

## SAPRI/Bangladesh

### A Report on Discussions at the Research Methodology Workshop on August 30-31, 1999

#### *General Comments*

Structural Adjustment Participatory Review Initiative (SAPRI) is a stocktaking exercise. The major anatomic questions are: if SAP has mixed results then why it did not succeed fully? Where did it go wrong? The second objective of the SAPRI, which is increasingly gaining importance as the process is passing the phase of autopsy, is that it is a forward looking exercise to investigate how the situation can be improved upon, and how people's participation can be incorporated in the design of policy reforms.

The first debate and concern that emerged is of very generic sense: what will be the value addition? The response was that participatory method, the gender sensitivity, the political economy approach – were expected to add value. This aspect of the current review of structural adjustment distinguishes itself from other academic exercises by having something operationable and actionable at the end of the day.

The SAPRI exercise envisages striking a balance between analytical rigour and participatory approach. If the conclusions from both quantitative and participatory analyses come to the same point, then it can be termed the exercise is going forward to the future. If they do not, then requires further analyses to move forward.

It is very much within SAPRI's scope to utilise knowledge of people's perceptions about reforms. One way of addressing the issue is the economists' normal task of looking at the outcomes of reforms, whether they are good or bad. The other is to understand why people think these policies are bad or good. Do they rightly think so? Or there are reasons for economic policies to be misunderstood because of the very nature of their complicated process? That is a part of this research as one of the stated objective to understand how public opinion can be carried for good reforms.

The objective of the SAPRI is not to carry out another impact analysis, but to look into the dynamism of political economy. A political economy approach essentially means that a straight line from policy X cannot be drawn to impact Y. The intermediating factors, particularly relations of power – that in turn are affected by population characteristics as gender, ethnicity, race, age group – and the distribution of resources (class structure), as well as regional dynamics (environment), are the real determinants of impact. The point is to be able to show how the results in terms of impact on population, in the real economy, compared with the stated intentions of the theory, the design, and the implementation of structural adjustment policies.

The SAPRI research agenda has been designed to reflect the priority issues and concerns of the stakeholders. The research exercise needs to assess the impact and welfare of policies on the population at large. Welfare is broadly defined to encompass many indicators such as the basic needs of lives, insecurity and vulnerability, poverty, productive capacity, market structure, social and institutional capital, environmental and natural capital. In this evaluation, assessing the policy impacts - the supply, access and quality of goods and services to the people particularly the poor would be critically important.

The researchers really do not have any widely acceptable way of dealing with the issue of causality. One way of approaching it is to have an agreement on impact. The question then is : Can this outcome be attributed to policy changes? In the context of this exercise, it is not feasible to go through lots of modeling exercises to solve this problem. But as a minimum, the question can be asked: Are there other possible changes which could cause the particular outcome? It is required to make some efforts to explore the plausible alternative factors and through the process of elimination a conclusion can be arrived at and can be said that this particular policy intervention is generating the outcome. That may be a pragmatic way of solving the problem of causality.

About looking at issues which had never been implemented, the question is whether those policies were not implemented because they were not contextualised, or did not take into account the institutional realities? So, because they were not implemented does not make them non-SAP issues. An example is the jute sector adjustment programme. It lapsed and even the private sector is talking about its designing problem. That is why it could not be implemented. So, why it was not implemented may itself be a question.

A good many of discussants put emphasis on examining the complimentary policies while investigating impact of particular policy. They suggested that one particular policy might not have the desired results because the related policies were not there. Many of these complimentary policies may be just institutional in nature.

The complexities between political process and desirable policies and politically feasible ones were discussed at length given the forward-looking nature of the review process. If one concludes that some of these policy reforms were of institutional nature, which were not politically feasible to do, then question follows as to why such political and institutional constraints were not taken into account in the formulation process. In pure economic consideration, things are much easier, but when politics comes into play, things become much more complicated. The analysis of both in terms of retrospection and forward-looking requires to investigate into the options amongst desirable, desirable but not politically feasible, and both desirable and politically feasible. This may lead to choosing the second best.

Another suggestion came in the floor is that the studies require investigating the issues from a more micro level.

As regards to the combining the quantitative and qualitative approach, both from methodological and operational perspective, it was stressed that two approaches were complementary, and suggested to identify the comparative advantages. It was said that there were many aspects of reform outcomes, which could not be quantified, and should be perceived in qualitative terms. It was agreed that it would be executed in close collaboration between the thematic researchers and participatory specialist. The modules prepared by the participatory research team to be sent to the thematic researcher in order to identify the questions, which could be better identified through people's perceptions. So, it was suggested that researchers collaborate to find out areas where qualitative information was needed and how people's perceptions were built. It was also suggested that the thematic researchers needed to be present in the participatory field exercises to get first hand knowledge. The thematic researchers would be supplied with inputs from participatory exercises for using in their studies while results derived from these exercises itself would form a part of the study on its own merit.

### **Trade Liberalisation**

At the outset it was suggested just to focus on trade liberalisation and to drop the associated industrial policy to keep the whole exercise manageable within the limited time period. It was argued that following reforms in trade and industrial policies, whether one could identify one policy instrument, one specific instrument of change. Can we substitute trade and industrial policy reforms by just trade liberalisation?, asked some participants.

On industrial capacity, it was suggested to put the focus on industrial growth in terms of output, effective capacity, exports, employment, and investment. The second part of the hypothesis -- the implication for small producers and workers were recommended to be dealt with. It was opined that the income and employment issues are very important there because of distributional aspect.

The following suggestions came in course of discussion:

It is very important to look at complimentary policies, not necessarily to study them for their own sake, but to take them into account where there are necessary complimentary conditions for success or failure of trade liberalisation.

While looking at capacities, it is very important to look at the effect of capacity. At the beginning of the process, one perception was that Bangladesh was having a large amount of ineffective capacity which had no chance of being used in its present form without changing other things like technology and investment.

### **Participatory Appraisal**

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The following suggestions came in course of discussion:

In participatory process, there is need to meet all possible groups, making distinction between beneficiaries and sufferers. A specific policy needs to be identified at first and then to look at the impacts.

The objective of the participatory approach is to validate quantitative and qualitative findings. If done separately, it will be very difficult to do it later on. So, there is a strong need for co-operation and co-ordination amongst all researchers.

The study should overcome any mutual misgivings between the participatory and quantitative researchers. If these two approaches are complementary, then there is a need to identify the comparative advantages. The SAPRI exercise is interested to know people's perception and there are many aspects of reform outcomes, which can not be quantified, and should be perceived in qualitative terms. The thematic researchers should identify the questions, which could be better identified through people's perceptions.

In participatory exercise caution should be applied about what questions to be asked, whether these questions can be perceived by respondents.

The participatory exercise should cover all the thematic areas.

### **Financial Sector Reform**

The following opinions and suggestions were put forward:

The premises of reform measures require to be carefully laid out and measures applied for examining the success and failures need to be clearly spelled out.

Another complicating factor is data source. When questions come about including the stakeholders, according to some participants, bureaucracy, political parties, trade unions, chambers, foreign banks, non-bank financial institutions and donors need to be incorporated.

The research needs to clearly define what hypothesis it is looking at and what are the indicators. Questions were raised about the yardsticks of efficiency and success of reforms in this sector and deriving consistent time-series data for that.

The logic behind financial sector reform is to bring in more competitiveness and more efficient allocation of resources and for that to bring in more prudential guidelines like changing institutions, supervisory mechanisms and liberalising of interest rates.

As part of structural adjustment, the main policy reform is, of course, the interest rate liberalisation. Apart from interest rate liberalisation, we have to consider the privatisation of NCBs and allowing private banks to come. The research will require to take into consideration all the things like change in loan classification, etc.

It is important to look at issue of access to credit. The study needs to investigate whether access to credit has improved to the productive sectors in terms of availability. The volume of credit and the number of people who are availing this, particularly in the rural areas needs to be seen from SAPRI point of view. In this regard, other issues like rationalisation of branches can come. Cutting down non-profitable rural branches has somehow affected access to credit.

Regarding access to credit, it is pertinent to know whether those who get it made proper use of it. Who is getting credit is very important. There are institutional credits for big entrepreneurs, micro credit for poor. But for the mid-level industries, there is no financial institution. There is an opportunity to revisit reform design also. How the Bank suggested the sequencing of the reforms? For example, the WB now hammers on strengthening the central bank. Is it an after thought?

The cost of borrowing is an important indicator. Liberalisation of interest rate is supposed to reduce the cost of borrowing through market mediated process. The research has to look at whether the competitive behaviour had come into play or not. Till now, the bank rates are somehow fixed due to the

government borrowings. The WB position is that not enough liberalisation had taken place in the financial sector. The NCBs still control 60 per cent of the market etc.

The research needs to focus on the question that whether efficient allocation of access to credit is taking place. And whether market mediated equilibrium price for credit has been established.

## **Health**

The following opinions and suggestions were put forward:

According to some participants, the policy questions are: when the government wants to give health services to the people, should it provide it or should it purchase it from others? What is the scope of shifting the government's role from the provider to the purchaser of services? Again, is the existing system biased against the poor? On paper, if it is not, is it indifferent to both the poor and the rich? Isn't the rich getting the lion's share of services because of having more influences than the poor have over the system? So, how to set such policies for giving preferential treatment to the poor?

It is important to keep in mind the original issues which bothered people -- SAP could actually impact on allocation. It is worth looking at the allocations in health and education sectors by breaking it down and to find out whether the wages and salaries tend to figure prominently in the budget even today, particularly while the allocations to the sector have said to be increased. What might be important is to see whether at the margin, necessary inputs for health care are in fact being compromised under this particular regime. It's worth bringing this into picture because obviously there is an element of structural rigidity appropriate to a discussion of structural adjustment reforms. This is a problem with the programmes, which may not appear if we are merely looking at macro numbers. The research should deconstruct expenditures to see if there is a corresponding co-relation between outcomes on one hand and resource inputs in particular sectors.

The issue of new health and population sector policy was important to that extent it was part of the learning experience and moving away from project approach to programme approach. The methods which are being used to promote the approach, the satellite clinics, NGO involvement, all these are part of the second generation adjustment programme. Some of them are in nascent stage, but some are in the PFP.

The access to and cost of primary health care would come up.

Besides issues related to health and population, issues surrounding nutrition should also be part of the study.

## **JSAC (Just Sector Adjustment Credit)**

The following opinions and suggestions were put forward:

Participants as a classic failure of reform portrayed the JSAC because it captured all the deficiencies, which are now in the literature of the Bank identified as factors behind programme failures.

According to them, the first failure was the lack of ownership. The programme was designed with the minimum participation, and complete lack of transparency. After a decade of the design of the programme, there is a need to study the underlying assumptions of the programme including the global jute economy and the assumptions made about that. What happened to the global economy and what was happening in the jute sector and was this consistent with what was predicted?

Secondly, the implications of this lack of ownership and transparency and the design and implementation of this project need to be carefully examined. This can tell us about what happens if a project is disowned.

The third issue is the underlying assumptions and conceptualisations of the reforms which were put into effect. These did not take into account Bangladesh's global competitive advantage in jute sector. It did not see whether it is possible for Bangladesh to much more actively occupy the global space, which was being vacated by the Indian jute industry. It did not also go into the ways in which the competing countries including India were in fact giving support to their own jute industry to remain globally competitive. This needs to be carefully examined. Now all these factors can be more closely studied since these policies are no more in force.

Fourthly, it is very important to see what assumptions and propositions were put on the table, what the government and the private sector were supposed to do in terms of implementing this programme. And what actual progress was made. Why so much emphasis was put on privatisation? Closure of this programme was declared because of failure in meeting the privatisation target. There seems to be an industrial level failure and the private mills were also closing down left and right. The private sector also had to be subsidised through out this period. Then why the Bank continued to make privatisation as a central premise of the reform programme? This needs to be looked into. Why did the GoB accept it as a proposition? It was found that provident funds of workers were appropriated by owners, dues were left long standing. What impact it had on agriculture as jute was the principle cash crop. Why no attention was paid to whether in terms of the design or whether in terms of actual implementation the whole issue of diversification of the sector. The huge human problem also escaped all.

One area that came out from the discussions is the importance of distinguishing the impact assessment of what actually happened in the sector. It should be done through the political economy analysis that why some things did not happen.

During the discussions, the questions raised are: what could have been the best policy options for Bangladesh? What are the political economy aspects? And then judging whether you have over-programmed or undertaken programmes which were not politically feasible? However, it is said that these need huge studies to answer. Even the technical analysis of what should be viable in the jute sector of Bangladesh needs a huge study.

### **Agriculture: Crop Sector Profitability**

The following opinions and suggestions were put forward:

The discussion started with the proposition that whether it is right to focus on the profitability as opposed to agriculture output. It was argued that profitability is important in terms of influencing the incentives to produce that output. If there were increases in both the input and output prices, then it could give a very misleading picture by just looking at any one of these in isolation, it was maintained.

In selection of policy variables, it was said that the agriculture reforms in Bangladesh had essentially been in three areas. One is in food policy area, or the output policies. Then there are reforms in the input pricing and input system like in fertiliser, irrigation etc. Then the third area is the institutional reforms. In order to get a full picture of what are the impacts of the reforms, if the study takes only one of them, that would not give you the full picture.

On the institution side, reforms were in the role of government, and the private sector. All these reforms came at different times. So, one has to be very careful about what is the time point for analysis and which period are taken for the reforms in order to see the outcome.

It was argued that profitability itself may not be the only point to look at. Output response or supply response is of course an important thing. It was suggested that income should be treated as a focus point.

Another discussant opined that in recent years changes in the fertiliser types have emerged as important area of concern because of the changes in the relative prices. One of the crucial problems is the decline in the use of phosphet fertilisers because of the sharp relative rise in TSP price. It is said in various forums that this is leading to serious implications for the health of the soil. It is having its impact on declining marginal productivity in the agriculture sector, where the input-output relationship is in fact, sharply deteriorating.

A major assumption of policy changes was its impact on the budget. The idea was that if subsidy is reduced, this would be put to more efficient use of the budgetary resources in the agricultural sector. The argument was that rather than putting money into agricultural subsidy it should be put into other high return areas of agriculture to use it more efficiently. So, the very crucial element of the argument where it needs to be explored is whether this led to saving budgetary resources and then, whether the resources were used more efficiently.

It is said that there had been no significant increase in the overall allocations in the agriculture sector. And it need to be looked into whether the resources saved against the input subsidy were put to

more efficient use in other sectors of agriculture or any other sector. So, this macro perspective of public expenditures arising from savings in one sector should be tested out because it was one of the crucial assumptions underlying the policy reforms.

Regarding institutional reforms associated with the progressive dismantling of the BADC, the research needs to look at the impact on deep tubewell irrigation in particular. BADC's original role of installing and managing deep tubewells has been virtually demobilised. But there has been no corresponding commitments from the private sector in this regard. This certainly has an impact especially in areas, which are drought-prone and have not been correspondingly matched by a response from shallow tubewell operators. The research should see whether these propositions have come into the discussions on the agriculture policy. The exercised should show what exactly was the nature of the problem because there has been some discernible deterioration in the use of tubewells. If one assumes that BADC may not have been the appropriate institution, but that creates an institutional vacuum which needs to be addressed by the reform policy. The research needs to address this particular problem as this emerged as a clearly identified felt need.

There is a concern over arsenic contamination of the tubewells. Propositions suggested are that proliferation and indiscriminate and unregulated siting of shallow tubewells has had a significant impact on arsenic contamination. It is argued that everyone is looking at it as some sort of a freak ecological event rather than associated with a policy regime, which may, in fact, have contributed to this particular problem. This may be otherwise, but the arsenic problem may have deeper impact on agriculture; on the food chain or on the sector as a whole. So, the study requires to pay attention to this.

Getting loans for small scale irrigation is a major problem. For banks, such loans are not feasible to provide due to high non-repayment rate. So, availability of loan is a big problem for the agriculture sector. That needs to be a focus of the study.

The entire privatisation including the minor irrigation system has to be looked into. I propose this broad approach for two reasons. The research should search whether the privatisation and liberalisation were accompanied by a conception about what would be the appropriate public sector role in the input markets to compliment the private sector.

The irrigation was privatised, but certain concerns still remain. For example, minor irrigation is a private monopoly because of its nature. There is also a problem of over-exploitation of sub-soil water when siting restriction was removed. Following the withdrawal of import restriction on machinery, there are questions about whether there is adequate information and supervision to ensure quality machinery import. There have been complaints of poor quality machinery import.

In fertiliser marketing, there have also been complaints of absence of supervision and adulterations. All these lead to think what should be the role of the public sector in a privatised and liberalised economy. Should the role of that of supplying information, or extension or regulation?

### **Food Security**

Questions were raised about analytical difference between the two studies relating to the agriculture. I was said that food security is bigger concern for Africa. That is not the case here in Bangladesh. In response it was said that if the study deal with labour market, wages and food security, then it would cover not only agriculture but also the rural sectors

As far as agriculture is concerned, one part of that interface is to go back to review of agricultural policy reforms affecting agricultural production growth and productivity. Other than poverty aspects and income generation, specific impacts on food market and price stability can be looked into in the light of SAP.

The work would focus on the food policy regime which emerged in the wake of the reforms, stating that people are eating better as a result of policies associated with the reform process. It is a distinctive area of inquiry.

### **Environment**

The following opinions and suggestions were put forward:

The questions that surfaced relating to linking SAP with environment were: how can one identify the cause-and-effect of economic actions that are part of the liberalisation aspect? Or, identify those cause-and-effect issues which are related to the environmental corruption and other cross cutting constraints arising from implementation failures? How do you prove that it is SAP and not the failure in the implementation of environmental policies, monitoring and evaluation, failure of proper agriculture extension services, industrial policies, corruption and market manipulations which forced the farmers to use cheap urea?

In response it was said that the environment issue was incorporated only in the last PFP. In terms of having a synergy in researches, more focus may be given on the cross cutting issues. For example, trade liberalisation and exchange rate reforms may be related with environment.

It was also suggested that focusing on issues related to trade liberalisation, use of fertiliser and pesticide, and shrimp would form the part of the research.

### **Corruption**

The following opinions and suggestions were put forward:

Some participants observed that it was hard to make a causality analysis between corruption and SAP. However, the participants said that corruption stems from fundamental governance failure, which can be identified and this can shed some light on the magnitude of the problem.

Although causality would be empirically difficult to prove, SAP, in general, is a process of deregulation and liberalisation, meaning that when there would be fewer regulations, chances of rent seeking are also less. So it is possible to determine whether that has happened or not.

One aspect of SAP is import liberalisation; here the study can look in to the affairs of premiums and quota. What is happening in customs corruption- whether it has gone up or down may be investigated. The study may look into whether SAP acted as a cause and effect.

SAP had a far-reaching impact on agriculture. If one looks at the deregulation of agricultural inputs and make a before-and-after comparison of corruption or rent seeking behaviour, one can compare whether corruption has reduced or not. Accessibility or availability of inputs can shed more light on corruption and SAP.

Corruption has some institutional dimensions. One way to narrow down the study is to determine which are the institutions to look into.

Another view came out stating that the process of governance and corruption may not be related to policy regime, but engrained at the values and social norms that have changed gradually making profit seeking or personal accumulation of wealth a dominant value. Due to value changes, every conceivable public service has become commoditised. The difference between the public and the private sector has practically become non-existent due to this reason. And they are often collaborating with each other making corruption a universal affair. This is a distinct case of enquiry.

The bribery propensity of the members of the chambers can be looked into. This will tell about the win-win game for the bureaucrats and the traders. There is another dimension to look into, which is trade liberalisation without proper institutional capacity to handle it.