

Bangladesh development strategies, governance and human development

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The government of Bangladesh's development vision and associated objectives and targets are all laudable. If accomplished, Bangladesh can well celebrate achieving a path towards take off and self-sustained rapid growth over the longer term. The targets are realistic and achievable within the stated time frame, provided there is a well thought out strategy to realize the development objectives and goals, there is formulation of right policies and institutions that underpin the strategy, and there is a clear time-specific implementation plan. All three are enormous challenges and require coordinated and continuous efforts.

Development Strategy: Realisation of the government's vision 2021 requires clarity about associated strategy that converts the vision into specific policies and institutions to secure the targets. The strategy needs to distinguish between short-to-medium term and the longer-term. It is heartening to see well defined time lines for the targets with clear distinction between short-term (NSPAR II 2009-11), medium term (The Sixth Five Year Plan 2011-15) and the longer-term (The Perspective Plan 2010-2021). It is also great that there is a medium term macroeconomic framework which appears reasonable and internally

consistent.

Where issues emerge, they concern the clarity and specificity of the government's development strategy and associated policies.

Presently, some 50 per cent of labour force is still engaged in low productivity agriculture and another large share is engaged in low-income informal services. In my view the key to long-term sustained growth and poverty reduction in Bangladesh lies in a strategy that helps transfer a large chunk of labour from agriculture and informal services to a modern manufacturing sector and organized services.

There can be a healthy debate about whether Bangladesh can compete in large-scale manufacturing with the East Asian Tigers and whether instead it should focus on small and medium enterprises. But few would doubt the need for rapid growth of the manufacturing sector and organised services. The history of long term growth at the international level shows that the movement of labour from agriculture to manufacturing and organized services is an essential step for raising per capita income and employment. This is not to say that agriculture has to be neglected. The government's emphasis on agriculture is appropriate.

But as steps are taken to promote agriculture, at the same time efforts are needed to allow labour mobility from agriculture to good jobs in manufacturing and organized services over the medium to long term. I don't see clarity about whether this is indeed the path chosen by Bangladesh for vision 2021. And if so, whether there is consistency of policies with this strategy.

A second aspect of the development strategy is export-led growth versus import substitution. While I see emphasis on exports, I get mixed signals from the government's conduct of trade policy. Bangladesh remains relatively more protected compared with other developing countries and in this budget there is a further increase in average nominal protection (from 20 per cent to 24 per cent). The effective rates of protection are higher. This may or may not be the intention, but a clear export orientation if accepted as a strategic goal ought to be associated with a much faster progress with trade liberalisation. Indeed trade protection is one important factor that constrains the diversification of exports in Bangladesh today.

The rationale for an export-led manufacturing strategy is underpinned by Bangladesh's abundance of low-cost labour. The performance of two of Bangladesh's lead performers, ready-made garments (RMG) and export of labour services, shows this quite well. The abundance of low-cost labour gives Bangladesh a huge comparative advantage over competitors and the access to world markets substantially eases the demand constraint.

This has broader implication for designing an export-led, labour intensive development strategy. In a global regime where trade protection for non-agricultural products and services has sharply come down, the main determinant of economic growth and productive employment in Bangladesh is cost-effective domestic supply. Focus on behind-the-border issues and policies are therefore essential.

The two other assets that Bangladesh has, access to sea and the gateway between Central/South Asia and East Asia, remains virtually unexploited. Agreements reached during the recent visit by the Prime

Minister to India

takes the first step towards using geography to Bangladesh's advantage. This is very promising for growth and poverty reduction but remains to be well integrated with Bangladesh's development strategy.

Policy Framework: I have already dwelt on the importance of trade liberalization. Let me now deal with a few other policies where government needs to pay attention.

A key determinant of competition is labour productivity. While wage costs are relatively low, skills are a problem especially as Bangladesh deepens its manufacturing base. A solid human development strategy combining health, education and training become core determinant of export competitiveness. The challenge here is huge. There is both a financing challenge and a service delivery challenge.

The other determinant of competitiveness is quality and quantity of infrastructure. There is evidence that infrastructure particularly energy is already emerging as a major constraint to growth. Weak trade logistics is similarly problematic. There is again a financing challenge and a service delivery challenge.

The financing challenge relates to the need to address the long-term issues in the areas of fiscal and financial sector policies. In the short-term, Bangladesh has a comfortable macroeconomic environment. Indeed, this is a credit to the country that it has kept its economy afloat while much of the rest of world is still grappling with the global financial crisis. Nevertheless, Bangladesh is yet to capitalize this advantage fully to spur growth and create productive jobs.

There are two inter-related aspects of the macroeconomic policies that need more attention

and management.

First, it is ironical that Bangladesh has a large current account surplus in the balance of payments (\$2.5 billion in FY08-09) at the same time that it needs to accelerate its rate of investment to achieve a higher growth rate. And second, at around 9.0 per cent, Bangladesh has amongst the lowest tax to GDP ratio in the world that limits the government's capacity to finance infrastructure and human development needs. The way to reconcile this conflicting macroeconomic picture is to raise the domestic tax effort to support public investment while also improving the incentives for private sector through tax and financial sector measures aimed at converting the high national saving rate into productive investments and away from real estate and speculative stock market transactions. In particular, deeper financial sector reforms are needed to channel national savings into long-term investment financing.

Regarding service delivery, it is a perennially weak area of the public sector. While this is popularly known as Bangladesh's governance problem, I prefer to call this the challenge for institutional development. Elsewhere I have argued that good governance is about good institutions. I find this more attractive because this allows focus on concrete actions that are measurable and monitorable. For service delivery I suggest focus on institutions in three key areas: local governments; power sector and transport sector. Emphasis on local governments is especially important to achieve progress with delivery of basic health and education. Reforms of power sector and transport institutions are necessary to put the sectors on a commercially sound footing, increase investment and provide better services.

Implementation Capacity: Implementation capacity in the public sector is severely constrained. Weak public service delivery is one reflection of this. Unless ways are found to ease this constraint there is a risk of poor implementation and unsatisfactory results. It is tempting to talk about a major civil service reform. International experience as well as experience from within Bangladesh is not very encouraging. Yet pragmatic steps can be taken to enhance the quality and effectiveness of the civil service through merit-based recruitment, placements and promotions. More broadly, the government needs to think out of the box to secure progress in the area of implementation capacity. Several options are possible.

First, devolution of authority and responsibility for basic service delivery to local governments including urban municipal governments will help create more and better capacity. To succeed, the local governments must have teeth in terms of financial autonomy and accountability to citizens.

Second, much stronger public-private partnership in a range of service areas including infrastructure and health and education will help. Proper regulatory and pricing policies are necessary.

Third, partnership with local think tanks on policy research, program design, monitoring and evaluation will help.

Finally, much sharper focus on knowledge partnerships with donors will be very useful. In the current macroeconomic environment where Bangladesh enjoys a \$2.5 billion surplus in its capital account while donors on aggregate disburse an average of about \$1.2 billion per year, it is obvious that the financing case for

development assistance is at best marginal.

Where donors can add most value is in bringing best international knowledge of the right kind that will help

Bangladesh design and implement better projects and programs on a national scale. Closing the knowledge gap

on what works and how to do is perhaps the best form of aid in today's Bangladesh. This will also help ease the

implementation capacity constraint. (The writer is Vice Chairman of the Policy Research Institute of

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