Structural Adjustment Participatory Review Initiative, Bangladesh

A Summary Report on the Focus Group Discussion on Trade, Industry and Financial Sector Reform held on Tuesday, November 28, 2000

The focus group discussion on Trade, Industry and Financial Sector Reform held at the Conference Room of the CIRDAP on Tuesday, November 28, 2000. Thirty eight representatives of workers and employers validated on the findings of the studies based on their experiences about the policy reforms, voiced their concern on key adjustment issues, and suggested for future policy making. Bangladesh Institute of Labour Studies (BILS) organized the FGD. Mr. Ahsanullah Master MP, Chairman, BILS chaired the session while Dr. Debapriya Bhattacharya, Study Director, Bangladesh SAPRI moderated the session. Prof. M A Rashid and Dr. Toufic Ahmed Choudhury presented their papers.

Industrilisation Policy

The participants mentioned that the country require an industrial policy suited to the milieu of the country. They expressed that the cornerstone of that policy should be how the country could attain self-reliance in industrialisation. They opined that Bangladesh should have tailored target-specific policies before opening her doors to free imports. In this regard the industrialists put the example of the neighbouring country, which had opened its frontiers only recently and as a result, its produces had attained the maturity to sustain in the competition. They opined that they were not against the wind of market economy and globalisation, but they blamed the government for jumping at a time without having sound technological, financial and infrastructural base.

Trade Liberalisation

The participants recorded their strong opposition to the pacing and sequencing of reforms in the field of trade and commerce. They were of the opinion that these policy changes were brought about without consulting the stakeholders associated with the industrialisation process. They also felt that policies brought about were not changed in accordance with the objective reality prevalent in the sector. Some of them expressed their fear saying that these policy changes made at the dictates of the World Bank might wipe out the industrial base of the country and render the country import-dependent.

Some of the participants opined that trade liberalisation could be carried out only when the country had a solid industrial structure. They opined that real manufacturing was not possible without having an appropriate physical infrastructure, credit facilities and technological advancement. Due to lack of andequate industrial infrastructure provision, Bangladesh's produces are failing to sustain themselves in the competition. As a result, the massive trade liberalisation has been leaving an adverse impact on the country's industries.

The reduction of tariff rates and withdrawal of quantitative restrictions had negative results, the industrialists added. They also cited the bias of the duty structure in favour of finished imported goods and adversial rate against the import of raw materials.

The participants criticised the World Bank's 'divisive policy.' They said that the Bank had failed to maintain the same tariff level in the influential countries, with the result that the poor were more vulnerable.

Sick Industries

The participants felt that the policies of trade liberalisation had a serious role in rendering a good many industries sick. They thought that uneven competition forced by the process of liberalisation had wiped out the market of many indigenous industries, plunging these units into sickness.

Impact on Financial Reform

The analysts said that FSAC/SAP failed to achieve efficient resource in terms of access to credit by productive sectors and efficient allocation of resources through improved access to credit was not achieved following the FSAC/SAP. The contention is that underlying assumption was wrong regarding the market structure, which resulted in increase in real lending rate rather than reduction of interest rate through competition. There was no establishment of appropriate accounting policies including recapitalisation, effective regulation and supervision and effective management policy.

It was suggested that 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.

Monetary and Fiscal Policies

The participants said that frequent devaluation of the national currency on the balance had not impacted favourably. Acknowledging that the downward adjustment of Taka had eased the pressure exportables to remain competitive, but it had made imports dearer. They thought that the country should find alternatives to devaluation.

The participants said that the cost of borrowing is high in Bangladesh. Questioning the financial sector reform, they asked: 'what had the Bank done to bring the exorbitant interest rate down? Why did the Bank fail to reduce the default rate?'

Privatisation or Destruction of Industrial Base

Questioning the fundamental position of the World Bank, the participants were of the opinion that the policies that the Bank had been advocating to successive governments were not aimed at increasing the industrial base of the country as demonstrated by frequent closures of thousands of manufacturing units of varied size. The bandwagon pursuance of market economy, coupled with withdrawal of the state against the backdrop of the absence of a solid entrepreneurial class, had been virtually leading the country towards de-industrialisation for making the country a market of other countries. Expressing their apprehension, the workers stated that the day was not far away when the country would entirely be an import-dependent one, should Bangladesh continue to pursue the status quo. According to them, if the World Bank was interested in the industrialisation of Bangladesh, they would have diagnosed the real problems and make strategic planning based on a vision instead of imposing the ‘just privatise’ policy on the government. If the Bank were serious about Bangladesh’s industrialisation, they would have opted for a high-powered Board or Commission for industrialisation rather than force the government to set up the Privatisation Board, they added. According to the participants, the vision of industrialisation should be to increase employment not to make people redundant, but the latter option was adopted in Bangladesh at the dictate of the Bank.

Closure or running at a snail’s pace is the fate of an industry after privatisation

Questioning the ‘theological’ trust placed on the policy of privatisation by the Bank and the process of its implementation by the government, the workers gave examples of dismal performance by the privatised mills in support of their argument that they buyers’ motive was all but running the units. The workers claimed that most of the privatised units either had been laid-off or continuing at a very slow pace. They also found serious failings in the current privatization policy as against those followed in the neighbouring countries such as Sri Lanka. Contrary to the practice of the Bangladesh’s Privatisation Board, the Sri Lanka’s Privatisation Commission first considers whether the bidders have the ability to run the mills to be privatised before proceeding to further negotiations. The Commission also puts strict condition of no retrenchment after privatisation.

The workers opined that most of the owners bought the mills in order to grab NCB’s money sanctioned for purchase of the units. They added that most of the owners had diverted the money to other sectors, primarily to non-industrial activities in which either the gestation period was short or the return was quick. The workers opined that the privatisation process had been augmenting the size of loan defaults. They quipped that the industries in Bangladesh were being rendered “sick” for making the new owners’ “healthy”.

Characteristics of Entrepreneurial Class

The workers expressed strong scepticism about the entrepreneurial class in Bangladesh and found them more tilting towards trading or sectors, which could earn them ‘quickie’ money. The workers made of these buyers as people wanting to appropriate riches overnight. Showing specific examples of how the buyers or present-day industrialists had employed corrupt means in accumulating their wealth, the participants questioned their motive: how one could expect dedication towards industrialisation from them, given their unscrupulous wealth accumulation process.

The workers stated that many of them had been happy when they learnt about the decision of denationalisation as they were frustrated with the government-appointed inefficient and corrupt managers in many of the units abandoned by foreign owners. The anti-industries activities and greed of the new entrepreneurs were so monumental that some of the entrepreneurs had not only squandered transferable and non-movable wealth of their units, but even eaten up money saved by workers in their provident funds. The ground reality had led the workers to the conviction that the characteristic of the entrepreneur was one of the key factors in advancing industrialisation.

Post retrenchment situation of the workers

The participants expressed that their miseries began with the decision of their retrenchment. They, however, said that some of the retrenched workers were misled by the allurement of the 'golden handshake' or termination benefit for voluntary retirement. Some of the participants revealed that they were not at all paid by the authorities. They had filed several legal suits, but the voluntary retrenched workers were not sure whether they would receive the promised amount. Illustrating the plight of these self-retired workers, they said hundreds of them had already died without medical attention. Those who were still alive leading unthinkable lives. One participant informed that in payment days, some of the workers came to their previous offices literally to beg. According to the focus group participants, those who had received the money failed to put the amount in productive ventures, failure in which had brought some of them to the street or untimely death. The participants also informed that most of the retrenched workers could not find alternative employment.

SOE's Loss, Services and Workers' Responsibility

The workers vehemently opposed the notion that the labourers or their so-called militancy were responsible for the losses of the state-owned-enterprises (SOEs). The participants said that it was they who put forward several proposals to the government for making up for the losses. But, according to them, the towing policies of the government and vested quarters within the government did not give proper importance to their proposals, enforcement of which would have rescued the industries from losses, created, as they claimed, by the inefficient management and high-ups of the government. The worker leaders informed that they entered into an agreement with the government 'at the risk of loosing their support from their constituency' that ten best performing jute mills would be selected, five each from the public and the private sectors. The government was only finance the difference between the average cost of production of these ten mills and the world market price. But loss financing by the government had led to accumulation of debt to mountainous proportion on the one hand and allowed the management to be as inefficient one could be, on the other.

On the question of the so-called poor services provided by the nationalised commercial banks (NCBs), the workers reacted sharply. Giving comparative statistics of work-load between NCBs and private banks, one participant quipped that the amount of vouchers a branch of Sonali Bank, Local Office processed would surpass all the activities of three to four private banks, taken together. They also said that they had to do many non-banking activities, like bill collection of utilities.

Refuting the World Bank's portrayal of private bank as efficient, the participants argued that the proportion of non-performing loans in private banks was much higher than that of NCBs. They added that NCBs had to perform many socially necessary activities (e.g. collection of utility bills) while their private counterparts acted on the sheer basis of profit.

The Management Failure

The workers attributed the failure in the country's industrialisation and physical infrastructure to the inefficiency of the management and increase in the top-heavy bureaucracy. They blamed the Bank's one-eyed policy under which they were suggesting only retrenchment of workers, while turning a blind eye to the increase in top heavy administration. The workers found the Bank's policy in favour of decentralisation as an eye-wash. Giving examples of railways and NCBs, the workers informed how the top echelons were increased manifold, while the main workforce had been trimmed.

Redesign of the Reforms

The workers were in favour of redesigning the reform process, in which a strategic vision with its locus on increasing industrialisation would be the guiding principle. The participants added that the very essence of the reform would be to make the sectors dynamic, employ more labourers, but just not to privatise SOEs.

The participants observed that the reforms needed to be carried in association with every stakeholders. One of the major reasons of the failure of the current reform process was, according to them, the failure to incorporate labourers in the decision-making process. They felt that every reform process must take labourers on board and give them equal partnership.