



Need for a social contract

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People show the photographs of their relatives, who were missing after the Rana Plaza

collapse in Savar in April. Photo: Star/File

Notwithstanding 20 plus years of experience with democratic governance, the present political impasse suggests that Bangladesh still has a long way to go to attain mature democratic traditions. Quick solutions are unlikely.

In the meanwhile, the development agenda continues to gather steam. The changing aspirations and challenges of an economy in transition from a primarily agrarian production mode towards one that is dominated by a modern manufacturing and services activities require far more agile and thoughtful policy making than in the past.

So, irrespective of how the political impasse gets resolved and who wins and who loses, citizens would greatly benefit from a broad political consensus that guarantees that whoever governs must respect some minimum norms of behaviour when it comes to economic and social policy making.

This is not an impossible task. The development experience of Bangladesh suggests that there are areas of policy making where consensus has emerged and despite many changes in government, there has been a broad continuity of policies and programmes in those areas, particularly since the advent of democratic governance in the early 1990s.

The most fundamental area of consensus is a commitment to poverty reduction and human development. This has been the flagship of economic and social policy making for all governments since independence. The underlying strategies and policies have been broadly consistent across all governments. The approach to programmes or emphasis on certain policies has differed, but more or less the political commitment has stayed.

Thus, for example, all governments have emphasised economic growth as the main instrument of job creation and poverty reduction. Related to this, the focus on rice and agricultural productivity has prevailed; the push for labour-intensive exports has continued; and the commitment to sound macroeconomic management has by and large prevailed.

When deviations have happened, as in the conduct of monetary policy during FY10-12, they have been subsequently corrected.

The result of this continuity in policy has been highly positive. Savings and investment rates and export as a share of GDP have all grown remarkably, contributing to an impressive increase in total and per capita GDP, especially since the 1990s. Fiscal deficits have been kept within manageable limits, the average inflation rate has been restricted to single digit and the balance of payments has remained comfortable.

On the human development side, successive governments have emphasised the importance of education, especially at the primary and secondary level; programmes to eliminate mass communicable diseases; programmes to lower fertility; and programmes to improve child health and nutrition. The resultant progress with improvement in social indicators, including gender imbalances, has drawn international attention with public appreciation from Nobel Laureate Prof Amartya Sen.

GDP growth and human development in turn have helped Bangladesh achieve a solid progress with poverty reduction.

These positive experiences suggest that even in an environment of political immaturity it is possible to reach consensus on some key areas of economic and social policy making irrespective of who governs the country.

However, a critical area where economic and social policy making has made least progress owing to the lack of political maturity concerns the absence of sound institutions. Events such as the stockmarket crash of 2010, the Hallmark scandal, the Padma bridge debacle and the Rana Plaza tragedy are all indicative of the weakness of economic institutions in Bangladesh.

The stockmarket crash of 2010 was not caused by a slump in domestic or international economic activity but by pure greed and wrong doing of certain market players who took advantage of the weaknesses of the Bangladesh Securities and Exchange Commission and in the conduct of monetary policy. The Hallmark scandal happened because of poor management and oversight of the state-owned Sonali Bank.

The Padma bridge debacle resulted from weakness in public procurement policy. The Rana Plaza tragedy happened because of inadequate regulatory policies and poor implementation owing to the weaknesses of the underlying institutions.

Quite apart from the serious negative effects of each individual event, they are symptomatic of emerging development constraints that, if left alone, could easily gain strength and prevent progress with economic and social development. For example, available evidence from the performance of the state-owned banking sector shows that the amount of infected portfolio (non-performing loans or NPLs) has now reached a massive proportion equivalent to \$4.1 billion owing to either Hallmark type scandals or politically-motivated lending decisions. The prospect for recovering much of these infected loans is highly uncertain. The government is being pushed to divert scarce public resources away from infrastructure, human development and social protection to fill the holes left by corrupt and inefficient lending decisions of the underlying public banks.

The proper management of the public banks is a huge policy issue where a consensus is needed. Irrespective of who is in power, there must be a commitment that these banks will not be used as an instrument of corruption and favour dispensation.

Otherwise, the cost to the stability of the financial sector and to the economy can be substantial that could have severe downside effects on development prospects. Options include privatisation, conversion to narrow banks by taking away their lending functions other than dealing with treasury financing, and true commercialisation with professional management based on sound banking principles and norms.

The issue of establishing sound public procurement cannot be over-emphasised. The loss of Padma bridge financing is illustrative of the serious development costs of weak public procurement. More broadly, there is now a consensus among development practitioners that infrastructure is the most important constraint to manufacturing sector and overall GDP growth in Bangladesh.

There is a large volume of foreign aid potentially available to help finance critical infrastructure in electricity, primary energy and transport network. The fear of corruption in public procurement is a serious bottleneck to their effective use.

It will be unrealistic to expect that all public procurement will be made corruption free in Bangladesh. However, it is not unreasonable to ask for a consensus that all donor funded infrastructure projects will be done on a turn-key basis to safeguard the implementation of

projects of fundamental development importance, such as Padma bridge or a mega power station.

A third critical area where a social contract is essential is related to the prevention of Rana Plaza tragedy type incidents. The event reflects both the absence of prudential regulations related to land procurement, building construction and occupancy norms and their sound implementation.

This is a tough one as it involves a number of regulatory bodies and municipal governments. Yet, the recurrence of another Rana Plaza tragedy can potentially destroy our RMG sector with tremendously negative economic and social consequence and must be tackled immediately.

The weaknesses of land administration are well known and an expert group can easily develop a policy and implementation framework that involves computerisation of land records; simplifications of land transactions; and streamlining of land taxes, property taxes and registration fees.

This important institutional reform can have life-changing benefits for many citizens, including a dramatic reduction in corruption and court litigation.

Building regulations and occupancy standards are established but not implemented properly owing to institutional weaknesses and corruption in the implementation agencies. To my mind, the simplest solution is to empower the implementation of these regulations to accountable municipal governments. Recent election results show that citizens are exercising their voting rights effectively to bring in good mayors in a number of cities including Chittagong, Narayanganj, Barisal, Sylhet, Rajshahi and Khulna.

There is now growing optimism that performance based and relatively corruption free mayors can be selected in all municipalities. If so, it would be reasonable to expect that these empowered municipal governments will do a better job in implementing these building norms than the present arrangement.

So, a commitment to establish accountable municipal governments, defining their

responsibilities and accountabilities, and providing them with commensurate financial resources and financial autonomy will be a major element of this social contract.

This on its own will also be a major step towards achieving greater political maturity.