A report on a National Policy Dialogue

On

Moving The Bangladesh Economy From Stabilization to Growth: An Agenda For 1994-95

11 June 1994, Dhaka

Background

The Centre for Policy Dialogue organized its Third National Policy Dialogue on the theme of "Moving the Bangladesh Economy from Stabilization to Growth: An Agenda for 1994-95". The Centre had organized two earlier national dialogues on the theme of the impact of economic reforms. The inaugural dialogue held on February 10' 1994 discussed the issue of Policy Reform and the Acceleration of Investment Activity in Bangladesh with the focus on private investment. The second dialogue held on 12 April, 1994 discussed the issue of accelerating investment activity in the public sector covered under the Annual Development Plan (ADP). Both dialogues were attended by the Finance Minister Mr. Saifur Rahman, along with Members of the Parliament from both the Treasury and Opposition benches as well leaders from the business world, leading academics, NGO figures and heads of donor agencies.

The present dialogue, held on June 11' 1994, was organized jointly with the World Bank, whose Country Economic Memorandum, (CEM) for Bangladesh for 1994 provided the background document for discussion under its new full disclosure policy to publicize its reports. Thus, it was the first occasion when the CEM was formally presented before a public audience for discussion. On earlier occasions the CEM was presented informally for discussion amongst professional audiences.
This dialogue was the first public discussion of Bangladesh's economic agenda for 1994-95 after the announcement of the national budget on 9th June. It provided an occasion for the Finance Minister to meet leading figures from the Opposition parties, including their advisers, in a professional discussion on economic policy. Annexure A provides the list of participants of the dialogue. The moderator of the dialogue was Professor Rehman Sobhan, Executive Chairman, Centre for Policy Dialogue.

The dialogue, which went on from 09.30 hrs to 1800 hrs, was broadly divided into three sessions. The first session concentrated on macro-economic issues, the second session dealt with financial sector reform and the last session focussed on private sector development. The schedule of the dialogue is given in Annexure B.

In order to place the discussion within a coherent structure, the participants were provided with a fist of focussed questions arising out of the policy agenda spelt out in the CEM, which has influenced the policies of the GOB for 1994-95. The participants of the dialogue were requested to depart from the mode of confrontational discourse in making their

presentation and to talk with each other, instead of talking at each other. It was indicated to the participants that the purpose of the dialogue was to contribute towards developing a national consensus regarding economic policies. Moreover, the dialogue was designed to analyze the impact of policy reforms on Bangladesh's economic performance and suggest innovative amendments, if necessary.

The Macro-economic Issues

National Consensus on Economic Policies: Desirability and Feasibility

The dialogue was initiated with the question whether the proposed strategy of growth involving increased competitiveness and a rapid expansion of exports is widely understood and broadly accepted in Bangladesh. The predominant perspective on this issue emphasized the existence of a broad based agreement on the market driven economy as the model. It was pointed out that, barring the combine of the left-leaning parties, all other political parties and groups, including the biggest opposition party, have accepted the instrumentality of the market economy as a means for achieving developmental goals.

However, it was also recognized that it was misleading to think that total consensus prevailed on the pace and specifics of market reforms. Much of the apparent agreement relates to rhetoric and does not appear to be based on any realistic appreciation of the implications of the reform process. The single most important question in this regard is that even if there is a broad belief about building a competitive market structure in Bangladesh. there is a significant lack of understanding regarding the ways and means to achieve the objective.

Moreover, there is no clear agreement regarding the reform agenda. The absence of agreement on the reform agenda, largely emanates from misconceptions as well as lack of knowledge about the underlying assumptions and the specifics of the concomitant economic policies, needed to implement the reform agenda. It was underscored that the people at large are not aware of the full implications of such important policies as privatisation, retrenchment in the public sector, import liberalization, reforms in the banking institutions, etc. It was pointed out that only a couple of the nine elements of the mid-term development strategy mentioned in the Finance Minister's budget speech are understood by the general public. The inadequate knowledge on these and other policies owe in some measure to the fact that the Policy Framework Paper (PFP) prepared under the aegis of the World Bank and IMF is not publicly discussed and even the members of the Parliament do not have access to these documents.

It appeared that there is no effective mechanism to communicate with the people on the substance of policy issues, and on rare instances when they are asked how their lives are changing due to the reforms they are less likely to respond very categorically. The findings of a recent survey conducted by the Dhaka Chamber of Commerce and Industries (DCCI) were cited at the dialogue where the majority of the respondent entrepreneurs registered their dissatisfaction about the prevailing economic policies and their implementation. However such findings remain less than definitive both because of methodological reasons as well as the unpreparedness of the citizens to relate the impact of policies to their daily circumstances.

It was also established that holding of extensive discussions within the Government is not a general practice; the government officials, presumed to still be suffering from the 'old mind set' tuned to control and regulation, thus tend to remain sufficiently insensitive to the urgency for reforms. Perfunctory discussions on policy issues are usually held before the Aid Consortium meeting at Paris. Moreover, conflicting policies, such as the recent initiative to control NGO activities through legislation, undermines the credibility of the reform process.

It was mentioned that although the Finance Minister in his budget speech has called for a concerted effort to implement the ongoing reforms, the Government has not been able to take the opposition into its confidence so as to hammer out a consensus behind the reforms in the Parliament. While the right of the majority party in the Parliament to formulate the policies is acknowledged, the right of the opposition, as public representatives, to be consulted in these matters needs to be recognized. It was the view that the current impasse in the Parliament has aggravated the situation. The experience of the newly industrializing countries of East and South East Asia was recalled in this regard where a change of government usually did not affect policy continuity as the policies tended to derive from a compact between the principal political forces in the polity.

However, another strand of thought expressed in the dialogue held that no country has built such a 'national' consensus on economic policies; least of all is it possible in Bangladesh. One of the major reasons for the non-feasibility of evolving such a consensus relates to the fact that all reform programs always hurt some group or the other and as a result the affected section do not agree with the on-going policies. It was, however, pointed out that the art of balancing the winners and the losers is a necessary part of the reform process where winners usually tend to be more reticent about their gains.

It emerged from the dialogue that there is no clear consensus behind

all aspects of the reforms even within the ruling party. It seemed that the persons within the government responsible for guiding the economic of appropriate reform measures because of resistance from within the administration itself.

It was pointed out that the business community in Bangladesh had become used to a protective economic regime and had "too good a time for too long". Although they are increasingly accepting the reality of the reforms, discontent is being expressed against the rather rapid opening up of the economy. On the other hand, it was suggested that there is not much scope or attempt to build such a consensus on reform measures on the assumption that there is no alternative but to support the reform process as no serious alternative policy agenda is on offer to the people of Bangladesh.

Another view fundamentally rejected the concept of a national consensus on economic reforms as it will mean patronizingly guiding the people from the top. Accordingly, there is no need to launch a 'program' to 'develop' a consensus. Rather the constituency for the reform will broaden as different strata start to receive benefits. It was maintained that, because of some anomalies in design and projection, the current reforms are yet to create any visible group of advocates.
Given the view that there will always be 'gainers' and 'losers' in a reform process so that consensus may not be feasible, it was emphasized that the current electoral process may emerge as an impediment to indispensable reform measures such as those involving contractions in the bloated bureaucracy and excess manpower in the public sector units. For example the government dare not go too far or fast with such measures because of the possible threat of alienating the voters in the next election. In contrast the opposition tries to invoke the support of these organized groups threatened by reforms through populist policy pronouncements for reasons of short term political gain. However, it was pointed out that a popular government can also pursue reforms if they consult the electorate and seek the mandate of the people for their reform programme.

Two concrete suggestions which thus emerged from the discussion are: (a) effective attempts should be made to appraise the nation about the content and implications of the reform agenda and to seek a political mandate for the reforms, (b) regular and organised efforts should be made to ascertain the views and concerns of the broader populace as well as to assess the impact of the reforms

Performance of the Economy: Recent Trends

The discussion on current economic trends started off with the question

as to whether symptoms of recession are being observed in the economy. There was a broad agreement that in the recent period there had been significant improvement in public resource management by way of public expenditure control, improvement in quality of investment and mobilization of taxes. In this context, it was observed that the proclaimed success of the government's tax mobilization effort is less convincing as the tax yield was not increased through broadening the base but through better implementation of the tax measures. It appears that the future of enhanced tax generation lies in both broadening the base as well as through improvement in the capability of the tax administration.

It was observed that following trade liberalization usually the exchange rate depreciates resulting in export gains and even import substituting sectors might benefit. Bangladesh appears to be a unique example where exchange rates have moved against the exporters after liberalizing the external sector. In a similar paradox, domestic import demand has been sluggish, leading to an expansion of the foreign exchange reserves. This point was, however, contested and it was said that the exchange; rate appreciated in other countries as well in the wake of reforms. Liberalization may also stimulate imports resulting in a shift in composition of consumption and thus the levels of and structure of domestic demand. Concern was expressed that micro-level efforts will yield little if macroeconomic stability is not maintained and public investment is not accelerated. It emerged that there seems to be a broad agreement within the government, development partners and academia that there is an urgent need to boost domestic demand by augmenting investment, both private and public.

Public Investment Programme: Quantity and Quality

Despite the claims that there had been distinctive improvements in the project formulation and implementation process of the government's investment programme (i.e. ADP), it was very strongly emphasized that shortfall in ADP implementation remains one of the most vulnerable areas of the policy-reform effort. It was maintained that rather ambitious ADPs are formulated without taking into account the risk factors arising from the degree of opposition towards changes as well as the capacity for governance.

Many participants of the dialogue held the view that the responsibility for effective implementation of the ADP lies squarely with the government. It was pointed out that this is one area where a 100% national consensus prevails, yet very few results are visible. It was, however, mentioned that implementation of the ADP involves a large number of institutions and agencies, whose management quite often remains beyond the reach of the government.

It was reckoned that the current excessive size of the government administration is no less wasteful of public revenues than the excess manpower in the public enterprises. The discussion emphasized on the need to resist the pressure to continuously expand the size of the government, instead the participants urged upon the government the importance of also improving the quality of investment particularly in the social sector.

It was pointed out that the capacities of the physical infrastructure of the rural educational institutions and health organizations remain seriously underutilized due to lack of resources for operation and maintenance.

Poverty Alleviation: Commitment and Action

The issue of poverty alleviation was discussed at length in the dialogue. It was the general view that much rhetoric is expended in the country regarding poverty alleviation. These 'pro-poor' declarations are not supported by any plan, schedule or allocation for direct and indirect anti-poverty programmes designed to achieve defined and measurable targets. It was pointed out that the issue of poverty alleviation does not receive the same extent of public attention as does the future Jamuna bridge project.

It was argued that the local government institutions should be made responsible for anti-poverty programmes. Moreover, human development activities, such as education, need to be managed locally. Expansion of the public works programme also demands the existence of effective local government. Unfortunately, there is a serious inadequacy in local l government institutions; in fact, whatever structure was put in place earlier has now been abolished. Currently, local government institutions with effective participation of the people, are non-functional.

Emphasizing the need for direct poverty alleviation programmes it was maintained that whatever programme will be designed to benefit 'everybody' in reality will virtually exclude the poor. Accordingly, such proclaimed intentions as "Health for All" and "Education for All" have very little value for the poor. In fact, of whatever allocation is made to the social sector, very little reaches the disadvantaged groups. Taking issue with this point, it was pointed out that since the overwhelming portion of the country's population, particularly those from the rural area, are poor the incidence of benefits accruing to the poor from any across the broad programme will be very high.

Regarding the impact of the income generating programmes it was recalled that the participants of these programmes demonstrate better

human development indicators, primarily because of access to credit. It was observed that these participants are now producing commodities (e.g. *Grameencheck,* flowers, artificial flowers, vegetables) having a high export potential. Housing for the poor was also considered to be one of the missing components of the current anti-poverty programmes.
It was observed that there is no clear understanding whether the current growth strategy will have a poverty alleviating impact. However, it was reiterated by some participants that the government's economic strategy and approaches to resource allocation are geared to environmentally sound and poverty alleviating growth. The government's commitment to support the Grameen Bank was reaffirmed at the dialogue. On the other hand, it was pointed out that the government sponsored Palli Karma Shahayak Foundation is becoming an embarrassment for the government because of its inability to expand its funding network. It was suggested that these institutions should go into more innovative activities.

It was pointed out that good governance is also a key to poverty alleviation. Concurrently, strong views were also expressed emphasizing the strategy that poverty alleviation should essentially come through non-immiserising growth. It was observed that the Vulnerable Group Development (VGD) type programmes are essentially mechanisms for transfer payments having little poverty alleviating .impact so that more emphasis needs to be made to make the poor integral to the growth process.

A difference of opinion arose over defining the status of safety net vis-a-vis poverty alleviation programmes. While one view argued for considering the safety net as apart of the anti-poverty programme, the other maintained that the safety net should not be included in the poverty alleviation programmes as the 'net' is designed for those who are still outside the programmes.

Governance: The Perception

In this context, a number of participants raised the general issue of governance relating to the efficiency and competence of the government. The fact that the current government has been enjoying a prolonged 9period of political stability may have given rise to a sense of misperceived complacency within it. Apart from the deteriorating law and order situation, it was felt that the government is confronted with a number of problems. These include corruption and a partisan approach to decision making. The question was raised that when the civil servants, currently divided into two groups, are in a state of fundamental conflict over the structure of the administration, how can one expect that government development programmes will be efficiently implemented.

Reforms with Flexibility and Balance

In the backdrop of the general perception that the outcomes of the current crop of reforms yield not unmixed blessings, a lively debate followed on the problems, optimal pacing and sequencing of the contents of the reform and their complementarities. The need for allowing more flexibility across the reform process was underscored in the dialogue but on the issue of the priorities of the reform process, views were more sharply divided.

One view on the speed of the reform argued that there should not be any acceleration, but it should be' balanced' with safeguard measures. Trade liberalization was a case in point for the proponents of this view. Given the long and open border with India, flow of illegal goods from the other side of the border is having a destabilizing effect on the industrial sector. Moreover, the existence of high tariffs in India is also contributing to further increase of Bangladesh's trade imbalance with India. The underlying point in this regard was that the domestic industries still need protection in order to adjust to the emerging liberalized environment and for the playing field to be made more even for our less experienced entrepreneurs to compete with imports from more advanced economies. Disputing the above point, it was pointed out that the country is not flooded with imported goods; import growth is very much in line with the GDP growth. It was emphasized that tariff anomalies manifested in high tariffs usually leads to smuggling thereby taxing the consumers in the final analysis. This view argued that by exposing the domestic industries to competition they may be forced to become more efficient.

Those in favour of acceleration of the reform process reckoned that slow implementation of the reform process is causing a continuous drain on public resources. It was suggested that if retrenchment of excess staff from the public enterprises is not possible, the economy will benefit if . they are asked to remain at home and receive their salary and wages. There was, however, a general recommendation to look more carefully into the factors constraining the performance of the public sector rather than to just write-off these institutions as being fundamentally irredeemable. Analyzing the two aspects of the reform, viz., demand management and structural policies, some participants drew attention to reform experiences elsewhere which show that growth usually takes time to pick up. Conversely, it was pointed out that even after the lapse of a significant period of time from the launching of the reforms, Bangladesh is yet to achieve a 5% growth rate.

Financial Sector Reform

The discussion on financial sector reforms concentrated on four major issues, viz., (i) whether interest rates are too high; (ii) the restructuring efforts of the Nationalized Commercial Banks (NCBs), (iii) the competitive

nature of the private banking sector, and (iv) the outlook for the stock market.

Interest Rate: Bringing Down the Cost of Capital

Much of the discussion focussed on the level of interest rates. Most of the participants agreed that although interest rates have come down recently, real interest rates(interest rates after allowing for inflation) are still too high and are discouraging investment. In particular the damage is the greatest for small and medium size enterprises which do not enjoy sufficient public confidence to enable them to raise funds from the stock market. One of the private sector participants informed the dialogue that his investment package had to be downsized by 30% -40% due to high real interest rates.

The participants examined in detail the causes of high interest rates. The contention that operational inefficiency is responsible for high real interest rates was effectively dismissed by a participant. He pointed out that even a 40% reduction in the number of branch employees, etc., would only allow for a 0.5% reduction in interest rates. There was unanimity that lower cost of funds achieved by reducing deposit rates could be passed on to the borrowers. It was pointed out that for every 1% cut in deposit rates, lending rates could be slashed by 1.5%. It was also maintained that abolition of deposit floors is an issue which deserves consideration.

Other measures to reduce the cost of funds were suggested. These include, reducing the Bangladesh Bank rate, reducing or modifying the Statutory Liquidity Requirement and reducing interest rates on the National Savings Certificates (NSCs).

It was observed that the most important reason for the present level 1 of interest rates is the large level of bad debt carried by the banks. It was pointed out that a strict application of circular BCD-34 would imply that J 30% of the loan portfolio of commercial banks is non-performing. It was reckoned that by improving loan recovery, lending rates could be reduced by as much as 5%. This view was questioned with the suggestion that other factors, notably, speedy disbursement of loans, is more important than the level of interest rates, for augmenting investment.

Banking Sector: Infusing Competition

There was a great deal of concern expressed about the lack of competition in the banking sector. The dialogue was of the opinion that this issue needed more attention than it has hitherto received. There were complaints that the banks are operating as cartels. It emerged that the private banks are basically following the nationalized commercial banks (NCBs) in fixing their borrowing and lending rates.

A considerable degree of skepticism was expressed in the dialogue

about the benefits of bank privatisation. One of the participants argued that insider lending weakens the case for privatisation. Another participant was of the view that unless the professional capacity in the banks is improved, privatisation will not yield the desired results. It was also held that publicly owned banks are necessary for carrying out social investments. In this context, it was suggested that out of the four NCBs, one bank could be retained in the public sector for financing the production of socially desirable goods.

In the discussion regarding restructuring and privatisation of the NCBs, it was stated that public sector bad loans occupy a large portion of the loan portfolio. The health of the banking sector depends largely on this issue being properly resolved. It was also pointed out that loan waiver programmes send improper signals to borrowers and therefore should be discontinued.

The participants called for stricter measures against defaulters by strengthening the loan courts. The possibility of securitization of debt was in this regard underscored.

The Stock Market: Lack of Depth and Breadth

Conceding that compared to Bangladesh the stock markets in neighboring countries were more buoyant, it was observed that there are reasons for being optimistic about the future. First, there has been a nine fold increase in turnover in the last three years. Second, many holders of NSCs are now turning to the stock market for diversifying their investments. Third, to increase investor confidence. new regulations are being introduced by the Security and Exchange Commission (SEC). A Grievance Cell has already been created. Fourth, at least 15.20 large corporations will be listed in the stock market in the near future.

Given the growing demand for securities in the Bangladesh capital market it was agreed that there was a problem regarding the supply of quality securities. It was argued that we should focus on both deepening and widening the local capital market by increasing the security issues through the market of financially sound private companies as well as by particular state owned enterprises(SOE), NCBs and publicly owned insurance companies.

Private Sector Development

The concluding session of the dialogue, addressed the theme of private sector development. The discussion focussed on two broad issues: efficacy of the privatization process and competitiveness of the labour market.

Privatization: Objectives and Outcome

It was recalled that privatization was considered an essential element of private sector development with a view to engender confidence among the private entrepreneurs as well as to improve the efficiency of the privatized assets. While some participants held that privatisation moves of successive regimes in Bangladesh sent out positive signals to the private sector, the general view coming out of the dialogue was that the privatization process, as implemented in Bangladesh to date, has not been particularly successful in reaching its objectives. It was pointed out that what Bangladesh faced thus far in the name of privatization is a progressive liquidation of public assets. This was particularly true for the small and medium sized industries privatized after 1976 where a recent survey of the BOI indicated that 58% of all the privatized units had closed down. In some privatized units still operating, capital equipment was sold off so that many of the still active privatized units were in financial difficulty. The net impact of privatisation, with some notable exceptions, had thus not been particularly effective in generating employment, increasing the re investible surplus or improving the profitability af1d efficiency of privatized enterprises.

Jute and textiles, the two major sectors of the country, did not fare well either following privatization. The privatized units continued to incur losses even after privatization and their debt to the NCBs assumed unmanageable proportions. Experience with the privatized banks was also not particularly encouraging. It was maintained that the perceived achievements of the private sector banks, insurance and utilities are rather overrated. In general, it would appear from experience that the management skills of the newly incumbent entrepreneurs were below the level required to capably run the recently acquired assets.

The dialogue moved on to identify the factors responsible for the disappointing experience with privatization. It was argued in the dialogue that the major deficiency of the privatization process in Bangladesh originates in the fact that change in ownership took place without any commensurate change in the competitive environment.
One entrepreneur, however, pointed out that it would be wrong to think that privatization was a totalfailure. He mentioned that the denationalized leather enterprises were a success story .
The labour leaders maintained that it would be unfair to blame the workers for the failure of privatization. The worker's main concern with privatization related to the fear of closure of the enterprise and/or the prospective loss of employment in a situation where few new jobs were being created by a low-growth economy.

Modifying the Privatization Format

The dialogue then addressed itself to the question of what improvements can be brought about in the privatization framework. It was suggested that any move to redesign privatisation policy should begin by identifying the problems which inhibited the performance of the SOEs and attempts should be made to improve SOE performance both as an option and a prelude to the privatisation process.

A number of participants suggested that the prerequisite for a successful privatization process is the degree of political commitment towards a massive privatization program. Moreover, it should not be only the government's policy, but should be a people's programme. It was however suggested that no attempt had been made to assess the views of the public on the privatisation strategy and some attempt should be made to do so if public support is to be mobilised behind this programme.

It was considered necessary to broaden the resource base of the prospective entrepreneurs by including the capital market, to implement the privatization programme. Strengthening of managerial capability was also considered to be a part of this process of enhancement of the entrepreneurial resource base of the economy. It was suggested that in order to support entrepreneurial growth, apart from access to capital, appropriate institutions should be built up to facilitate the process of upgrading entrepreneurial skills.

Caution was expressed that in privatizing SOEs one should be careful to avoid the emergence of private monopolies. It was acknowledged that the Bangladesh economy is still prone to monopolistic firm behavior.

A lively debate took place regarding the procedure and methods of pricing the assets earmarked for privatization. It was contended that many SOES cannot be sold off even at a "throwaway price" as their machines are very old and/or obsolete. The real value of many SOEs could only be revealed when shares are publicly floated, In some cases the location of an industry becomes an important factor influencing the facility or difficulty in selling such an enterprise. A point was made that the private sector should take into account the capitalized value of an enterprise before purchasing it.

An entrepreneur mentioned that he was not willing to buy Adamjee Jute Mills even if it was given to him free of cost. He commented that, apart from the issue of economic viability of the enterprise, there are other problems which might imperil his life. Another point of view reckoned that a perennially sick enterprise should be allowed to embrace a natural death. However, the debate on this issue remained inconclusive.

Another point for debate was the issue of transparency of the privatization process. A distinction was drawn in this regard between 'transparency' and 'visibility'. It was reckoned that while privatization was very visible in Bangladesh, it lacked transparency. The contending view argued that quite often excessive preoccupation with transparency and

accountability leads to time wastage thereby delaying the privatization process. Accordingly, there is a need to balance the necessity for accountability with the need for faster disposal of SOEs. It was recognized by one of the policy-makers that the prospective investors still face enormous bureaucratic harassment an issue which needs to be considered separately on its own merit.

It was recommended that necessary debt restructuring should be carried out before privatization in order to ascertain the net worth of the SOE in question. The other suggestion was to provide tax concessions to the entrepreneur who has bought a 'sick' SOE.
One important issue which emerged out of the dialogue was the extent of confusion over the criteria being followed in identifying SOEs for privatization. The current list of enterprises earmarked for privatization could not be explained by a set of coherent principles
The dialogue was reminded that privatization may be pursued in a number of ways. One useful way is to attract direct foreign investment (DFI) to the units to be privatized. In this context, it was mentioned that if the proclaimed policy emphasis on private sector development can muster enough credibility, then domestic as well as foreign investors would automatically come into equity participation with SOEs lined up for disinvestment. It was also underscored that there should be political stability to enable the private sector to function more effectively.

Private Sector Promotion and Incentive Structure

The current tax reform measures were discussed in the dialogue with a view to judge their appropriateness and effectiveness for private sector development. The first issue that came up for discussion was the tariff structure. It was mentioned that there are five types of tariff anomalies prevailing in Bangladesh. Of these five, it was maintained that, the "revenue tariff anomaly" and "information lag anomaly" have been more or less removed. However, "protection induced anomaly" and "protection seeking anomaly" still persist and are extremely difficult to remove. However, it was the opinion of the participant from the revenue generating agency that, either way, the tariff anomaly is currently not a very important problem for the private sector, although the latter does not accept the present tariff policy.

The other issue that came up for discussion was the tax holiday. It was mentioned that the World Bank and other donors want Bangladesh to abolish the current practice of tax holiday, while the private sector is interested to retain this particular provision. It was also argued that the tax holiday is emerging as an obstacle to the development of the capital market in Bangladesh. Two suggestions were made in this regard: tax holiday should be given to only those units which raise capital in the

share market and/or tax holiday should be substituted by an accelerated depreciation allowance. The dialogue was also informed that any genuine industrialist will be quite happy without a tax holiday.

Competitiveness in the Labour Market and the Wage Structure

The discussion on the state of affairs prevailing in the industrial labour market covered the following issues: Is the present state of industrial relations inimical to creating a satisfactory investment climate in Bangladesh? Is there any reason to believe that the country's current level of industrial wages is likely to make the industries internationally uncompetitive? Is it desirable and feasible to discard the centralized system of wage determination and replace it by collective bargaining at the sector or plant level with a minimum of government intervention? Given the socio-economic conditions (including the rate of illiteracy) of the workers in the country, the view was expressed that there is still a need for the government's intervention in the labour market through promulgation of a basic minimum wage. Moreover, it was contended that this intervention by the government is 'minimal' as it sets the floor-price and the units are free to choose their respective wage structure beyond it. It was suggested that there could be a national minimum wage and a sector specific minimum wage in order to allow more flexibility in the labour market. A pragmatic approach towards labour policy was thus deemed more workable. It was, however, acknowledged that whether a minimum wage is adequate to ensure human subsistence is a question which demands separate discussion.
In this regard, attention was drawn to the fact that since most of the trade unions are attached to one or the other political party, any simple problem at the factory level could snowball into a major political problem. It was suggested by some participants that unions must be detached from the political parties though this was not a consensus view. There was however a broad agreement that labor disputes need to be depoliticized.

In the ensuing discussion on the actual effect of labour problems on economic activity, it was reported to the dialogue that recent studies have found that two-thirds of the enterprises in Bangladesh did not even have registered unions. Among those having registered unions only one-third had elected collective bargaining agents (CBA). In fact a study was cited in the dialogue which reported that work stoppages due to labour disputes was a rather insignificant factor in determining enterprise performance compared to many other constraints.
Regarding the issue of wage competitiveness it was observed that the unit cost of shirts made in Bangladesh is certainly not higher than many other countries, otherwise one could not have been able to export them. The current minimum wage rate of Taka 950 per month or 6 U.S.

cents per hour can not be considered higher than comparable countries, even after taking account of productivity differentials. Thus, at the prevailing minimum wage Bangladesh's manufactured exports should remain internationally competitive and if the reality is otherwise then the problem lies outside the labour market. The dialogue was informed that the World Bank is not arguing against the minimum wage provision, but that it is questioning its further increase.

The participants of the dialogue agreed to the proposition that if privilege has to be awarded by the state then it should be given to the more productive section, which under the current circumstances, includes both the working class as well as the industrialists. It was further suggested that the entrepreneurs should be properly taxed and these resources should be transferred to programmes for the alleviation of poverty.

Annexure A

DIALOGUE PARTICIPANTS

Session I Macro-Economy	Session II Financial Sector Private	Session III Sector Development
1.Mr Saifur Rahman Finance Minister	Mr. Saifur Rahman Finance Minister	Mr Shamsul IsJam Commerce Minister
2. Mr M. Morshed Khan Special Advisor to Prime Minister	Mr Moudud Ahmed, M.P., Jatiyo Party	Dr Moyeen Khan State Minister fPlanning
3. Mr Tofail Ahmed, Awami League M.P.,	Mr Abul Hasan Chowdhury, M.P., Awami League	Mr Rashed KhanMenon Workers Party
4. Mr Salahuddin Quader Chowdhury, M.P., NDP	Mr Patrick Vath Manager, FSRP	Mr Mesbahuddin Khan, M.P., Awami League
5. Mr Amir Khasru, M.P.BNP	Mr S.Z. Khan Chairman, S.E.C.	GroupCaptain(Rtd.)Hameedullah M.P., BNP
6. Mr S.AM.S. Kibria Awami League Advisory Council	Mr S.A.M.S. Kibria Member, Awami League Advisory Council	Mr Jamaluddin Ahmed Member, Former Deputy P.M.
7. Mr. A.M.A. Muhith Former Finance Minister & Convenor, Gono Forum	Mr A.M.A Muhilh Former Finance Minister & Convenor, Gono Forum	Mr. A. S. H. K. Sadeque Member Advisory Council Awami League

8. Mr Nasimuddin Ahmed Finance Secretary	Mr Nasimuddin Ahmed Finance Secretary	Mr. Kamaluddin Chowdhury Chairman, Privatisation Board
9. Prof. M. Yunus ManagirlJ Director Grarneen Bank	Mr Shah Abdul Hannan Deputy Governor,	Mr M. Moniruzzaman BB Ex-Secretary, ERD
10. Mr Lutlulhil Majid Secretary ERD	Mr. Mustafa Aminur Rashid M.D., Agrani Bank	Mr MofazzaJ Karim Secretary, Commerce
11. Dr. M. K. Alamgir Chairman, Tariff Com.	Mr Sohail Rahman Chairman, BEXIMCO	Dr S.M. Farid Secretary, Labour
12. Mr. S.B. Chowdhury Ex-Govemor, 88	Mr. Khaled Shams Deputy Managing Director GrarneenBank	Dr. Akbar Ali Khan Chairman, NBR
13. Dr Tawfiq-E-Elahi Secretary, Statistics	Mr. Kazi Abdul Majid M.D. National Bank	Mr Manzoor Elahi President, BEA
14. Mr. Mahbubur Rahman President FBCCI	Mr. Kaiser Kabir Consultant. Financial Sector Reform Project	Mr. Nurul lslam President. TUC
15. Mr. Latitur Rahman President, MCCI	Mr Owaise Saadat World Bank.	Mr. Ol'laise Saadat World Bank
15. Prof. Nurul Islam Senior Advisor IFPRI & Former Deputy Chairman, Planning Commission.	Proi. Nurul lsIam Senior Advisor, IFPRI & Former Deputy Chairman, Planning Commission.	Prof. Nurul lslam Senior Advisor, IFPRI & Former Deputy Chairman. Planning Commission.
1! Dr. Mashiur Rahman Secretary, Railways	Dr. Mashiur Rahman Secretary, Railways	Dr. Mashiur Rahman Secretary, Railways.
18. Dr. Abu Abdullah BIDS.	Dr. Abu Abdullah BIDS.	Dr. Debapriya Bhattachariya BIDS
19. Prof. Wahidduddin Mahmud Deptt. of Economics Dhaka University.	Prof. Wahidduddin Mahmud , Deptt. of Economics, Dhaka University.	Prof. Wahidduddin Mahmud Deptt of Economics, Dhaka University.
20. Prof. Abdul Bayes Deptt. of Economics, Jahangirnagar University.	Prof. Abdul Bayes Deptt. of Economk:s, Jahangimagar University.	
21. Mr.S.H.Kabir	Mr.S.H.Kabir	Mr.S.H.Kabir

Former President MCCI & former President BEA	Former President MCCI & former President BEA	Former President MCCI & former President BEA
22. Mr. Christopher Willoughby	Mr. Christopher Willoughby	Mr. Christopher Willoughby
World Bank	World Bank	World Bank
23. Mr. Shekhar Shah	Mr. Shekhar Shah	Mr. Shekhar Shah
World Bank	World Bank	World Bank
24. Mr. Hafiz Ghanem	Mr. Hafiz Ghanem	Mr. Hafiz Ghanem
World Bank	World Bank	World Bank
25. Prof. Rehman Sobhan	Prof. Rehman Sobhan	Prof. Rehman Sobhan
Centre for Policy Dialogue	Centre for Policy Dialogue	Centre for Policy Dialogue
26. Dr. SM. Hashemi	Dr. S.M. Hashemi	Dr. S.M. Hashemi
Dept. of Economics	Dept. of Economics	Dept. of Economics
Jahangirnagar University	Jahangirnagar University	Jahangirnagar University

Annexure B
NOTES FOR DIALOGUE PARTICIPANTS

1. Issues for discussion in the dialogue are annexed for the reference of all participants.
2. The format for the dialogue will be to address each of the questions indicated in the note sequentially so that discussion is focussed and digression from the point at issue is minimized. Participants are expected to therefore study the note before coming to the dialogue so they can focus their mind on issues of general and specific interest to them in the dialogue.
3. The World Bank's Country Economic Memorandum (CEM) provides the background material for the issues under discussion. Here again participants who need to refresh their minds about some or all issues to be addressed in the annexed notes may study the GEM selectively. However the GEM should not delimit the discussion since it is expected that the participants will also draw upon their own inventory of knowledge and experience to guide them in the dialogue.

Issues for discussion

Session I: The Macro-economy

1) The growth strategy described in the GEM is based on increased competitiveness and a rapid expansion of exports. Is this strategy widely understood and accepted in Bangladesh? Should more be done to develop a "national consensus" around the growth strategy and the implied reform agenda?
2) The GEM argues that the pace of implementing the reform programme

must be expedited in order to ensure its credibility and convince private investors that liberalization policies are irreversible. Is such an acceleration desirable? Is it feasible? ,

3) Weaknesses in implementing the ADP has led to a shortfall in aggregate demand and sluggish GDP growth. Given its comfortable macro-financial position, should the Government consider more rapid reductions in tariffs and taxes to encourage economic activity? r

4) Government has adopted a three-pronged approach to poverty alleviation: ; (a) accelerate growth, (b) increase investment in the social sectors, and (c) i. expand safety nets to the most vulnerable groups. Is this an adequate poverty If alleviation strategy? Some key safety net programmes such as VDG and FFW appear to be stagnating or even declining, as a result of the fall in food aid. Should Government use some of its own domestic resources to expand those important programmes?

5) Bangladesh's external reserves position is very comfor1able. Is this the right time to make the Taka fully convertible, including on capital account transactions?

6) Improvements in domestic resource mobilisation offers scope f o r expanding the project portfolio in the ADP. What measures can be taken to ensure that the quality of the ADP projects does not deteriorate?

7) It is often argued that civil service reforms are a necessary condition for expediting the pace of policy and project implementation. What action in this direction can government take in the short run?

Session II: Financial Sector Reforms

1) To what extent are interest rates too high? Should the Government and Bangladesh Bank take steps to bring them down? If so what actions may be taken?

2) A great deal of effort has been put in restructuring the NCBs. Has their performance shown any improvement? What should be the next steps in NCB restructuring? Is privatizing the NCBs a viable option?

3) Are private banks performing competitively? What steps need to be taken to improve their competitiveness?

4) Efforts are under way to strengthen Bangladesh Bank. Have those efforts achieved their objectives? What should be the next steps in the programme to strengthen the Central Bank?

5) Despite some recent improvements, financial sector regulations in Bangladesh continue to be below international standards. Should prudential ratios-such as capital adequacy, income recognition, asset classification and doubtful bad debt provisions, insider lending, bank's equity participation in other companies, lending exposure limits, and liquidity-be brought to international standards immediately?

6) Government and Bangladesh Bank still manage some directed credit programmes, such as the Tk.1 billion facility for term loans to small and cottage industries and funds made available at subsidized rates to development financial

institutions and NCBs to on-lend to "sick industries". What are the objectives of those programmes and are they being achieved? Past directed credit programmes have weakened financial institutions, why wouldn't present programmes lead to the same undesirable result?
7) What can be done to make the financial sector more responsive to the needs of the poor and the informal sector?
8) Bangladesh's capital market remains underdeveloped. What practical steps can be taken in the short run to improve its operations?

SessionIII: Private Sector Development

1) It is argued that privatization is needed to ensure credibility and engender private sector confidence as well as to improve the efficiency of the privatised assets. Has privatization in Bangladesh achieved these objectives? Should the privatization process be expedited? If so how can the process be improved? What steps if any could be taken to attract private investment in utilities and infrastructure? Are there areas where private entrepreneurs are unwilling or unable to enter? Is there a case for continued public investment in those areas?
2) Trade liberalization is viewed as an important element in any export promotion programme. Is the current pace of trade liberalization appropriate to the circumstances of Bangladesh and the need for export promotion? Private entrepreneurs have urged that increases in "tariff values" tend to offset the decline in tariff rates. Should the system of tariff values be dismantled? Should Bangladesh introduce a compulsory system of pre-shipment inspection?
3) Government's successful stabilization effort allows it to consider tax reforms to encourage private investment. What changes in the present corporate tax system would be desirable? Should tax holidays be replaced by a more modern system of investment incentives? What improvements in tax administration are most important for private entrepreneurs?
4) Entrepreneurs often complain of the weakness of the government institutions they need to deal with on a day-to-day basis -e.g. DEDO, customs, BOI -what practical steps can be taken to improve the quality of Services provided by those institutions?
5) Is the state of labour relations inimical to creating a satisfactory investment climate? Is there any reason to believe that Bangladesh's prevailing level of industrial wages is likely to make its industries internationally uncompetitive? Is it desirable and feasible to discard the centralized system of wage determination (the wage commissions) and replace it by collective bargaining at the sector or plant level, with minimum Central Government intervention?
6) Private entrepreneurs often argue that the sluggishness of private investment is due to the lack of credibility of the Government's programme, and some uncertainty concerning its sustainability. What more can Government do to engender the level of confidence needed for a rapid expansion in private investment?