

Bangladesh in the New Millennium: Between Promise and Fulfillment

Rehman Sobhan

January 2002

Centre for Policy Dialogue

House 40/C, Road 11, Dhanmondi R/A, GPO Box 2129, Dhaka 1205

Tel: 9133199, 8124770; Fax: 8130951

E-mail: rehman@citechco.net; Website: www.cpd-bangladesh.org

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INTRODUCTION

From adversity to opportunity

As Bangladesh moves into the new millennium it may be identified as a land of unfulfilled promise. In the course of my address today before you I intend to identify these areas of promise and to explore the sources of unfulfillment.

Bangladesh was not always seen as a land of promise. Its adverse demography, hostile natural environment, undiversified economic structure, extraordinary degree of external dependence and unstable political history, contained the necessary ingredients of a *failed state*. In practice, however, at the dawn of the new millennium. Bangladesh has established that there are areas where adversity has been transformed into opportunity which could point to a promising future. Let us examine some of these areas where adversity has been faced and discuss how the people have coped with their problems.

FROM ADVERSITY TO PROMISE

Adverse Demography

Bangladesh has managed to transcend its inheritance to a point, where we are no longer bracketed as a potential disaster area. Let us briefly identify these areas of promise:

Feeding Bangladesh

- Bangladesh's population growth rate has declined from 2.6% in the 1970's to 1.4% in the 1990's. This has been achieved through a decline in the fertility rate from 6 in the mid-1970's to 3.3 in the mid 90's and a rise in the contraceptive prevalence rate from 7% in 1975 to 54% in 1999/2000. Whilst Bangladesh still has to match the fertility decline recorded in East Asia and even Sri Lanka, the change in its demographic fortunes is quite exceptional for a country with Bangladesh's level of relevant social indicators associated with such a demographic transition.
- Bangladesh has managed to increase its production of foodgrains from around 10 million tons at the time of liberation to 25 million tons in 2000/2001. The trend growth in

foodgrain output in the decade from 1984/85 to 1994/95 was 2.6%. The growth of output of foodgrain in the later part of the 90's from 1995-2000 was recorded at 7.5%. These numbers are being contested by some academics but until credible evidence to the contrary is put before us we will have to go by the official evidence which remains promising. Whilst malnutrition may still be widespread, Bangladesh is no longer haunted by the specter of famine.

Coping with a hostile environment

- Bangladesh still remains exposed to severe natural disasters. The 1980's witnessed two major floods in 1987 and 1988 and a cyclone which devastated the coastal areas in 1985. In 1991 Bangladesh was exposed to a cyclone of exceptional ferocity which again devastated the coastal areas. This cyclone was followed by a flood of historic proportions in 1998 which engulfed much of the country. What is significant about these disasters is that in each successive event the coping capacity of the people increased. Thus, in 1998, inspite of extensive crop damage, disruption of the infrastructure and dislocation of the economy, very few people actually died due to the effects of the flood or loss of entitlements.
- A combination of effective public action, spontaneous mobilization by civil society and, above all, the enhanced resilience and coping capacity of the flood victims, prevented a natural disaster from escalating into a human disaster and national economic crisis. Indeed in the post-flood cropping season the farmers produced an all time record *boro*, (winter/spring) crop. At the same time the private sector managed to import a large volume of foodgrains prior to the *boro* harvest which managed to stabilize prices, whilst the government managed to distribute a sufficient quality of foodgrains, under the *Vulnerable Group Feeding Programme* to affected households to avoid severe entitlement deprivation.

Diversifying the Economic Structure

When jute was king

Bangladesh had traditionally remained heavily dependent on jute and jute goods for sustaining the dynamic both of its manufacturing and export sector. Agriculture was largely dependent on the Monsoon based *Aman* crop which was the main source of foodgrain

production whilst raw jute remained the principal cash crop. Today, Bangladesh is no longer dependent on a Monsoon driven food crop. The irrigated *Boro* crop has become as important as the *Aman* crop. Along with wheat production which now exceeds a million tons, the irrigated HYV crops have given Bangladesh significant a cash-cum-subsistence food crop which has made farmers today less vulnerable than their fathers were to the vagaries of nature.

The rise of the RMG sector

In the manufacturing sector, Bangladesh principal industry, jute, has faced an exponential decline in its global fortunes since the end of the 1990's largely due to the impact of technology on the global market for jute. This would normally have spelt disaster for Bangladesh's balance of payment since, by the end of the 1970's, Bangladesh was exporting little more than \$800 million of mainly jute based commodities. It was reckoned at that time that Bangladesh would be exposed to a long phase of export pessimism which has characterized many Least Developed Countries (LDCs) now mired in a debt crisis. However, in the early 1980's Bangladesh managed to move into an entirely new manufacturing activity exclusively tied to the export market for readymade garments (RMG) which includes both fabric and knitwear. The RMG sector took advantage of the opportunities provided by the global market under the quota driven trading regime created by the *Multi Fibre Arrangement* (MFA). Whilst the RMG was a niche market created by the distortions in the global garment trade, a new class of Bangladesh entrepreneurs managed to use these opportunities with much more dynamism than many other developing countries. As a consequence of their enterprise, Bangladesh has managed to achieve an export level of \$4.8 billion in 2000/2001 of RMG which did not exist in our export list 20 year ago. As a result, in 2000/2001 our aggregate commodity export reached \$6.5 billion. During the 1990's Bangladesh's exports grew at a rate of 13% which compares favourably with the export growth of many Asian countries.

The RMG sector was originally heavily dependent on imports for its intermediate inputs so that local net export earnings retained within the country came to only 23% of gross exports at the beginning of the 1990's. However, in the last decade a belated process of backward linked industrialization has witnessed the growth of a modern textiles industry producing both yarn and fabric. As a result, retained earnings from the RMG sector today amount to around 37% of gross earnings.

A no less significant features of the growth of the garment industry has been the social revolution ushered in through the employment of young women from the rural areas who account for around 90% of the 1.5 million people employed in this new industry. These women, drawn mostly from poor rural families, many of them unmarried, have come out of the seclusion of their village homes to live in an exclusively urban environment and have established themselves in as to first generation factory workers. The involvement of these women in the organized labour market has had a transformatory effect on the expectations of rural women and the acceptability of young women both in urban life as well as in the labour market. There is some suggestion that this involvement of young women in the labour force has contributed to the delay in the age of marriage of young women which has, in turn, contributed to the decline in fertility rates.

The micro-credit revolution

A third factor contributing to structural change has been provided by the micro-credit revolution pioneered by the Grameen Bank. Bangladesh is now the world's leader in the delivery of micro-credit which now extends to around 12 million families drawn from the poorer if not poorest rural families and serving mostly women. We should not romanticize the significance of micro-credit in reducing rural poverty. Micro-credit only touches on one of the factor markets which condition the lives of the poor in Bangladesh and cannot on its own be expected to significantly reduce rural poverty. However, engaging over 12 million poor rural women in gainful economic activity, largely from within their own homesteads, is a significant social development in a traditional society. It has had a liberating impact on the attitudes of women and enhanced their sense of self-worth.

Furthermore, it needs to be recognized that the micro-credit revolution has graduated the rural poor from the informal capital market controlled by moneylenders and local elite to institutionalized banking. The micro-finance institutions (MFI) have, in the process, demonstrated that the poor are creditworthy borrowers who can be relied upon to service their debts without the compulsion of pledging collateral. Whilst the record of debt recovery by the MFIs faces its ups and downs due to the uncertainties of rural life, the general record of debt-servicing has been impressive enough to establish that lending to the poor need not be a welfare service but a commercial proposition. This remarkable record of debt-service by MFI borrowers is particularly impressive when it is contextualized with the mainstream commercial banking system of Bangladesh which is characterized by the persistence of a

default culture associated with the business elite of Bangladesh. This chronic default has resulted in the accumulation of an exceptionally high percentage of non-performing loans which is, today, threatening the viability of the organized banking system.

Exporting labour services

Finally, Bangladesh has established a niche in the global market as an exporter of labour services. Officially this has brought in around \$21 billion between 1980-2000. Remittances through banking channels have increased from \$379 million in 1980/81 to \$2 billion in 1999/2000. This may be compared to \$1.6 billion disbursed as foreign aid in 1999/2000. It is likely that another \$2 billion of remittances enter Bangladesh through the informal *hundi* market, particularly from within our neighbouring countries which host a rising number of migrant workers from Bangladesh. As a consequence of our migrant remittance and RMG export earnings in 2000/2001 Bangladesh's total foreign exchange earnings came to \$8.4 billion. In this year Bangladesh's balance of payments gap fell to 1.0% of GDP compared to 5/6% in the early 80. in 2002, Bangladesh's debt service ratio was 9.5% which is one of the lowest amongst the LDCs and may be favourably compared with a number of more developed South and South East Asian Countries.

Reducing aid dependence

Bangladesh's significant export growth has contributed not only to a relatively healthy balance of payments position but has helped to reduce our external dependence. Bangladesh's dependence on aid donors was once legendary and I have written extensively on this subject over the last 20 years. However, today aid finances less than 50% of our development budget compared to close to 100% in the 1980's. The days when Bangladesh depended on aid pledges at the Paris Consortium meeting in April before we could present the budget in June are no longer there. Bangladesh is today a trade rather than aid dependent country. We are now more concerned about US trade diplomacy and the resilience of the US economy which receives 40% of our RMG exports. Similarly, the economic health and our political relations with the labour importing countries of the Middle East and also Malaysia and Japan, remain more relevant concerns than the outcome of the Paris Consortium meeting.

Unstable Political History

The era of instability

In conclusion it may be observed that Bangladesh has been exposed to an exceptionally severe degree of political instability. The founding father of Bangladesh, *Bangabandhu* Sheikh Mujibur Rahman and his principal lieutenants were assassinated in 1975. This was followed by martial law, mutinies in the armed forces and the subsequent assassination in 1981 of General Ziaur Rahman, President of Bangladesh. This latest assassination led, shortly, to a further episode of martial rule which exposed Bangladesh to the predatory autocracy of General Ershad. However, whilst no one in his senses would identify Bangladesh as a haven of political tranquility, the anticipation of political meltdown was belied. The people of Bangladesh, through a mass movement led by the two principal political parties, the Awami League and BNP, overthrew President Ershad at the end of 1990.

The democratic era

Backed by a general political consensus a caretaker government, headed by Chief Justice Shahabuddin Ahmed, within 3 months of assuming office held one of the freest and fairest elections in South Asia and then vacated power to the victor of the March 1991 election, the BNP, led by Begum Khaleda Zia who defeated the Awami League. Again in response to a mass movement in early 1996, the BNP regime was forced to concede to the popular demand for institutionalizing elections under a non-partisan caretaker government. As a result of the consequential amendment to the Constitution, Bangladesh is probably the only country in the world where the incumbent regime vacates office at the end of its 5 year tenure and hands over power to a non-party caretaker government, headed by the outgoing Chief Justice. Through another episode of free and fair elections under the dispensation of such a caretaker government, the BNP was defeated by the Awami League in the July 1996 election. When the Awami League assumed power in July 1996 it was the first time in the 50 year history of Pakistan/Bangladesh that an incumbent national government had vacated office to the political opposition through the polls.

In turn, the Awami League completed its full 5 year tenure in office and within the provisions of the amended constitution peacefully vacated office to the Caretaker government in July 2000. This too was a first in Pakistan/Bangladesh history. Elections were again held under a Caretaker government in October 2000. As a result, the incumbent Awami League suffered a massive defeat in the polls at the hands of a BNP lead alliance, retaining 68 seats in a house

of 300 even though it won 41% of the vote. The fairness and neutrality of the latest Caretaker government headed by Ex-Chief Justice Latifur Rahman is being challenged by the Awami League. However, the legitimacy of the electoral victory by the BNP-led alliance has not been contested by the voters in general. Thus, until the Awami League provides conclusive evidence to the contrary, Bangladesh will have witnessed three elections in 10 years under a non-party Caretaker government and the consequent defeat of two successive incumbent regimes, through these polls. This is certainly remarkable, given our history and has few precedents in the Third World.

I will have more to say about Bangladesh's dysfunctional political culture. However, objectively speaking Bangladesh is again exceptionally well placed to practice democratic politics. It has a largely homogenous population, based on a shared ethnicity and language. We do however, have an underprivileged and largely marginalized religious minority who account for about 15% of our population and a small (less than 1%) tribal minority who are also exposed to subordination within a predominantly Bengali culture and society. However, sectarian conflicts have not exercised any significant influence on the course of Bangladesh's political life to the same extent that ethnic or sectarian differences have impacted on the cohesion of the Indian, Pakistani and Sri Lankan, or even the Indonesian, polity. Nor has ideology or social divisions seriously undermined the common ground of national politics in Bangladesh. Thus, Bangladesh political problems may be seem to originate in less substantive concerns than those which have undermined the sustainability of democratic institutions in many Third World countries.

AREAS OF UNFULFILLMENT AND OPPORTUNITIES FOR CHANGE

The above discussion spelling out the promise of Bangladesh is designed to establish that Bangladesh is not weighed down with insurmountable obstacles to build a moderately dynamic economy located within a sustainable democratic polity. It is this awareness of the possibility of change which makes our sense of unfulfillment so painful. In the second part of my presentation I will attempt to address the constraints to the realization of our promise under the heads of :

- Promoting further economic diversification
- Correcting structural injustice
- Establishing policy ownership
- Sustaining Democracy

Promoting further Economic Diversification

Concentration in the agricultural sector

We have observed that significant progress has been registered in the area of foodgrain production which has been supplemented by considerable improvement in the fisheries and poultry sector. However, the substantive gains in food production which largely owes to the phenomenal growth of the HYV *Boro* crop, may be reaching its limits. Other speakers will, in this conference, be addressing the need for a productivity breakthrough in the traditionally dominant *Aman* crop, which is much more vulnerable to the vagaries of the Monsoons.

At the same time we need to recognize that little progress has been made in diversifying our cropping pattern to make us less dependent on the dynamism of the *Boro* crop. Many of our secondary crops such as potatoes and pulses, as well as livestock and poultry, are under perpetual challenge from cross-border imports from India. For all practical purpose Bangladesh's agricultural sector is part of an unofficial free trade area with India where crops are freely traded across the border on the basis of relative prices. Our growing need for both draft animals and beef consumption is now being met by unofficial cattle imports from India which some estimates suggest could be worth over half a billion dollars a year. Faced with the donor-driven neglect of the public institutions serving the agricultural sector we are also becoming dependent on India for import of seeds. Neglect of our agricultural research institutions and weak linkage with a deteriorating system of agricultural extension services have contributed to the slow pace of diversification in the agricultural sector.

Supporting the farmers

Over the last two decades, under pressure from our aid donors, we have effectively withdrawn subsidies on fertilizer, seed, pesticides and even irrigation water. In return, we have done little to compensate our farmers with a matching set of incentives to encourage them to enhance productivity and diversify their cropping patterns. Whatever change has been registered in the agricultural sector is driven by the survival compulsions of our farmers rather than the allocative priorities and policy intervention of the Government of Bangladesh (GOB).

The rural community continues to remain victims of a dysfunctional and corrupt system of land administration which has added to the insecurity of rural life, particularly for the poor.

The system of land tenure is creating an insecure class of tenants who have little stake in enhancing the long term productivity of the land.

The GOB needs to design a purposive set of policies specifically targeted to the small farmers which would provide them with a package of services such as extension and quality seeds, backed by creative research which broadens the range of crops which can benefit from HYV seeds. Provision must be made for adequate institutional credit which has hitherto bypassed the small farmer. The issue of reform in land administration leading to tenure reform which gives cultivators a bigger stake in the land cannot be put off much longer.

Finally, we will have to address the issue of how farmers remain exposed to the injustices of the markets which condemn, particularly small farmers, to lives of insecurity. Now that even small farmers are exceedingly exposed to a market economy a good crop can become as big a problem as a poor crop if it leads to a crash in prices. Throughout the 1990's small farmers, in particular, faced the problem of adverse movements in their terms of trade due to the impact of desubsidization on the cost of their inputs. This suggests that even though governmental efforts at price support have rarely been successful, this should not preclude the need for providing small farmers with some form of support to cope with the vagaries of the market. This could aim to provide sufficient incentives to farmers to sustain their investment in enhancing crop yields and ensure their food security, particularly in times of adversity which arise from forces outside their control. Nor can we afford to ignore the importance of helping small farmers to add value to their crop by stimulating the development of the agro-processing sector and facilitating opportunities for farmers to participate as equity partners in these agro-enterprises.

Concentration in the structures of manufacturing

Bangladesh's manufacturing sector remains dangerously concentrated. 67% of manufacturing growth in the 90's originated from just 5 industries. Investment and growth has been registered in a narrow range of industries dominated by RMG and its backward linked textile industry. Other industries which have registered some growth are pharmaceuticals and cement, *bidi* and printing and publishing. The principal growth industries, except *bidis*, are characterized by low levels of local value addition. The Cement industry has grown rapidly to meet the needs of the fast growing construction industry which has also supported the growth of industries such as steel re-rolling, bricks and ceramic tiles. The cement industry, however,

is based on import of clinkers which are then ground into cement, with negligible value addition. Of the 5 industries which have registered growth, all except RMG, cater to the local market.

Two traditional industries, leather and frozen foods, have also demonstrated their export competitiveness but their performance has been uneven so that these sectors are reckoned to have performed below their potential. As a result, the RMG sector remains the main dynamic behind our growth of manufacturing exports. The success registered by the RMG sector has not stimulated investment in a new generation of industries with growth potential. In most of the sectors of potential growth such as light engineering, agro-processing, consumer electronics, soft toys, urea fertilizer, and some chemicals, new investment growth or modernization of existing enterprises has been negligible.

In a range of 28 major industries, accounting for 58% of manufacturing value added, largely servicing the domestic market there has been stagnation or even decline in output, with negligible new investment. These industries were unable to cope with import liberalization which was accelerated in the 1990s under the World Bank driven programme of structural adjustment reforms. Many of these enterprises serving the domestic market have contributed to the large defaults which have accumulated with the Banks.

The most troubled of the 28 industries remains the once dominant jute industry which through the 1960's and 70's remained Bangladesh's leading industry and export. Today, the jute industry accounts for 14% of value added in manufacturing and a lowly 3.6% of exports. In spite of the privatization of over half the industry, many of its enterprises, public and private, remain closed and the sector accounts for the largest part of the accumulated debt default with the banks.

Export concentration

At the margin, growth of the RMG and backward linked textile sector remains the principal engine for export growth. However, the growth of RMG/textiles depends largely on the sustainability of export growth. This RMG export growth which had remained resilient throughout the 90's growing at 16% a year, has experienced its first contraction in the last 6 months where there was an absolute fall in exports.

The growth of RMG exports depends on the North America and European Union (EU) market. Bangladesh's export market in the USA has been sustained by the quota regime of the MFA. However, this market is now under threat from special concessions offered by the United States to the Sub-Saharan Africa and Caribbean Basin countries under the new *Trade and Development Act* (TDA) 2000, which gives a selection of African and Caribbean countries both quota and duty free entry to the US market. Bangladesh is already exposed to a competitive disadvantage from duty free RMG exports to the US market from Mexico under the provisions of NAFTA. Now we have to contend with some Caribbean countries who are already eating into Bangladesh's RMG market to the US. This competitive process may become more severe as some African countries, backed by migrant capital and entrepreneurship from South and South East Asia, including from Bangladesh, enter the RMG export market in the United States.

Coping with globalisation

The recent EU concessions offered last summer in Brussels to the LDCs, which includes Bangladesh, offering duty free access for export of *Everything but Arms*, is already under threat. Both the US and the EU are using market access as a reward for politically correct behavior in such areas as the war on terrorism. Both Pakistan and even India may be offered the benefits of market access which could undermine the temporary advantage enjoyed by Bangladesh today in the US and EU RMG market.

Far more serious than the temporary risk of politically patronized market access to the US/EU market is the threat of the eventual termination of the MFA in 2005 under the rules of the WTO. Once Bangladesh loses the protective benefit of quotas it will have to compete in the open market for RMG with China, India and a growing number of competitive exporters from around the world. We may derive some benefit as an LDC from our duty free entry to the EU but this will only last until all duties on textiles are phased out. To protect our markets in the US, Bangladesh is desperately trying to lobby for legislation which guarantees us duty free access to the US market. But in the prevailing global strategic order we may have to take our place in the queue behind Pakistan and other competitors for political patronage from the US.

In the final analysis, in order to survive in a globalised market, Bangladesh will have to invest in making its RMG exports sufficiently competitive to be able to meet the Chinese challenge.

This will not only require massive investment in backward linkage industries, which are highly capital intensive, but will demand a dramatic surge in productivity within both our textile and RMG sector. To meet the full investment needs for backward linkage to the RMG sector will require investments in the range of \$10 billion. It is not clear where this capital will come from or where it will find Bangladeshi entrepreneurs with the managerial and risk taking capacity to handle such a level of investment.

Bangladesh, in any case, cannot afford to enter the next decade exclusively tied to survival in the RMG market. We have to diversify our export base as well as rediscover our neglected domestic market. The cavalier way in which successive governments have thrown a domestic market of 130 million people into the hands of the trading community makes neither economic or political sense. This has not only contributed to the collapse of a whole range of industries but has also threatened the survival of medium and small entrepreneurs who largely depend on the domestic market.

The need for an industrial strategy

The real problem faced by Bangladesh today originates in the complete abdication of responsibility by successive regimes to provide direction to our industrial development. Giving strategic direction means more than just periodically framing an industrial policy which no one reads. This demands a well thought out, forward looking and purposeful industrial strategy, which identifies specific growth sectors, invests in supporting infrastructure, makes provision for investment finance and, where necessary, even takes the lead in setting up particular enterprises in order to catalyze private sector investment. The problem in undertaking any such initiative lies in the complete deterioration in the policymaking capacity of the GOB and its ability to plan, let alone operate, a productive facility with any degree of efficiency or probity. The continuing subordination of the GOB to donor influence has discouraged any form of public intervention in the industrial sector whether as an investor or as an entrepreneur. Thus, any serious attempt at public action in this sector will require not only a major reversal of GOB policy but a willingness to draw in expertise from outside the government to enhance their capacity for effective rather than rent-seeking intervention.

Financing diversification

At the same time we must recognize that the scope for financing new industrial investment and diversification is severely constrained due to the growing debility of the financial sector under the weight of debt default. The new private banks are reluctant to overexpose themselves to term financing for underwriting industrial investment. As a result, the main burden of investment finance still rests with the 4 Nationalized Commercial Banks (NCBs) and what is left of the specialized development finance institutions (DFIs). All these public institutions are becoming financially unviable, weighed down by the burden of classified loans accumulated due to the politically directed misgovernance of the financial sector. Attempts to reactivate the NCBs in order to stimulate new investment invites further strain on the viability of the banks. Thus, unless attempts are made to clean up the balance sheets of the NCBs and DFIs in the near future they will remain incapable of resuming their lead role in investment finance. This suggests the need for a new public financial institution with a clean balance sheet. But this may also go the way of earlier DFIs if the tradition of politically patronized lending and debt-rescheduling is not reversed. It should be kept in mind that successive governments have been discouraged by the World Bank and IMF from any further interventions in the area of institutional finance.

In such circumstances the private sector will have to place more emphasis on mobilizing funds from within their own community. However, the capacity of our leading entrepreneurs and even the dynamic RMG sector, to risk their own equity by reinvesting their accumulated investible surplus, has not been promising. With rare exceptions, new private investment has largely depended on bank financing. Bangladesh's new generation of businessmen, lack liquidity. Those who have accumulated some liquidity remain inhibited about risking their own resources in long term investments in the industrial sector. Thus, unless term finance, usually provided by the NCBs or DFIs or private savings mediated through the stock market are forthcoming, scope for new investment of a risk taking nature does not hold promise. The scope for drawing upon the savings of the public through the stock market has, unfortunately, been severely compromised by the boom and collapse of the market in 1996. Whilst a considerable volume of small savings remains available to finance credible projects sponsored by dependable entrepreneurs, investors remain chary about investing their savings in a market which is subject to manipulation and insider trading.

Correcting structural injustice

Widening social divisions

Diversification should not simply be seen as a problem of changing the architecture of our economy. Crucial to the sustainability of our development is the need to correct the structural injustices which are accentuating social divisions in Bangladesh society. This process demands corrective action which is designed to give a stake to the excluded majority of the population in the opportunities for development.

Over the last two decades Bangladesh has become a much more unequal society. This trend may be captured in more detailed discussion of the trends in income inequality. But data drawn from household budget surveys do not adequately capture the widening divide between a narrow elite and the great majority of their fellow citizens. These divisions are being accentuated through differentiated opportunities to benefit from globalisation and the patronage of the state. The symptoms of such social division are to be found in the growing disparities in access to education and health care as well as in the life styles of our citizens.

Human development as a source of differentiation

A narrow elite is now educating its children in private institutions at home or sending them abroad. Private schools and universities, using English as their medium of instruction, are targeting their facilities to those who can afford to pay high fees. In recent years expensive private education has become a growth industry. This preference for private education, particularly among the elite, appears to be a natural response to the deteriorating standards of our public institutions. But the divisive implications of such a commoditised system of education should not be underestimated. This same elite is increasingly using the private medical facilities which have grown up at home to cater to their needs, or are moving abroad, particularly to India, for meeting their medical needs.

The general populace remains dependent on public education and health care whose quality of service deteriorates whilst it budgets and capacity expand. Current education policy encourages the growth of more private institutions in rural areas which cater to the needs of the less affluent. This has led to a significant increase in enrollment and the emergence of gender parity in our primary schools. But the quality of education in our rural schools, both private and public, is so poor that a recent survey showed that less than 2% of those surveyed

had achieved competency in all the disciplines under review. Most of these facilities for public education and health care remain insufficiently resourced and poorly governed. Our rural and many urban schools are increasingly becoming havens for public rent seekers and private profiteers seeking to benefit from the policy of budgetary support for private schools.

Disparities in the market place

This widening social divide in the area of human development means that the poor participate on increasingly unequal terms in the market economy. In the market, the poor already have limited access to capital and opportunities to own productive assets. This severely compromises their capacity to compete in the market. In such an unjust social order, the capacity for enterprise, sacrifice and hardwork of the resource poor, which is only partially captured by the micro-credit system, is insufficiently supported by public policy, public institutions or even through adequate provision of resources which can make a qualitative difference in correcting such deprivation. Such potential areas for change as small and medium enterprises, non-farm entrepreneurs, small holder agriculture and even the more dynamic components of the professional classes, remain largely outside the purview of state policy and resources. Whilst NGOs have played a valuable compensatory role in the delivery of services and micro-credit they have been much less effective in enhancing the capacity of the deprived to compete in the market.

In such a society, the opportunities for the deprived majority remain constrained by market, institutional and governance failure which are not addressed within the domain of the traditional model for policy reform. The recent change in development fashions to emphasise governance as the explanatory factor to account for the limited success of the reform model of the 1980s, pays little allocation to the need to correct the structural injustices which underwrite the process of governance. As a result, the prevailing social dispensation remains inefficient as well as unjust and cannot expect to be politically sustainable for too long.

The scope for correcting injustice

Any move to correct the growing injustices in Bangladesh society will need to address the issue of democratizing access to opportunities for the deprived segments of the population. Some of areas of opportunity where public action is required are indicated below:

- A major escalation in resources committed to the human development sector is needed so as to upgrade public schools and health care facilities to levels which are on offer to the urban elite. This will require a drastic reform in the governance of these institutions if such large investments are not to be misused.
- Investing the resource poor with command over productive assets such as land, water bodies including sub-surface water and fisheries. In these areas entitlements within the control of the state could be exclusively assigned to groups of the deprived. Public resources could be channeled to support investments by these groups in operating these assets including investment and management of sub-surface water.
- Providing opportunities for the deprived to participate more equitably in the market economy by exploring ways in which they can obtain fair prices for their produce, share in value addition to this produce and move up the market chain through restructuring of marketing institutions.
- Graduating the deprived from the micro-credit to the macro-credit market. This could be realized by encouraging MFIs to evolve into regular commercial banks *owned* by their once deprived clients. These reconstructed MFIs should be able to use their creditworthiness to attract savings from the urban sector to channel it to the rural economy. They should also design financial instruments to capture the savings of the rural population and not only use this to broaden investment in the rural economy but channel this into acquiring corporate assets. Eventually the deprived should aspire to become substantial shareholders in corporate enterprises operating in the market sector and global economy.
- Workers, particularly in the RMG sector, along with farmers linked to the agro-processing sector, should be supported, through bank financing, to become equity partners in the corporate enterprises which process their produce.
- The MFIs and other NGOs should not expect to spend the rest of their lives as aid contractors. They should explore ways to restructure their organizations into corporations of the poor equipped to compete in the market economy. These reconstructed NGOs, along with smaller community based organizations of the deprived, would need to be vested with a legal personality to define their group or corporate identity.
- These legally empowered collectives of the deprived should aspire to use their group identity to compete for power at the local and eventually at the national level.

Policy ownership

Policy disownership

If Bangladesh is to put in place the credible agenda for change needed to realize its unfulfilled promise, this agenda must be domestically owned. Ownership does not only mean the indigenisation of the policy making process but the involvement of the stakeholders in the design and benefits of public policy.

Many years of aid dependence have contributed to the erosion of the will and capacity of the Government of Bangladesh (GOB) to design development policy. Bangladesh's aid donors became increasingly assertive, particularly in the 1980s, both as to the validity of their reform model and their willingness to use aid conditionalities to enforce their agenda of reforms. Whilst many of these reforms were perfectly sensible and necessary, the GOB made little effort to challenge the relevance of such a universalist reform model, prescribed by the World Bank and IMF to the specific circumstances of Bangladesh. Our mounting need for aid to fill the resource gap, which originated in the state of misgovernance as well as the appetites of the emerging elites, made the GOB a passive accomplice to the policy agendas of our donors.

Throughout the autocratic regime of the 1980s the GOB did not feel responsible to its citizens but preferred to make itself accountable to the aid donors. This surrender by the GOB of policy hegemony to the donors in order to ensure the flow of aid, was largely counterproductive. Such externally designed policy reforms commanded little or no support at home because they were rarely exposed to discussion either before the public or in parliament. Since most of these reforms were designed by expatriate consultants and imposed on the GOB through conditional loan covenants. The GOB's commitment to these reforms was at best shallow and more likely, insincere. Thus, by the end of the 1980s, the outcome of the reform process remained poor, governance was in shambles and corruption was rife. This was indeed the fate of reforms in much of the Third World. All this was pointed out to the country and our principal aid donors by various Bangladeshi economists throughout the 1980's. However, it took much longer for our aid donors to wake up to the importance of ensuring that the reforms process needs to be domestically owned, through use of indigenous expertise, consultation with stakeholders and drawing upon consensual political support within the country.

Civil society and policy advocacy

During the 1990s, when successive elected governments were in office in Bangladesh, aid dependence perceptionably declined. However, surprisingly, there was no corresponding willingness on the part of both the BNP or Awami League regimes to assert themselves in resuming ownership over the policy making process. The same reform model, quite literally designed for the Ershad regime, continued with a few addendums, to be embraced by successive elected regimes through to the 1990s.

In early 1991, during the tenure of the caretaker government under President Shahabuddin Ahmed, 250 of the best available professionals were assembled in 29 Task Forces, to prepare policy recommendations to assist the newly elected government and parliament in establishing domestic ownership over the policymaking process. Such an exercise demonstrated that Bangladesh has the professional capacity to establish ownership over the policy discourse. What it lacked was the political will to draw upon such resources. The work of the 29 Task Forces was largely ignored by the BNP regime who opted to continue to draw upon the policy advice of the donors which had now extended beyond economic reforms into the realm of governance reforms. The Awami League regime took over the donor agenda from the BNP and merely sought to proclaim their greater fidelity to donor policy prescriptions. Such loyalty to an externally derived reform process did not absolve either of the two Finance Ministers from having to digest sermons from the donors about the deterioration in the state of governance which was now identified as the principal explanation for the ineffectiveness of the reform process.

Even though the Awami League regime set up a number of Commissions/Committees during its tenure, drawing on available expertise in the country, to prescribe policy reforms, the recommendations of these Commissions remained largely unpublished. No effort was made to publicly discuss or build support for the recommendations of these Commissions. As may be expected most such proposals remained on the shelf rather than being used as the basis for new legislation to be placed before parliament.

Prior to the elections of October 2001, a similar exercise to the effort of the Shahabuddin administration was initiated at the level of civil society by the *Centre for Policy Dialogue*. 16 Task Forces, drawing upon around 160 of the best available professionals in the country, were assembled to prepare Policy Briefs to serve as both inputs to the electoral debates and to

offer policy alternative to the newly elected government and parliament. The fate of these policy briefs is still to be seen.

Changing donor perspectives on ownership

However, between 1991 and 2001 the donor perspective towards policy ownership has undergone a sea change. It is the donors who now emphasise the need for the GOB to resume ownership over policy reform, to discuss reforms with the stakeholders and build a political consensus behind the reform process. However, what is left unsaid by the donors is that their version of policy ownership is for the GOB to carry out reforms on the lines suggested by the donors. The GOB is accordingly expected to claim domestic ownership over such reforms which, by a coincidence, resemble the donor's vision of reform! It is left unsaid as to what may happen if the GOB, through such a resumption of ownership, were to come up with a set of policies which were at variance with donor agendas. Since the donors continue to spend large sums of money hiring both expatriate and local consultants to project donor policy agendas, it is unclear how far they would reconcile themselves to assertions of policy autonomy by civil society or the government.

Crucial to this exercise in policy ownership is the fate of the *Poverty Reduction Strategy Paper* (PRSP) which is being promoted by the World Bank and IMF in all developing countries, as a precondition to qualify for additional aid. In Bangladesh the preparation of the PRSP has been assigned to a team from BIDS, but it is not certain if the consultative process or the moves for building a political consensus behind the PRSP, will represent an authentic effort at consulting stakeholders or will remain a pro-forma exercise. Nor is it clear whether the small print of the traditional donor reform agenda is expected to be smuggled into the PRSP document if it is to have a fruitful reception in the perspective Paris Consortium meeting in March of this year.

Communicating with the stakeholders

Indeed the whole approach, whether by the GOB or civil society, to actually engage with stakeholders, particularly the poor, to ascertain their felt needs not just about what they expect but over policies to realize their needs, is at a formative stage. The GOB has little experience in talking to the people even though they are elected by their vote. Civil society is no better equipped to communicate with ordinary people. Nor has any serious effort been made either by the GOB or donors to seriously engage with the political opposition to build a

consensus behind reforms. Through the 1990's, over the life of three regimes, the political opposition has stayed out of parliament for long periods and does not even talk to the ruling party. Nor did the ruling party make any serious effort to seek support from the opposition for the reform process. The idea of building a consensus behind any policy proposal was thus largely left in the realm of rhetoric. As a result, it is left again to civil society organizations such as CPD, to promote policy dialogues which bring together both the GOB and the political opposition, along with a broader spectrum of civil society, to project a domestic agenda for policy reform. Such initiatives by civil society are, however, no substitute for serious political dialogue among the political parties so that the concept of consensus building behind reforms remains a largely speculative proposition.

Sustaining Democracy

The crisis of governance

All such moves to diversify the economy, correct injustice and resume policy ownership will remain largely academic goals if we cannot upgrade the quality of governance. Failure to improve governance could threaten the sustainability of Bangladesh's democratic renewal.

It is now widely accepted that Bangladesh is facing a crisis of governance which originates in a malfunctioning of the democratic process. We have already observed the poor quality of our public educational institutions and health care facilities. What needs to be emphasized is that this deterioration in quality owes less to resource constraints than to the poor management, discipline and minimal regulatory oversight of these institutions. This has encouraged corruption and lack of commitment to serve their clients, particularly the poor.

This malgovernance in the human development sector extends to every public institution providing a public service, from the public provision of electricity, gas, water supply, public sanitation, transport services, operation of ports and civil aviation, to the provision of law enforcement. In all these areas service remains poor and is provided with rising transaction costs. The less connected sections of the population are particularly discriminated against. Such poor service and rising delivery costs are seriously compromising the competitiveness of those sectors engaged in producing goods and services particularly for the export sector. This sustained deterioration in governance is compromising the ability of the country to attract both domestic and foreign investment. One of the key factors which has inhibited the

diversification of the economy, thus, lies in this hostile climate towards innovative investment created by this state of misgovernance in Bangladesh.

It is not surprising that our aid donors have elevated the issue of governance to the top of their agenda of reforms demanded from the GOB. This belated discovery of governance rather than policy reform as the principal source of our development crisis may owe to the limitations in the policy agenda of the donors. But the problem of governance is serious enough for the donors to feel that their entire aid programme in Bangladesh could be put at risk if they cannot elicit any improvement in governance.

Substituting the state

For the last two decades the donors have sought to address the crisis of governance by seeking the privatization of the productive sectors serviced by the government. In the last decade the donors, as a matter of policy, have been increasingly using the NGOs to replace the GOB as development contractors, for delivery of their aid, particularly to the poorer sections of the population. In a broad range of areas including education, training, health care, immunization services or family planning, NGOs are being promoted as the alternative to the perceived failures of the state in the social sector.

The most recent manifestation of the donor's lack of confidence in the GOB is to be found in moves by particular donors such as the US and UK to induct so called civil society organizations (CSO) into playing a more pro-active role in demanding transparency and accountability from the government. It is not clear whether NGOs, who currently serve as the donor's surrogate for civil society, can actually discharge this largely political responsibility without entering into confrontation with the government. But, as with the provision of development contracting, there will be no shortage of NGOs in Bangladesh who will either reinvent themselves or of enterprising individuals who will set up CSOs, in order to build a clientist version of civil society. There are of course a number of CSOs of public standing and motivated to seek accountability from the state who are in the field of policy advocacy and enforcement of gender justice as well as human rights. But even these organizations face problems of sustainability due to their resource constraints and potential hostility of the government as well as the beneficiaries of malgovernance.

The crisis of democracy

The crisis of governance originates in the gradual weakening of Bangladesh's democratic institutions. Whilst Bangladesh has witnessed three credible general elections in the last decade, two successive parliaments have already been rendered dysfunctional. A third may be moving in the direction of its predecessor. In the last two parliaments the opposition has boycotted parliament for half the life of the parliament and spent much of their political life on the streets seeking the premature overthrow of an elected government. When the opposition had been present in parliament it remained an arena of confrontation, characterized by intemperate exchanges, frequent walkouts by the opposition and generally partisan conduct of the affairs of the House by a Speaker who proclaimed his loyalty to the ruling party.

This poor quality of parliamentary conduct, as well as the prolonged absence of the opposition from parliament, meant that the incumbent government was rarely made to account for its misgovernance before the elected representatives of the people, except through occasional sessions of some Parliamentary Committees. Indeed the tradition set by the outgoing Parliament of appointing non-Ministers as chairman of the Committees not only encouraged attendance by Opposition MPs but in a number of cases made the Executive account for its actions. Unfortunately the Committees have no power to enforce compliance with their decisions on the executive arm of the state. However, the Parliamentary Committees did establish that the government can be kept responsive to if not responsible for public concerns.

Outside of the Parliamentary Committees this malfunctioning of the premier institution of democracy has eroded public confidence in their elected representatives who are seen to pay insufficient attention to the concerns of their voters when in the house. In the case of the opposition, who do not even choose to exercise their representative responsibilities, the voters from these constituencies remain effectively disenfranchised.

MPs have recognized the political hazards of ignoring their electorate. A large number of the sitting MPs have been evicted by their electorate in two successive elections. MPs do, therefore, make an effort to keep contact with their constituencies. However, rather than discharging their representative responsibility within the House, MPs are increasingly seeking to transform themselves into extensions of local government. They spend

considerable time lobbying the government for development work in their constituency or intermediating on behalf of their local political supporters with the executive at the local and national level. This notion of delivering public services to their area is a not undesirable role for MPs but it is becoming subversive to any attempt to promote local government. The MPs prefer to retain the power to remain the principal source of patronage in their constituencies.

The crisis in the political system

This growing crisis of confidence in our representative institutions itself originates in the crisis in Bangladesh's political system. Over the last decade Bangladesh's democratic process has been held hostage to the confrontational style of politics practiced by its two principal parties, the BNP and the Awami League. Bangladesh's polity has the good fortune to have two strong parties, with strong grassroots support, who commanded enough countervailing strength to be able to replace the ruling party in successive elections. This two party system has lent an element of stability to our parliamentary process by ensuring that successive elected governments have completed their full 5 year tenure in office.

However, the emergence of a functioning two party system has also become the source of confrontational politics in Bangladesh, with the emergence of a bipolar political system based on a winner-take-all style of governance. As a result, each party believes it can question the legitimacy of its rival whilst denying political space to alternative political tendencies. Smaller parties have virtually disappeared from the scene and those who retain a foothold in Parliament can only hope to do so as minority allies of the dominant party.

This emerging bipolar political system has encouraged the two principal parties to become increasingly insensitive to public opinion. The indiscriminate resort to *hartals* by both parties, when in opposition, demonstrates their collective insensitivity to both the public as well as the national interest. They both seem confident that their hard core supporters have no choice but to support them or risk ceding power to their principal political rivals. It is to be noted that even though the Awami League won less than a quarter of the seats in the recent election to the parliament they increased their share of the popular vote from 38% in 1990 to 41% in 2001 and attracted 6 million new votes compared to the votes they received in 1996. This confrontational style of politics is accentuated by the extraordinary mutual hostility of the two long standing leaders of the BNP and Awami League who have made history by never having had a one on one political conversation with each other for the best part of a decade

and through two political regimes. These leaders rule their party in a highly absolutist style which encourages little inner party dissent and promotes a virtually feudal style of politics within the party.

This crisis of democracy within the political parties has contributed to the depoliticisation of party politicians who are increasingly driven by personal agendas rather than commitment to ideas or even policies. This erosion of a sense of public purpose in politics has encouraged people with money to seek elective office to promote their business interests. Conversely, those in politics have used their elective office to establish a niche in business. Politics in Bangladesh is thus becoming a rich man's game where huge sums of money are spent to seek election. The less affluent, and particularly the poor, have been effectively disenfranchised from democratic participation even at the local level.

A new breed of hoodlums, known locally as *mastaans*, are being used by the politicians as instruments of coercion to ensure their elections and to even promote their business interests. These *mastaans* are now elevating themselves into parliament. The political access and presence of the *mastaans* in our democratic institutions lends them immunity, particularly when allied to a ruling party, from the process of law enforcement. This immunity is increasingly used by these *mastaans* to coercively extract commercial opportunities from public institutions. Successive ruling parties have made widely publicized commitments to improve the seriously deteriorated state of law and order. In practice any credible initiative to ensure non-partisan law enforcement is compromised by the growing dependence of these parties on *mastaans* as a crucial political resource in their contestation for power.

The crisis in the administration

This malfunctioning democratic process is compromising the quality of public administration. The bureaucracy and law enforcement agencies tend to be increasingly used in the service of the ruling party and to serve the material interests of particular party leaders. As a result the bureaucracy is itself compromising both its neutrality as well as financial integrity. This leads to a form of *Greshams Law* in public administration with the gradual marginalisation of the more efficient and honest public servants. In contrast, the more incompetent and malfeasant bureaucrats seek career advancement through proclaiming loyalty to a political party rather than to the public. Virtually every agency of government is now politically factionalised and held hostage by collectives of officials who resist all forms

of accountability because they enjoy political patronage and/or leverage within the administrative hierarchy.

Crisis of the state

This degeneration in political life has meant that the state has become hostage to a *rentier* elite made up of a section of politicians, a class of businessmen who survive on state patronage as well as default on their loans and a rent seeking bureaucracy, all of whom collude to undermine the governance of the country. Such a political culture largely excludes the more productive sectors of society such as the small farmers, the workers of the export sector, the micro-credit beneficiaries, the creative professional classes, even the more successful members of the business community. All these groups remain marginalized from the process of governance and seek refuge in their individual or sectional pursuits. This contradiction between a state held captive by a *rentier* elite and an alienated constituency with a revealed potential to contribute to the transformation of Bangladesh, remains at the heart of the crisis of the state, which is compromising the sustainability of democracy in Bangladesh.

From Promise to Fulfillment: Restructuring Bangladesh's political economy

If Bangladesh is to bridge the gap between promise and fulfillment in the first decade of the new millennium we will have to address the need for a process of political structural adjustment. Such an adjustment would demand a restructuring of the political economy of Bangladesh to elevate those forces who contribute positively to development and who represent the concerns of the deprived majority. Such a reconstruction of the political economy of Bangladesh will help to create the conditions needed to correct the injustices which exclude a large segments of the population from participating in the opportunities provided by the market and the development process. How such a political structural adjustment may be realized, within the realities of Bangladesh's political economy, should demand the attention of all those committed to sustaining democracy and correcting injustice in Bangladesh.