Social Dimensions of Economic Reforms in Bangladesh

The ILO's Asian Regional Team for Employment Promotion (ARTEP) and the Area Office in Dhaka are jointly organising a three-day national workshop on Social Dimensions of Economic Reforms in Bangladesh. The workshop, which is being held in Dhaka during 18-20 May 1993, will be attended by high level government officials, representatives of employers' and workers' groups as well as those of NGOs and donor agencies, and researchers and academics. Two officials from the ARTEP (including its Director, Dr Rizwanul Islam) will also be attending the workshop.

The background to the workshop is provided by the economic reform measures and the structural adjustment programme (SAP) which are being implemented by the Bangladesh government. While the reforms included stabilisation policies intended to cope with balance of payment imbalance and fiscal deficit, the SAP has the long-run objective of attaining greater efficiency in the production structure through greater reliance on market forces and an outward-looking growth strategy. The SAP included reforms in trade policy, restructuring of public enterprises, privatisation and policies for increased private sector participation, and reforms in fiscal and monetary policies.

While the mentioned reform measures are largely geared towards more efficient macroeconomic management and higher growth, their impact on such vital social aspects like employment, poverty, and condition of workers emerging as redundant in the course of reform has not been systematically examined. Also, no explicit provision for social safety net appears to have been made for those likely to be adversely affected by the reforms.

In view of the overriding importance that the Government of Bangladesh attaches to these goals of development, it is essential that such social dimensions of economic reforms are analysed carefully and ways and means are found for minimising the adverse social consequences.

The ILO workshop is intended to bring together the social partners into an open forum and to facilitate discussions on the social dimensions of economic reforms. The ultimate objective is to formulate measures which can be incorporated into the reform package with a view to minimising the social costs of such reforms.

The specific issues that will be covered by the workshop include: overall employment effects of recent macro-economic reform measures; poverty and social safety nets; labour market reforms, industrial relations and productivity; restructuring of public enterprises; and employment oriented industrialisation strategy. Excerpts of three papers to be presented at the workshop are published here:

Public Enterprise Reforms, Employment and Productivity

by Prof Muzaffer Ahmad

BANGLADESH has undertaken economic policy reforms that have crucial significance for Public Enterprise sector. These reforms are part of structur l adjustment policies aggressively posed and pursued through IMF-WB conditionalities to promote economic efficiency, external competitiveness, improvement in balance of payments, reduction of public sector deficits and promotion of sustainable growth. In response to the conditionalities, government has liberalised imports, privatised SOEs, adopted policies to encourage domestic and foreign private investment, improved tax administration, reduced rate of inflation. Even then investment has declined in real terms, unemployment had swelled, farmer level prices has created disincentives, real wages have gone down and public discontent is simmering. Despite firm commitment to market economy in a distorted market situation, no concrete evidence of growth and stability is visible.

Bangladesh has a long history of policy evolution. The market economy under the British regime converted it into a backward hinterland. The economic policies of mixed-economic system during Pakistan regime deprived Bangladesh of its own surplus as well as legitimate share in development funds in public sector. The market economy promoted during and after second plan not only contributed to regional disparity but also resulted in concentration of wealth, power and access to investable resources in few hands. The open ended private sector oriented industrial policy had disastrous consequences for small, cottage and rural industries. Despite advocacy of market economy, the legacy of control and regulation was however continued.

Liberated Bangladesh, because of historical antecedents, started with an enlarged public sector and with an intent of containing private sector to promote equity with growth. But the policy was soon reversed and scope for private sector was consistently widened and public sector operation restrained. However, this was not accompanied by any diminution of bureaucracy either with respect to its power or its size. All policies to promote a vibrant private sector with competitive efficiency under a concessionary policy regime only resulted in default culture, closure of divested units and diversion of resources in unproductive or more profitable but undesirable channels. One must note that as a proportion of value added to GDP public enterprise sector was not large and in terms of fixed assets only in utilities and modern large industries sector it was dominant after liberation for a few years only. In terms of neo-classical economics, optimal size of public sector is determined by consideration of cost and benefit of public interventions of various type. As these vary from country to country and in a country overtime the optimal organisation of an economy is a dynamic phenomena and only partly the result of policy intervention. Recent crusade against public enterprises is predicted by ideological conviction of WB-IMF and not by any empirical evidence of relative costs and benefits of public and private sector operations.

Public enterprises have been accused of over-employment — because of 'growth with equity' consideration normally inherent in such operations. Output — employment trade-off characterised by adoption of older labour-intensive technologies may indeed be sub-optimal if wage rate is such that it is possible to adopt more efficient capital intensive technology and generate surplus to create employment elsewhere in a labor-surplus economy.

The allegation is that higher wage and benefit payment in public sector creates pressure on private sector to adopt similar policy without regard to productivity. For this to be true we have to assume perfect labour mobility and near full employment. Public sector, indigenous private sector and multinationals in labour surplus economy like Bangladesh operate in segmented output and factor markets with little substitution or mobility.

Public enterprises have been accused of incurring loss. A cross-section study of public enterprises indicate that such losses are due to wrong investment decisions, imposition of inappropriate management personnel, importation of bureaucratic culture, political decisions and dominance of external authorities who bear no responsibility for the consequences.

The available evidence of pre-reform PE operation indicate that the quantum of output in PE sector has generally increased overtime due to addition to capacity or better utilisation of capacity. The nominal wages in all PE sectors increased impressively but real wages did not catch upto 69-70 level. The employment in PE did increase disproportionate to its expansion of capacity or production and this resulted in decline in labour productivity and increase in labour cost as a percentage of value added. The primary loss making concerns in public sector are jute, electricity, utilities and railway.

This is summed up as organisational failure on the part of SOEs, causing strain on public resources and creating monetary expansion resulting in inflation. These warranted introduction of reforms, particularly in public enterprise sector.

Bangladesh has been noted for quick and large scale disinvestment of commercial and industrial units and banks; the methods of valuation and process of divestiture is however suspect. The available data of two comparable sectors i.e jute and cotton show that in jute sector the privatised units with marginally better performance on average did not operate sufficiently well to be called a success story while in the cotton textile sector evidence is mixed and in certain ways public sector, despite demoralised impact of privatisation, have operated better than private sector mills.

There is some truth about redundancy of employees in the public sector enterprises often resulting from privatisation process and political patronage. The financial viability of SOE was studied with respect to Bangladesh Chemical Industries Corporation. The data tend to indicate that despite current operating profit, because of past accumulated losses, that net financial position is not in a happy state though its net worth is very much positive and despite past political and bureaucratic interventions raising cost of investment it has all the promise to become a competitive efficient industry under proper business management.

Accepting that privatisation is an accepted continuing policy process, social cost can be minimised by pursing a policy of employee buoyant (instead of current 15% notional option) with a package of techno-managerial assistance and IDA term repayment structure. Such policy was successfully followed in USA and elsewhere and this has the merit of containing labour discontent and creating a broad-based middle class which contribute to promote socio-political stability.

Economic Reforms, Industrial Strategy and Employment Growth in Bangladesh

by Dr Zaid Bakht

THE outcome of the post-war industrialisation efforts have reaffirmed one conventional wisdom — the key to the possibilities of rapid industrialisation and sustained growth lies in the pursuance of a globally competitive industrialisation strategy dictated by the dynamic comparative advantage of the economy. For a least-developed, resource poor, labour-surplus country like Bangladesh, this underscores the need for the adoption and implementation of an employment-intensive industrialisation strategy.

During the last two decades, industrial policy in Bangladesh has undergone the full length of policy metamorphosis from public sector led import-substituting industrialisation to export oriented private sector based industrial growth. In a bid to render its industrial sector internationally competitive and to move towards greater efficiency in its production structure, Bangladesh implemented a number of economic reforms during the 1980's.

Unfortunately, the manufacturing sector of Bangladesh does not seem to have responded well to this maze of policy reforms. The review of available evidence has shown that there has been little in the way of dynamic growth or structural change in the sector during the decade of the 1980's. Within this general scenario of stagnation, the small industries and a few non-traditional export industries have shown certain amount of dynamism. But given their low output and employment share they failed to carry forward the overall sector.

The lack of response of the overall industrial sector of Bangladesh to the policy reforms of the 1980's has been subjected to varying interpretations. One point of view is that the reforms did not go far enough and hence failed to deliver desired results. Others argue that a reform package which focuses mainly on 'getting the price right' and allowing market imperatives to prevail is unlikely to achieve much success in a developing country like Bangladesh where structural weaknesses and market imperfections inhibit free play of market forces and the market led outcome is not necessarily the most desired one. Questions have also been raised regarding the appropriateness of some of the reform measures and in particular the pace and modalities of their implementation.

The control mechanism which the government exercised in the pre-reform period on private industrial investment was never preceded by the preparation of full-fledged industrial strategy which would spell out a longer term vision of industrialisation of the country. Investment Schedules, Project Profiles, Priority List, Discouraged List etc which were used to guide and regulate private investment were mostly drawn up on an ad hoc basis. As a result, the system failed to channelise private investment in a desired track and instead worked as a major disincentive and barrier to growth of private investment.

The relaxation of the sanctioning procedure along with the decision to limit public sector's entrepreneurial role and to have a neutral trade regime has moved the country to the other extreme of leaving the process of industrialisation completely to the imperatives of the market. The future composition of the industrial sector in Bangladesh will thus depend entirely on the private sector's investment choices which in turn will be guided mainly by the entrepreneur's reading of the market.

Government efforts at influencing private investment in accordance with the pre-drawn industrialisation strategy should be limited to adequate pre-investment counselling and providing indicative guidelines to the project appraising cell of the financial institutions. Where private investments are not forthcoming according to the guidelines of the industrialisation strategy, government should take up transitory entrepreneurial role to set up those industries and eventually hand them over to the private sector in the fashion of the EPIDC model of Pakistan.

While the general case for trade liberalisation on grounds of allocative and productive efficiency, elimination of anti-export bias and favourable employment and income distribution effects has, by now, gained fairly broad-based support from academicians and policy makers, concerns have been expressed with regard to potential limitations of such measures and the possible adverse effects which sweeping trade liberalisation measures may entail. Major considerations in this regard include the case of industries having externalities, structural weaknesses of small and cottage industries to respond on their own to the pressure of foreign competition, possible weak correspondence between export growth and elimination of anti-export bias through trade liberalisation, limitations of exchange rate adjustment in influencing export growth, and the difficulties of developing countries in opening up their economies in an environment of growing protectionism and regional trade blocks formation. Bangladesh's experience with trade liberalisation lends support to these apprehensions.

The disparate performance of various export industries and the fact that non-traditional export growth could not be diversified and remained confined to a handful of items suggest that the various price and non-price incentives put in place for export promotion were not the most important determinants of export performance. In particular, the emphasis on exchange rate adjustment as a tool for export growth has been significantly discredited.

Rapid growth of readymade garments exports was the result of a whole set of factors, viz direct involvement of experienced international marketing intermediaries, access to information, markets and easily replicable labour intensive technology, quick policy support from the government, and the scope of extracting abnormal rents through illegal sale of duty free imported fabric to the domestic market. Many of these factors could not be suitably replicated in the case of other potential exports and hence the desired diversification of non-traditional export base could not be achieved.

However, the main reason behind failure to develop potential export market lies in the absence of a well prepared export promotion strategy essential ingredients of which would be identification of market opportunities on a dynamic basis and providing the needed support services for the development of such industries including technology diffusion, R&D and human resource development.

A Proposal for Social Safety Nets

by Dr Shah M Farid

A very brief discussion of a few programmes successfully implemented by other countries to minimize the social costs of economic reforms may help us to devise similar programmes tailored to the needs of Bangladesh. Multi-sectoral schemes to mitigate the social costs of reforms in Bolivia, Ghana and Madagascar in the late 1980's are the most advanced and best known. These programmes included short-run measures to relieve distress (such as public employment, severance payments and credit schemes for displaced workers) and various other measures (ranging from sanitation to provision of text books), that form part of a longer term strategy to reduce poverty. They often involve pooling of resources by many donors and local and international NGOs. Bolivia's Emergency Social Fund (ESF) involved a new institution. It was essentially a domestic financing agency for projects selected by local communities and executed by private contractors. The scheme was implemented successfully, mainly because of strong leadership, highly motivated personnel (who received attractive salaries higher than those of civil service) and minimal government involvement. Ghana's Programme of Action to Mitigate Social Costs of Adjustment (PAMSCAD), by contrast, works with established government agencies in short-term community initiated employment projects. It includes twenty-three anti-poverty interventions that cover health, drug, nutrition, shelter, public works, credit, training and low cost water — all with a strong orientation toward community involvement and the participation of indigenous NGOs. Madagascar's Economic Management and Social Action Project includes measures to provide drugs and support family planning, which are compatible with longer-term health interventions. None of these should be blindly replicated in other countries. Safety nets for Bangladesh may be less complex than PAMSCAD of Ghana, but these may still be multi-sectoral with many components and mix short and long term measures.

First, the government should maintain a floor for minimum nutrition, health and education levels — the expenditures that benefit the poor. This may be difficult at a time of wholesale cut backs, but it can be achieved by a careful setting of priorities. Economic reform programme presents a clear opportunity to adjust public expenditure priorities and processes through protecting important social and poverty programmes. At the same time, it is essential to increase the efficiency and effectiveness of social sector service delivery to ensure optimum utilization of scarce resources which are even scarcer during transition. The social services may be restructured for assuring benefits to the poor adversely affected by economic reforms.

Second, it is crucial to devise safety nets to cushion the impact of increase in prices. Most reforms measures include a reduction in consumer or producer subsidies as part of the package to reduce the deficit. Across the board cuts in subsidies for basic commodities, mostly food, can severely hurt the poor. Exchange rate reforms may raise the price of imported food grain through devaluation. It is essential that subsidies that are effective in reaching the poor should not be reduced or eliminated unless alternative means of reaching the poor are in place. The Public Food Distribution System should be strengthened to meet the requirement of the urban and rural poor.

Third, the social safety nets must be designed to meet the requirements of different sections of the labour force adequately. For example, a safety net programme in the jute sector is in operation which includes separation benefits and training. A total of 16260 workers have so far opted for separation upto March 1993 and their separation benefit is gratuity in terms of two months basic wages for every year in service. A programme has been developed to retain and reemploy these workers if they so choose. A highlight of the programme is its reliance on existing NGOs and Government sponsored training systems. Retraining and redeployment scheme and retrenchment benefits would mainly take case of retrenched workers in the organized sectors like jute, textiles and railways. But major focus should be the poorer section of the labour force — on unskilled manual workers in the urban and rural areas and on workers in the urban informal sector. Reform measures may also cause reductions in wages for some workers through macro-economic changes, e.g. switching between traded and non-traded goods. This would require assessing the wage implications of alternative reform measures and examining the scope of labour market reform. The pressure for wage increases during the reform period may be moderated by devoting careful attention to the provision and targeting of state provided social services. Although minimum wages have an important role in providing safety net for protection of the lowest income group, it must be linked with productivity for ensuring efficiency.

Fourth, production within the productive sectors — agriculture industry, services and foreign trade — should be restructured so that producers in the small-scale informal sectors and cottage industries, specially in rural areas, are not discriminated against. These informal sectors should be made to complement the organized sector (manufacturing small components and spares, providing ancillary services etc). Access of raw materials should be ensured. Such restructuring will strengthen employment and income generating activities and raising productivity of low-income activities, which are particularly vulnerable to vicissitudes associated with reforms.

Fifth, special safety nets for women and children should be devised and those already in operation should be maintained. Publicly provided social services like education, health, nutrition, water and sanitation which are targeted for poor women and children should be strengthened. This can be done by restructuring public expenditure both between and within sectors and by improving the targeting of intervention. NGOs specialising in poverty alleviation programmes for women and children should be encouraged.

Sixth, there should be some safety nets to generate employment for the underemployed and unemployed because of economic reforms by mobilising retrenched and experienced manpower and pooling the severance payments received by workers in the organized sector. It may be mentioned that in the jute sector alone, Taka 142 million (US $ 3.65 million) was total severance payment to workers during July-March, 1992-93. These people have some skills and they have some capital — if only there is some catalytic agent to train thousands of such people to start small scale manufacturing, trading and service industry, then this would have been the best safety net not only for the workers in formal sector who lost jobs, but also for those in the informal sector who are even poorer.

Seventh, it is essential to monitor the human situation very carefully during the adjustment process. Indicators of human development and quality of life like health, nutrition, sanitation and housing among the low income groups who are particularly vulnerable to shocks of reforms should be closely watched during the adjustment process. This will help identification of the changing needs of the poor as the results of reforms unfold and thereby facilitate assessment of the effectiveness of safety nets which can be modified accordingly. Reforms and adjustment can thus act as a catalyst for policy makers to examine carefully the costs and benefits of their programmes for the poor.

Eighth, it is important that privatisation, an essential feature of economic reforms in Bangladesh, takes place in such a way that it stimulates growth and job creation. Experience has shown that there are many ways to privatise and to improve efficiency. Hasty and ill planned privatization, as discussed earlier, may be counter-productive in terms of the growth of a healthy private sector, apart from its debilitating effect on the poor. It has to be remembered that most enterprise creation does not stem from government decisions to privatize but from an encouragement of enterprise culture.

Economic reform policies should lead to the creation of an environment, institutions and incentives which foster investment in physical and human capital and thereby create the most durable safety nets for the vulnerable groups.

Ninth, special safety nets for disaster prone and seasonal deficit areas must be an integral part of the social protection programme in Bangladesh. The poor, always living on the fringe, are particularly ill-equipped to survive calamities like floods and cyclones. Coastal areas of Bay of Bengal are often exposed to cyclone and tidal bores of unusual intensity. For example, on 29 April 1991, a cyclone of immense severity accompanied by tidal waves upto 25 feet high with a maximum wind speed of 235 km per hour hit the coastal areas and claimed 1,31,539 human lives and loss of property worth of US$ 2.07 billion. Safety nets to be activated at the time of natural disasters may be conceived to include four phases: survival relief phase, emergency relief and rehabilitation phase and lastly, rehabilitation phase. In survival relief phase, the main objective is to ensure that the people who have come out alive from the calamity could survive. The thrust is to reach water, ready-to-eat food and medical help within twenty-four hours. In emergency relief phase, efforts are made to ensure survival of affected people and to make affected area habitable. The main purpose of emergency relief and rehabilitation phase is to help affected people go back to normal living. Many of the activities that are in operation in the second phase will continue in the third phase. The last phase consists of short, medium and long term rehabilitation programme for better preparedness, specially by the poor, against future onslaught of natural calamities. In addition to unforeseen natural disasters, safety nets should also protect the poor against anticipated seasonal deficits, specially during the lean pre-harvest periods of Kartik (October-November) and Chaitra (March-April) through intensified government (e.g. Food For Work) and NGO programmes in identified areas of Bangladesh.

Bangladesh and ILO signed an agreement on establishment of an office in Dhaka on June 25, 1973.

Minister for Labour and Manpower Abdul Mannan Bhuiyan addressing a seminar organised by ILO.