They also mentioned that in 1985, the owner of Sonali Jute Mill bought a huge quantity of dated raw jute from another jute mill, situated in the opposite bank of the river named Sagar Jute Mill, but invoiced as the good quality raw jute. This, along with some other reasons including excessive manpower, dated machinery, changes in the demand of jute goods in both domestic and international markets etc. have led to the loss and ultimately closing down of the mills. Neither the government nor the mill owners have actually taken any favourable steps to revive the sector. Consequently, jute sector are now at the verge of collapse and the ultimate victims are its hundreds and thousands of its employees and workers who are now living a very measurable live as the study team has witnessed the fact in the areas of Katchpur of Narayanganj and Phulbari of Khulna.

The following are some of the points that have been noted from the discussion with various stakeholder groups and individuals:

#### ***The Rationale of Privatisation of Jute Mills***

- The mills were running at a loss due to over manpower and corrupt management.
- Instead of taking appropriate measures to run the profitably, the then government decided to privatise those mills.

#### ***The Process of Privatisation of Jute Mills***

- The process of privatisation was not fair.
- There was no clear-cut policy to privatise them.

- Many corrupt and dishonest entrepreneurs had been able to buy jute mills
- Even in cases of the old entrepreneurs who had got their mills back, many of them have sold them again to the new and inexperienced owners.

#### ***Efficiency in the Privatised Mills***

- Level of efficiency has not improved even after the privatisation.
- The owners of the mills, particularly the new owners, have not taken any initiative to improve the level of efficiency of the mills, rather, have started colossal looting of the resources of their resources.
- The government has also not provided any support to increase the level of efficiency of the mills.
- Government doesn't have any enforcement of the policies, if any at all, to monitor how the mills are being run.

#### ***Profitability in the Privatised Mills***

- Since the new owner had started looting of the mill, the question of profitability doesn't arise in this case.

#### ***Employment Situation in the Privatised Mills***

- Level of employment has been reduced drastically.
- In the Sonali Jute Mill of Khulna, 1165 workers were terminated at a time in the first move after the new owner came in.

#### ***Alternative Opportunities***

- It is really difficult for the workers, who have lost their job, to find respectable alternative employment.
- Some of them are doing odd job (e.g., rickshaw pulling, day labourer, etc.).

#### ***Privatisation and Poverty***

- While the mill was in operation, the employees and workers were living a reasonably good life. But, after they have lost their job, most of them have fallen into hardship.
- Many of them have even not been able to feed their children properly let alone sending them to school and giving them proper treatment.
- Some of them have already sold their assets whatever they accumulated over the years of their job.
- Some of them have also sold the land that they had got from their parents.
- Most of them are surviving on borrowed money with a hope that either the mill will be re-opened one day or they will get their payment duly.

#### ***Privatisation and Women***

- Not many women were employed in the mill and therefore no separate implications on women are actually found here.

### ***Privatisation and Corruption***

- The process of privatisation through which the mills had been privatised was itself corrupt.
- It was not done through open tender.
- Valuation of the mill was not done properly. It was sold at a very cheap price through unholy alliance between the owner and the policy makers.
- Whatever the price has been fixed, that has not even been paid properly.
- Many inexperienced and dishonest entrepreneurs had been able to buy mills giving bribe to the corrupt authority.
- Large scale corruption has been taken place in managing the mills even after it has been privatised.
- The owner himself over invoiced the price of jute, other raw materials, and the mechineries, and showed loss in the balance sheet. Buying the raw jute at the rate of Tk. 300 per mound, the owner showed it at the rate of Tk. 400 and the difference has gone into his pocket instantly.

### **6.6 Lack of An Articulated Privatisation Policy**

It is remarkable that inspite of substantial privatisation and repeated commitments to privatisation three successive governments have failed to enunciate a clear privatisation policy. There is strong evidence that in the absence of a clear privatisation policy a state of uncertainty prevails which is impacting not just on the credibility of the GOB but has led to further losses amongst the SOEs, particularly those awaiting privatisation. Evidence shows that just prior to privatisation profitable SOEs became losing concerns and profitable sectors began to make losses. This indicates deterioration in the governance of SOEs in the 1980s and its continuation in the 1990s.

A more comprehensive review of the outcomes of privatisation should be attempted to see whether they are at all operational, whether productivity, profits, tax payments, debt servicing, have improved so as to permit new investment and modernisation. The objective has to be to raise productivity and production of enterprises whether under public or private ownership. If change in ownership to private hands can categorically ensure improved micro and macro-economic gains as well as higher social welfare moves in this direction will be more acceptable. If however evidence is weak to establish the merits of privatisation or is even contra-indicative, at least in Bangladesh, then it is needed to know about (a) how to improve the performance of the privatised units (b) whether existing public enterprises can at all be reformed. Ideological posturing, based on a poor foundation of evidence will not solve the problem of misgovernance in both in the public and private sector.

### **Box 6.1: Impact of Privatisation of Jute Mills: Voices of the People**

'I have been working in the Sonali Jute Mill since 1968. About 3,400 permanent and 1200 temporary labourers were employed in the jute mill at that time. Production target was also fully achieved at that time. Then after liberation, the mill has been nationalised in 1973. Many new employees had been employed at all levels of the mill in addition to the old ones. The management had become corrupt and weaker and as a result, misuse of resources had taken place to a greater extent. However, the mill was running quite well until 1980.

There was corruption in the purchase of raw jute. The officials responsible always over invoiced the price of raw jute. This, along with some other reasons including excessive manpower, has led to the loss of the mill. Instead of taking appropriate measures to run the mill profitably, the then government decided to privatise the mill back in 1982. The privatisation had not taken place through open tender at that time. As a result, some dishonest entrepreneurs had been able to buy some of the mills at a very cheap price through unfair practices with help of some policy makers. The previous owner got the mill back in this case. After running the mill for a few years, the owner sold the mill again to a new owner in 1995. The new owner actually started the colossal looting in the mill immediately after his arrival. About 1165 workers were terminated at a time in the first move. The new owner did not pay anything to the terminated workers. Some of them have died without any treatment. Some of them are still living in the slums or on the streets after losing their jobs. They still have legal claim to their provident fund and other savings, which are not paid as yet and neither the government nor any other organisations are coming forward to help them out to get their legitimate payment.

The mill has been closed down for three times since the new owner came in. Firstly, it was closed for one year and twenty days, secondly, it was closed for three months, and lastly, it has been closed since July 1999 till date. From the very beginning, the intention of the present owner was not good. He didn't pay the workers properly. He hired *mastans* to punish the workers. Some CBA leaders were also bought by him. At the same time, there were some dedicated CBA leaders, who really tried to uphold the interest of the workers. Most of the workers are now jobless. It is really difficult for them to find alternative employment. - *A Worker of Sonali Jute Mill.*

The process of privatisation was started mechanically in our country. Privatisation of some mills has been done without solving the problems created in the mills during nationalised regime. Cutting off head should not be the solution of headache, rather, proper medicine should be given. Moreover, government has privatised the mill at a very cheap rate.' - *A Labour Leader*

'I was a mechanic of Ajax Jute Mill. I was living a reasonably good life while the mill was in operation. After the closing down of the mill, my wife got angry with me. She went to Dhaka to work in a garment industry. She does not keep contact with me as of now. I am here with three children. I now try to do whatever job is available. I pull rickshaw sometimes. I work as day labourers at times. And I pull cart sometimes. I am not able to send my children to school any more. ...'- *A Mechanic of Ajax Jute Mill*

## CHAPTER 7: IMPACTS OF AGRICULTURAL POLICY REFORMS<sup>18</sup>

### 7.1 Introduction

Some of the major reforms in the agriculture especially relating to input markets came about in the 1980's, though policy reforms continued into the 1990's. The present chapter begins with a note on performance of the agricultural sector and then traces changes in policies espoused by the Bretton Woods Institutions. The chapter, among others, focuses on crop sector profitability, labour market, food security and well-being. The present study provides estimates on changes in crop sector profitability over the reform period, estimating policy reforms pertaining to the (chemical) fertiliser and irrigation markets.

#### *Performance of Agriculture*

The growth of the agriculture sector as a whole has been impressive in the late 1990s, at 4.8 per cent per year compared to the long-term growth of 2.6 per cent per year since independence (Table 7.1). Acceleration of agricultural growth contributed to improved performance of the overall economy; the annual growth of GDP increased to 5.6 per cent in the late 1990s from 4.5 per cent in the early 1990s, and the long-term growth of 4.1 per cent during the previous two decades.

**Table 7.1: Performance of Agriculture**  
(Growth rate in per cent per year)

SECTOR	1997-98 to 1998-99	1995-96 to 1998-99	1990-91 to 1998-99	1973-74 to 1989-90
Agriculture	5.0	4.8	2.7	2.6
Crops	4.3	4.0	1.4	1.7
Forestry	4.1	4.2	3.8	3.8
Livestock	7.6	7.8	7.2	5.2
Fisheries	8.0	8.4	7.8	2.3
Non-agriculture	5.2	5.9	6.2	6.0
Gross domestic product	5.2	5.6	4.9	4.1

*Source: Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh, various issues; and Monthly Statistical Bulletin, December 1999, produced in Hossain (2001).*

The agricultural growth in 1990s was driven by the non-crop agricultural sectors, i.e., forestry, fisheries and livestock. The robust growth in the non-crop agricultural sector which became visible since the late 1980s. The growth in the crop sector stepped up to 4.3 percent, compared to 4.0 per cent for the late 1990s, and a complete stagnation in the early 1990s.

<sup>18</sup> The chapter is based on Zohir (2001), Hossain (2001), Murshid (2001) Rahman R (2001) and Rahman A *et al* (2001).

### Policy Reforms

Reforms in agriculture sector were initiated before the GOB contracted to structural adjustment. The import programme credits, beginning of 1980s, focused on increased production efficiency and insisted on market-oriented reforms (Table 7.2).

**Table 7.2: Policies related to Agriculture in Import Programme Credits**

IMPORT PROGRAM CREDIT	APPROVED	DISBURSED	JUSTIFICATION	SECTOR SPECIFIC POLICY ISSUES
IX	10/80	06/83	Shift of focus from industry and export promotion to agriculture. Support of policy reforms introduced or planned by the government to increase production efficiency and equity of foodgrain distribution. Provision foreign exchange for importation of raw materials, components and equipment to enable the industrial, construction and agricultural sectors to reach full production potential.	Greater budgetary allocation for minor irrigation, drainage and flood control; assurance of adequate supplies of diesel fuel and spare parts to ensure full operation of irrigation equipment; commission of project preparation study for the construction or additional bulk storage capacity for diesel in rural areas; provision of additional agricultural credit by the banking system; improvement of institutional shortcomings of the banking system – establishment of additional branches, training of staff, simplification of lending procedures, credit availability for fertiliser purchases, recovery of agricultural debts; greater involvement of the private sector in the manufacturing of minor irrigation equipment and of maintenance and repair services; liberalisation of anti-hoarding regulations and laws, provision of bank credit to private traders to build storage facilities and hold grain stocks, abolishment of the Approved Grain Dealers and standardisation of private market weights to improve the private sector's marketing efficiency in grains; commission of a study to determine the country's storage needs for foodgrains.
X	12/81	06/84	Support to increase the production as well as the efficiency and equity of foodgrain marketing and distribution. Expansion of the private sector role in import, domestic manufacture, sale and servicing of irrigation equipment to reduce the public sector involved in these activities.	Provision of incentives to farmers, reduction of price risks faced by the farmers and improvement in the distribution of key inputs to stimulate foodgrain production; stabilisation of foodgrain supply and consumer prices during lean seasons; reduction of subsidies for minor irrigation equipment; reduction of budgetary impact of the foodgrain subsidy and procurement.
XII	06/84	12/86	Further initiatives to improve the effectiveness.	Recovery of operating and maintenance costs from beneficiaries in major irrigation policies; improvement of utilisation and maintenance of minor irrigation equipment.

Source: Bhattacharya, D and Titumir, R A M (1998): *Towards demystifying a Process: The structural Adjustment Policies in Bangladesh*, Dhaka: SAPRI, Bangladesh.

The 1982 World Bank document *Bangladesh: Foodgrain Self-Sufficiency and Crop Diversification* notes that “Bangladesh’s agricultural strategy clearly must continue to place strong emphasis on raising foodgrain production”. It adds that the central thrust of the medium term food production plan (MTFPP) should be on “the provision of additional irrigation, drainage and flood control facilities” and “the complementary use of other modern inputs, such as fertilisers and HYV seeds, must continue to be increased simultaneously if the full potential of improved water management is to be realised.”

As far back in 1982, the Bank says that GOB had “initiated a policy shift towards greater reliance on private financial and managerial resources”. The WB document recommends vigorous pursuit of such policy, particularly in the areas of minor irrigation and input supply and distribution. Specifically, it mentions of “handing over responsibility for the procurement, marketing, servicing and management of minor irrigation equipment to the private sector, direct sale of pumps and tubewells to farmers and cooperatives, phasing out of seasonal equipment rentals, movement towards full-cost pricing for agricultural production assets and inputs, and vigorous extension training to improve farmer ability to extract the full potential from modern inputs”. Following policy advices, by 1982, the GOB had already taken measures to switch from the rental programmes for minor irrigation equipment to a sales programme, and had decided to subsequently move towards full-cost sales pricing (for STWs and LLPs). The report was critical of the practice of officially fixing both wholesale and retail prices for private dealers, and recommended an interim strategy “to fix the wholesale price, to ensure adequate supply at the wholesale level, and to allow market forces and dealer competition to take care of the rest”.

The 1990’s experienced further liberalisation (as shown in Table 7.3), especially in the trade sector, having important implications for the crop production. The Rural Rationing was withdrawn in 1991, largely restricting public offtakes of foodgrains through non-monetised channels and open market sales. Import of fertiliser by the private sector was allowed in 1992, with special credit support provided to the importers. During the same time, private sector participation in import of foodgrains was also opened up. The 1990’s is also marked by significant increase in mechanisation of crop production, induced by the liberal policy towards importation of farm machinery.

**Table 7.3: A Summary of the Structural Adjustment Policies Related to Agriculture and Food**

POLICY TARGETS	OBJECTIVES	STRATEGIES AND MEASURES	TIMING OF MEASURES
Public expenditure in agriculture	Improve operation and maintenance of existing and new agricultural infrastructure	Complete study on Operation and Maintenance (O&M) needs in irrigation, water management and flood control	1986/87
		Implement recommendation of study	1988/89
	Increase the scale and efficiency of public investment in agriculture and water resource management	Increase the share of public investment in agriculture and water resources and focus minor irrigation development.	1990/91 onward
	Expand private irrigation facilities	Ensure continued unsubsidised private sector role in distribution of minor irrigation equipment.	ongoing <sup>19</sup>
Institutional Reform	Greater private sector involvement in the distribution of agricultural inputs and equipment to farmers	Undertake comprehensive study to review the functions, operational role and organisation of BADC.	1986/87
		Increased private sector involvement in irrigation and fertiliser distribution.	1987/88*
		Reform BRDB activities to revitalise co-operatives.	ongoing
		Extend recent liberalisation of restrictions on imports, distribution and selling of minor irrigation equipment.	1990/91 onward
		Rationalise tax structure on agricultural equipment imports.	1990/91 onward
		Allow private sector imports of improved seed varieties.	1990/91
Food Policy	Improve public domestic procurement and distribution operation. Phase out subsidies, except Food for Work and targeted distribution programmes.	Implementation of action programmes based on the recommendations of the National Committee of Rationing as approved by GOB.	1986*
		Unify ration prices in various channels, further reduce subsidies and review open market sale policies.	1987/888* onward
		Introduce floor price for farmers and support it with effective domestic procurement.	1990/91 onward

<sup>19</sup> "Ongoing" without the year marked within the parentheses refers to reform measures that have started before the PFP for 1986/87-1988/89.

\*Supported under ongoing IDA policy credits and only mentioned in PFPs for 1986/87 – 1988/89 and 1988/89-1990/91.

Input distribution	Remove restrictions on private foodgrain imports, storage, and inter-district trade.	Raise rations prices, except for well-targeted programmes serving the poor. Remove restrictions on private grain storage and inter-district trade. Allow foodgrain exports, as agreed with food aid donors.	1990/91 onward 1990/91
		Permit foodgrain imports by private sector on same basis of official imports.	1992/93 onward
	Greater private sector involvement in the distribution of agricultural inputs and equipment to farmers.	Continue liberalisation of restriction on imports and distribution. Eliminate remaining subsidies on deep tube-wells.	1990/91 onward
		Reorient BADC's role from input supply to private sector support.  Existing tube-wells maintained on rental basis by public entities to be privatised and remaining subsidies on deep tube-wells to be eliminated.	1991/92 onward  1992/93 onward
Fertiliser Pricing Policy	Eliminate economic subsidy on fertiliser prices.	Elimination economic subsidy on fertilisers at the wholesale level.	1986/87 onward
		Quarterly reviews of fertiliser prices. Price adjustments at least twice each fiscal year to ensure that economic subsidy remains zero.	Ongoing*
		Adjust fertiliser prices in line with world market prices.	Ongoing (1990)
		Eliminate remaining restrictions on private traders.	ongoing (1988/89)

Source: Bhattacharya, D and Titumir, R A M (1998): *Towards demystifying a Process: The structural Adjustment Policies in Bangladesh*, Dhaka: SAPRI, Bangladesh.

## 7.2 Crop Sector Profitability

The general hypothesis is that policy reforms in the agricultural input markets led to lowering of prices of fertiliser and irrigation, which subsequently led to increase in their use, and thereby to increase in output and profitability.

Table 7.4 summarises the findings on changes in aggregate profit, expressed per hectare of land.<sup>20</sup> The figures capture changes in the crop mix, crop-specific yields, changes in input use, as well as changes in prices of output and inputs. While revenue had increased by 40 percent over a decade, net returns on a cash cost basis had increased only by about 17 to 20 percent. During the same period, crop-sector GDP at constant prices (1984-85) increased by about 33 percent. Over the period, dependence on purchased inputs – both labour and non-labour – increased; thus, cash returns to the farming households increased at a lower pace than growths in either quantum of production or

<sup>20</sup> Details on Crop-specific inputs and output, along with various measures of return from cultivating a unit of land are summarised in Tables B.2 to B.14 in Appendix B in Zohir (2001). The method of arriving at aggregate crop-sector profitability is outlined in Appendix C in Zohir (2001).

the total value of produce. Returns to aggregate crop cultivation on a full-cost basis however registered an increase of more than 75 percent. The latter is indicative of increase in the use of labour for non-crop (and possibly, non-farm) activities by the farming households.

**Table 7.4: Aggregate Financial Profitability Before and After SAP**

ITEMS	BEFORE <sup>A</sup>	BEFORE <sup>B</sup>	AFTER <sup>C</sup>	% CHANGE <sup>A,C</sup>	% CHANGE <sup>B,C</sup>
<b>Revenues</b>					
Gross Return I, Small	5947	13698	18835	216.7	37.5
Gross Return I, Medium	5677	13077	18144	219.6	38.7
Gross Return I, Large	5663	13043	17993	217.8	38.0
Gross Return I, All farmers	5755	13257	18410	219.9	38.9
Gross Return II, Small	6318	14552	19985	216.3	37.3
Gross Return II, Medium	6053	13942	19289	218.7	38.4
Gross Return II, Large	6040	13913	19151	217.0	37.6
Gross Return II, All farmers	6130	14120	19559	219.1	38.5
<b>Costs based on Crop-specific Input Prices</b>					
Cash Cost, Small	3255	6098	10044	208.6	64.7
Cash Cost, Medium	3079	5813	9575	210.9	64.7
Cash Cost, Large	3085	5816	9437	205.9	62.3
Cash Cost, All farmers	3134	5900	9750	211.1	65.3
Full Cost, Small	5554	11394	14579	162.5	28.0
Full Cost, Medium	5311	10953	13993	163.5	27.8
Full Cost, Large	5278	10867	13789	161.3	26.9
Full Cost, All farmers	5376	11066	14206	164.2	28.4
<b>Net Returns on Cash Costs Basis</b>					
Net Return I, Small	2692	7600	8791	226.5	15.7
Net Return I, Medium	2598	7264	8569	229.8	18.0
Net Return I, Large	2578	7228	8556	231.9	18.4
Net Return I, All farmers	2622	7357	8660	230.3	17.7
Net Return II, Small	3063	8454	9941	224.6	17.6
Net Return II, Medium	2974	8129	9715	226.7	19.5
Net Return II, Large	2956	8098	9713	228.6	20.0
Net Return II, All farmers	2996	8220	9809	227.4	19.3
<b>Net Returns on Full Costs Basis</b>					
Net Return I, Small	393	2304	4256	982.5	84.7
Net Return I, Medium	367	2125	4151	1031.9	95.4
Net Return I, Large	385	2176	4204	992.2	93.2
Net Return I, All farmers	379	2191	4203	1009.3	91.9
Net Return II, Small	764	3158	5406	607.8	71.2
Net Return II, Medium	742	2990	5296	613.6	77.2
Net Return II, Large	763	3046	5362	603.0	76.0
Net Return II, All farmers	754	3054	5353	610.4	75.3

*Note: 'a' is at 1979-81 average prices, while 'b' is based on 1990-91 prices  
Crop share before SAP is based on the Census of Agriculture and Livestock, 1983-84  
Crop share after SAP is based on the Census of Agriculture, 1996*

The relevant figures in 'a' were calculated from Tables B.2 & B.5 weighted by the share of the crop in the total cropped area.

The relevant figures in 'b' were calculated from Tables B.2 & B.6 weighted by the share of the crop in the total cropped area.

The relevant figures in 'c' were calculated from Tables B.3 & B.6 weighted by the share of the crop in the total cropped area.

Source: Zohir (2001)

Increase in crop-sector profitability has however dampened during the 1990's. A comparison with 1997-2000, upon changing a limited set of variables (on which information was available), shows net returns on per unit of land, in nominal terms, to have increased at the most by less than 1 percent on full-cost basis (Table 7.5). This is primarily because the wage rates have increased by more than 25 percent over the period; fertiliser costs have increased by more than 50 percent and irrigation costs have increased by about 10 percent. In contrast, the prices of most crop-sector produce have only marginally increased. In real terms, returns on land declined by more than 25 percent, which largely reflects the persistent decline in terms of trade against crop sector in Bangladesh. Given that physical quantity of output produced per unit of land did not increase significantly over the years, the finding on decline in real profitability of the crop sector during the 1990's remains valid.<sup>21</sup>

**Table 7.5: Changes in Crop-Sector Profitability beyond SAP**

ITEMS	1990-92	1997-2000	PERCENTAGE CHANGE	
			Nominal	Real
<b>Revenues</b>				
Gross Return I, Small	18835	21880	16.17	-21.43
Gross Return I, Medium	18144	21182	16.74	-21.04
Gross Return I, Large	17993	20874	16.01	-21.53
Gross Return I, All farmers	18410	21426	16.38	-21.28
Gross Return II, Small	19985	23030	15.24	-22.06
Gross Return II, Medium	19289	22327	15.75	-21.71
Gross Return II, Large	19151	22031	15.04	-22.19
Gross Return II, All farmers	19559	22575	15.42	-21.93
<b>Costs of production</b>				
Cash Cost, Small	10044	12018	19.66	-19.07
Cash Cost, Medium	9575	11482	19.92	-18.89
Cash Cost, Large	9437	11288	19.61	-19.10
Cash Cost, All farmers	9750	11676	19.76	-19.00
Full Cost, Small	14579	17623	20.88	-18.24
Full Cost, Medium	13993	16959	21.19	-18.03
Full Cost, Large	13789	16660	20.82	-18.28
Full Cost, All farmers	14206	17190	21.00	-18.16
<b>Net Returns on Cash Costs Basis</b>				
Net Return I, Small	8791	9861	12.18	-24.13
Net Return I, Medium	8569	9700	13.19	-23.44

<sup>21</sup> Note that our estimate on changes in profitability over the recent past is only suggestive and does not capture the changes in land productivity.

Net Return I, Large	8556	9587	12.04	-24.21
Net Return I, All farmers	8660	9749	12.58	-23.86
Net Return II, Small	9941	11012	10.77	-25.08
Net Return II, Medium	9715	10845	11.64	-24.50
Net Return II, Large	9713	10744	10.61	-25.18
Net Return II, All farmers	9809	10899	11.11	-24.85
Net Returns on Full Costs Basis				
Net Return I, Small	4256	4257	0.02	-32.35
Net Return I, Medium	4151	4223	1.74	-31.19
Net Return I, Large	4204	4214	0.23	-32.20
Net Return I, All farmers	4203	4236	0.77	-31.83
Net Return II, Small	5406	5407	0.02	-32.35
Net Return II, Medium	5296	5369	1.36	-31.43
Net Return II, Large	5362	5371	0.18	-32.25
Net Return II, All farmers	5353	5385	0.6	-31.96

*Note: Output per unit of land is retained at 1990-92 level. Output prices for main produce have been included. Irrigation cost for 1997-2000 has been arrived at by applying the ratio observed for MV Boro cultivation. Fertiliser prices and wage rates are not specific to crops in 1997-2000.*

### 7.3 Land Ownership, Tenural Arrangement And Wages

The changes in the structure of landownership indicate a trend of growing pauperisation rather than concentration of landholdings. At the other end, nearly 5.4 million households (46 per cent of rural households) were functionally landless (owning less than 0.2 hectare) in 1983-84; this number grew to 10 million (56 per cent) by 1996 (Table 7.6). The landless households increased by 3.6 per cent per year compared to 2.1 per cent for all rural households and 1.2 per cent for farm households. The number of households owning more than 3.0 hectare of land declined at over 3.0 per cent per year over the 1983-96 period.

**Table 7.6: Changes in the Distribution of Landownership, 1983-84 to 1996**

SIZE OF LANDOWNERHIP (ACRE)	1983-84		1996		ANNUAL RATE
	No. of Households(000)	Percent of Households	No. of households	Per cent of households (%)	
Nil	1,198	8.7	1,815	10.2	3.4
0.01 to 0.49	5,200	37.6	8,172	45.8	3.7
0.50 to 2.49	4,639	33.6	5,473	30.7	1.4
2.50 to 4.99	1,598	11.6	1,458	8.2	-0.8
5.00 to 7.49	650	4.7	541	3	-1.6
7.50 to 24.99	504	3.6	350	2	-3
25.00 & above	28	0.2	19	0.1	-3.2
Total	13,818	100	17,828	100	

*Source: Bangladesh Bureau of Statistics, Report of Agricultural Census, 1983-84 and 1996.*

The land tenure situation has also undergone substantial changes (Table 7.7). The composition of the owner and tenant farms has remained almost the same at 60:40 ratio. Most of the tenants are owner-cum tenants who have some land of their own, and rent-in some more land for better capacity utilisation of the farm establishments (family workers and draft animals). The average size of tenant holdings was higher than for owner holdings which was noted by all previous agricultural censuses including the 1960 census held in the era of Pakistani rule. The proportion of area under tenancy has, however, increased from 17 per cent of the operated area in 1983-84 to 22 per cent in 1996. This change may be due to an increase in area under absentee landownership with the rapid rural-urban migration of the rural population, and the abandonment of marginal landholding in favour of taking up rural non-farm occupations by the 'resource-poor' households.

There is also a dramatic change in the structure of tenure arrangements. The sharecropping tenancy, which provides disincentives to agricultural investments and the adoption of input-intensive new technologies, is giving way to different fixed-rent tenancy and medium-term leasing arrangements. The area under share tenancy has declined from 91 per cent of the tenanted area in 1960 to 74 per cent in 1983-84 and further to 62 per cent in 1996.

**Table 7.7: Changes in Land Tenure Situation, 1983-84 to 1996**

INDICATORS	1983-84	1996
Owner-farms (000)	6,239	7,250
Average size of owner farm (ha)	0.86	0.65
Tenant farms (000)	3,730	4,548
Average size of tenant holding (ha)	1.02	0.76
Land rented-in (000 ha)	1,541	1,837
Per cent of operated holding under tenancy	16.8	21.6
Area rented-in under share cropping arrangements (000 ha)	1,140	1,093
Area rented-in under fixed rent & other arrangements (000 ha)	400	672
Number of farm holdings (000)	9,969	11,797
Operated land area (000 ha)	9,180	8,181

*Source: Bangladesh Bureau of Statistics, Report of Agricultural Census, 1983-84 and 1996.*

A comparison of wage on irrigated and non-irrigated areas has been used to test whether the shift in labour demand has been translated into an increase in wage rate. While a comparison of cross sectional data can capture the impact of the increase in the use of irrigation, and other modern inputs, representing a major part of the changes associated with reform policies, a time series of wages rates can reveal the balance of the forces operating under the cover of economic reforms. Such forces not only include the labour demand arising from increased productivity in agriculture, but also the possible impact of transfer of labour to rural non-farm activities or to the urban areas.

Some of the cross sectional data on the impact of irrigation shows that a higher labour demand is reflected in a rise in wage rate (Muqtada and Alam 1986, Rahman 1980). Multivariate analyses have been carried out by some studies to isolate the impact of irrigation/modern variety on wage rate. Hossain in his early study (Hossain, 1988) obtained a positive coefficient of irrigation on wage rate. His later study (Hossain et al 1994) obtained an insignificant impact of irrigation on average wage rate for two seasons. Another recent study (Rahman, 1996) obtained a positive impact of irrigation on wage rate in the month when the irrigated crop in harvested, but not in the non-

irrigated seasons. As a result, the impact of irrigation on the total earning of wage labourers is not significant.

The differences in the empirical results on the impact of agricultural modernisation on wage rate is mainly due to the difference in how the 'wage' variable is defined: only for the peak agricultural season or as an average for different seasons. Even if the peak season wage rate rises significantly, it may not have a large impact on the earnings of labourers because the duration of the peak season is short.

A hypothetical calculation will make it clear that poverty will continue if the average value of real wages cannot be improved. Consider that an increase in employment takes place due to output growth associated with liberalisation, and a person gets wage employment for the whole year. At the prevailing average wage rate, she/he will be able to maintain a family of only two and half persons above poverty. In contrast, the current data shows that the average family size is larger than five persons.

There is a supporting data set on rural wage from a recent large scale survey which collected panel data ranging over a period of 5 years. This data (Table 8) set shows a slight decline in the rural real wage rate between 1989-90 and 1994-95. In 1994 a day's wage could support 2.54 persons above poverty level as compared to 2.68 persons in 1990. Wage rates provided by other sources (BBS 1998) show a larger decline in terms of poverty level income. Thus, whatever impact SAP had on agricultural growth, this had been insufficient to make an impact on real wage of labourers in the rural areas.

**Table 7.8: Rural Wage Rate and the Poverty Line**

YEAR	WAGE RATE (TAKA/DAY) BBS DATA	WAGE RATE (TAKA/DAY) FROM BIDS SURVEY	POVERTY LEVEL INCOME (TAKA/PERSON/D AY)	PERSONS SUPPORTED BY A DAY'S WAGE	
				BIDS	BBS
1990	31.4	34.0	12.67	2.68	2.45
1994	34.9	43.7	17.22	2.54	2.03

*Source: Rahman (1996) for col. 3, 5, BBS 1998 for col. (2)*

#### **7.4 Food Consumption**

The level of consumption of different food items reached in 1990s compared to the norms for achieving balanced nutrition can be seen from Table 7.9. It can be noted that the consumption of cereals has reached a level much higher than the minimum requirement; there is marginal deficit for tubers and vegetables and fish, but substantial deficits for pulses, oilseeds and livestock products.

**Table 7.9: Per capita consumption of different food items compared to the norm for having balanced nutrition, 1991-92 and 1995-96**

*(Grams per day per person)*

FOOD ITEMS	MINIMUM INTAKE REQUIRED FOR BALANCED NUTRITION	RURAL AREA		URBAN AREA	
		1991-92	10995-96	1991-92	10995-96
Rice	390	481	479	416	391
Other cereals	100	42	43	55	51
Tubers & vegetables	225	176	201	209	206
Pulses	30	17	13	22	19
Oils & fats	20	9	8	16	17
Spices	10	26	35	36	45
Fruits	50	16	25	23	39
Sugar/gur	10	9	9	11	10
Fish	45	32	42	48	52
Meat & eggs	34	12	12	20	30
Milk	30	18	27	23	36
Total	944	838	894	879	896

*Source: Bangladesh National Nutrition Council for the norm of minimum food intake required for balanced nutrition. Report of the Household Expenditure Survey, Bangladesh Bureau of Statistics for per capita food consumption in rural and urban areas, produced in Hossain (2001).*

## 7.5 Participatory Well-Being Analysis

The Participatory Poverty Assessment was done in three villages — intensively irrigated village (IIV), moderately irrigated village (MIV) and least irrigated village (LIV). The participatory well-being analysis (PWA) was conducted through the participatory ranking technique. The PWAs were conducted by the villagers themselves using the criteria set by themselves for collectively assessing the well-being status of each household of their village. The well-being of all the households of the villages were assessed by at least three groups of participants of each village using a set of mutually agreed criteria for the four economic categories of households, e.g. very poor, moderate poor, middle and well-off. Broadly, the former two groups constitute the poor category and the latter two are placed under the non-poor category. Using these criteria, the well-being status of each of the households was rated by all the participant groups on a 1-100 points scale. On the basis of the average score, each household was placed under either of the above four categories of households. The specific ranges of scores were defined as 1-25, 26-50, 51-75 and 76-100 for very poor, moderate poor, middle and well-off categories respectively.

Two poverty indices have been used to measure the status of well-being at the households level (i) 'category-wise household count index' of well-being (CHCI), and (ii) 'category-wise average well-being score' (CAWS).

Apart from the PWAs, some additional data were also collected through the village census to supplement the PWAs.

As measured by the 'category-wise household count index', the PWAs show that the overall prevalence of poverty declined over time in all the study villages regardless of the intensity of

irrigation coverage, but the reduction rate has been the lowest in the village where irrigation development has been the highest. The proportion of the poor households in the total dropped by 2.6 (from 66.7 per cent to 64.1 per cent) 4.4, (from 53.3 per cent to 48.9 per cent) and 2.97 (from 51.44 per cent to 52.47 per cent) percentage points over the last 10-12 years in the IIV, MIV and LIV respectively.

The condition of the very poor either worsened or they benefited the least over time in both the intensively and moderately irrigated villages. In terms of proportion of the households, hardcore poverty (very poor) worsened (from 37.2 per cent to 38.5 per cent) in the intensively irrigated village. The condition of the very poor improved in other villages, although very marginally (from 14.4 per cent to 13.3 per cent) and moderately (from 21.78 per cent to 17.82 per cent) over the 10-12 years in the MIV and LIV respectively.

Unlike hardcore poverty, moderate poverty improved in the intensively and moderately irrigated villages but not in the least irrigated village. The reduction rate for moderate poverty has been the highest in the village where irrigation coverage has also been at 3.9 percentage points compared to 3.3 percentage points over the 10-12 years. However, moderate poverty worsened in the LIV over the same time.

In terms of average well-being, the condition of the very poor worsened over time in all the three villages. The average well-being of the moderate poor improved only in the IIV but declined in the other villages. This implies that moderate poverty improved in terms of both number and average level of well-being in the IIV. However, moderate poverty improved in terms of number only but not in average well-being in the MIV. Moderate poverty, however, worsened in the LIV over the years.

The overall condition of the non-poor in general and the well-off category in particular improved in terms of both number and well-being over time in all the three villages, although at varying rates. The well-off category of both the IIV and MIV have been the gainers most compared to those of the LIV. The improvement in the condition of the well-being was found the highest in the IIV. This suggests that the well-off gained the most out of irrigation services, but the very poor appear to have gained almost nothing.

The inequality in well-being worsened in all the three villagers over time, although at varying rates. In terms of the ratio between the average scores of the well-off and the very poor categories, the well-being inequality was not only worst in the IIV, it worsened at the fastest rate in the IIV (from 5.6 to 6.8) as well in contrast to the other villages — from 4.5 to 5.1 and from 5.1 to 5.4 in the MIV and LIV respectively.

The results of the self-assessment by the household heads conducted in the IIV show that 46 percent of all the households believed that their condition had improved over the last 10-12 years whereas 47 percent were of the opinion that their condition had worsened over the same time. But the PPA results show that 14 percent of the households could cross over to the upper categories and 6.4 percent slipped to the lower categories with the rest remaining unchanged over time.

The results of the self-assessment also indicate that agriculture-related factors such as increased production; increased number of crops; increase in landholding; etc mainly contributed to the improvement in the condition of the households. On the other hand, demographic and social factors including large family size; fewer earning members; breaking up of the families; etc had negative impact on the condition of the households. The worsening condition of the households were also attributed to several agricultural factors such as small landholding; landlessness; increased cost of production, etc.

The perception of the poor participants of the IIV indicates that the crises that currently afflict them most are diseases; marriage, and rise in foodgrain price. Loss of job/unemployment; landlessness, and natural calamity were found to be minor now, although it had strong influence before in the village. The poor of the MIV currently face various crises that mainly stem from diseases; natural calamities; rise in foodgrain price; loss of cattle, and landlessness. Earlier, they used to face loss of job/employment, and dropping of agricultural production.

The poor households of the IIV usually resort to various coping mechanisms, eg borrowing from informal moneylenders (35 per cent of the borrowers); selling agricultural produces (15 per cent); selling trees (10 per cent); selling farm animals, borrowing from NGOs. Borrowing from NGOs is increasing but its share was found still too low (5 per cent) in the village. In the MIV, the major coping mechanisms presently wielded by the poor include borrowing from NGOs; selling agricultural produces; forward sale of labour, and dissaving. In the past, they resorted to other mechanisms, namely borrowing from moneylenders; borrowing from relatives/friends and forward sale of labour.

Regarding the safety net programme, VGD was found to be the major programme currently in operation in both the villages covering six and four households in the IIV and MIV respectively. The beneficiaries all were found from the very poor category. Besides, post-flood rehabilitation, and relief programmes were also found in operation at present benefiting only two households in the MIV.

Landless and land concentration, the two manifestations of the same pauperisation process, set in motion worsened over time in the study village. In the IIV, 31 per cent of land is presently concentrated in the hands of about 4 percent of the large farm households (5.0 acres +) in comparison to 29 percent of land owned before by 6 percent of the same class of households of the village. In the MIV, 3 percent of this class of large farmers presently own around 20 percent of land and there had been no large farm before in this village. In terms of farm size, the gap between the marginal and large farms is not only fantastic, it also worsened rapidly in both the villages. In the IIV, the ratio between the average farm size between marginal farm and large farm currently stands at 1:63, as against 1:27 before. The ratio for the MIV now runs at 1:37 in contrast to 1:16 before.

The increasing polarization process happened through large-scale land transfer over time in both the villages. Out of the total area of land sold in the IIV during the last 10-12 years the poor and non-poor households accounted for 51 percent and 49 percent respectively whereas they bought 16 percent and 84 percent of the land bought during the same time respectively in the village. Similar is the case with the MIV where the poor and non-poor sellers sold 53 percent and 47 percent of the land sold in the village over time compared to 2 percent and 98 percent of the land bought in the village by them respectively over the same time. This is how landlessness and land concentration worsened over time in the study villages.

The poor households sold land due to a variety of reasons. Poverty-related factors such as unemployment/hunger; obligation for credit repayment; repairing houses, etc compelled the poor households to sell their land. They were also found to sell land for meeting a number of social obligations such as marriage.

The increasing polarity between land-poor and land-rich households were found to have been facilitated by the PSI banks working in the study areas. Particularly in the IIV, bank finance was mainly channeled to the non-poor households for the acquisition of various assets relating to irrigation (STW/DTW), land preparation (power tiller), processing food and oil seeds (eg husking/grinding mill), etc. Apart from financing the procurement of capital goods, bank finance

was also provided for meeting the need for working capital relating to buying agricultural inputs. In addition, bank finance was used by the non-poor borrowers to buy land for re-lending as well. The land-rich farmers could increase the flow of their income by expanding and harnessing their resource base. The poor households, on the other hand, had to face a number of constraints in accessing bank credit. Although some of them could avail themselves of bank credit, corruption eroded the potential benefit to be derived from it. This is how bank finance lubricated the process of widening resource gap between the poor and non-poor, between the land-poor and land-rich households of the study villages.

The intensively irrigated village witnessed a worsening trend in both food deficit and food insecurity over time. Both the participatory assessment by the agricultural workers of the IIV and the individual self-assessment show that the prevalence of food-deficit increased over time. However, the assessment conducted by the poor farmers of the MIV revealed that the prevalence of food deficit declined over time in the village. Based on the relative importance of the coping mechanisms used over time targeting at food-insecurity, the self-assessment indicates that the proportion of food-insecure households increased over time in both the villages. The use of those type of mechanisms such as borrowing to buy food; liquidating household assets; undergoing starvation; mortgaging out of land; depending on the handouts; gathering foodgrains on the field, etc were found to have been on increase in both the villages. These mechanisms were wielded more in the MIV than in the IIV. But in the absence of the views of the several stakeholders on the issue, the finding cannot be cross-checked. However, the increased demand for informal loan for buying food in the IIV also confirms the worsening trend in food insecurity over time.

## **7.6 Some Observations**

The present study raised the problem in periodisation in order to adequately assess the impacts of structural adjustment policies on the crop sector profitability in Bangladesh. The present exercise shows that net returns from crop products increased in 1990-92 period and declined in the late 1990s.

Increase investment in irrigation opened up several new concerns, which needs to be adequately addressed in the future. They include,

- Current practice of irrigation through flooding of land promotes rice cultivation, and in the absence of appropriate design of field channels, cultivation of minor crops in association with rice within the same command area has not been in vogue. Thus, increased dependence on minor irrigation has led to increase in the extent of monoculture practice in the crop sector. We have also observed that revenue from rice production has declined in real terms; and it is necessary to promote other crops in order to reverse the trend.
- Excessive extraction of ground water is believed to have led to drying out of aquifers during the dry season. In parts of the country, this has led to digging the well deeper, and often switching from shallow to deep tubewells. Such technological switch necessitates significant institutional rearrangements. Moreover, irrigation with deep tubewell at the latter's economic price, is yet to prove financially viable. These two aspects remain to be resolved in the future.
- Extraction of ground water, in excess of the natural recharging capacity of the aquifers, is also believed to have led to the arsenic problem, which is considered to be a major health

disaster during the recent past. It is therefore important to bring in balance between the alternative uses of water and between alternative sources of water.

- On withdrawal of subsidy, the experience shows that there had always been two opposite views, upheld by the World Bank and the GoB, without any party ever engaging in any major confrontation. GoB was able to continue its subsidies on imported fertiliser until 1992; and is alleged to continue with implicit subsidy on urea through administration of mill-gate prices. Unfortunately, the debate was never based on meaningful reference prices. In the specific context of Bangladesh, where urea is locally produced and MoP and part of TSP are imported, it is necessary to define the objectives of a price policy (including tax and subsidy) more explicitly. Simplistic reference to the world price is no less dubious than an ad hoc continuation of subsidy on fertiliser on political ground. In future, it is therefore important to resolve this issue, not only within the context of the crop sector, but also upon taking cognizance of the externalities that fertiliser use cause for other sub-sectors of the economy.
- Private sector participation in procurement and distribution of fertiliser gave rise to several vices of the market forces. Two noteworthy ones are, (i) since the content of any particular fertiliser is not visible, it has been easy for profit-seeking firm to fool the customers and sale poor quality fertiliser (say, TSP) at a price normally associated with higher quality fertiliser; and (ii) due to differences in demand for fertiliser across seasons and across space, market segmentation (across time and space) and oligopolistic pricing has often been observed.<sup>22</sup> Effort by the current Minister for Agriculture in regulating the market forces through persuasion and threat (to cancel dealership) is generally perceived to have been effective. In future, it is important to institutionalize regular monitoring of the market forces and regulate market forces, which deviate from fair play.
- The policy focus on fertiliser had largely dealt with three major types of fertiliser – urea, TSP and MoP. The concern with environmental degradation due to fertiliser use and due to more intensive cultivation of land requires future policies to address use of micronutrients as well.

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<sup>22</sup> An extreme consequence of which was observed during the fertiliser crisis of 1994-95.

## CHAPTER 8: CONSEQUENCES OF ADJUSTMENT POLICIES ON THE POOR<sup>23</sup>

### 8.1 Introduction

There was no sectoral specification regarding poverty in the first PFP (1986/87-1988/89). In response to wide-ranging criticism, a section related to poverty was added in the second PFP (1988/89-1990/91) though focus remained the same: achieving macroeconomic balances and acceleration of economic growth through greater reliance on markets. The strategies and measures proposed in PFPs (Table 8.1) are neither comprehensive nor programmatic like policies related to liberalisation and have been bundled together to shun widespread criticism. Poverty rolled in to CAS 1995 and 1998 A special report was prepared for detailing out the strategies for 'making the poor count' (WB 1998a). The range of policy agenda for poverty alleviation suggested by the Bank in its CASs is rather narrow and traditional in content. They do not take into account the possibility of adopting policies for redistribution of assets, and for reducing the inequality.

The Bretton woods view is that the acceleration of the growth of the economy has a poverty reducing impact and growth induced by reforms and its impact on poverty may materialise with a lag. The chapter reviews the trend of poverty incidence to test the hypothesis of 'lagged improvement.' The chapter also envisages comprehending impact of SAP on the wage labour market since an overwhelming majority of the wage labourers are poor. Since the majority of wage labourers are outside the purview of formal market, the chapter will also focus on the linkages effect in relation to poverty. Labour retrenchment associated with privatisation is an integral part of SAP in Bangladesh. It is argued that demand contraction policies erode the income flows of the poorer sections of the society, the chapter will also analysis social sector expenditure (health) and the access of services for the poor. A general approach for most sections of the chapter is to consider mid-eighties as the beginning of SAP, the late eighties as the early adjustment period and the nineties as the later period of adjustment.

**Table 8.1: Summary of the Structural Adjustment Polices Related to Poverty Alleviation<sup>24</sup>**

POLICY OBJECTIVES	STRATEGIES AND MEASURES	TIMING
Raise living standards of lowest income groups.	Target subsidies to lowest income groups.	Ongoing (1988/89)
Improve the efficiency at public expenditure for poverty alleviation. <sup>25</sup>	Provide full funding for high priority programmes to improve and expand primary health and family planning.	1989/90 onward
	Target subsidies and government programmes to lowest income groups. Expand employment opportunities through FFW, minor crop diversification programme, small and cottage industries, and non-traditional export sector.	Ongoing (1990)
Develop institutional framework for poverty	Further Streamline project clearance process for NGOs; establish foundation to channel funding to NGOs and	1990/91 onward

<sup>23</sup> The chapter bases on the background paper, Rahman R (2001).

<sup>24</sup> There was no sectoral specification regarding poverty in the first PFP (1986/87-1988/89). It first appeared in the second (1988/89-1990/91). This section was renamed "Human Resources and Poverty Alleviation" in PFP for 1990/91-1992/93.

programmes.	strengthen existing programme of BRDB and improve development impact of targeted food aid programmes.  Reform co-operative system.	1990/91 onward
Develop human resources	Raise budget allocation for health, education, and family planning.	Ongoing (1988/89)
Develop institutional framework.	Examine role of government organisations; reform co-operative system; expand access of assetless to formal credit institutions.	1988/89* onward

Source: Bhattacharya, D and Titumir, R A M (1998): *Towards Demystifying a Process: The Structural Adjustment Policies in Bangladesh*, Dhaka: SAPRI, Bangladesh.

## 8.2 Estimates of Poverty

The existing research on poverty trends demonstrate a lack of concern about the contrasting trends of poverty estimates provided by various sources. The Table - 2 shows the BBS estimates based on 'direct calorie intake' (DCI) method and the estimates based on 'cost of basic needs' (CBN) method used by WB 1998b. The following aspects of the trends of poverty are worth highlighting:

1. There has been a decline in head count ratio of poverty (HCR) between 1983-84 and 1995-96. Both World Bank and BBS estimates show such decline.
2. According to WB estimates, the decline in HCR of poverty took place between 1991-92 and 1995-96. Before this period, poverty in fact increased. BBS estimates based on DCI show a different timing of the improvement of poverty situation: between 1983-84 and 1988-89 the decline had taken place and after that the poverty situation remained virtually unchanged.
3. Use of the CBN method does not ensure that similar magnitude or even similar trends of poverty will be obtained in the studies conducted by different researchers. Depending on the 'basket' and the price index, not only the magnitude, but also the trend of HCR may vary. This is illustrated by the findings of WB and Ravallion and Sen. Between 1988-89 and 1991-92, the percentage of urban poverty showed an increase in the former but a decline in the latter.

**Table 8.2: Trends in Rural and Urban Poverty, 1983/84 to 1995/96 (head count ratio)**

YEAR	WORLD BANK (1998)			BBS (VARIOUS YEARS)		
	Rural	Urban	National	Rural	Urban	National
1983/84	59.6	50.2	58.5	61.9	67.7	62.6
1985/86	53.1	42.9	51.7	54.7	62.6	55.7
1988/89	59.2	43.9	59.1	47.8	47.6	47.8
1991/92	61.2	44.9	58.8	47.6	46.7	47.5
1995/96	56.7	35.0	53.1	47.1	49.7	47.5

<sup>25</sup> This objective was added in PFP for 1990/91-1992/93.

It is difficult to reconcile the contrasting picture of poverty obtained by the CBN and DCI methods. Observation 2 mentioned above implies that the improvement in the income poverty during the nineties has not been transformed into an actual improvement in the calorie consumption. The improvement in the 'command' over the bundle of basic needs may not be translated into improvement in the standard of calorie intake due to lack of knowledge about nutrition requirement and due to a variety of social problems like addiction to smoking, drugs etc. The contradiction becomes even more glaring when one compares the urban figures in the two estimates. In the WB estimates urban poverty decreased between '91-'92 and '95-'96 by about 10 percentage points, whereas the DCI estimates show an increase during this period. The following explanations may underlie this discrepancy:

- a) The obvious explanation will be that the urban poor spend a significant part of income on non-basic needs. When income increases, urban poor may increase the proportion of income spent on these items. Though one has to stretch ones imagination to visualize a scenario where this would take place at the cost of a decline in food consumption.
- b) It is conceivable that lack of education in general and absence of knowledge of nutritional requirement may result in inadequate calorie intake. But it is unlikely that with an upward shift in income, calorie intake will decline.
- c) An alternative explanation of this contradiction (rising poverty in terms of calorie and falling poverty in terms of expenditure required for command over basic needs) lies in the changes of prices of food and non-essential non-food. A price index of non-food basic need expenditure is incorporated into the calculation of the poverty line. But the actual consumption pattern may include a much larger percentage of non-food and non-essential non-food (e.g. smoking), especially in the urban areas. If the prices of these items increase more than in proportion to the price index of the package of non-food basic needs basket, and the quantity consumed remains fixed, then the allowance for food and thereby the actual calorie intake may decline. Thus a comparison on the basis of CBN is not free from the biases built in the baseline 'consumption basket' and/or price vector.
- d) Another factor contributing to the observed trend is that the household expenditure in HES survey include imputed expenditures for many items. Total expenditure may show an increase due to the increase in the value of these items. More specifically, many of the urban poor living in slums construct their own shacks on the public land. No rent is paid for these dwelling units of the 'owner-occupant' whereas, those who rent a room in a slum pay the 'market rent'. Such market price would be imputed for the owner occupants. When the market rent of these slum houses rise, so does the imputed expenditure and the total expenditure of the owner-occupants. However, there is no means for transforming this increment of expenditure into calories.

The above discussion suggest that the controversy on methodology of poverty measurement and data quality cannot be resolved simply through the use of CBN method. . The WB report (1999) claims superiority of CBN method and takes the view that Household Expenditure Survey Report (BBS 1999) provides estimates on the basis of DCI method, just to ensure comparability with the previous report. Since none of the methods are satisfactory, a combination of CBN and DCI methods should be used in poverty analysis, the former providing a hypothetical picture and

the latter providing the actual, in terms of calorie intake. Moreover, the BBS method provides a consistent estimate of poverty which ensures comparability over time, even though the welfare implication is narrow.

According to BBS estimate, poverty declined by 15 percentage points between FY84 and FY96 and according to WB estimates, the decline has been 5.4 percentage points. According to BBS, most of the improvement took place between 1983-84 and 1988-89. According to WB estimates, the substantial improvement took place between 1991-92 and 1995-96 and claims that the fruits of economic reform policies are shared by the poor who have been able to prepare themselves to respond to the new economic opportunities.

There are some methodological problems in making direct long-term comparison of poverty incidence for the period 1973-74 to 1995-96. However, the data for 1973-74 and 1981-82 are comparable and 1983-84 and 1995-96 are comparable. The difference in the rate of poverty reduction is so large between the two periods that most researchers agree that 'the incidence of poverty declined at a faster rate in the first period than in the second period' (BIDS 2000).<sup>26</sup>

### ***Human Poverty***

BIDS (2000) shows that Human Poverty index has undergone a sharp decline between 1983 and 1997 (Table 3). A larger improvement in 'human poverty' accompanied by a much smaller decline in income poverty estimates' has the following implications:

- a) An improvement in human development is not being translated into higher income. This may be due to the lack of opportunity for productive utilisation of human capital.
- b) An increase in HPI may have taken place through improvement in the situation of the non-poor. In that case, this may have a positive impact on income of this group which will not have a poverty alleviation impact.

Therefore, the substantial increase the value of HPI is a positive feature of the development of the country, but it cannot be used as a sufficient indicator of an improvement in the situation of the poor.

**Table 8.3: Changes in Human Poverty Index**

YEAR	VALUE OF HPI	PERCENTAGE POINT CHANGE IN HPI PER YEAR
1981-83	61.3	
1993-94	47.2	- 1.41
1995-97	40.1	- 2.37

*Source: BIDS (2000) and author's calculations*

## **8.3 Labour Market And Poverty**

### ***Urban Wage and Employment***

Wage liberalisation is advocated on the ground that the minimum wage policies and public sector wage policies have a negative impact on competitiveness through their positive impact on formal

<sup>26</sup> The same view has been expressed by Azizur Rahman Khan in his recent public lecture on Globalization, delivered on September 12, 2000 at BIDS.

private sector wages. Minimum wages for many industries have not been revised during the recent years<sup>27</sup> due to the emphasis on reducing government intervention in the labour market by the proponents of liberalisation with the belief that the market will be distorted and the government lacks administrative capacity to enforce minimum wages. The inflationary pressure during these years, however, led to increases in market wage rates, exceeding the minimum wages.

If wage rate indices in urban of FY82-FY86 (pre-reform), FY86-FY90 (early years of economic reforms) and FY-90-FY94 (later period of reforms) are compared, a clear slow down of the growth in wage indices is visible (Table 8.4). During the three periods wage indices in manufacturing increased by 23, 13 and 6 percentage points. In the construction sector the changes have been 6, 13 and -7 percentage points. Thus the deceleration in wage rate in both formal and informal sectors has been substantial during FY90-FY94. The average annual change in wage rates between FY80-FY86 and between FY86 -FY97 have been 4.7 and 3.0 percentage points respectively, showing a diminishing growth trend.

**Table 8.4: Wage Rate Indices in Urban Sectors (1969-70 = 100)**

YEAR	CONSTRUCTION	MANUFACTURING
1979-80	94	74
1980-81	96	80
1981-82	94	79
1982-83	99	82
1983-84	99	95
1984-85	91	91
1985-86	100	102
1986-87	106	109
1987-88	117	108
1988-89	120	110
1989-90	113	115
1990-91	107	114
1991-92	104	113
1992-93	109	119
1993-94	106	121
1994-95	100	121
1995-96	105	123

*Source: BBS, Statistical Yearbook of Bangladesh (various years)*

Conventional wisdom predicts that an increase in employment is associated with the slower growth of wage rate. This did not materialise as the manufacturing sector failed to absorb the

<sup>27</sup> Most awards of minimum wages were revised last time in 1986.

'surplus labour' from rural areas. Employment expansion did not even keep pace with the growth of urban population. Rather, there has been an absolute decline in the size of labour force employed in the manufacturing sector (Table 5). The decline has been partly due to the retrenchment of the workers of the industrial units privatised during this period.

Even though industrial growth accelerated during some years of early nineties, there has not been parallel increase for employment. The burden of the growing labour force in the urban areas has been borne by the informal sectors like community and personal services, trade & hotels and construction. Wage rate index in some of these sectors fell during the latter period under consideration.

**Table 8.5: Average Annual Growth Rate of Employment by Industry and Gender**

MAJOR INDUSTRY	1990-91 (000)			1995-96 (000)			ANNUAL GROWTH RATE %		
	Both sex	Male	Female	Both sex	Male	Female	Both sex	Male	Female
Total	50159	30443	19716	54593	33762	20831	1.8	2.2	1.1
Agri. Forestry, fisheries	33303	16560	16734	34530	18382	16148	0.7	2.2	-0.9
Mining & quarrying	15	15	-	23	22	1	10.7	9.3	100.0
Manufacturing	5925	4240	1685	4085	2586	1499	-6.2	-7.8	-2.6
Electricity, gas, water	40	39	1	103	90	13	31.5	26.1	240.0
Construction	525	485	41	1015	936	80	18.7	18.6	19.0
Trade, hotel & restaurant	4285	4162	123	6060	5573	488	8.3	6.0	59.3
Transport, storage, comm.	1611	1600	11	2380	2263	45	9.5	8.1	61.8
Finance, business Services	296	284	12	213	197	16	5.6	6.7	6.7
Community and Personal services	1909	1647	262	5092	3343	1748	33.3	20.6	113.4
Household sector & not adequately defined	2249	1411	838	1163	369	794	-9.7	-14.8	-1.1

*Note: Details may not add to totals due to rounding. Source: LFS (Various years).*

The trends described above have transmitted serious negative implications for poverty. A deceleration of wage rate in manufacturing had occurred but the optimism that '... by expanding opportunities for formal employment, reforms would benefit the vast majority of the poor' (WB 1995) has not been transformed to reality.

### ***Rural Labour Market***

The increase in demand for labour is assumed to result from the cultivation of modern rice varieties, encouraged through the impact of liberalisation of imports of shallow tube wells (STWs). A comparison of wage on irrigated and non-irrigated areas can show whether the shift in labour demand has been translated into an increase in wage rate. Some of the cross sectional data on the impact of irrigation shows that a higher labour demand is reflected in a rise in wage rate (Muqtada and Alam 1986, Rahman 1980). Hossain (1988) obtains a positive coefficient of irrigation on wage rate while (Hossain *et al* 1994) finds an insignificant impact of irrigation on average wage rate for two seasons. Another recent study (Rahman, 1996) shows a positive impact of irrigation on wage rate in the month when the irrigated crop is harvested, but not in the non-irrigated seasons. As a result, the impact of irrigation on the total earning of wage labourers is not significant.

The differences in the empirical results on the impact of agricultural modernisation on wage rate is mainly due to the difference in how the 'wage' variable is defined: only for the peak agricultural season or as an average for different seasons. Even if the peak season wage rate rises

significantly, it may not have a large impact on the earnings of labourers because the duration of the peak season is short.

A hypothetical calculation will make it clear that poverty will continue if the average value of real wages cannot be improved. Consider that an increase in employment takes place due to output growth associated with liberalisation, and a person gets wage employment for the whole year. At the prevailing average wage rate, s/he will be able to maintain a family of only two and half persons above poverty. In contrast, the current data shows that the average family size is larger than five persons.

In a situation of shrinking formal sector employment (employment opportunities in the manufacturing sector had declined) and stagnant real wage rate, rural wages rate will be subject to a downward pressure.<sup>28</sup>

Wage rates show a larger decline in terms of poverty level income (BBS 1998). A recent large-scale survey, which collected panel data ranging over a period of 5 years, shows a slight decline in the rural real wage rate between 1989-90 and 1994-95 (Table 8.6). In 1994 a day's wage could support 2.54 persons above poverty level as compared to 2.68 persons in 1990. Thus impact the SAPs had on agricultural growth had been insufficient to make an impact on real wage of labourers in the rural areas.

**Table 8.6: Rural Wage Rate and the Poverty Line**

YEAR	WAGE RATE (TAKA/DAY) BBS DATA	WAGE RATE (TAKA/DAY) FROM BIDS SURVEY	POVERTY LEVEL INCOME (TAKA/PERSON/D AY)	PERSONS SUPPORTED BY A DAY'S WAGE	
				BIDS	BBS
1990	31.4	34.0	12.67	2.68	2.45
1994	34.9	43.7	17.22	2.54	2.03

*Source: Rahman (1996) for col. 3, 5, BBS 1998 for col. (2)*

### ***Retrenchment and Poverty***

Privatisation of state owned enterprises (SOE) is an essential element of SAP and associated retrenchment is popularly viewed as poverty and sufferings enhancing. During 1995-1997 about 89 thousand workers have been retrenched and another sizable part of labourers are awaiting retrenchment, resulting from upcoming privatisation (ILO 1999). Given the government salary scale and the definitions of income poverty level, most of them are above poverty threshold during their employment. The retrenched labourers are a significant percentage of employed workers, though the number is not a significant percentage of the total population of the country. Moreover, such workers are in most cases likely to be the head and/or the major earning member of households.

Had the retrenched workers' households plunged into poverty as a result of retrenchment? The answer to this question is contingent upon on two factors: whether (and how soon) they found new employment and whether the amount of compensation received was used for gainful income.

<sup>28</sup> WB (1996) simulation of the impact of a rise in minimum wage produced the pessimistic scenario that rural real wage will decline by 2.5 per cent if urban wage rate increases (by 50 per cent) through a minimum wage legislation. As shown below, without any such move, rural real wage has declined during some of the recent years.

55 per cent of the retrenched workers are above age 50. Only because of age, they will have little prospect of getting new jobs. Few of these workers are below age 35 (ILO 1999). Only 4.4 per cent of retrenched workers are non-production workers in the category of officers managers etc. ILO (1999) uses indirect evidence to conclude that about 60 per cent of the retrenched employees are illiterate and their overall educational levels are low as the profile of skill and educational level of the workers are not available. Low education and possession of experience related to only the current job reduces the chances of getting new employment. Low education also implies that they come from poor households since there is a negative relationship between poverty and education.

Retrenched workers' compensation, popularly known as 'golden handshake,' is expected to help them generate a future stream of income. Whether this will be sufficient to enable them to live above the poverty threshold (not to speak of maintaining the current level) will depend on the amount of compensation and how this is utilised. Data on compensation received by workers retrenched from some of the jute mills are presented in Table 8.7.

**Table 8.7: Compensation Received by Retrenched Workers of Jute Mills**

AGE OF WORKERS (YEARS)	AMOUNT (TAKA) RECEIVED PER WORKER
35-50	44,000
50 +	80,000

*Source: ILO (1999).*

Even if we exclude severe allegations of non-receipt of compensation and the general attitude of settling outstanding social obligations or financial liabilities, the entire amount received as compensation, (in fixed interest bearing national saving schemes with say, 12% rate of interest), would earn about Taka 800 per month from an investment of Taka eighty thousand.<sup>29</sup> Which is not even 25 per cent of the final wage of the worker earning about Taka 3500 per month. If they invest in some self-employment activity and generate 25% profit annually, the income will be much lower than the poverty threshold.

A training course of short duration has been organised for the retrenched workers of the jute sector. Between November 1995 and November 1997, about 88 hundred workers were trained in 28 trades. This constitutes a small percentage of the workers retrenched and most of the trainees considered that the course was inadequate to help them in generating income through self employment. Thus on the basis of indirect evidence, the future of the retrenched workers does not appear as poverty-free.

The retrenched workers described health related problems and lack of means for seeking health care services among the most important forms of sufferings. During employment, the workers used to avail the free/subsidised health services provided by the employers. Thus, these workers may not be counted as poor on the basis of minimum calorie requirement because they may use the compensation money to maintain their basic consumption level. Nonetheless, the sufferings and insecurity faced by these workers should not be ignored simply because they are not below the poverty threshold by the commonly used criterion. Even if they are not enumerated as poor households, immediately after retrenchment, they are likely to join the rank and file of poor

<sup>29</sup> World Bank comments on the draft paper mentioned that 'the information we have is that the separation, pay received by jute sector employees was about Taka 106 thousand'. The difference of 26 thousand does not change the arguments presented here.

households after a few years. Discontinuation of education of the children and the declining health standard of earning members may also imply an increase in the number of 'tomorrow's poor.'

#### 8.4 Public Expenditure and Poverty

There is a strong view that the SA policies affect the poor through the adverse impact on public expenditure, an opposing view also prevails. According to this view, increase in public expenditure is not the only way to improve the access to social sector facilities and standards. Moreover, it may be argued that an increase in public expenditure may not be sufficient for improving services for the poor. The proponents of this view argue that in developing countries like Bangladesh, the government action in the health sector is neither efficient nor equitable. The inefficient allocation of resources in the social sectors may result from the bureaucratic interventions and from the biases among the powerful groups of service providers. These groups may be driven not by the motivation for maximising the health care services for the poor but by the considerations of prestigiousness of the projects.

The PFPs for Bangladesh opted for raising the expenditure in the social sectors as a strategy for alleviation of poverty. There were, however, no policy based lending in social sectors. The sector-wide approach, Health and Population Sector Programme (HPSP), recently initiated carries the principle laid down in SAPs. It is, however, early to make an examination of the impacts it has leaving on the poor. The chapter, thus, limits to the analysis of public expenditure in the health sector and the benefits availed of such expenditure by the poor households.

Public sector expenditure on health in both current and constant prices increased at a significant rate during FY81-FY85 (before adjustment), FY86-FY90 (first phase) and FY-91-FY95 (second phase). The rate of increase is, however, not uniform: the growth has been 20%, 13% and 18% respectively (Table 8.8). In constant prices there has been a clear deceleration in the growth of health sector expenditure, the average annual growth has been 6%, 5% and 3% respectively during the three periods.

**Table 8.8: Public Expenses in Health Sector in Current and Constant Price (1984/85=100)**

(Tk. In Crore)

PERIOD	TOTAL EXPENSES		AVERAGE ANNUAL INCREASE	
	Current Price	Constant Price	Current Price	Constant Price
1980-81	129.22	197.0		
1981-82	149.25	205.8		
1982-83	167.07	212.8	19.7%	6.0%
1983-84	209.65	233.2		
1984-85	256.43	256.4		
1985-86	260.96	237.6		
1986-87	304.11	249.5		
1987-88	364.22	277.6	13.3%	4.7%
1988-89	382.04	270.3		
1989-90	434.86	293.3		
1990-91	521.95	321.8		

1991-92	549.29	325.0		
1992-93	730.39	431.6	18.5%	3.1%
1993-94	887.38	500.9		
1994-95	1005.21	537.9		

Source: Begum and Sen (2000) and author's calculations

### **Access to Public Health Services**

A number of studies conducted at different points of time show that poor households have greater access to public health care services. WB (1990) provide the following data (Table 8.9). The expenditure was estimated on the basis of a per cent of households availing the services and the cost of providing services to an individual. In the rural areas, the ultra poor receives about double of the expenditure of non-poor households. The pro-poor bias is observed to be much higher in the urban areas.

**Table 8.9: Gross Health Service Expenditure Incidence by Income Group**

INCOME GROUP	EXPENDITURE/HOUSEHOLD (TAKA)	
	Urban	Rural
Ultra Poor	821	90
Poor	476	85
Not poor	93	44
Average	293	67

Source: WB (1990)

Recent data (Begum and Sen 2000) on the per capita health expenditure from public sources among the decile groups (of per capita income) show that the amount is higher in the lowest decile group, compared to most of the higher deciles. However, the decline is not continuous. The fifth and tenth decile show even higher incidence of public health expenditure.

The above estimates, however, are subject to the bias that a larger per cent of the poor households are subject to sickness episodes at a particular point in time (Table A.4). Therefore, data on what percentage of sick persons from the poor and non poor receive treatment from public hospitals should be considered along with the analysis of incidence of expenditure. Though such data is not available for the poverty based groups, data from rural households, classified by land ownership can be used as a substitute. Land ownership is strongly correlated with poverty, and more than 80 per cent of the landless and marginal landowning households live below the poverty threshold. The lowest land ownership group, a substantially higher percentage of the sick persons obtained treatment from government health care centres.

It is however to be seen whether the service obtained by the poor continue to remain high in the government-operated health outlets as a result of massive restructuring that has been initiated under HPSP.

## 8.6 Concluding Remarks

The improvement in poverty situation has been rather small in comparison to what is required. The World Bank document (WB 1998b) on the changes in poverty trend has not shown sensitivity to the contradictory and contrasting evidence on estimates of poverty incidence obtained by various studies. The WB estimates, using CBN method and based on BBS data, show a decline of poverty by 5.7 percentage points between FY92-FY96 while BBS, applying DCI method using the same set of data, estimates a decline of poverty between FY84-FY89 and stagnation during FY89-FY96. Poverty declined at a faster rate during the pre-reform period FY-74-FY82 (1.29 percentage point per year) compared to the post reform years FY84-FY96 (0.92 percentage point per year).

The wage labour market has been one of the important channels through which the SAP related factors contributed to the worsening of poverty. Government's reluctance to intervene through the minimum wage legislation process led to stagnation in real wage in most sectors (and a decline in some of the informal sectors) without accompanying increase in employment in manufacturing. Since poverty is concentrated among the wage labourers, these processes have adversely affected the poverty situation.

Information on labour retrenchment and data on the average compensation of jute mill workers shows that such retrenchment works as a poverty accentuating factor. Even if the retrenched workers do not immediately plunge into poverty in terms of 'poverty level expenditure',<sup>30</sup> they become vulnerable and may be considered as tomorrow's poor.

Health sector expenditure did not decline, although the growth of such expenditure, especially in real terms decelerated during the adjustment period. Poorer sections obtained a larger share of the public sector health services, although this may be due to the poorer quality of such services which results in a preference for private and paid services among the richer households. Moreover, during the early nineties, the increase in government's health sector expenditure was possible through a reallocation of budget, which may not be feasible in future. Furthermore, the impact of health sector reform is yet to be discerned as the sector-wide programme, HPSP has recently been initiated.

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<sup>30</sup> The retrenched workers are likely to use the compensation money to maintain the minimum consumption requirement

**Annex Table 8.1: Alternative Estimates of Poverty Using CBN Method**

YEAR	HEAD COUNT RATIO	
	Rural	Urban
1983/84	53.8	40.9
1985/86	45.9	30.8
1988/89	49.7	35.9
1991/92	52.9	33.6
1995/96	51.1	26.3

Source: Ravallion and Sen (1996)

**Annex Table 8.2: Estimates of Extreme Poverty by DCI Method**

YEAR	HEAD COUNT RATIO		
	Rural	Urban	National
1983/84	36.7	30.4	36.7
1985/86	26.3	30.7	26.9
1988/89	28.6	26.4	28.4
1991/92	28.3	26.3	28.0
1995/96	24.6	27.3	25.1

Source: BBS (Various years)

**Annex Table 8.3: Comparison of Poverty Trends between FY74-FY 82 and FY84-FY96**

	PERCENTAGE POINT CHANGE PER YEAR	
	1973-74 to 1981-82	1983-84 to 1995-96
Urban	2.97	2.93
Rural	1.10	0.40
National	1.29	.92

Source: BIDS 2000

**Annex Table 8.4: Morbidity Rate among Households in Various Income Groups**

ANNUAL HOUSEHOLD INCOME (TAKA)	MORBIDITY RATE
00001 – 06000	14.8
06001 – 12000	13.2
12001 – 24000	11.3
24001 – 36000	11.2
36001 – 60000	9.3
60001 – 84000	6.6
84001 +	8.1
All	11.1

Source: Khan (1994)

**Annex Table 8.5: Sick Persons from Various Landowners who Received Treatment from Government Medical Centres**

LAND OWNERSHIP	PER CENT OF SICK PERSONS WHO RECEIVED TREATMENT FROM GOVERNMENT MEDICAL CENTRES
00	17.5
0.1 - .50	13.2
.51 - 1.00	11.6
1.01 - 1.50	14.7
1.51 - 2.50	11.0
2.51 - 5.0	8.4
5.01 +	8.0

*Source: Khan (1994)*

## CHAPTER 9: IMPACT OF STRUCTURAL ADJUSTMENT POLICIES ON WOMEN<sup>31</sup>

### 9.1 Introduction

Gender concerns were incorporated much later, appeared in the second PFP (1988/89-1990/91). The approach is sectoral, and lacks macro perspective (Table 9.1).

The Strategy Paper on Women and Development (WB 1990b) devises a strategy for mainstreaming women in to development activities, but how gender concerns are not seen from macroeconomic perspective. This is a serious omission in the context of SAP, since most of the policies undertaken under SAP relate to macro policy, and significantly alters the socioeconomic environment for women. Thus the focus of SAP on growth and efficiency, withdrawal of the state from key areas, focus on private sector development and de-regulation, trade liberalisation, adequacy of safety nets, all need to be evaluated for their impact on women. Trade liberalisation and privatisation policies have had a significant impact on employment and earnings of women. Greater import penetration of the rural economy has directly affected women producers in the handloom and other small-scale sectors, as has privatisation policies leads to widespread labour retrenchment. Women have also been indirectly affected by loss of male jobs and reduction in family earnings. In agriculture, women are affected by changes in the system of distribution of inputs such as fertiliser, seeds, and irrigation, as well as agricultural extension advice. Women are traditionally involved in homestead gardening, and have also been increasingly involved in farming in recent years, so that policy changes in agriculture have implications for women.

The other significant gap is in terms of squarely addressing the issue of gender differential in earnings though it is implied by the differential access to productive resources, and differential attainment in terms of education and training. The differential however is as much due to market segmentation factors as well as attitudinal variables, restricting women's participation in the economy to certain sex stereo-typed jobs and occupations. These structural constraints have been ignored in designing SAP.

**Table 9.1: Summary of the Structural Adjustment Polices Related to Women<sup>32</sup>**

POLICY OBJECTIVES	STRATEGIES AND MEASURES	TIMING
Enhance role of Women in development <sup>33</sup>	Expand programmes for income generating activities by women through training, increased access to credit and technical assistance.	1989/90 onward
	Increase access of girls to primary and secondary education by increasing number of female teachers, providing adequate facilities for girls, and providing scholarships for girls at secondary level.	1989/90 onward

<sup>31</sup> The chapter is based on Khundker (2000).

<sup>32</sup> There was no sectoral specification regarding poverty in the first PFP (1986/87-1988/89). It first appeared in the second PFP (1988/89-1990/91). This section was renamed "Human Resources and Poverty Alleviation" in PFP for 1990/91-1992/93.

<sup>33</sup> There was no sectoral specification regarding women in any PFPs nor was mentioned in the first PFP (1986/87-1988/89) and second PFP (1988/89-1990/91). This section was first incorporated in PFP for 1990/91 - 1992/93.

## 9.2 Effect of SAPS on Labour Market

In the case of Bangladesh, structural constraints such as gender segregation of the labour market have limited women's participation in formal manufacturing employment both in extent and type. There is also segmentation by tasks, so that women are relegated to the low-skill low-wage segment within an occupation or industry, including agriculture. Both demand and supply side factors are also important in explaining the limited participation of women, where besides cultural and attitudinal norms, women's disadvantaged status within the household, in terms of education and training, and access to productive resources, all militate against them.

The specific impact of SAP on women's employment and earnings are therefore not as much due to policies constraining aggregate demand in the short-run, or as a result of long-run growth, as to re-allocation of resources, mainly to the export-oriented sectors. Women, especially rural women, have also been adversely affected by the import penetration of the economy, due to import liberalisation, and policies encouraging privatisation of state-owned enterprises (SOEs).

Census of Manufacturing Industries (CMI) data for instance show that female employment as percentage of total employment in all industries covered by the CMI increased from 3.04 per cent in 1985-86 to 15.29 per cent in 1991-'92. There has therefore, been a net increase in women's employment in formal manufacturing over the SAP period. As is well known, this increase is again due to the growth of the readymade garments (RMG)<sup>34</sup> and apparels industry, which according to the CMI data accounted for approximately 68 per cent of total female employment in those industries covered by the CMI in 1985-'86, rising to over 69 per cent by 1991-'92. According to BGMEA statistics, the RMG industry employed 1.5 million workers in 1997-98, 90 percent of whom were women.

The CMI data also show decline in women's employment in hand-loom textiles, from 2,323 in 1985-86 to 2,309 in 1988-89, though there is an upward trend again from 1989-90 to 11,704 workers. The decline has been particularly sharp from 1985-86 to 1987-88.

Further gender disaggregated data is needed for retrenched workers in SOEs, particularly jute and cotton textiles, to get a clearer picture of the effect on women's employment. However, women are affected not only through direct loss of jobs but indirectly through loss of jobs and earnings of their husbands. Some estimates by the ILO (1999), collected from different Corporations and Monitoring Cell of the Ministry of Finance, Government of Bangladesh, show that a total of 89,971 workers lost their jobs in the six sector Corporations till 30 June, 1997, and major retrenchment occurred during 1991-96. A further 88,612 workers were also to be retrenched due to privatisation in the next two to three years. Among the retrenched workers, 42 percent are skilled, 22.5 percent semi-skilled, and 28 per cent are unskilled, while officers constitute 4.87 to 7.3 per cent of the total.

Women directly losing their jobs are likely to be in the unskilled category. A survey of 1,000 workers by the National Wages and Productivity Commission 1998 finds that on average there were 1.2 earners per worker household, so that workers losing their jobs mean a major income loss for

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<sup>34</sup> Growth of the readymade garments industry in Bangladesh was partly due to a secured market owing to multi fibre arrangement (MFA) and incentives provided by the government such as "back-to-back" letters of credit extended by commercial banks, and bonded warehouse facilities were key factors in promoting the fast growth of this industry. Under the former, the exporters of RMG are able to import fabrics and accessories against export orders, easing the working capital needs of entrepreneurs. Under the latter arrangement, RMG units can access imported inputs at zero-tariff. It is apprehended that the global environment will become intensely competitive for Bangladesh with the abolition of quotas after 2005 and imposition of a more liberal world trade regime. This may negatively affect female employment in the RMG industry in Bangladesh.

their families. Most retrenched workers also find employment in the informal sector or with reduced wages in the private sector. Till now, very few training schemes for alternative employment have been arranged for retrenched workers. The PRA exercises conducted as part of SAPRI show that women face even fewer alternative job opportunities once they lose their formal sector jobs in mills and factories affected by privatisation or import liberalisation. The PRA findings also show that job loss and reduced family earnings exposed women to a greater degree of violence, abandonment, and led to reduced expenditure on housing, health, and education of children.

It should in addition be emphasised that interventionist measures such as provision of credit and other inputs, as well as organisational support, by Grameen Bank and other NGOs have significantly increased self-employment of women, mostly in rural areas in the last two decades. Thus the proportion of the self-employed women in the non-agricultural sector increased from 15.9 percent in 1983-84 to 63.1 percent in 1990-91 (LFS 1983-84, 90-91). This indicates the relative importance of interventions, as opposed to SAP led market liberalisation measures, in improving the well being of women.

### ***Wages and Working Conditions***

Most of the women employed in the readymade garments industry are young, between 15-24 years of age, and are migrants from rural areas. This new export-oriented industry is also in the non-unionised sector, and offers lower standards in terms of occupational safety and health. Women work long hours, including overtime and night work, sometimes without weekly holidays, and also face other problems such as arrears in terms of payment of wages. A number of fire hazards in this industry have led to loss of lives, highlighting the poor standards in terms of occupational safety, which is again due to the fact that factories are mostly located in the heart of cities and are not functionally built.

The nominal wages for garments workers varied from Taka 300 for helpers, to Taka 500 for semi-skilled workers to Taka 800 for skilled workers in 1985 (Bhattacharya and Rahman 1999). Over time however, real wages have increased in all categories, the increase being highest for skilled workers (40% from 1980-1997, as against a 24% increase for helpers (see Table 2).

**Table 9.2: Trend in Nominal and Real Wage in Garments by Skill Category**

<b>Error! Bookmark not defined.</b>		Taka per month						
Worker category	1980	1985	1988	1990	1993	1997	% change (1980-1997)	
Trainee/helper								
- Nominal	130	300	400	500	500	500	-	
- Real	195	300	267	337	296	242	24.10	
Semi-skilled								
- Nominal	300	500	600	800	1000	1000	-	
- Real	423	500	420	540	591	484	14.42	
Skilled								
- Nominal	500	800	1000	1500	1800	2200	-	
- Real	760	800	762	1012	1064	1065	40.13	

Source: Bhattacharya and Rahman 1999.

These wages are less than in other formal manufacturing industries, and the wages of helpers in particular correspond more to informal sector wages.

BBS data also shows that the real wage index in 1991-92 was only 84 in wearing apparel (1985-86=100), compared to 98 in textile manufacturing, 99 in leather, 127 in paper, 143 in food manufacturing, etc. Moreover, UNIDO data show that from 1981 to 1992, labour productivity in the apparel industry increased by around 14 per cent, compared to a wage increase of only 11.5 per cent. The expansion of female employment in the RMG industry has some positive features as many of the workers were previously unemployed or were in domestic service, where wages are lower and lesser scope for upward mobility. Nevertheless, wages and working conditions in this industry are worse compared to other formal sector industries.

Whether the earnings of different categories of women workers similarly declined due to SAPs, particularly because of import penetration and fall in domestic demand, is an issue of concern. The percentage of paid women workers earning less than Taka 150 per week declined and adverse effect of SAP were perhaps not pronounced between 1983-84 to 1990-91, in both urban and rural areas (Table 9.3). Similar data on earnings of small producers is however needed to validate these findings. Self-employed hand-loom workers have been badly affected due to import penetration as well as technological displacement in recent years. There is data (BBS) on looms which are not operational, but these are not gender disaggregated by ownership and nor there is data on earnings.

**Table 9.3: Weekly Earnings of Paid Workers During the Reference Week**

Error! Bookmark not defined. Weekly earnings (Tk.)	1983-84				1984-85			
	Urban		Rural		Urban		Rural	
	M	F	M	F	M	F	M	F
Below 50	2.6	26.9	5.9	42.6	1.1	10.6	3.5	28.6
50 - 99	12.5	40.3	34.3	42.3	5.8	31.5	23.0	38.8
100 - 149	20.3	18.1	33.3	9.4	14.6	27.1	36.1	18.1
150 - 199	20.4	4.8	13.9	2.1	14.8	9.4	15.8	9.0
200 - 249	16.3	4.8	8.2	1.8	17.5	6.3	12.9	4.0
250 - 299	7.3	2.8	1.7	1.2	12.3	5.8	3.5	0.6
300 & above	20.6	2.5	2.5	0.5	33.9	9.3	4.6	5.2

Error! Bookmark not defined. Weekly earnings (Tk.)	1990-91			
	Urban		Rural	
	M	F	M	F
Below 50	24.5	19.5	61.5	18.8
50 - 99	3.0	19.0	2.3	20.8
100 - 149	3.5	18.5	5.2	14.6
150 - 199	2.2	6.0	4.1	3.2
200 - 249	3.4	4.6	4.0	2.3
250 - 299	7.0	4.6	5.1	1.7

300 & above	56.4	27.8	17.8	8.7
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Source: BBS, Statistical Yearbook, various years.

Real daily wage rate (without food) has risen from 1.07 in 1980-81 to 1.27 in 1984-85 for female agricultural labourers (Table 9.4). The daily wage rate for women agricultural workers was also 36.59% of 3.5 seers of rice in 1981-82 rising to 42.01% in 1984-85 (Table 5). The wage rates for women are also seen to be 40-50 per cent of those of men.

**Table 9.4: Average Wage Rate (without food) of Agricultural Labourers**

Year	Daily wages rate (without food) of agricultural labour			Real daily wage rate (without food) of agricultural labour (1969-70 constant prices)		
	Both sex	Male	Female	Both sex	Male	Female
1973-74	6.60	6.69	3.23	2.61	2.65	1.28
1974-75	8.93	9.05	4.73	2.19	2.22	1.07
1975-76	8.70	8.82	4.26	2.29	2.32	1.12
1976-77	8.81	8.93	4.31	2.31	2.34	1.13
1977-78	9.31	9.44	4.56	2.11	2.14	1.03
1978-79	10.73	10.88	5.25	2.21	2.24	1.08
1979-80	12.29	12.46	6.02	2.19	2.22	1.07
1980-81	13.78	13.97	6.75	2.19	2.22	1.07
1981-82	15.27	15.48	7.48	2.15	2.18	1.05
1982-83	16.82	17.05	8.23	2.22	2.25	1.09
1983-84	19.31	19.58	9.46	2.32	2.35	1.13
1984-85	24.21	24.54	11.85	2.59	2.63	1.27

**Table 9.5: Daily Wages of Agricultural Labour (without food) as percentage of 3.5 seers (33.27 KG) of Rural Price of Rice (Coarse)**

Year	Daily wage rate (without food) of agricultural labour (Tk. per person)			Rural price of rice (Coarse) per seer (In Tk.)	Daily wages as percentage of 3.5 seers of rural price of rice		
	Both sex	Male	Female		Both sex	Male	Female
1978-79	10.73	10.88	5.25	3.92	78.21	79.30	38.27
1979-80	12.29	12.46	6.02	5.28	66.50	67.42	32.58
1980-81	13.78	13.97	6.75	4.56	66.34	87.53	42.29
1981-82	15.27	15.48	7.48	5.84	74.71	75.73	36.59
1982-83	16.82	17.05	8.23	6.31	76.18	77.22	37.27
1983-84	19.31	19.58	9.46	6.99	78.96	80.05	38.68
1984-85	24.21	24.54	11.85	8.08	85.82	86.99	42.01

*Note: Under the minimum (rural) wage ordinance, daily rural wage rate should not be less than the going market price of 3.5 seers of (coarse) rice. A comparison has been made here between the trends in wage rates and rural prices of coarse rice.*

*Source: BBS, "Socio Economic Indicators of Bangladesh", July, 1986, p.90.*

The nominal wage rates for both sexes of agricultural labourers rose from 13.97 Taka/day in 1980-81 to 31.15 Taka/day in 1988-89 and 31.19 in 1990-91. In 1996-97, it rose to Taka 38.04/day. Thus in the 1990s, nominal wages rose by 22 per cent. In the 1980s, nominal wages rose by 123 per cent. We can expect that gender differentials in wages have been maintained, and this is validated by the PRA findings. One important informal sector occupation for women is in construction, especially brick breaking. The real wage rate indices in construction declined from 120 in 1988-89 to 114 in 1997-98.

The data thus show very modest gain in wages of women workers over the SAP period, with a decline in real wages in some sectors.

The PRA findings give some additional insight on the changes in rural areas. It has shown that female wage employment has increased only marginally. This only slight increase in demand for female labour was due to the change in crop mix away from crops for which there was a significant demand for female labour (processing of aus paddy and jute), and a general decline in labour demand due to mechanisation.

Female labour market participation was also found to be fairly low. In terms of homestead gardening, a traditionally women's activity, there has been some increase, but again as a result of NGO and Department of Agricultural Extension (DAE) activities. The range of problems identified for increased participation in this activity was inadequate land and scarcity of good quality seeds, which it seemed the market had failed to provide, affecting productivity. The PRA findings similarly show an increase in poverty-focussed activities which include gathering fuel, collecting water, constructing/repairing house in the study villages for both men and women. The findings also show an increased workload for women in terms of participation in traditional household, market-related and expenditure saving activities. The PRA findings thus suggest the socioeconomic environment for poor women to have changed in important ways in rural areas over the SAP period, some of which could be attributed to SAP related measures such as more intensive irrigation due to liberalisation of imports of irrigation equipment, and change in cropping mix and intensity, and others due to NGO interventions. While the capabilities of poor women were enhanced in terms of greater income earning opportunities, more involvement in decision making at the household and farm level, there may have been a decline in overall well-being due to the increased workload and accompanied stress.

### **9.3 Effects on Education and Health of Women**

In the case of Bangladesh, a trend growth rate of 4.8 per cent was maintained throughout the period 1981-1995 for primary school enrolment, 5.7 per cent in secondary education, 10.9 per cent for college education, and 7.7 per cent for university education (Khundker & Kibria 1999). There achievement in the growth rate of female enrolment may be attributed to special measures such as free tuition up to Class VIII and stipends, and introduction of a non-formal primary education program in collaboration with NGOs. The primary school enrolment rate in 1996 was 86 per cent for girls and 90 per cent for boys. However, dropout rates are still fairly high, and student-teacher ratios have steadily increased, affecting the quality of education.

In the Bangladesh, excepting schools in metropolitan cities, education is almost entirely publicly provided, and the share of private contribution in the form of fees as percentage of total expenditure is very negligible, and lower for tertiary compared to primary education. Thus the impact of introduction of user fees and charges is not very relevant. Public expenditure on education varied from 12-17 per cent of the recurrent budget over the period 1981-1996, and was in the range of 3 per cent to 9 per cent of the development budget in most years, from 1981-1994.

It is, however, to be mentioned that there was no sector-wide approach nor any policy based lending programme was in operation which essentially contain elements of standard SAP package. Therefore, it is hard to establish a direct causal linkage.

Existing studies (Rahman and Ali 1996; Begum and Sen 1998) show that since 1981-82 to 1992-93, the percentage of GDP spent on health, population control and family planning increased modestly, and has remained at under 1 per cent of GDP. Over the same period, percent of the revenue budget spent on health remained at 6-7 percent, and at around 2 percent of the development budget.

Despite these modest increase in expenditure, some improvements were attained in terms of reducing the gender disparity in life expectancy at birth, which increased from 51.6 years for males in 1974 to 56.5 years in 1991, and for females from 49.7 years in 1974 to 55.7 years in 1991. There were similar improvements in the maternal mortality rate and access to safe drinking water and sanitation, the latter due mostly to the contribution of NGOs.

It is, however, to be mentioned that period mentioned above did not follow any sector-wide approach nor any policy based lending programme was in operation which essentially contain elements of standard SAP package. It is yet to be seen how the sector-wide approach based programme, Health and Population Sector Programme (HPSP) initiated recently impact on the poor and women. It is to be further studied in the view that how poor and women benefit from conditionality driven HPSP, especially during the pre-HPSP period the government of its own increased spending, though less than required rate has increased spending in the sector.

#### 9.4 Food Availability, Food Consumption, and Adequacy of Safety Nets

While there has been a steady decline of food and input subsidies over the SAP period, there has been some provision for safety nets such as the Food for Work and VGD programme for poor rural women. The PRA exercise in two villages however find such pro-poor programmes to be very limited in coverage. Thus the combined effect of these have to be evaluated in terms of food prices, expenditure on food and consumption, as well as achievement in terms of nutrition, over the SAP period.

BBS data show that the index of per capita food-grains consumption including minor cereals declined from 105.9 in 1982-83 to 100.7 in 1985-86, rising to 107.6 in 1991-92, again falling to 103.2 in 1995-96 (Table 9.6).

**Table 9.6: Net Availability and Per-capita Availability of Foodgrains for Domestic Consumption**

Error! Bookmark not defined.	Net availability of foodgrains excluding minor cereals for consumption ( '000 'M.tons ) (d)	Per capita consumption of foodgrains excluding minor cereals (Quantity)	Net availability of foodgrains including minor cereals for consumption ( '000 'M.tons ) (f)	Per capita consumption including minor cereals (Quantity)

		(kg. per annum)	(kg. per day)	Index (e)		(kg. per annum)	Index (e)
1982-83	16678	178.4	0.49	106.5	16723	178.9	105.9
1983-84	17109	183.6	0.50	108.7	17143	179.6	106.3
1984-85	17899	169.8	0.47	102.2	17932	183.9	108.9
1985-86	16878				16906	170.1	100.7
1986-87	18022	177.6	0.49	106.5	18043	177.8	105.3
1987-88	18182	175.8	0.48	104.3	18266	176.7	104.6
1988-89	18684	177.1	0.49	106.5	18766	177.9	105.3
1989-90	19489	181.3	0.50	108.7	19571	182.1	107.8
1990-91	19981	182.3	0.50	108.7	20061	183.0	108.3
1991-92	20169	181.1	0.50	108.7	20238	181.7	107.6
1992-93	19215	169.7	0.47	102.2	19281	170.3	100.8
1993-94	19910	169.2	0.46	100.00	19981	169.8	100.5
1994-95	20742	173.0	0.47	102.17	20812	173.6	102.8
1995-96	21215	173.8	0.48	104.35	21283	174.3	103.2

Note: (a) Estimated population as on 1 January. (b) Deduction for seeds, wastage, etc. has been taken as 2.43% of total production of rice and 3.01% of total production of wheat (Master survey of Agriculture). (c) Deduction for seeds has been taken as 2.5% of total production. (d) Net availability of foodgrains-(net production-internal procurement)+ off take from ration distribution. (e) Five years average from 1965-66 to 1969-70=100. (f) Minor cereals include barley, jowar, bajra, ragi and other cereals.

Source: National income, B.B.S.

The district wise CPI for rural families also show a rising trend for food prices. The CPI for food in Dhaka district for instance rose from 449 in 1988-89 to 652 in 1997-98. The general CPI, including food, fuel and lighting, housing and household requisites, clothing and footwear and miscellaneous items also show a similar rising trend (from 480 in 1988-89 to 722 in 1997-98 for Dhaka district). The base year for this CPI is 1973-74 (Table 8). For an earlier period, the CPI for food for rural families in Dhaka district rose from 250 in 1981-82 to 433 in 1987-88, and the general CPI rose from 261 to 454 over the some period.

A child Nutritional survey conducted by BBS in 1992 show that the prevalence of wasting for girl children aged 6-71 months declined from 9.5 percent in 1985-86 to 6.6 percent in 1992, while the prevalence of stunting declined from 57.6 percent to 47.6 per cent over the same period. The nutritional status was also found to be worse in rural areas, and somewhat better for boys compared to girls (Table 7 and 8). The PRA findings similarly show a decline in food security and very sluggish reduction in the rate of poverty. The available data thus do not indicate any substantial improvement in the position of the poor, including that of poor women over the SAP period.

**Table 9.7: Prevalence of Wasting (Acute Malnutrition for Children aged 6-71 months)**

ERROR! BOOKMAR	NATIONAL		RURAL		URBAN	
	Girls	Boys	Girls	Boys	Girls	Boys
1985-86	9.5	6.8	9.8	6.8	7.1	6.7
1989-90	9.2	8.1	9.4	8.2	7.6	7.0
1992	6.6	7.4	6.6	7.7	6.2	4.8

Source: Child Nutritional Survey, BBS.

**Table 9.8: Prevalence of Stunting (Chronic malnutrition for Children Aged 6-71 months)**

ERRO R! BOOK	NATIONAL		RURAL		URBAN	
	Girls	Boys	Girls	Boys	Girls	Boys
1985	57.6	54.8	59.1	56.3	46.1	42.4
-86	51.3	50.8	52.3	52.1	42.0	42.5
1989	47.6	43.8	48.6	44.9	39.8	35.1
-90						
1992						

Source: Child Nutritional Survey, 1992, BBS.

The PRA findings suggest some regional variation in consumption of food and other basic needs. Consumption declined in the intensely irrigated village for both men and women, with gender differentials having been maintained. Women were found to be better off in the moderately irrigated village in terms of consumption of basic needs, particularly clothing and medical services, with gender differentials having narrowed down over time. The main factor appears to have been interventionist measures, such as access to NGO credit and other services.

## 9.5 Conclusion and Recommendations

It appears from the review that the SAP design and framework have not adequately address gender issues. It also ignores structural features and constraints, treating the economy as one undifferentiated market. The gender strategy papers of the World Bank similarly ignore the macroeconomic policies and their impact on women, especially the effects of privatisation and liberalisation on wages, working conditions, employment, food security and well being of women.

SAP-led measures such as greater export-orientation of the economy have increased women's employment in the formal manufacturing sector, particularly in the RMG industry and the export processing zones. This occurred in the context of a protected global market for apparels and special incentives provided by the government.

This gain in employment has however to be weighed against lower job quality, wages and occupational safety in the export-led RMG industry.

On the other hand, structural adjustment measures have led to widespread retrenchment of workers, including women workers, for whom there has been very little alternative job creation. This welfare aspect was completely ignored in the design of SAP. Women agricultural workers are found to be similarly displaced due to changes in crop-mix, while hand-loom producers have faced greater underemployment and loss of earnings due to greater import competitiveness of the economy.

It is important to recognise that in the context of Bangladesh, interventionist measures such as the micro-credit programmes of Grameen Bank and other NGOs have made an important impact in terms of increasing the income opportunities of women through self employment.

During the period social sector expenditures has not negatively impacted women since public expenditure on education and health were not reduced by government. The expenditure on health has however been very low, and there is need to focus on quality and outcomes in both the education and health sectors.

The social safety nets at present are found to be limited in coverage, and not enough to counterbalance the impact of withdrawal of food and input subsidies.

The recommendations which follow are to continue the prioritisation in social sector spending, particularly, expenditure on health, and improving the quality and access to education and health care for women as the sector is undergoing massive restructuring due to recently initiated sector-wide approach, HPSP.

Similarly, industrial restructuring should not only focus on privatisation or rationalising the labour force, but also on modernising the capital equipment, better supply of raw materials including electricity, improved management practices and better industrial relations to increase productivity and efficiency of the industries concerned. While both men and women workers would stand to gain from such policies, there is need to devise additional schemes for displaced women workers in urban and rural areas. On the other hand, a much better focus has to be given to improving working conditions in the new export industries, mainly employing female labour, such as the RMG industry.

In conclusion, it can be stated that an appropriate macro policy regime should be focussed not only on efficiency, but also on equality. Efficiency again does not imply simply a change of ownership i.e. privatisation, but a much wider set of measures including better regulation of markets, and organisational support and interventions in support of women.

## CHAPTER 10: CONSEQUENCES OF ADJUSTMENT POLICIES ON ENVIRONMENT<sup>35</sup>

### 10.1 Introduction

Environment as a policy objective was incorporated much later, first in the third PFP for 1990/91 – 1992/93 (Table 10.1), last but one in the series. The strategies and measures suggested are general, although policies pursued under SAP has been impacting upon the environment through many channels.

The domain of SAP is very broad and may not be always well defined, so are its impact on environment. Instead of commenting in general on externalities aroused from pursuing certain set of SAP or the package as whole, the chapter captures impact on environment of SAP by analysing two key objectives i.e. increasing food production and pursuing an export-led growth strategy.

It is hypothesised that excessive emphasis on (rapidly) increasing yield has led to excessive use of fertilisers. On the other hand current input pricing policy distorts related prices of various types of fertilisers (say between phosphatic and nitrogenous fertilisers as we will see later) resulting in the use of an unbalanced mix of fertilisers. Such pricing policy may have led to use of spurious fertilisers as well. Liberalisation of imports may also have resulted in excessive use of fertilisers or use of spurious fertilisers or use of an unbalanced mix of fertilisers. Thus excessive use of fertilisers, use of spurious fertilisers and their use in inappropriate mix may have caused land degradation as reflected in a decline in micro nutrient and erosion of soil fertility.

The second set regarding shrimp management policy relates to the specific structural adjustment policies of promotion of non-traditional exports and privatisation. Availability of cheap labour and supply of a product of nature helped shrimp producers and exporters to benefit from market opportunities outside. Shrimp culture in the coastal region of Bangladesh has resulted in many negative environmental consequences. One of them is increased salinity of soil and the other is loss in biodiversity, resulting from shrimp seed collection and throwing away of by-catches.

**Table 10.1: Summary of Structural Adjustment Policies Related to Environment<sup>36</sup>**

POLICY OBJECTIVES	STRATEGIES AND MEASURES	TIMING
Protect quality of environment.	Prepare environmental impact assessment for major new projects during Fourth Five-Year Plan. Streamline capacity of Ministry of Environment and Forests to direct environmental policy.	1990/91 onward
	Review pricing and administrative procedures affecting the use of natural resources and modify to reflect sound economic principles.	1990/91 onward

*Source: Bhattacharya, D and Titumir, R A M (1998): Towards Demystifying a Process: The Structural Adjustment Policies in Bangladesh, Dhaka: SAPRI, Bangladesh*

<sup>35</sup> The chapter is based on Toufique (2000)

<sup>36</sup> This policy objectives was first incorporated in PFP for 1990/91 – 1992/93.

## 10.2 Fertiliser Policy and Environment

Though the “era of adjustment” started in Bangladesh from mid-1980s with policy based lending of the World Bank and contracting of the Structural Adjustment Facility with the IMF, as reforms in the agricultural policy in general and fertiliser policy in particular began in 1983/1984 when Bangladesh Agricultural Development Corporation (BADC) withdrew from the retail and wholesale markets for fertilisers, abolished the licensing requirement for the fertiliser dealers and so on. There are direct and indirect impacts of SAP: direct impact relates to changes brought to the use of fertiliser whereas indirect impact relates to use of budgetary savings.<sup>37</sup> Table 10.2 draws the timeline for the process of the liberalisation in the fertiliser market in Bangladesh.

**Table 10.2: Timeline for the Liberalisation of the Fertiliser Market in Bangladesh**

TIME SPAN	ACTIONS	PRE OR POST LIBERALISATION?	COMMENTS
1963	EPADC or East Pakistan Agricultural Development Corporation was formed to procure and distribute fertilisers	Preliberalisation	
1977-78	- BADC became the dominant player. Fertiliser distributed through transit, intermediate warehouses and TSCs - Private dealers got license to sell in a restricted area - Prices fixed by government - Private dealers had to maintain registers	Preliberalisation	Numerous problems associated with excessive bureaucratic control
1978-83	BADC withdrew from retail and wholesale markets	Postliberalisation	
1982-83	Licensing requirements abolished and restrictions on movement removed	Postliberalisation	
1982-84	Deregulation of fertiliser price	Postliberalisation	Competitive market started to develop
1989	Private traders allowed to purchase directly from factory gates and port points	Postliberalisation	
1992	Free import from world market	Postliberalisation	

Source: Extended version of Ahmed (1998)

Ahmed (1995) measured the impact of input market reforms on the production of rice in Bangladesh by using a multiequation model in which a dummy variable distinguished between pre and postliberalisation periods and estimated that reform measures contributed to approximately 20 to 32 per cent of the increase in production. This increase is primarily attributed to the impact of reform on fertiliser consumption and private sector irrigation development.

In 1979-80 the extent of budgetary subsidy on fertiliser was US\$83m. This amounted to 28% of total development expenditure on agriculture and rural development at that financial year.

<sup>37</sup> In the literature the direct impact of SAP is only studied.

Similarly, in 1983-84 the extent of budgetary subsidy on fertiliser was US\$57m. This amounted to 14% of total development expenditure on agriculture and rural development at that financial year. The cost of distribution also declined from US\$25-30 per ton before liberalisation to US\$15 per ton after liberalisation (Shahabuddin and Islam 1997).

We will now make a few comments on the findings presented so far on the liberalisation of fertiliser policy. **First**, the analysis is based on the immediate effects, not on the indirect effects. These indirect effects, as mentioned before, relate to the use of budgetary savings brought about by a reduction in subsidy. Unless we make the assumption that the benefits from these secondary effects is non-negative we cannot rely on the extent of total benefit (that is the counterfactual argument). The important issue is how much of these budgetary savings has gone back to the agriculture sector either in meeting the cost of providing extension services or in developing human capital. This is a difficult task since budgetary savings are fungible but it is a valid question to ask how these secondary effects can be taken into account.

**Second**, although the liberalisation of the fertiliser market started well ahead of liberalisation in other markets the nature of the preliberalisation period has to be understood. It should be noted that the market for fertilisers involved participation by a large number of private dealers although they were constrained in many aspects of their operation. While administered price prevailed along with some other restrictions such as limited boundary of operation, at the retail level market-like institutions did develop at that time. This helped towards the boom of private dealers as there was hardly any institutional vacuum. Thus the institutional arrangements between the preliberalisation and the postliberalisation may be different in many aspects but they were complementary in some other aspects. A market-like situation with a large number of private dealers were already there and this property rights set up did not constrain but rather facilitated the emergence of a new set of property rights.

**Third**, as a corollary to the second, privatisation of the fertiliser market never always delivered what was expected. The markets ran into frequent troubles and government interventions had to be made. This is vindicated by the fertiliser crisis of 1995 when the government had to even bring in the civil administration to distribute fertilisers amongst the farmers. While explanations such as oligopolistic market structure at the level of factory gates may be convincing, it remains valid that market interventions can be called for when imperfections are detected. Note that these interventions are not always those of Stiglitz type (state intervention due to market failure due to information failure). In many cases markets failed due to political failures (Box 10.1). Thus alluding to “market imperfections” is not good enough and in many cases the source of market imperfection was political patronage where the fertiliser dealers served political interests rather than the interest of the farmers. A regulatory framework has to be designed and maintained for expected performance of the fertiliser market. A regulatory framework may also be needed because the private sector may lack the incentive for maintaining adequate warehouse facilities and monitoring of seasonal demand for fertilisers or it may be difficult to generate competition at the factory gate level due to the size of the market.

### **Box 10.1: Oligopoly or political patronage?**

A recent news published in a national daily (*Prothom Alo*, March 28, 2000) reports of oligopolistic price setting in Bogra. In the northern region of Bangladesh the use of fertiliser is highest in Bogra. Recently, urea is selling for more than Tk. 300 per bag where the government set factory gate price is Tk. 265 per bag. The difference cannot be explained by transportation cost. About 35 additional dealers have been approved by the authority in Bogra to stabilise the price of fertiliser in the current boro season. However, according to the report the selection of the dealers has been based on political considerations. About half of them is not genuine fertiliser traders. A prerequisite for getting a dealership is that the applicant should have a fertiliser shop. A large number of the dealers had no shop for fertilisers, the report quoted.

**Finally**, the imbalance in general subsidy levels is now generally acknowledged. The use of phosphatic and potassic fertilisers has been declining relative to nitrogenous fertilisers since the reform began to take root Ahmed (1998). The former is crucial for long run conservation of soil fertility.

Experience suggests that it is difficult for the farmers to differentiate between SSP and TSP that brought up the issue of spurious fertilisers in 1995 in the limelight. The removal of subsidy from fertiliser thus went to a point where the relative market price issue was somewhat neglected. Recently problems associated with sale of adulterated fertiliser are been reported in the printed media. This again raises the issue of regulating the market.

#### ***The Dilemma of Excessive Use of Fertiliser***

Removal of subsidy implies increase in price of fertilisers (which has indeed been the case) then how does one explain the increase in use of the fertilisers? The growth in fertiliser use has declined from 13.16 per cent in the seventies to 9.98 per cent in the eighties to 6.63 per cent in the nineties (Shahabuddin and Islam, 1997). The increase in use of fertilisers, though at a declining rate, can be explained by the attempt of the farmers to apply higher doses of fertilisers to withstand yield decline problems due to land degradation (Pagiola 1995, p. 18). A recent study carried out by vindicated this. In a questionnaire survey of 199 farming households, 88 from Chandina and 111 from Madhupur, about 97 per cent of the farmers about the trend in the use of chemical fertilisers in the last 10 years believed that the use of chemical fertilisers has been increasing over the decade. Declining soil fertility (47%) and lower yields (45%) were singled out by the farmers to account for the increase in use of chemical fertilisers (Toufique, 1999). In fact in this context the response lower yield is a mirror image of the response of declining soil fertility.

#### ***Evidence on Land Degradation***

Soil degradation relates to erosion, waterlogging, salinity and depletion of nutrients. About 10 per cent of net cultivated land suffers from medium and high salinity in the dry season. Another 10 per cent in the hilly areas is considered highly eroded (Brandon, 1998). More than half of the total land has impeded drainage and they suffer from waterlogging and poor aeration (Karim 1993).

Precise linkage between decreasing yield and land degradation is difficult to establish because the former can be caused by a host of factors (inefficient application of inputs, for example). Also it

may be difficult to isolate long run from short run trends. Thus land degradation may not be observed in terms of decreased production per se but in morphological evidence of environmental change that has a negative impact in the productive capacity of land (World Bank 2000).

Direct study of soil quality shows evidence of land degradation in highland agroecological zones. Such land degradation is attributed to increasing cropping intensity (Karim, Z. and M. Miah, *Demonstration/Development of Fertiliser Use in Bangladesh*”, quoted in World Bank 2000). Soil quality is measured as the extent of organic matter between 1969-70 and 1989-90. A BRRI study, conducted in 1993 and quoted in World Bank (2000), found that application of organic matter in combination with nitrogen resulted in higher grain production than that produced in nitrogen-only or organic matter-only plots. However, average annual grain production over a period of nine years declined with every combination of organic and /or chemical treatment with the decline more pronounced when organic and inorganic nitrogen fertilisers were applied together. These are, of course, conflicting results. A more recent BARC study (quoted in World Bank 2000) found that about 33 per cent of total land acreage falls below the minimum threshold (defined as mineral such as sulphur, zinc content of at least 1.72 per cent) for sustainable cultivation. Several factors are responsible for land degradation: inadequate fallowing, absence of soil conservation measures, cultivation of fragile or marginal lands, unbalanced fertilisers use, agricultural intensification, advance of mono-culture rice, capital constraint, increased use of crop residues and cow manure as fuel in lieu of leaving them on the fields and FCDI obstructing natural inundation of land

Thus a large number of factors could be responsible for land degradation and some of them are the outcome of following SAP in Bangladesh. Pagiola (1995) says “if increase in input use had not counteracted the effects of degradation, yields might have fallen even further” and adds that, “chemical fertiliser use has increased, but not sufficiently to compensate for the higher rates of offtake and has been offset by reductions in applications of farmyard manure, which is in increasing demand for use as fuel.” While Ahmed (1995, 1998) could not find any problem with the reduction in the use of fertilisers, Pagiola (1995) thought that the rate of use of chemical fertilisers was not sufficient enough to compensate for nutrient losses. This possibly happened because Ahmed (1995, 1998) did not take account for any environmental factor in his calculation.

There is strong evidence that post-subsidy prices of fertilisers have resulted in unbalanced use of fertilisers. Bangladesh now subsidises mainly nitrogen, so farmers over-apply it and under-apply phosphate, potassium type of fertilisers. The corrective measure may be increased subsidy on phosphate and potassium type of fertilisers. On the other hand there is a strong evidence on land degradation and increasing use of fertilisers is attempting to make up for this. A removal of subsidy on fertilisers may possibly has worsened the situation. While policy shift should have taken place in generating an incentive systems for using more farmland manure and other organic fertilisers, it has rather gone towards removal of subsidy on fertilisers. One option that was open to the policy makers would have been to use the budgetary savings from the removal of subsidy on encouraging the farmers to use organic fertilisers and take necessary measures through the government’s extension services to stop land degradation. A withdrawal of subsidy from fertiliser will have an adverse effects (lower profits) on all type of farms, particularly on share-croppers and small farmers. These distributional issues should be taken into consideration while reducing subsidy on fertilisers.

### **10.3 Shrimp Management Policy and Environment**

The shrimp sector in the process of pursuing an export-led growth strategy were given incentives: zero tariff access of imports, fiscal incentives for exports, income tax rebate, speedy

customs clearance, cheap credit, leasing of private and khas land in favourable terms and institutional support for setting up downstream factories. Shrimps now account for about 9 per cent of total national exports (Talukder 1999) and this sector grew at rate of around 9 per annum during the last decade (Bhattacharya et al. 1999). However, we do not have reliable estimate of total employment of labour force in this sector. As shrimp cultivation is extensive in nature, employment may have decreased in this sector (Toufique and Hasan 1998).

### ***Evidence on Environmental Degradation due to Shrimp Culture***

Literature on scientific study of the impact of environment is scant and of limited coverage and mainly include perception and case studies on socio-economic, politico-economical and a bit on environmental consequences of shrimp farming (Bhattacharya et al., 1999). Existing literature reflects three views:

***Pessimistic view:*** shrimp culture is unsustainable because the negative externalities are systematic, endemic and irreversible and therefore the culture of shrimp has to be banned.

***Optimistic view:*** shrimp generates income, employment and foreign exchange and their benefits outweigh the associated costs.

***Reformist view:*** there are negative environmental externalities but they can be taken care of through policy intervention. This is a moderate view trying to minimise the concerns raised by the first view and maximise the benefits expressed in the second view.

The actions mentioned in the literature, their consequences for development and their impact on the environment and interventions recommended have been summarised in Bhattacharya et. al., 1999 (Table 10.3).

**Table 10.3: Literature on Shrimp Culture in Bangladesh: A Summary of Environmental Concerns**

ACTION	CONSEQUENCES FOR DEVELOPMENT	ENVIRONMENT IMPACT ON	INTERVENTION RECOMMENDED
Land lease by outside entrepreneurs	Use of land only to maximise short-term profit without concern for long term sustainability	- deforestation - destruction of mangrove ecosystems (biodiversity) - destruction of alternative source of livelihoods	a. ensure participation of the stakeholders in the management of shrimp farming and stricter implementation of existing laws b. introduce zoning and declaring certain parts of the country to be non-shrimp area
Lease of government (khas) land for shrimp culture	Traditional rice culture replaced by shrimp culture	- disentanglement of landless - intensification of poverty - prevalence of environmentally unfriendly practices	a. enactment of laws ensuring participation of landless people in any use of khas land
Salt water	Increased salinity in the area	Gradual degradation in	a. develop land use policy and

penetration within embankment for substantial period		the quality of land and soil-nutrient resulting in accumulation of sodium chloride affecting rice production	environmental guideline for shrimp culture b. develop optimal practices for rice-shrimp mixed culture
Use of extensive methods of shrimp cultivation causing inundation of large tracts of land	Large area remaining under water for substantial period of time	a. destruction of homestead cultivation, fruit orchards b. rupture in the subsistence cycle	a. encourage semi-intensive method of cultivation b. zoning and area mapping
Indiscriminate fish fry collection	Destruction of fish biodiversity and increased exploitation of preferred species	Over fishing	Develop shrimp hatcheries

Source: Bhattacharya et al. (1999)

Manju (1996) applied a before-after approach to identify what might be called **forced livelihood diversification**. In village Chalbunia, the percentage of population belonging to the category of rice-cultivators decreased from 33% to 13% while corresponding percentage for those involved in shrimp-cultivation increased from 20% to 32%. Manju 1996 found **income loss for the peasant households** due to shrimp culture. Income losses occurred from decline in rice productivity, loss of poultry and livestock and erosion of homestead vegetation and social forestry. Manju (1996) found that post-shrimp income level of local peasant households was only 62% of the pre-shrimp level.

Adnan (1991), by applying a with-without approach, found **loss in vegetation and livestock**: Half of jackfruit and mango trees were destroyed and one-third of cattle heads disappeared in the shrimp polders during 1987-90.

A scientific study sponsored by Nijera Kori (1996) found **increase salinity and soil degradation and vegetation loss**.

### ***Economic Costs and Benefits***

Bhattacharya et al. (1999) makes an attempt to incorporate environmental costs in measuring the economic costs and benefits of shrimp cultivation. There are direct (land degradation, health hazards and mangrove destruction and so on) and indirect (loss in biodiversity, social impact and so on) costs of shrimp cultivation. These costs are not always immediate and therefore spread over time. The benefit (measured by the foreign exchange earnings from shrimp exports) of shrimp cultivation well exceeds the costs of shrimp cultivation. The environmental costs of shrimp cultivation would be in the range of 21-30 per cent of total benefits. Some limitations of this study have been made explicit: only on-site costs of shrimp culture were considered and some broad assumptions were made and findings from other countries had to be considered.

Note that the estimates by Bhattacharya et al. (1999) are based on macro aggregates. Farm level study was not done to estimate environmental costs. Talukder (1999) on the other hand estimated the financial costs and benefits of shrimp culture at the farm level and under different farming systems but ignored all environmental costs and found that the benefits of shrimp culture far exceeds its cost. We can now look into his estimates by transplanting environment costs almost in a surgical way. Assuming that such cost could be as high as 30 per cent, the environment cost

of shrimp culture at the farm level can be derived by multiplying the value of catch by 0.30. The results are presented in Table 10.4, Table 10.5 and Table 10.6.

**Table 10.4: Annual Profitability of Shrimp-rice Farming Systems**  
(South-western Region, Paikgacha, Khulna)

	OWN GHER	OWN AND RENTED GHER
a. Benefits	50063	44355
b. Financial costs	19767	16959
c. Environmental costs	15019	13307
d. Total costs (b+c)	34786	30266
e. Net Return (d-a)	15277	14090
f. Return per Taka when environmental costs are considered (a/d)	1.44	1.47
g. Return per Taka when environmental costs are NOT considered (a/b)	2.53	2.62

**Table 10.5: Annual Profitability of Shrimp Monoculture**  
(Southwest Region)

	PAIKGACHA, KHULNA	SHAMNAGAR, SATKHIRA
a. Benefits	65652	110676
b. Financial costs	38258	56814
c. Environmental costs	19698	33203
d. Total costs (b+c)	57954	90017
e. Net Return (d-a)	7698	20659
f. Return per Taka when environmental costs are considered (a/d)	1.13	1.23
g. Return per Taka when environmental costs are NOT considered (a/b)	1.72	1.95

Source: Toufique (2000)

**Table 10.6: Annual Profitability of Shrimp Farming under Different Methods of Cultivation (Southeast region)**

	SHRIMP-SALT CULTURE (IMPROVED TRADITIONAL)	SHRIMP MONOCULTURE (SEMI-INTENSIVE)
a. Benefits	132728	836980
b. Financial costs	70562	187678
c. Environmental costs	39818	251094
d. Total costs (b+c)	110380	438772
e. Net Return (d-a)	22348	398208
f. Return per Taka when environmental costs are considered (a/d)	1.20	1.91
g. Return per Taka when environmental costs are NOT considered (a/b)	1.88	4.46

Source: Toufique (2000)

Net returns, after taking into account environmental costs into considerations, from shrimp farming are still positive as can be seen from these Tables. The rate of return declines due to incorporation of the environmental costs but it is still greater than unity. The strong policy conclusions that can be drawn from this exercise is that the gher owners can be taxed by an amount which (as a percentage of the value of catch) can lie between the numbers in g and f, i. e., the tax rate can lie between the rates of return when environmental costs are *not* taken into consideration and when the environmental costs are taken into consideration. However, the tax rates should adequately maintain the incentives for investing in shrimp farming. The tax revenue thereby collected can then be spent on those who suffered from environmental degradation in one way or the other. This is the classic tax-subsidy solution for internalising externalities of environmental degradation. The only problem of pursuing such policy is measurement and implementation (political contestation).

### ***The Response of the World Bank***

Although the effects of shrimp cultivation on the environment have been fairly well documented, such concern was missing initially in the World Bank documents. The changing perception of the World Bank can be depicted by evaluating its experience with the shrimp culture project and its plan regarding the Fourth Fisheries Project. Approved in 1986, the total cost of the shrimp culture project was US\$36.7 million. It was evaluated that the project was “largely successful in achieving the objectives”. The report has the following to inform about its environmental impact (World Bank, 1994): “there are no environmental effects caused by the projects. The land use pattern and the ecological balance have not changed as a result of project interventions. On the contrary, some of the diverse effects which existed under pre-project conditions, such as water-logging and uncontrolled cuts in embankments for the constellation of sub-standard inlet structures, have been minimised or eliminated by the project interventions. No mangrove forest has been destroyed as a result of the project.”

A BIDS evaluation of the same project does not endorse the view expressed in this report. Rahman and Azad (1995) makes the following point: “the traditional shrimp culture even though did not affect environment in Cox’s Bazaar, there have been a number of negative environmental consequences of it in Khulna region especially in non-project areas. However, a part of the project area in Khulna (e.g. Hanirabad and Munkia in polder 20) was also affected, mainly because of the presence of an outsider leaseholder who, due to unplanned culture, created some problems, such as harvest was prolonged and it affected transplantation of Aman crops. The planned activities of the project were also obstructed by him for which the environmental condition of the area further deteriorated. The project could do nothing as he managed to take long-term lease from the beginning of the project.”

Thus there is an explicit inconsistency between World Bank’s evaluation of the impact of the project on environment and BIDS’ evaluation of the environmental impact of the same project.

The project appraisal document for the Fourth Fisheries Project (World Bank 1999) reflects the shift in World Bank view and admitted that “the expansion of shrimp farming has raised important issues regarding land and water use in the coastal areas.” On land use conflicts the document says: “the contrasting demands of rice farmers and those involved in shrimp farming have generated frequent conflicts in which poorer social groups in shrimp farming areas have often been the losers. As regards adverse impact on the local people the document states: Unplanned shrimp farming development has led to degradation of agricultural land and negatively affected the livelihoods of

local people”. The project appraisal document also admitted of the outbreak of fish diseases: “outbreak of diseases, particularly “White Spot” may continue to threaten the shrimp culture.” The adverse impact of biodiversity brought about by collection of wild shrimp fry has also been recognised: “The sustainability of shrimp farming is also threatened by its reliance on the collection of wild shrimp fry. The activity now sustains a large number of households using cheap methods that supply key seed inputs to shrimp farmers but may, in the process, be gravely damaging wild stocks of both shrimp and other aquatic species.”

#### **10.4 Conclusion and Recommendations**

The pressure to increase food production has resulted in adopting policies such as excessive emphasis on (rapidly) increasing yield, withdrawal of subsidy and liberalisation of imports. Adherence to these policies has generally resulted in excessive use of fertilisers, use of spurious fertilisers and inefficient use of various types of fertilisers. These had serious impact on the quality of land: nutrient content in soil declined and fertility of land eroded.

A few will disagree with the objectives of increasing food production; again, there can hardly be any dispute on the effects of SAPs on the environment. Reduction of subsidy on fertilisers have resulted in (i) improper mix in the use of fertilisers, and (ii) insufficient use of fertilisers to compensate for nutrient losses. Therefore, the issue of fertiliser subsidy has to be reconsidered on the ground of efficiency, environment and equity. The issue is how land degradation is addressed and alternatives could be worked out as compared to reducing the use of fertilisers by removing subsidy. For example, encouraging farmers to use organic fertilisers through NGOs or the government’s agricultural extension networks.

The negative effects or externalities of increasing shrimp production are loss in biodiversity and increasing salinity of soil. Of course, there are other related environmental concerns but these came up clearly from the consultative exercise. Regarding shrimp cultivation the World Bank is taking a more cautious approach, albeit gradually. Initially the environmental impact was either ignored or considered to be of secondary importance. A total ban on shrimp production will have strong macroeconomic effects and at the same time an unbridled production of shrimp will have serious environmental consequences. As shrimp culture is profitable even when environmental costs are taken into consideration at the farm level, there is a need for regulatory set up to ensure that shrimp cultivation is done in planned manner.

#### ***Fertiliser Policy***

- The issue of fertiliser subsidy has to be reconsidered not only on the ground of efficiency and equity but also in the context of its relation to environment.
- The imbalance in general subsidy levels has to be removed/reduced. Bangladesh now subsidises mainly nitrogen, so farmers over-apply it and under-apply phosphate, potassium type of fertilisers. The latter is crucial for long run conservation of soil fertility and hence it has to be subsidised more.
- A regulatory framework has to be designed and maintained for expected performance of the fertiliser market.
- To halt the process of land degradation the farmers should be encouraged to use organic fertilisers. This can be done by the NGOs or by the government’s agricultural extension networks.

### ***Shrimp Policy***

- Shrimp production will have to be done in a planned manner (for example, zoning), not in a haphazard way. A regulatory set up should be in place.
- Existing laws relating to shrimp production has to be strictly enforced.

### ***The Role of Government, Civil Society and the NGOs***

- The NGOs and the civil society at large should promote local resistance to environmental degradation. Promoting community response towards the right direction can help to decrease environmental degradation.
- Substantive quantitative study on environmental impact assessment is required for formulating environmental policy.

## CHAPTER 11: ADJUSTMENT AND THE STATE OF CORRUPTION<sup>38</sup>

### 11.1 Adjustment, Governance and Corruption

The basic idea of SAPs is to establish a market-determined regime through containment of the role of the state in product and factor markets. The state, which was earlier identified as the organised force for propelling growth, was identified by the neo-liberals as the prime source of distortion manifested through regulation, control, and protection. The basic premise was that such policy adjustments and withdrawal of state control would reduce costs due to transactions and inefficiency, and decrease rent-seeking activities.

Corruption or rent seeking in essence is an institutional failure caused by market and/or policy inadequacy. Corruption has been perceived as a *cultural* problem. The necessary conditions for corrupt practices are (a) existence of power and/or position of power and/or protection of powerful persons and (b) existence of opportunity to use such power deliberately for personal or parochial gain (De, H K, 1998). Sufficient condition adds (c) absence of an accountability and watchdog agency (Hafizuddin, 1998).

On the other hand, Susan Rose-Ackerman (1999) brought forth the relation between *principal and agent* and suggested that without an appropriate system of remuneration and monitoring the agent would find it rational to create alternative channels of remuneration. The existence of pervasive corruption indicates presence of inefficient principal-agent relationship. The inefficiency creeps in because the monitoring cost is high or excessive price becomes a manifestation of systemic culture promoted by monopoly, discretion and sharing of benefits of corruption. Thus in the public domain the issue becomes a system of administration i.e. whether recruitment, promotion and posting are rule based for efficiency and not personalised or politicised for explicit or implicit gain in cash or kind for service to the decision-making principal or a parochial group chosen by the principal. The SAP does not address the issue directly except for reducing the size of the government and increasing the efficiency of governance including the public sector.

*Reputation and hostage taking* works when the exposure of corruption is reciprocal. One such possibility is employment of the agent in future in a position where bribe giver is the decision-maker (e.g. employment of civil servants in a donor agency). In countries like Bangladesh, the assumption of neoclassical economics of absence of ties between the 'service-seeker' and 'service-provider' is inoperative and embedded interpersonal network based on strong interpersonal relationship fail to draw lines between official functions and impersonal market exchanges.

In case of *Kleptocracy*,<sup>39</sup> 'monopolist' bribe taker maximises gain by restricting output of the economy while he strives for productive efficiency. This is presumably happened in the Telephone Sector and Energy Sector of Bangladesh where supply did not respond to demand in order to maximise rents in licensing at the top level of the government. While people have looked at rent seeking at the bottom tier, the decision makers have worked with the levers at hand. Trade liberalisation understood as lowering of tax and tariff is consistent with Kleptocratic corrupt politico-economic system. Consistent with the liberalisation, regulation is a favoured area of operation of Kleptocracy. The exercise of deregulation without simplification of bureaucratic process in reality allows the control to remain. Mere abolition of license Raj or creation of a free list

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<sup>38</sup> The chapter is based on Ahmad (2001)

<sup>39</sup> Susan Rose-Ackerman has identified four polar cases i.e. Kleptocracy, bilateral monopoly, competitive bribery and Mafia domination.

for commerce and industry does not necessarily shorten the long hand of bureaucracy and existing law. The SAP in its exuberance to promote private sector did not take into account the Kleptocratic dimension of inherited colonial administration extended through non-democratic nature of political party culture and entrenched patron-client culture of historical vintage. Since the cost is not to be borne by Kleptocracy, such a system prefers an inefficient, confusing and contradictory regulatory regime. The best examples are executive orders and SROs which seem to supersede the enactment of the parliament which in effect encroach on the law making authority of the supreme national institutions in Bangladesh and similar other countries.

Kleptocracy favours privatisation where it brings private gain and oppose it were it may loose monopoly control which if run efficiently bring better opportunity for private gain. Weak Kleptocracy also uses privatisation to broaden its coalition with business and bureaucracy. Kleptocrat may become an enthusiastic privatiser if gains take any of the forms: cash, surrogate ownership or broadening of coalition. Reportedly privatisation and licensing for banks and insurance companies in Bangladesh has seen similar manifestation.

In *bilateral monopoly* gains are shared by the bribe-taker and bribe-giver according to their strength (Kahn 1996). Bilateral monopoly conditions often arise for particular contracting deals e.g. oil and gas franchise. The Kleptocrat distorts contracting priorities, supports projects to hide kickbacks, establish long-term relationship with few multinational and negotiate a deal that permit sharing of nations wealth at the expense of ordinary people. Karnaphuli Fertiliser Company (KAFCO), a joint venture, is a case in point.

In *Mafia-domination* few bribe givers face multiple bribe takers. The function of the Mafia, as an organised crime group providing protection to bribe givers and/or bribe taker, is to limit entry and competition and even engage in elimination of competition. The Mafia is interested in quick profits through extortion or collusive process. The size of pie depends on the nature of the product and such mafia domination is possible in weak state where capacity to control them is limited or abdicated (Diego Gambetta 1993). The emergence of mastan in Bangladesh is a manifestation of mafia-domination in certain sectors particularly public construction and procurement. The interference of so-called trade union in the function of public sector e.g. banks also manifest presence of the mafia phenomena. Banking Sector Reform has failed to address the issues because of political ties of union leaders.

In *competitive bribery* government functionaries deal with large number of members of the public. Competitive bribery, unlike competitive market does not promote efficiency except that the payment has an 'equilibrium' value or 'maximum' limit unless upward spiral of corruption creates a systemic corruption which distorts the balance. The large is the number of corrupt official the lower is the risk of paying a bribe and even lower may be the per-person share but the total payment increases with the number of corrupt officials. As the level of bribe increases with the increase in the number of corrupt officials number of bribe givers do not decrease as the incidence of cost may be shifted or gains could be manipulated or expected to rise. The utility and public service sectors in Bangladesh are good manifestation of competitive bribery.

There is no simple correspondence between the level and consequences of corruption and the organisation of the government, which has been assumed in the SAP and subsequent reform advocacy by donors.

The organization of electoral and legislative process is crucial as a disincentive for corruption in democracies. Development of strong political parties and necessity to develop personal following are related to political structure and the nexus of such structure with private wealth including mafia

dons. Buying political influence and buying votes are common manifestation of political corruption in many countries including Bangladesh. As money is needed to be active in politics and participate in election, financial need and pressure make politicians easy prey to accept payoffs unless he has own wealth to undertake such activities. The loss of ideological focus caused by need to finance politics has given rise to 'Businessman Politicians' in Bangladesh.

One of the conditions for arresting corruption under democracy is that legislators must be independent and accountable so that they are not individually and collectively beholden to vested wealthy interest lobby. But today's prime concern is use of public office to further one's private interest. A survey on the Members of Parliament in Bangladesh indicates a growing involvement of MPs with business in terms of ownership and lobbying. The code of conduct, ethics, and issues of conflict of interest have not been accorded a high priority for legislative and administrative reforms in Bangladesh.

Bangladesh like many other countries that have committed to economic reforms and pluralistic democracy (i.e. competitive political system) has not put in place laws to govern markets and judges have very little experience in resolving the problems arising out of the deals in markets. Bangladesh suffers from the ills of archaic laws, and ill equipped judiciary including the bar creating uncertainty and bad fit between law and reality which promotes attitudes for circumventing the court including adoption of extra legal measures (Dasgupta and Mookherjee 1998). The goal of reform affecting operation of private markets, as the SAP attempts to do, requires well drafted, relatively clear and generally available consistent set of laws to reduce the opportunities for corruption. Even with clearly drafted laws, crisis of confidence in judiciary due to delays and backlogs create conditions for pay off to speed up decision even when judges themselves are not corrupt (Buscaglia 1995).

Containment of corruption is best done when citizens have a convenient mode of lodging complaints for which a precondition is easy availability of information about standards of official behaviours, about activities being undertaken, allocation and use of resources. Besides auditing, legislative review of expenditure through open Public Accounts Committee hearing is helpful if it is not set as a contest between legislature and executive or set in an adversarial condition between the governing and opposition parties. Availability of block/secret funds or even 'non discussion' areas of expenditure (e.g. Defense) create obstacles to public scrutiny and proper accountability. There is a presumption about freedom of information, which is constrained by Official Secrets Act of Bangladesh. Thus curbing corruption is predicated by limits on power by giving power to the people to complain, by giving power to media to uncover, by providing access to information, by protecting proper whistleblower and by creating transparent methods of decision-making and accountability in all organisations whose activities affect common people. While such provisions are put in legal statue, an independent judiciary need to play a proactive role.

## **11.2 Corruption: Perception, Prevalence and Practices**

### ***Newspaper Reports***

Newspapers publish 'all that fits to print' as there is selection and reporting bias at the reporting as well as at the editorial levels. As access to information is limited, information may be incomplete and there is often little follow up on the story. Hence inclusion of all reported incidents is not possible. With those limitations, Transparency International, Bangladesh (TIB) has produced two news scan analysis of reported cases during January-March 1997 and January-June 2000. The picture is as follows:

**Table 11.1: Distribution of Reported Cases of Corruption**

	1997 (JANUARY-MARCH)	2000 (JANUARY-JUNE)
Police, BDR, Ansar etc.	46.0%	30.0%
Local Government	13.0%	17.0%
Education	10.0%	16.0%
Health	5.0%	11.0%
Taxation (Income, Customs, VAT etc.)	6.0%	6.0%
Financial Institution (Banks, Non-Formal micro credit)	7.0%	6.0%
Forestry	4.0%	6.0%
Water (including Water Board)	4.0%	5.0%
Transport (including Water Transport)	4.0%	2.0%
Sub-Total	390 (100%)	927 (100%)
Others	(188)	(418)
Total (N)	578	1345

Source: Transparency International, Bangladesh

Thus the reported case of corruption has increased overtime. Further, it is important to note the reported corruption by type. The corruption reported are mostly petty ones or systemic in nature. These are more of a competitive bribery type than kleptocratic or bilateral monopoly. However the issue is by passed in SAP

The Table 11.2 indicates misuse of power because of discretion, misuse of resource because of weak monitoring as well as embezzlement and extortion are prevalent as a form of corruption. The bribe taking is high amongst law enforcement agency, taxation Officials, land administration, and telecommunication departments. Embezzlement and extortion are high in local government, education, health sector and financial institutions: though it is present significantly in all the sectors reported.

Thus the financial sector reform, taxation administration reform or simplification of procedures are yet to have impact in reducing corruption, if at all it can. The picture relates to competitive bribing and mafia domination mostly, though case of bilateral monopoly is not absent.

**Table 11.2: Manifestation of Corruption by Types and Sector (2000)**

	MISUSE OF POWER	BRIBE TAKING	EMBEZZLEMENT & EXTORTION	MISUSE OF RESOURCES	NEGLIGENCE OF DUTY
Police, BDR, Ansar etc.	48.0%	20.0%	12.0%	1.0%	18.0%
Local Government	18.0%	5.0%	58.0%	8.0%	8.0%
Education	22.0%	9.0%	49.0%	7.0%	11.0%
Health	20.0%	6.0%	42.0%	5.0%	26.0%
Taxation	34.0%	30.0%	30.0%	-	6.0%
Financial Institution	26.0%	4.0%	67.0%	-	4.0%
Transport	37.0%	12.0%	27.0%	10.0%	14.0%
Water	17.0%	5.0%	52.0%	25.0%	-
Post, Telegraph, Telephone-Telecom	28.0%	23.0%	25.0%	10.0%	13.0%
Land Administration	22.0%	38.0%	31.0%	3.0%	6.0%
Forestry & Environment	24.0%	20.0%	39.0%	12.0%	5.0%

Source: Transparency International, Bangladesh

### ***Peoples Experience with Corruption***

A national baseline survey, not an opinion survey but actual experience of household, validated by participatory observation and wherever possible by discussion with relevant or reported officials, was conducted by TIB in 1997.

The respondents viewed misuse of position and power as the prime manifestation of corruption; it is only obvious that such misuse is possible when discretion and non-transparency are present in a persons work. Its relation with regulations is obvious but such regulations are subjected to interpretation by the appropriate persons. The second most frequent perception of corruption is negligence of duty. Such negligence is a manifestation of the misuse of position and power. This is directly related to non-accountability and absence of monitoring system, as it is the case in a weak state. The third most frequent perception of corruption is engaging in activity outside the normal process laid down by rules of business or service rules. This is possible because of 'systematic linkage', 'indulgence by superiors', 'existence of grey undefined areas', and 'reciprocity'. This again involves the concept of systemic discretion. Bribing and misuse of power and public resources for personal gain are seen as corruption but these are less frequently mentioned, partly because people have come to accept certain types of payment as 'normal' for getting even a legitimate work done.

The offices identified as most corrupt are police stations (Thana), lower judicial courts, public hospitals, sub-registrars office, land record office, thehsil office and scheduled banks. That desire to become rich quickly, moral degradation, absence of accountability are the prime reasons for persistence of corruption in public offices and among officials. However a significant member (about a third) thought that protection/absence of action by political parties and inadequate salary and compensation package are also important factors. This leads to a proposition that low level but extensive corruption in a weak state persist because of absence of an appropriate system of accountability and proper incentive to remain honest and dutiful. This politico-bureaucratic culture is manifest also in areas related with structural adjustment programme.

Decentralisation did not create competitive market condition. In effect it resulted in augmentation of demand and segmentation of markets. Of the households involved in cases before lower judiciary, more than two thirds made payment to court officials and a sixth to the opponent's lawyer. The discretion in fixing a date for hearing and non-accountability are stated to be the basic reason for this sorry state. The 'monopoly' of police power including discretion is aptly clear from the reported action. Nearly four-fifths of households which were involved in land transfer and two-thirds of households involved in registration of deeds made extra payments. Nearly half of the households that obtained loan from banks made payments or used influence. As regards payment of water-bills, nearly a third of the household reported underpayment though arrangement and about a fifth made extra payment to get water connection. Similar was the reported condition with respect to payment of electricity bills and getting electricity connection. Power sector was subject to reorganisation and decentralisation. Expected improvement in this regard was not achieved. With respect to payment of holding tax about half of the respondent households made arrangement with municipal officials to reduce assessed tax and of the households engaged in business about a half reported payments to obtain trade license. Thus it appears regulation and ability to control provision of services create opportunity for bureaucratic deviation and this is quite pervasive. Decentralisation and even contracting out does not eliminate conditions of deviant behaviour.

### ***Focus Group Discussion***

Focus group discussions were held in eighteen district towns with a cross section of representatives from all walks of life. Even though the discussions were on specifics of corruption, certain generalised conclusions came out.

First, the idea of public wrong, of which corruption is one of the important manifestation, is not properly understood by public, civil society, professionals including lawyers, businessmen, public office holders and public officials.

Second, the private and public wrong is directly and positively related with wealth, influence, connections and authority.

Third, public administration has lost its eminence as it has become subject to influence and loyalty has come to be more valued than efficiency and neutrality.

Fourth, cost of being elected has increased which created the linkage between public office and black money, which in turn created linkage with groups that engage in extra-legal activity including crime.

Fifth, the system of administration being a contamination of archaic colonial system which lacked transparency but valued hierarchical control, did not foster public accountability and easily got immersed in the degenerative disease that affect the body politic. As a result there has been a systemic decline in public ethic.

Sixth, the institutional decay of bureaucracy has helped conversion of collective goods into private property through pay offs as seen in the reports on gifts, grafts, embezzlement, extortion, misappropriation etc.

Seventh, role models in civil service, elected office holders and civil society organisations are today a lost phenomenon.

Eighth, corrupt practices in public offices are prolonged largely because of collusions with private actors and institutional misperformance is promoted by motives for gaining advantage.

Ninth, cost of misperformance and deviant action is low in the absence of deterrent action and presence of systemic linkage in many cases.

Tenth, public confidence to receive redressal of legitimate grievance is almost absent as legal remedy is time consuming, expensive in real terms and not free from abuses. A parallel independent system or vigilant proactive civil society is not present as a remedy.

Eleventh, political will to create corruption free society or curb corruption is conspicuously absent.

Lastly, corruption has been viewed as a governance failure on the one hand, and as response failure on the part of civil society on the other hand. This situation persist because of high tolerance on the part of many and collusion on the part of a few i.e. between authority and wealth, between vested interest and decision makers, between extra-legal action seekers and extra-legal action protectors, between agents of power in office with low public ethic and purported supporters and beneficiaries of power in private sector.

### ***Perception of Governance and Corruption***

A survey was undertaken in 1999 in conjunction with Mahbubul Haq Centre for Human Development at Islamabad on governance and corruption. The salient findings of that survey are reported below. First, more than half of the respondents did not have confidence in the political system and in the organisation of the political parties in the country. The respondents are mostly male, aged between 25-30, live in rural areas, have a monetary average income of Tk. 5000 per

month and less than 10 years of education. However over 90 per cent of respondents believed in a directly elected system of governance and nearly half of them support one or the other political party. Nearly two-thirds of the respondents said that political parties do not properly represent their ideas, opinions, interest or priorities.

Second, the elected officials at the national level are not accessible, nor do they try to solve problems of their constituency or of their constituents. This opinion was expressed by about two thirds of the responds. Similar opinion was expressed about local level elected office holders; only in this case the percentage of respondents holding this opinion was about half. The respondents identified 'non-accountability' to electors, 'importance of personalised and coterie interest' and 'dependence on central authority in government and party' as reasons for such sorry state.

Third, nearly two thirds of the respondents were of the opinion that legal system as it functions in the country did not protect adequately the interest of the common man. The reasons cited were ignorance about legal remedy, not easy accessibility to the system, presence of influential intermediaries (e.g. police, court officials, lawyers) and unsympathetic, subject to influence and collusive courts/magistracy. In the opinion of the respondents the worst victim of such a judicial system were the poor, women and minority.

Fourth, the policy and programs of the government or development organisations are not presented to the public in a transparent and easily understandable way; hence the issue of public accountability remains an obscure and unheard of concept. This view was expressed by three-fourths of the respondents. In this context they mentioned about allocation and use of budgetary funds, particularly for the service and development sectors e.g. education, health care, agriculture, small industry, etc. They found much of the service delivery to be quantitatively inadequate and qualitatively poor. In this respect they particularly mentioned administration, police, and judiciary in addition to banking and credit facility. Except for non-formal education the respondents did not find services delivered by private or NGO sector to be differentially better in quality or quantity. The legal aid provided by NGOs was considered to be inadequate and selective. The credit facilities provided by private sector including NGOs were considered to be selective, biased, externally determined and often extortive.

Fifth, corruption was perceived as abuse of power and position, negligence of duty and misuse of position and power for personal or coterie gain. The most corrupt departments identified were police, and least corrupt department was agricultural extension. More than two-thirds of the respondents believed that corruption has increased overtime during the last two decades and of the types of corruption embezzlement and extortion were considered to have increased more rapidly than others. Specific mention was made of law enforcement departments and lower judiciary and these departments were described as dishonest, not committed to public service, but extent and expanse of corruption amongst law enforcement authorities increased overtime while in the judiciary there has been no secular increase. The other departments mentioned were health care; land administration, education, taxation and general administration.

Sixth, extra illegal payment and poor quality of service was reported by three-fourth of respondents in the case of electricity, two-thirds in case of water supply and one-third in the case of gas connection about a half for registration of deeds and bank loan. The amount of excess payment was around 15% on average.

### ***Survey of Public officials***

A survey of public official was undertaken in late 1999. The objective amongst others included perception with respect to fairness or otherwise in the recruitment process, posting and promotion, perception with respect to salary and compensation package, incentives, reward and punishment and opinion about certain specific interaction with business in connection with procurement, payment of bills etc. The survey was carried amongst class I officials in most of the development and regulatory ministries, directorates and departments, however response rate varied despite repeated visits. A typical respondent was male, about 45 years of age, with 15-20 years of service having graduation of better education and training but not feeling adequately prepared for his job. In matters of recruitment most of them felt that recruitment was done generally on merit but in matters of positing and promotion it was less so. The significant observation was that in the case of administration and overseeing projects, personal and political ties have become a factor to live with: Similar views was expressed in matters of posting in law enforcement authorities. Payments for positing and promotion was said to be prevalent but not widely except in taxation and law enforcement departments. From the respondent's response it appeared that many of them felt that they did not have adequate authority to perform their jobs properly and consultation with superior official is a norm in the matters of disposing of certain files, while routine files are disposed off as per rules of business. The respondents felt that there was absence of transparent policy with respect to reward and punishment which included positing to certain positions. They also were of the opinion that disciplinary process was time consuming. Punishment in the form of making one OSD or sending someone to an unfavourable/unimportant post in common. Despite public perception of wide prevalence of corruption and misuse of power and position, few case of punishment for such reasons is on record. The respondents were of the opinion that monetary compensation in public offices are low compared to private sector but most of them have multiple sources of income including income from property which they could acquire because of having the government job as information and opportunities are available only to the privileged. The extent of income from 'corrupt' practices varied on average from 10 per cent to 500 per cent of basic income depending on positing, level of authority and nature of decisions involved. Because of budgetary cuts and expensive undertaking of work, non-congruence with release of funds, bills upto 50 per cent remain unpaid at the end of the fiscal year. For the payment of bills no constant rules are followed and variation in practice do give rise to favour, pressure and extra-legal payments. Influential party does have an edge. In matters of procurement there are stringent rules but at times because of oversight, mistakes in documents, subsequent variations, corrupt practices do creep in and influence of external parties cannot be ruled out. The respondents however felt that prevalence of such practices are exceptions and not widely prevalent.

### ***Propensity of bribe***

Bribery or corruption is not a one sides affair. An endeavour was made to understand the phenomenon of propensity to bribe. A structured questionnaire was administrated to CEO/his representative in multinational companies, CEO/his nominated person in large national companies, Directors/Senior Personnel in Accounting Firms, Manager/Senior Personnel in Commercial Banks and Financial Institutions, Retired Government Officials, officials in selected law firms and officials in the commercial section in the Embassies. The number of respondents

was 196 of whom little more than 50 per cent were CEO/representative of multinational companies and officials of commercial section of the foreign embassies.

Of the respondents 63 per cent were of the opinion that corruption in recent years has increased while only 2.6 per cent were of the view that it has decreased. Second, nearly two thirds of the respondents were of the view that companies have become more willing to pay bribes to win business. This opinion was expressed more frequently by those engaged in industry, trade and finance. However, a sixth of the respondents replied that companies have become less willing to bribe. This opinion was expressed mostly by multinational companies, and EU country and US company officials and officials of commercial section of the embassies. However only 15 per cent of respondents, all of them from multinational and US companies, knew about OECD convention regarding business expenses involving bribery.

Third, about half of the respondents replied that paying bribe is not the only means of influencing decisions to gain unfair business advantages. Aid, arrangement for visits abroad, inclusion of scholarship in the proposal, offer of consultancy etc. beside diplomatic overtures influence unfair business decision. Fourth, most of the respondents, were of the view that financial liberalization, government anti-corruption investigation, freedom of press, privatisation of state enterprises, institutionalisation of democratic process, or improvement in corporate governance in public and private sector do not have any desired effect on corruption. They were of the view that corruption in public procurement process has remained the same or worsened, and privatisation process was manipulated. Not having equal access to information about decision-making in government and private corporate sector the corruption climate has worsened. Self-imposed or owner interest induced censorship in media encouraged non-disclosure of corrupt practices in public and private sector. Further, immunity of high elected and appointed officials as well as low salary with authority work as obstacles and low moral and low administrative capacity have caused corruption to increase in Bangladesh. Fifth, the countries that were named as very likely to engage in corruption to win favourable decision for their business, besides Bangladesh, were India, Pakistan, China, Indonesia, Japan, Malaysia, Philippines, Russia, Singapore, South Korea, Thailand and Taiwan, followed by Italy, UK, USA and France. The sectors in which corrupt practices are most prevalent are consultancy, industry, transport, energy, tele-communication, financial services and public works.

### ***Experience of Commerce and Industry***

During the last half of 2000, an administrated questionnaire was sent to members of business community. Of the respondents 54 per cent reported undesirable payments (e.g. extortion, bribe etc.) has reduced their returns on investment; 41 per cent thought unfavourable government policy decisions reduced their return on investment (ROI), 17 per cent identified reduction in tariff on imports and smuggling caused reduction in their ROI. About 40 per cent of respondents affirmed payment to electricity supply officials for keeping supply regular and/or reduction of electricity bill, further 7 per cent said that they made payments to officials of electricity authority to get electricity connection. About 45 per cent of the businessman made payments for getting telephone line, 7 per cent make payments to keep telephone lines in workable condition or to reduce telephone bills. About 5% of respondents made extra payment to get gas and water line connection and 3% reported payments to keep the lines on or to reduce bills.

About 46 per cent of businessmen make extra-legal payments to mastan, 15 per cent to police, 11 per cent to bank officials, 39 per cent to political parties or their front organisation, 7 per cent to

inspectors (e.g. factory, fire, sanitary etc.), 4 per cent to municipal officials, 12 per cent to labour unions, 15 per cent to various organisations, 11 per cent to taxation officials, 24 per cent for renewal of licenses and 7 per cent for getting government contractors for supply or constructions. The range of extra legal payments was between 2-20 per cent of the gross turnover.

### ***Democratic Process and Corrupt Practices***

Survey of randomly selected households in fifty one wards in seventeen municipalities indicated that majority of them were of the opinion that a corruption free administration through elected officials become possible only if election commission would disclose available information about the candidates e.g. their income and source of election finance, past record of social service and malfeasance (e.g. criminal record, encroachment on other property, misuse of public resource, being a party to public wrong etc.).

## **11.3 Privatisation, Deregulation and Corruption**

### ***Privatisation***

Privatisation as an indigenous policy approach was not unknown. Government was willing to reduce the burden of 'not necessary' units through revisions of industrial policy which expanded scope of the private sector. But no governments articulated privatisation policy and units for privatisation were often selected arbitrarily. Second, in the absence of valuers, the real value of assets calculated on historical cost basis led to under valuation as potentials of developed sites and alternative investment opportunity were not considered appropriately. Third, the bid documents were generic in nature and did not provide all information to all bidders as a prospectus/annual reports/audited accounts for new investments do. Fourth, conditionality basically assumed production in the same area and protection of employment while other conditions remained unstated leading to scope for obtaining inside information and negotiation on other conditions. Fifth, as a necessity for reducing fiscal crunch and later as an element of structural adjustment, governments felt obliged to divest at any price and under any condition which created scope for taking advantage of influence and connections as well as corrupt/discretionary bureaucratic dealings. Sixth, the supervision and monitoring were lax for privatised units and divestiture failed to create competition for efficiency in those units. Hence the performance of privatised units have been mixed and assets turned into non-performing ones as economic rational made the new owners behave in that manner. Seventh, divestiture and other reforms (e.g. tax administration, financial sector reform etc.) were not related and the unethical practices increased and often remained hidden from public eyes in the absence of parliamentary scrutiny or departmental disclosure. Eighth, politics of divestiture had an upper hand over economics of the same which created conditions for corrupt practices. It is interesting to note that only 13 per cent of respondents of business community were of the opinion that divestiture were effective in promoting private sector and economic efficiency.

**Table 11.3: Views of Selected Interviewees on Privatisation during last three decades**

(Percentage)

	RETIRED OFFICIALS		BUSINESS HOUSES	
	Senior Level	Supportive Level	Direct Beneficiary	Knowledgeable But Not Beneficiary
Policy clearly articulated	71	69	35	13
Process clearly refined	71	67	25	11
Bid document clear, unambiguous	63	59	27	09
Conditions for finalisation of deal clearly defined and adhered to	57	49	25	05
Scope for discretionary decision making absent	42	41	30	21
Scope for negotiation of conditions absent	37	32	27	19
Political & bureaucratic influence & connections mattered/helped	41	59	49	78
Additional unstated conditions were negotiated and facilities offered	33	61	43	87
Valuation of assets properly done	49	52	71	32
Inside information made available to selected parties	39	67	53	91
Favorable Tax rate, loan from NCB/DFI, Favourable Tariff, Reduced oversight, and relaxed/revisable Payment conditions were influential conditions	45	30	76	79
Conditions given in bid documents were not adhered to ultimately	81	79	59	67
Corruption, Nepotism Favouritism and collusion were present	63	57	29	73

### ***Deregulation***

The purpose of deregulation is to increase competition and the laws related to business regulation is awfully complex as the legislation has evolved over the two centuries in piecemeal manner. Bangladesh has no Monopolies Commission or Competition Act for control of merger, anti competitive practices, cartels, etc. But the Ministries of Industry (including Jute and Textile) and Commerce have wide authorities, besides those of Health, Environment, Finance, Agriculture, labour, etc. The laws are designed to protect public interest, which is a broad concept. There is no law to promote competition to enhance economic efficiency or consumer welfare.

The judicial interpretation of law for restricting 'inter-linkages' 'insider' trading 'unfair practices' has remained limited, non-focused and not always coherent. It may be recalled that Bangladesh legal framework is the creation of the colonial power and even today its laws are interpreted in the light of the common law practices and its evolution. A Survey of consumers in 10 wards of Dhaka City indicated that the consumers are not aware of their rights with regard to quality and

information. (Ahmad, 1998). Further the consumers were of the view that most dominant suppliers practice collusive exclusion and no agency of the government investigate to uncover secret and collusive arrangement except for 'unlicensed' production units or infringement of 'trademark' law. There are standards but no agency to enforce standards. The inadequacy of regulatory laws not only limits its territory but also investigatory powers and penalty that can be imposed under these regulations.

The deregulation under SAP was intended to promote entry with no or little transaction cost but it was not designed to enhance consumer rights and protect them from corrupt business practices as it was believed that a competitive market condition would take care of these concerns. The consumers are likely to benefit from sector specific competition law (e.g. telecom) backed by a general competition law.

A survey of businessman and consumers addressed the issue whether Bangladesh economy has become more competitive because of deregulation or is due to factors not related to deregulation. The prime source of competition identified is 'illegal' import which most businessmen have characterised as destructive. The other part of this illegal import is transactions involved in making entry or restricting entry into the market. Thus it may be presumed that reduced tariff and expansion of free list could be most beneficial in promoting competition. But alleged collusion of importers engaged in such import does lead to non-competitive business practices which the consumers face. There is not merely commodity and route concentration of such imports but also market concentration which recent studies on smuggling seem to suggest. Thus deregulation of import with attendant reduction of tariff in the presence of unfair and collusive business enlarges supplier's surplus and extortion by regulators.

A survey of commercial law practitioners in Dhaka bar indicated that the interface between law and economics is an area of darkness in this country. Failure to articulate a consistent doctrine on each of the key elements of deregulations and competition has been the single most reason why deregulation is an area so narrowly understood. However regulation cannot necessarily be designed as a replacement for competitive market unless regulation itself responds quickly and effectively to changing market conditions which are difficult to predict. Thus in Bangladesh, deregulation has not necessarily promoted competition as synchronised changes in inter related laws and rules were not undertaken, as consumer movement is weak and as courts have not moved to define and refine the basic concepts. As a result of fragmented approach, the scope of bureaucratic deviation has indeed increased and with supplier concentration market imperfection has intensified. Here comes the role of watchdogs, which can only be effective in a transparent environment for promoting expanded vista of deregulation in the interest of competitive entry. Despite deregulation costs of getting licenses and permission involving payments to officials has increased overtime and account for 5 per cent of avoidable expenditure. Survey conducted about cost of doing business found that, 36.6 per cent of respondent believed that government regulations of their business has increased, 48.5 per cent were of the opinion that it has decreased and 14.9 per cent through it has neither increased nor decreased.

The survey of business community did not identify reduction in tariff as a cause of their ailments but 41 per cent of the respondents indicated that such liberalisation without consideration of market realities and domestic competitive advantage did harm their business prospect. It is not the trade liberalisation but non-transparent intervention through SRO and discretionary interpretation by the implementing bureaucracy that create problems for the business. A survey of businessman indicated that payments made to customs and taxation officials has increased by 9 per

cent and 2 per cent on average during the 90s. The payment in percentage terms increased with the size of business. The payment made to the taxation officials account for 1-5 per cent of increase in business cost.

#### **11.4 Conclusions**

According to public perception both petty and general corruption has increased in Bangladesh like many developed and developing countries. Experience of officials and members of business community corroborate the perception.

The areas most prone to corrupt practices are public procurement, contracting including contracting out and consulting, public works, energy sector including exploration and generation, public services delivery including healthcare and education; utility and municipal services, regulatory bodies including telecommunication and financial services. These are corroborated by surveys undertaken for TIB.

The causality between structural adjustment programme and increase or decrease in corruption cannot be established from the evidence/opinion/experience available. SAPs if implemented in an appropriate environment is likely to increase consumer's surplus through reduction in transaction cost and increase in efficiency through heightened competition. But no such situation seems to have manifested itself in Bangladesh. Many causes suggest themselves including bureaucratic deviation, collusive restriction, unfair trade practices and so on.

The logical conclusion seem to be more reforms and institutional capacity for good economic, political and social governance in a regime where civil society is vigilant and performs watchdog functions diligently.

In Bangladesh the causes of secular increase in corruption is related to cronyism, connections, activities of family members and relatives, political donations, and bureaucratic deviation along with oversight of fraud and extra legal activities. These are governance issues. The checks on such corruption are possible through strong political commitment, comprehensive and independent anti corruption commission, transparency of decision-making, enforcement of accountability and civil society vigilance. These are again concern of governance, which alone can make corruption a high-risk activity and institute reward and motivation for predictable rule-bound transparent and enforceable decision-making. The SAP does not eliminate 'gate keepers' nor has it promoted time-bound 'one stop' predictable decision making in the bureaucracy, nor has it enforced reforms to reduce transaction cost of getting government approval or clearance through promoting ease of decision making in these areas. The grey areas have indeed increased.

World Bank however believe that deregulation and expansion of markets, public arrangement, legal and judicial reform and transparent procurement management are important to reduce corruption even when government plays a role in policy formulation. Of these a degree of deregulation has been in place in the country but markets remain imperfect and thus its impact on controlling corruption is not visible. The institutional reforms merit consideration on their own strength and its relation to SAP is now highlighted as hindsight.

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