

BIDS Critical Conversations 2019

POLICY IMPLICATIONS, INSIGHTS AND ADVICE

BIDS held its annual flagship conference known as the ‘BIDS Critical Conversations’, on 28-29 April, 2019. Five key areas were covered including macro-financial developments, persistent poverty in certain regional pockets, inequality, post LDC graduation challenges and policy, education, creating fair (‘democratic’) institutions, and Special Economic Zones. The policy insights and implications emanating from the discussion of these issues were considered important enough to be put together in a clear, succinct and accessible form, for purposes of sharing these with a wider audience, including the policy-making community. If we find that the format used is of interest, and if there is demand, we will be encouraged to adopt this for subsequent events as well.

1. Topic: Macro-Financial and Economic Growth

- **The role of growth in reducing poverty has been diminishing**

The elasticity with respect to growth has been declining over time. It means one percent of growth brings forth less and less poverty reduction. It suggests that ‘low hanging fruits’ are gone and what we are left with is the hard to reach people – geographically excluded and climate-vulnerable people – who cannot participate in the growth process. This calls for mix of the following three strategies:

- Effective regional targeting, safety net programs, ‘graduation model’
- Public investment in the vulnerable areas to bring them in the growth process such as in infrastructure (roads, embankments, markets, etc.)
- Move the people out of vulnerable regions.
- Delivering broad based growth by doing more for agriculture/rural development

- **The argument of ‘jobless growth’ does not have much empirical support**

Annual growth rate of employment has increased to 2.2% in FY2016-FY2017, up from 1% in the previous three years. Moreover, elasticity of job creation with respect to growth shows that economic growth is now associated with more jobs. Theoretically, it is also hard to rationalize the “jobless growth” phenomenon, given the stage of development and technological advancement that Bangladesh is currently experiencing.

- **Bangladesh is not only an RMG-Remittance story – it is an RFL-Walton story too!**

Share of remittance and RMG in total GDP has been declining but the GDP growth has kept its momentum. It suggests that something else is also driving the growth. And the domestic demand led growth is a major candidate which is riding on the expansion of the middle class in the country in recent times. Anecdotal evidence suggests that one can hardly find any imported product in the households of middle income groups. The following table shows how the share of households with TV, refrigerators, mobile phone and furniture has increased over time in the rural areas. It is highly likely that these products are produced in the country.

Household goods	HIES 2000	HIES 2010	HIES 2016
Percentage of rural HHs with TV	7.42%	8.52%	28.68%
Percentage of rural HHs with Refrigerator	0.61%	3.91%	9.86%
Percentage of rural HHs with Mobile phone	0.21%	12.57%	86.98%
No. of Furniture per HH	-	2.14	6.29

- **Growth of productivity is key to sustain the high economic growth**

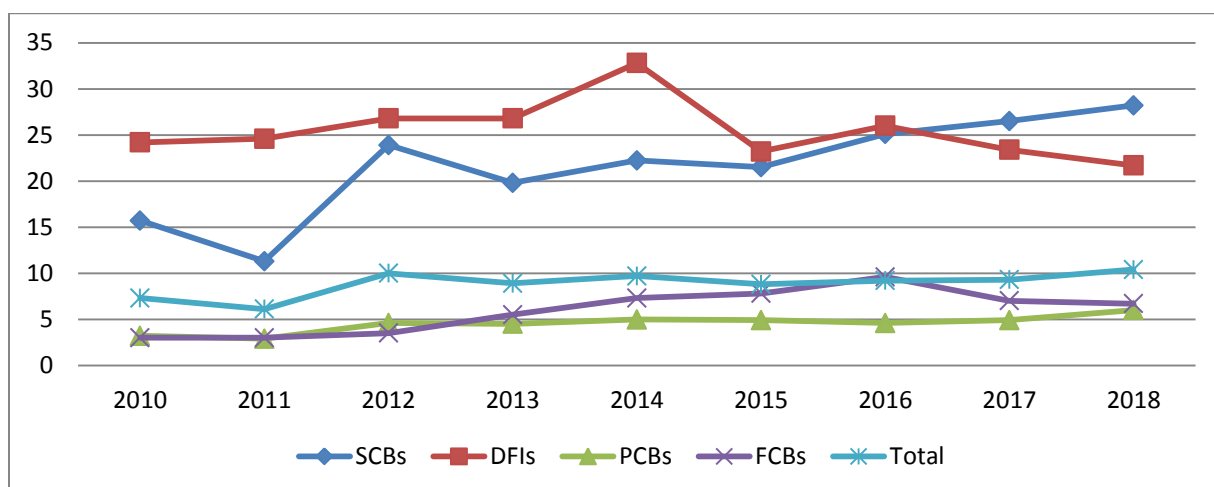
So far, the history of economic growth has been the history of factor accumulation. That is, we increase the number of labor and machines and the output increases. Economic theory suggests that benefits of increasing number of labor and capital will diminish at some point unless the productivity of using these factors of production is enhanced. That is, higher productivity of factors of production, particularly labor, is essential for higher growth. Quality of education, vocational training, better technology and sound management practices are key to increasing productivity of firms and therefore sustaining higher growth.

- **Banking Sector: High Non-performing Loan (NPL) Ratio**

Total NPL stands at 10.33% of total outstanding loan in April 2018, which is estimated at about BDT93,370 crore. State-owned banks have the highest share of NPL. Private commercial banks' (PCB's) share of NPL is also increasing though they try to keep it low by loan restructuring/rescheduling. The main reasons behind persistently higher NPL identified are: adverse selection of customers, political interference in banking activities, bankers' corruption, weak corporate governance and BB's weak

monitoring capacity. It was highlighted that long-delay in court-cases due to ineffectiveness of *Artho-rin Adalat* and related laws is also one of the key reasons for NPL build-up. Increasing the tenure of family directors of PCBs also encourage NPL in many instances. So, corporate governance issue needs to be scrutinized further. Bangladesh Bank should be given sufficient autonomy to handle the NPL issues.

Table 1: NPL ratio over time



- **Interest rate structure**

Bankers' Association of Bangladesh (BAB) declared last year (2018) to maintain a deposit rate of 6% and lending rate of 9%. However, it has been revealed over the last few months that the 6-9% interest band has already failed and currently banks are paying deposit rates of over 10% and lending rate stands at around 13-15%. It appears that BAB made an unrealistic attempt which failed various reasons including the current market structure. The key reasons that were identified in the BIDS conference include distortionary effect due to higher NSD certificate rate; high NPL; and low operating efficiency of the banks. It was suggested to rationalize NSD certificate rate, as well as it was suggested not to keep it open for all. In particular, NSD facility should be made available only for retiree persons and to some special categories of the people from the concern of social-safety net aspects. Moreover, banks have to reduce their NPL ratio by bringing efficiency in their operation as well as strictly enforcing rules and regulations, which will have a positive impact on interest rate structure.

- **New Banks—how many do we need?**

Various incidences, such as big scams, transfer of majority shares and concentration of ownership that became evident in the last few years undermined customer-confidence on the banking sector. Against the backdrop of giving new bank licenses, the necessity of new banks in the economy was discussed. It was argued that only a few banks get "A" credit rating out of 59 banks and the financial health of most of the banks are not good. Banks currently face a liquidity crisis and there appears to be unhealthy

competition among banks to mobilize deposits and transfer loans from other banks. In terms of access to banking by the mass people (only 33% of adult population have access to formal banking and over 40% of SMEs have access to formal finance) and small businesses, there is a need for more banks so that they can increase outreach to a larger section of the population and businesses. However, in reality the situation is different as new banks mainly concentrate in urban and peri-urban areas instead of aggressively exploring new markets. If this is the case, there is no need or demand for new banks. As banks' main source of loanable fund is deposits in the absence of a mature bond market, which seems to be an unsustainable option for the banks, it is important to develop a bond market. Moreover, the government may consider unit banking approach (one branch one bank) while allowing new banks.

2. Topic: Why is Poverty Increasing in Some Regions?

Bangladesh has made remarkable progress in reducing poverty over the past decades. The moderate poverty has come down from 48.9% in 2000 to 24.3% in 2016. Similarly, the extreme poverty has also come down from 34.3% in 2000 to 12.9% in 2016. However, according to Household Income and Expenditure Survey (HIES) 2016, there are districts where poverty is still pervasive. While average poverty is 24.3% in 2016, it is as high as 70.8% in Kurigram, 64.3% in Dinajpur, and 63.2% in Bandarban. And, at the same time, poverty situation is fairly good (i.e., poverty rates are fairly low) in some other districts. For example, in Narayanganj it is only 2.6%, in Munshiganj it is only 3.1% and in Madaripur it is only 3.7%. This indicates substantial regional disparities in poverty reduction.

This is not only the case that poverty is fairly high in some districts, poverty has also increased in some districts over the past several years. Out of a total of 64 districts in the country, 17 demonstrated significant increase in poverty (more than one percentage point per year) during 2010-2016. Kurigram, Dinajpur, Lalmonirhat, Kishoreganj and Bandarban are among the districts that fall into this category.

Key Questions

It is, therefore, important to identify and discuss critical issues around increased disparities in regional poverty. Here are few questions to trigger the discussion:

1. Is this really the case? Is poverty still so pervasive and even increasing in some districts?
2. If it is really so, what are the probable causes for this?
3. Even within the same agro-ecological zones, some districts are doing better than others – what explains these differences?
4. What needs to be done in order to reduce spatial disparities in poverty reduction?

Reflections

The presentation and the discussion focused mainly on the situation in Kurigram and Dinajpur. Based on initial consultation with local stakeholders, we observed divided opinions about both the levels and changes in poverty in these districts. While there was some agreement about the situation in Kurigram, it came as a surprise to many why poverty situation is that bad in Dinajpur.

However, some factors have been identified as factors responsible for the deteriorating situation in these districts. They include the following:

- Changes in pattern and intensity of natural hazards;
- Increased abandonment of family members by the income-earning members of the family;
- Lack of access to institutions and resources;
- Lack of skills and sustainable livelihood options;
- Poor infrastructure and market linkages.
- High production cost in agriculture;
- Changes in land tenure system;
- Drew little attention for development initiatives;
- Presence of socially marginalized communities;
- Cultural barriers: driven by inward-looking attitude;

Dr. S R Osmani, the chair of the session pointed out that increased inequality can cause purely economic, political economic and political problem in the country. When inequality increases, sense of injustice grows, and when sense of injustice grows then the society as well as economy become unstable. Investors don't like unstable situation and as a result investment falls and growth suffers. Given the above, and also on moral grounds, Dr. Osmani emphasized that measures must be taken to reduce inequality in the country.

Prof. Baqui Khalili, one of the panelists, though not fully agreed with the situation in Kurigram, pointed out that natural disaster is one of the most important reasons for high and increased poverty in those districts. He also mentioned that weak governance, weak regulation and inefficient market have contributed to limited access to institutions and services by the poor. In order to address the problem, he emphasized micro level targeted approaches as growth alone cannot solve it. In particular, he mentioned about facilitating access to microfinance in those areas and equal distribution of investment in small and medium enterprises in all districts.

Prof. M A Taslim, another panelist, highlighted the inconsistencies in HIES data regarding income, expenditure, food and calorie intake, etc. Based on some disaggregated analyses, Prof. Taslim raised a fundamental question of how poverty is reduced when real income for the poor has gone down.

Ms. Farah Kabir, another panelist, also mentioned about natural disaster as one of the reasons for increased poverty in some regions. She also pointed out that under various development initiatives, we are in fact contributing to enhance regional disparities further.

Citing the experiences of BRAC's ultra-poor programme, Dr. Imran Matin, another panelist, complemented the presentation made by Dr. Ali that BRAC's ultra-poor programme has been more successful in having sustainable graduation in average districts compared to that of the high-poverty

districts. He pointed out that anti-poverty programmes work better in better districts than in the poorer districts.

Issues around illness and private medical costs have also been cited by the participants as one of the important causes of poverty in the country.

Implications for Policy

1. HIES 2016 data needs close scrutiny in order to come up with robust and consistent estimates of poverty at both national as well as district levels. Income against expenditure, expenditure against food and calorie intake, etc. should also be looked into carefully to check for consistency.
2. We need to explore further why some districts are not doing well while some other districts (even from the same agro-ecological zones) are doing better. BIDS's current study is attempting to dig into the matter further in order to see what explains these differences.
3. Based on early reflection and discussion, it seems that targeted intervention is needed. The districts that are lagging behind in poverty reduction should be well targeted so that the poor and the poorest living in those districts benefit from those targeted interventions. Attempts should be made to create jobs and income generating activities for the poor and the poorest in those districts.
4. Steps should be taken to facilitate access to various institutions (e.g., health facilities, schools, local government institutions, etc.) and services (e.g., social-safety nets, microfinance, etc.) by the poor and the poorest in those districts as well.
5. Development initiatives and investment in small and medium enterprises should also be distributed equally in all regions.
6. There are some region specific practical and cultural issues (e.g., introvert attitude, abandonment, etc.) which need to be addressed through social mobilization activities.

3. Topic: Life After LDC – Challenges of Graduation

- Bangladesh needs to improve its business environment to enhance the competitiveness of export industries.
- Improvement of skills is important to address any possible negative impact of graduation on employment.
- For competitiveness, export industries in Bangladesh, including the readymade garments (RMG) sector should go for further automation. The possible losses in jobs could be improved by improving competitiveness in all other sectors and expansion of industries.
- Though international borrowing cost will rise after Bangladesh becomes a developing country, the cost will not be higher than the cost of domestic borrowing that the government faces now. Therefore, we need to improve our situation on the credit rating criteria so that we could attract more international borrowing.
- Trade Related Intellectual Property Rights (TRIPS) is a concern and Bangladesh needs to prepare accordingly.
- As climate change issues is a big challenge for Bangladesh and Bangladesh will no longer have access to global climate change fund for LDCs – this requires strategic thinking.
- We will need to quickly move into upper middle income country status. The public sector needs to take the lead on this. Bangladesh will achieve higher growth with more technological transformation, but the concern is how we will ensure equitable growth.
- Investment in social sector like education should be increased.
- We need more data at the retail level to understand the elasticity of different indicators as a result of various macro consequences.
- We need development to be fair and institutions to be neutral and impartial.

4. Topic: Quality and Relevance of Higher Education in Bangladesh

Challenges and Potential Solutions discussed by panelists and participants

❖ Challenges

I. Educational Institutions

- Lack of quality in the existing educational institutions and presence of large number of low quality educational institutions produce a plethora of low quality graduates, inducing a vicious **Graduate Trap**.
- Due to the lack of in-country quality educational institutions, many good quality tertiary level students enroll in foreign universities resulting in brain drain.
- Lack of vision/inability to implement visions by educational leaders because of restrictions exerted on them by politically appointed people (in public universities) and/or agents of the owners (in private universities) also help the degeneration of the current situation.

II. Curriculum

- Lack of proper implementation of the current curriculum and infrequent up gradation of the same, cause hindrance in development of education system.
- Absence of sufficient vocational education gives rise to graduates with bookish knowledge and no skills with in-field experience that is actually required by the job sectors.
- Lack of research culture in the concerned institutions and the minimal research produced there are of sub-standard quality, which leave Bangladesh behind in this sector compared to other countries of the same caliber.
- Only one examination at the end of a year in public universities leaving no room for further assessment and giving feedback is inefficient to judge the quality of the students.
- Lack of interdisciplinary knowledge and proper utilization of technology in this sector make Bangladesh lag behind other countries of the same potential.

III. Instructors

- Poor lesson planning on part of the teachers' results in inefficiency in the sector.
- Lack of teachers' ability to enforce inclusive/tolerant atmosphere in classrooms also act as a counterproductive factor.
- Inadequacy of good quality teachers makes introduction of useful and important courses problematic and makes it improbable to oversee capable students' progress in the right manner.
- Public universities do not have the custom of anonymous teachers' evaluation by the students which may prove to be very effective in evaluating the students properly.

IV. Graduates

- Graduates prefer jobs that are mostly Dhaka centric. This causes them to remain unemployed rather than accepting appointments from different cities around the country.
- Graduates need to be innovative. They need to pursue entrepreneurship instead of just looking for jobs.
- Graduates often appear reasonably qualified on paper but often prove themselves to be not qualified in person.
- Lack of leadership skills, creativity and critical insight in graduates are also serious issues.
- Premature focus on the preparation of government job entrance exam make students lose focus on their respective academics and should be discouraged as it entails the graduation of less qualified in field personnel.

V. Infrastructure

- Lack of properly planned infrastructures.
- Haphazardly built numerous department buildings.
- Crowded campus, with insufficient or no ventilation.

- No/not enough lab facilities.
- Lack of appropriate classroom equipment.

None of these are attributes fit to experience high quality education in a safe and healthy environment.

VI. Governance

- Nepotism in employing staff and appointment through political affiliation cause serious problem for the education system.
- Lack of accountability of teachers, especially the ones with political affiliation is a common occurrence.

❖ Potential Solutions

- Basic level of education (primary, secondary and higher secondary) must be improved in order to produce good quality students for tertiary and advanced level education.
- Number of universities in Bangladesh should not be increased unless and until the quality of the existing universities is improved significantly.
- At least one education space of excellence like IIT, India needs to be built so that the production of a handful of top-notch graduates is guaranteed.
- The 26 ministries that deal with skilled graduate issues, the leaders of universities who design the curriculum and the industry/employers who decide what kind of graduates they want to employ – these three counterparts should maintain regular and clear communication in order to design the perfect curriculum necessary to avoid producing graduates without the knowledge and skillset required for them to be absorbed into the service industry.
- Policymakers need to assess what is the optimum number of graduates to produce per year and introduce policies accordingly.
- Very strict faculty recruitment process ought to be set in motion for the betterment of the sector.

5. Topic: Special Economic Zones

A key watch out for the SEZ program is the potential for land grabbing. Potential exists for this practice to proliferate in Bangladesh as it did in India, Pakistan and China and this may be further aggravated by the fast license procedure that currently operates for applicant SEZ developers. Having such a fast license system may be good for business, allowing developers to quickly enter into development with final approval granted after conditions have been met. However, in this institutional arrangement, BEZA may wish to articulate a policy of acceptable land use and to institute mechanisms for making final approval and the maintenance of licenses conditional on meeting targets that support the government's Industrial Strategy.

Among the great opportunities in the BEZA program is the potential for experimentation that is presented by the diversity of ownership structures, potential sectors, and zone types in Bangladesh. The case of China demonstrates that well directed competition and zone level innovation can support the development of a dynamic industrial zones program. Bangladesh may be in a position to realize similar advantages; however, two caveats are in order.

The first is that not all sectors that are attractive for investment may be optimal for industrial and economic development in Bangladesh. In such cases, BEZA may wish to retain the ability to prioritize sectors in the future and to exclude those which the experience from the experimentation has shown to be poorly suited to meeting Bangladesh's economic development goals including the creation of quality jobs and growth.

The second caveat is that the lessons of the diverse SEZs need to be able to be captured, understood and implemented in policy. If the experimentation between zones is to be valuable, there have to be mechanisms in place for attempting to replicate successful discoveries of what is working in the contemporary context in Bangladesh and its role in the global trade system. To do this, a systematic M+E framework is highly indicated. A suitable entry point may be found by starting with the eight existing EPZs. These zones, which have long-running production and existing procedures may be difficult to bring on-board, however, they would enable a partial understanding of the conditions for M+E in Bangladesh and may enable a faster roll-out to SEZs once the later program is more mature.

It is important to take seriously the value of both positive and negative lessons both within the national SEZ program and with other countries in the Global South. Given the climate of competition for FDI and the great need for investment in many Southern countries there can be a tendency to only share the positive outcomes.

Issues of governance and land allocation should continue to be approached with nuance and sensitivity. Currently, the government has been seeking low productivity land and reclaiming low land for the development of the SEZs it initiates. From the perspective of the SDG's this may be a very positive strategy, however the cases in India, Pakistan and China point to the need to also consider safeguards against land grabbing and rent seeking behavior by all participants. A second cautionary note is that as Bangladesh has seen in its own development of EPZs and has been extensively discussed in the literature, the location of SEZs impacts on their success and this should be balanced against the worthy objectives of spreading the potential gains from EZs as widely as possible.

6. Topic: Democratization of the Economy in Bangladesh

Economic democracy is the idea that democracy belongs not just in politics, but in the economy as well. Examples of democratic alternatives in the economy are: worker cooperatives, worker self-management, where each enterprise is controlled democratically by its workers, or macro-economic activities, such as participatory budgeting in Brazil or open budgeting in the local government of Bangladesh etc.

Experience indicates that economic democratization process has not been very successful in Bangladesh. Over the past few decades we failed to develop robust and efficient cooperatives. Some authors, for instance Akbar Ali Khan, attempted to explain it from a historical deterministic perspective. He argued that, historically (goes back to pre-colonial time) Bangladesh enjoyed low social capital ('no social cohesion, no solidarity, no social harmony'), therefore attempts to develop big cooperatives through large scale collective actions failed but small group of Grameen Bank worked well. In contrast to historical deterministic/path dependency arguments, we would argue that political economic meta and meso level determinants, such as nature of governance, and deeper understanding of the role of agencies, and historical formation of elite or subaltern hegemonic agencies, and societal norms can provide better explanations of collective action failures/success.

Bangladesh made several attempts to create space for the poor by helping them establish rights over fisheries and forest resources. In fisheries this was done by promoting community-based fisheries management and in forestry by various social forestry programmes. The success of these programmes has been limited, particularly in fisheries. In most situations there were elite capture of the co-operatives, resource degraded by other agents (pollution, siltation etc.) In the light of the experience of various community-based management of these resources we recommend the following:

1. Various policies for resource management should be made more consistent;
2. Governance has to be improved so that the rights of the poor are enforced;
3. Factors associated with resource degradation have to be better addressed.

KARIKA's founders were inspired by economic nationalism of the 60s (West Pakistani goods dominated the market) as well as dreams of mega social transformation: socialism, social/community ownership over production process, preservation of indigenous crafts etc. There was also a synergy of commitment and passion of prominent intellectual, political, cultural personalities (poet Shamsur Rahman came up with the name, Qamrul Hassan and Joynul Abedin, two prominent artists, guided the craft designing process. Passionate support from prominent academics also contributed to the process. KARIKA functioned well due to committed and able leadership in its early years of formation but its performance declined during subsequent decades. This was due to lack of professionalism/management inefficiencies, governance problems (patron-clientelism, factionalism, consequent marginal role of the primary producers etc) that led to state interference that in turn stultified creativity and diminished primary producers' autonomy, and lack of visionary/creative leadership (which existed during the founding phase).

Economic elite resistance to economic democratization. Professor Rehman Sobhan attempted to engage with corporate elites (in both private and NGO sectors) with two specific 'proposals': 'Enhancing Market

Power of the Excluded (primary producers) through Sharing in the Value Addition Process 'and 'Broadening Ownership of Assets (mainly by the workers, producers) through Collective Action'. As it turned out, his proposals failed to receive, perhaps not unexpectedly, 'ready acceptance from entities whose interests are likely to be affected'. He observed, that 'Corporate enterprises are not immediately inclined to support proposals to incorporate their supply chain of workers into their equity ownership. NGOs are not immediately willing to reincorporate themselves as organizations owned by their client base'. Clearly experiments with economic democratization in Bangladesh need to be done, at this stage, within publicly owned economic sectors. State's political commitment and vision of inclusive growth will be critically needed for any progress towards such objective.