BANGLADESH’S POVERTY REDUCTION STRATEGY: AN ANALYSIS FROM THE LABOUR MARKET PERSPECTIVE

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Abstract: Bangladesh’s experience with the preparation of a Poverty Reduction Strategy Paper (PRSP) raises some questions both about its process, content and about the philosophy behind the initiative. Empirical findings and statistical evidences suggest that the neo-liberal approach of ‘growth maximisation’ does not always trickle down on poor. Also, it is evident that in spite of its inevitable consequence of raising inequality, growth did not guarantee adequate payoff for the labour market in Bangladesh. In this milieu, employment should be taken as a basic route out of poverty. Thus, poverty reduction strategy of Bangladesh would be irrational if it does not emphasis on equitable distribution of income and land reform as they have direct relation to the capacity building of labour and thus to reduction of inequality.

Introduction

Employment has been perceived as the basic route out of poverty in the Poverty Reduction Strategy Paper (PRSP) of Bangladesh. Conversely it puts very little or no emphasis on issues such as equitable distribution of income and land reform which are essential to ensure pro-poor growth with greater employment opportunities. Bangladesh has just implemented an Interim-PRSP and is now at the verge of experiencing a fuller PRSP. It is thus too early to comment on whether PRSP is a success story for Bangladesh or not. However, analysing some empirical findings and statistical evidences, the paper argues that neo-liberal approach of ‘growth maximisation’ does not always trickle down on poor; and if capacity building of labour does not ensure social justice and equitable distribution of income, it would made a poverty reduction strategy irrational.

Thus, Bangladesh’s experience with the implementation of I-PRSP and preparation of PRSP has raised some questions both about its process and about the philosophy behind the initiative. In this context, this paper reviews the various aspects of Bangladesh PRSP with special reference to the labour perspectives. In doing so, the paper explains the context of PRSP by analyzing the existing poverty and employment situation. It also looks at the labour issues illustrated in the PRSP and critically assess the concept, content and process of the poverty reduction exercise. Finally it seeks to focus on some policy issues in relation to labour market and poverty reduction scenario in Bangladesh.

Background of PRSP

In September 1999 the Bretton Wood Institutions, namely the World Bank (WB) and the International Monetary Fund (IMF), decided that preparation of ‘poverty reduction strategies’ should provide the basis for all their concessional lending and eligibility for debt relieves to low income countries. So the Heavily Indebted Poor Countries Debt Relief Initiative (HIPC), which was launched in 1996 to help developing countries to exit from the burden of unsustainable debts; and all other concessional financing of WB and IMF were made conditional to force the developing countries to introduce a uniform PRSP. It was perceived that this document would be a national plan of action to reduce poverty and promote growth. This three-year rolling plan would be the basis of all social, macroeconomic and structural development of a nation. Aimed to be nationally owned, this document is prepared by the respective countries in collaboration with the staffs of the WB-IMF and also with the participation of local stakeholder groups.

In this milieu, after the phase out of fifth five year plan (1997-2002), the government set up a National Poverty Focal Point (NPFP) under a National Steering Committee and a National Poverty Reduction Council to initiate the PRSP. To begin with, an Interim PRSP was documented which was approved by WB-IMF on June 19, 2003.
The first draft of a fuller PRSP was presented in December 2004 which was revised and reproduced on January 12, 2005.

**Context of PRSP and the nexus of Growth and Employment**

Before analyzing the content or concept of the PRSP, it is essential to review the context in which the initiative was taken. Since employment has been taken as the principal instrument of poverty reduction, it is important to review the current scenario of Bangladesh’s labour market.

**Changing Pattern of Labour Market and Phasing out of MFA**

Bangladesh’s labour force has experienced a significant structural change at the beginning of 1990s and continued during the subsequent years. When Bangladesh began to respond to the globalisation process with market liberalisation, a large population migration was observed from rural to urban areas for gainful employment and other economic activities. During this period, agriculture as source of income of the household at the national level decreased from 33.4 per cent in 1991-92 to 18.0 per cent in 2000. In contrast the share of business and commerce in national house hold income increased from 14.8 per cent in 1991-92 to 25.9 per cent in 2000. About 6 per cent of the total labour force shifted from agriculture to other service related jobs during this period. Export oriented industries, especially the clothing sector has been a major contributor to this shift which took place under the preferential market access, largely within the ambit of the Multi-Fibre Arrangement (MFA). However, fear of retrenchment following the phasing out of MFA quota has now become a challenge for this migrated labour force.

This trend is also corroborated by the *Stolper-Samuelson theorem*. According to the Stolper-Samuelson theorem, a movement to free trade will cause the real return of a country’s relatively abundant factor to rise, while the real return of the country’s relatively scarce factor will fall. In other words, free trade will cause an increase in the price of a good which will cause an increase in the price of the factor used intensively in that industry and a decrease in the price of the other factor (Stolper *et al.*, 1941).

Conversely, a decrease in the price of a good emanated from free trade should cause this mostly used production factor to fall. Bangladesh’s export growth is always volume-driven and contribution of growth of volume in total export growth is more than 75 per cent compared to less than 25 per cent on account of growth of average price (EPB, 2003). Consequently, this theory turns other way round for Bangladesh, that is, a decrease in price in the international market will reduce the cost of labour and force the wage rate to fall. Bangladesh’s export oriented industries are mostly labour intensive and in a quota free world, reducing price will become a strategy to survive in the competition. Early signals already corroborates with this hypothesis, as many clothing industries are already under pressure to reduce their wage rate.

**Economic Growth of 1990s: No Payoff for Labour Market**

Notwithstanding Bangladesh’s accelerated growth performance during the 1990s, a pro-poor growth strategy to eradicate poverty was not observed. Either by choice or by default, the economy was following the *Harrod-Domar* model of growth that says unequal distribution of income should promote economic growth and greater employment because, richer people would save more than poor people; a greater volume of domestic savings will increase the supply of resources available for investment; which in turn will create employment and income and will raise gross domestic product. Consequently, the inequality did increase during this period in Bangladesh as the economy was growing faster with trade liberalisation. Average GDP growth increased from 3.5 per cent during the 1980s to more than 5 per cent during the 1990s; and trade-GDP ratio increased from about 20 per cent in 1980 to more than 26 per cent in 2000 (32 per cent in 2004). On the other hand, Gini coefficient increased from .348 to .417 during this period indicating an increase in income inequality. The gap between the rich and poor increased significantly. According to the Household Expenditure Survey (2000), in 1995-96 national income accruing to top 5 per cent of household was about 27 times the income accruing to the lowest 5 per cent of the household. In 2000, this gap increased to 46 times. Income inequality at the national level has increased from 25.9 per cent in 1991-92 to 30.6 per cent in 2000 while urban inequality was rising at a higher pace, than rural...
inequality. Though we are left with this inevitable consequence of growth maximisation (i.e. inequality), unfortunately this growth was not translated into savings and employment. Low saving rate become one of the most serious constraints for increasing investment. In FY04, the country recorded a public investment-GDP ratio at 6.1 per cent, the lowest in last 14 years (Finance Division, 2004). But the sectors left behind by public investment were not adequately picked up by private investment (see figure 1 and 2).

**Figure 1: Economic growth increased Income Inequality***

\[
y = 0.011x + 0.3373 \\
R^2 = 0.3229
\]

*significant at 1 per cent level.

**Figure 2: Income Inequality did not Increase Savings***

\[
y = 90.477x - 34.969 \\
R^2 = 0.0288
\]

*significant at 1 per cent level.

In addition, when Bangladesh was preparing herself for a pro-poor growth to reduce inequality, the international financial institutions (IFIs) suggested that the trade off between inequality and growth is low in Bangladesh and thus benefit of pursuing a pro-poor growth is also low. Analysing the household expenditure survey data, the ADB-Japan (2004) study argued that for the poverty gap ratio, the *Inequality-Growth Tradeoff Index*- IGTI is .95 at the national level, which suggests that Bangladesh should go for a ‘growth maximisation’ approach. However the same study did not emphasis on its own findings that for the squared poverty gap ratio, the IGTI is 1.22 at the national level and 1.98 at the urban level. Even for the poverty gap ratio, the IGTI in urban areas is 1.65 that essentially means that the inequality is dominating the growth trend. It is also important to note that Bangladesh PRSP is approaching at a point in time when the employment-GDP elasticity is only 0.34, i.e. for each 1.0 per cent GDP growth, the employment growth is only 0.34 per cent (GED, 2004b). Hence it is evident that growth did not guarantee adequate payoff for the labour market.

**Bangladesh PRSP: What does it offer for the Labour Market?**

The new and revised PRSP admits the current dilemma and approaches to reduce this inequality through pro-poor growth and employment generation. Employment is on the top of its seven point medium term strategic agenda. To reduce the gap between inequality and growth, inequality correcting policies are suggested. It observes that “labour is the main asset and income source of the poor, an important means of reducing inequality and poverty is to create an enabling environment for them to get more remunerative jobs. Attention must be given to increase labour productivity and returns in both crop and non-crop activities”. It also declares that lack of appropriate skill and education has prevented unskilled workers from participating in profitable activities and also restricted their upward movements, and thus upgrading the skill level through greater investment in education and skill development is necessary (GED: 2004b).

**Reviewing PRSP from the Labour Perspectives**

Though Bangladesh PRSP tries to address the issues of employment generation for poverty reduction, it also raised some questions regarding its concept, content and process.
The Concept

The Harrod-Domar model and trickle-down theory remains the mainstay of Bangladesh’s PRSP strategies. Though PRSP aims to reduce inequality, it does not suggest any specific course to overcome the potential negative impacts of such growth strategies, i.e. increasing inequity. Besides it is not evident that increasing inequality and growth maximisation is the only option for poverty reduction. Many empirical studies showed that ‘having a more equal income distribution is not unfavourable for development’. Rather it was evident that persons with higher incomes did not necessarily save higher proportions of their income, and greater savings did not necessarily lead to more investment and employment generation (Owens and Shaw, 1972). Besides, there is enough evidence that relative income equality is not a necessary drag on growth, and there is some significant evidence showing positive effects from relative equality (Uphoff, ibid). Thus ‘inequality by choice’ should not be the only option for development in PRSP.

There are critics on its newness as the content of PRSP is very similar to the previous structural adjustment packages. The neo-liberal policies are still the central elements of PRSP which emphasises the Bretton Wood Institutions’ policies of liberalisation, privatisation, fiscal and administrative reform and asset management. Thus, one needs to carefully examine whether the donors are continuing the trajectory of their highly discredited structural adjustment policies through PRSP.

The Content

PRSP gives very little emphasis on issues like work environment, employment issues, social protection, principles and rights at work and other aspects of decent work. However the scenario remains same in most of the PRSP implementing countries as it was evident in an Oxfam study (2004) that PRSPs fail to analyse the impact of trade reform on levels of poverty, specially the issues of labour market, employment, and social protection.

Land reform and its potential contribution to the poverty reduction have been ignored in PRSP. Employment generation and poverty reduction is closely related to land reform and currently Bangladesh has an extreme land inequality. Berry and Cline (1979) found that more equal distributions of land contributed to aggregate agricultural production as well as economic growth and ensures employment. An empirical study by Hart (1986) also showed that households that own even a small amount of land have higher net wages per hour while households without any land gets less wage in the labour market. The number of landless people (owned land) has increased form 5.36 per cent in 1991-92 to 5.60 per cent in 2000 (BBS, 2003). Thus without addressing the issue of land reform, poverty generation of the poorest quintile of the labour force would not be possible. This issue is more important now as the migrated labour force that came from rural to urban; are facing the challenges of retrenchment following the MFA phase out.

As was mentioned earlier, Bangladesh’s economy is now experiencing stagnation in its savings-investment scenario. However, notwithstanding the country’s aim to overcome this stagnation, the first PRSP scaled down the I-PRSP target of gross investment in FY05 from 27.0 per cent to 24.20 per cent of GDP (GED, 2004a). However the alternative MTMF of the revised PRSP has set an increased target at 25.50 per cent of the GDP (GED, 2004b). Ironically Bangladesh continues to remain an under-invested country, while its national savings rate (24.49 per cent) supposes its gross investment rate (23.58 per cent). But the document still lacks a coherent guideline to improve this situation.

The Process

The participatory approach of the PRSP process is also questionable. The basic aim of a participatory model was very partially achieved because of the lack of appropriate institutional framework for participation. In the high level consultation meetings, the language (mainly English) used for discussion and lack of access to information lowered the voices of common people and only facilitated the influence of foreign donors.

Participation of labour unions, women and rural communities were very limited. According a cross-country analysis of ILO,
generally trade unions have found it difficult to influence PRSP discussions (ILO, 2002). In Bangladesh, participation of labour unions in regional consultation meetings for PRSP preparation was only 2.6 per cent, while participation of cooperatives was only 2.1 per cent (GED, 2004b). However it may be also true that some workers’ organisations and political parties preferred not to participate in the process either because they regard it a continuation of previous policies to which they opposed; or they are worried that their engagement will be an eyewash and will not add any real value to this process.

The participation of civil society organisations remained more theoretical, than real in the PRSP process. Certain civil society organisations were involved in the process but they represented only a part of a big neighbourhood which has alienated the other parts of the civil society. Most of the time organisations involved in the PRSP process did not have the consent from the rest of the society. Besides representation of urban based highly educated NGOs do not ensure the participation of a culturally fragmented society. This exogenous bolstering of civil society made other NGOs believe that they are been used more as an alibi in the PRSP process, than considered as authentic associates (CPD, 2005). Such practice may jeopardise the long shouted need for including civil society organisations in the policy process.

Even if we agree that efforts were made to involve a larger community into this process, it is not evident that the feedbacks were duly incorporated in the main document. Unless participation results in policy change, it will lose its credibility. Besides, government showed unwillingness to hold discussions and take comments from the opposition political parties. But, this will not lead to poverty reduction until and unless both the powerless and the powerful are effectively involved in the process.

**Concluding Observations**

Issues like equality, labour-intensive infrastructure development, labour market analysis, rights at work, safety net programme are essential for designing a pro-poor growth approach as they are directly related to employment generation and thus to reduction of inequality. To generate pro-poor growth it is important to raise the productivity of the working poor and the returns they get from their labour. Bangladesh has a scarce capital, but has an abundant labour supply. In the developing countries the problem of development is not the creation of wealth, but the creation of the capacity to produce wealth which demands investment in human resources (Singer, 1966). On the contrary, currently our labour force is being used to maximise the capital of the owners and it should be other way round. We should invest our scarce capital to increase the productivity of our labour, as was advocated by Tanzanian President J.K. Nyerere (1973):

“If poor countries have little capital and an abundance of labour, why not use whatever capital is available to make the most abundant resource, labour, more productive- rather than use labour, often wastefully and certainly with poor remuneration, to make the resource they had least of, capital, particularly foreigners’ capital, more productive?”

At the eve of materialisation of WTO, relatively more attention is required on these issues. Bangladesh’s preparation in respect to other WTO incidents; e.g. introduction of Trade Related Intellectual Property Rights (TRIPs), are also important from the labour market’s points of view as this is going to dominate the labour market of agricultural, health and ICT in the upcoming years (Ahamed et al, 2005). Thus labour unions, employers’ organisations and labour ministries need to be more systematically integrated into the finalisation process of PRSPs.

The inclusion of trade in the PRSP should not only emphasises on the unilateral trade liberalisation of least developed countries (LDCs) which leads to the traditional IMF-World Bank stance that says ‘increased openness has automatic link with the poverty reduction’. More attention is needed for trade capacity building and income generation through increased productivity and exports. If the core idea of PRSP is to reduce the debt burden of HIPCs, emphasis should be given on how these countries can increase their productivity and can negotiate more effectively in the global
negotiation rounds like WTO to increase the share of imports of developed countries from these HIPCs.

Studies suggest that free trade will raise aggregate welfare for both countries, as a capital-abundant country will export the capital-intensive good while the labour-abundant country will export the labour-intensive good8. But recent trend indicates that Bangladesh is not yet ready for a labour-intensive export oriented infrastructure development. To survive in a quota free world, development of a skilled labour force and bringing more diversity in the export basket is crucial. The national document of poverty reduction strategy should indicate an appropriate trajectory in this regard.

Employment generation is the most feasible poverty reduction strategy which requires investment in labour force to make them skilled and self employed to increase their returns of labour. One needs to keep in mind that an efficient labour force is the *Wealth of Nations*, not money and metal alone. Sooner we recognise it, better we perform in “unlocking the (development) potentials”. However it is to be noted that the PRSP exercise is still in its early stages, and if the changes from I-PRSP to PRSP are monitored; one would find that this has been a process of learning by doing and that the biggest challenge will be in implementation.

References


1. For detailed chronology of I-PRSP and PRSP preparation process, see Ahamed et al (2004).

2. If the price of clothing had risen, the zero-profit line for clothing would have shifted right causing an increase in the equilibrium wage rate and a decrease in the rental rate. Thus an increase in the price of clothing causes an increase in the payment to the factor used intensively in clothing production (labor) and a decrease in the payment to the other factor (capital) (Stolper et al, 1941).

3. According to Kakwani (2000), the inequality-growth trade-off index IGTI shows how much growth needs to be achieved in order to offset the adverse effect of an increase in inequality on poverty. The IGTI is computed as the negative of the ratio of the inequality elasticity to growth elasticity of poverty. Thus when the IGTI value is less than 1, it indicates dominance of growth and growth-maximizing policies are encouraged. However when the value is more than one, it means inequality is dominating and a pro-poor growth policy is desirable.


5. Other key issues of the strategic agenda are nutrition, maternal health, sanitation and safe water, quality education, criminal justice and local governance (GED, 2004b).

6. For example, studying the pattern of rural development in some Asian countries, Uphoff and Esman (1983) found that equal distribution of income is not an impediment to development.

7. Studying the labour dynamics of Indonesia, Gillian Hart found that- other things being equal, households that owned even a small amount of land had higher returns for their labour. If a family had even one-quarter acre on which to grow some food to meet its survival needs, its workers could hold out for more in wage negotiation when they were offered very low wages. But completely landless workers usually fall back and accept whatever work is available (Hart, 1978 cited in Hart, 1986). Even in Japan, South Korea, Taiwan and Singapore; land reform policy had contributed to the development of economic systems (Uphoff, 1983).

8. According the “factor-proportions model” of Heckscher and Ohlin, a capital-abundant country is one that is well-endowed with capital relative to the other country. This gives the country a propensity for producing the good which uses relatively more capital in the production process, i.e., the capital-intensive good. As a result, if these two countries were not trading initially, i.e., they were in autarky, the price of the capital-intensive good in the capital-abundant country would be bid down (due to its extra supply) relative to the price of the good in the other country. Similarly, in the labor-abundant country the price of the labor-intensive good would be bid down relative to the price of that good in the capital-abundant country (model was developed by Heckscher, 1919 and Ohlin, 1933 and was modified by Samuelson, 1948, 1953).