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Bangladesh Development Initiative, USA (BDI)

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FROM THE EDITOR

As this issue of the Journal of Bangladesh Studies (JBS) is going to the printers, Bangladesh is in the hands of a newly elected political leadership under the Awami League (AL) and its coalition partners. Having been elected with an overwhelming mandate, the government seems to have begun its journey on the right footing. It has cleaned the slate of the old guard, several of them tainted with various allegations, and replaced them with a new and energetic leadership. Appropriately, the price of fertilizer and diesel has also been lowered to address high food prices, buttress the farmers, and ensure a good *boro* crop. A few untoward events have also cropped up in the upazilla elections and within the student wings in the university residence halls that have the potential of smearing the government's good intentions. These untoward incidents must be nipped in the bud if the government desires to function smoothly for the next five years or more.

It is important to stress that the government has been brought to power with huge expectations and a bestowal of trust. This trust, seen as a calculative process used by the voter to assess whether the present government will meet its obligations, must be taken seriously. The calculation involves an estimation of the costs versus the rewards. It also involves imputing the benevolence of the government to act in the best interest of the voter. At the end of the day, the people expect their circumstances to improve based on the trust they have bestowed. Every effort of the government must thus be directed at gaining, fortifying, and increasing the trust pool to be able to align a nation of 140 million people to support and facilitate its policies.

To aid the government in its strategic thinking and selecting appropriate policies, Bangladesh Development Initiative (BDI), the main sponsor of JBS, has put together a policy paper outlining the priorities that is published in this issue in its entirety. The paper was put together by the expertise within the BDI executive committee and recommends the following:

- Ensure human rights, establish democratic values and practices, improve governance, and establish rule of law;
- Generate employment;
- Achieve adequate and long-term food security;
- Increase investment in infrastructure and energy;
- Invest in education and develop human resources, and
- Manage the nation's health and population.

We hope that the government will carefully peruse the document and incorporate the proposed ideas into its policy framework.

In addition to the BDI policy prescriptions, we present five important articles in this issue. The first one, written by Tariq Karim, a veteran of the Bangladesh Foreign Service, dwells on the Ganges Treaty and attempts to derive some lessons from it. We were pleased to get commentaries from two prominent Indian nationals: Lt. Gen. (Retd.) (Dr.) Yogender Bammi, presently at United Services of India (USI) under the Ministry of External Affairs, and Sudhir Devare, who was a member of the Indian Foreign Service and served as (Permanent) Secretary, Ministry of External Affairs, India. From the article and the commentaries, what seems important for both Bangladesh and India is to abandon policies of confrontation and seek the path of negotiation where interests of both nations are respected and dealt with in a forthright and honest manner. Just as trust is needed between the political leadership and the voters, it is also important to build trust between nations, especially neighbors, so that they can amicably work out differences and arrive at reasonable solutions. In the 21st Century, it seems so frivolous and immature for the two nations to be confrontational that fritters away the social capital needed to align interests. Clear lessons must be drawn from the ASEAN group or the EU on building relationships through dialogue that can pave the way for cooperative and constructive engagement between the two nations.

Zahid Hussain and Sanjana Zaman provide in-depth analyses of inflation in Bangladesh, citing international evidence of a negative correlation between inflation and income growth and more specifically that inflation hurts the poor much more than the better off. To stave off the vagaries of inflation, the authors recommend a cautious monetary policy, better market information, ensuring adequate agricultural inputs, and restoring business confidence. Needless to elaborate, the political leadership can have a profound influence on each of these elements as reflected in their policies and actions.

Nazrul Islam's paper argues for a change from the present electoral system where winner takes all (WTA) to a proportional representation (PR) system. The argument is based on the evidence that "under the WTA system small changes in the vote share can lead to very large and unexpected changes in election outcomes. For example, between 1991 and 1996, BNP *increased* its vote share from 30.81 to 33.61 percent; yet its number of seats *decreased* from 140 to 116. More dramatically, between 1996 and 2001 AL's vote share *increased* from 37.44 to 40.13 percent, and yet its number of seats collapsed from 146 to 62!" Under the PR system, the author suggests that "the seats [be] allocated among parties in proportion to votes they receive." Interesting questions arise about the PR system. For example, are the large swings in electoral outcomes necessarily detrimental? Also, since the population proportions are unlikely to change much (a loyalty effect), how would any government be able to bring about needed changes that are fundamentally different from those of the opposition, especially when they are nearly equally balanced? The PR system is also not widely adopted; surely it does not garner confidence as a clearly better alternative. But there are merits of the system too. The pros and cons needs to be debated further to determine which option would best serve the needs of Bangladesh.

Ferdous Jahan and Asif Mohammad Shahan address important issues about the bureaucracy -- from politicization to recruitment issues. The notion that "civil servants are more or less apathetic to the needs of the people and that they are unwilling to listen to them" is an alarming state of mind of the bureaucracy that does not bode well and must be reversed if the circumstances of the citizenry, especially the underprivileged class, is to change for the better. What is even more alarming is that administrative politicization is turning away meritorious candidates from the civil service; and with fewer meritorious people in the service, the scope for politicization increases, crippling, in a sense, a powerful bureaucracy's ability to bring about changes desired by the people through their political representatives. Much has been said about civil service reform: It is now up to the new political regime and its fresh slate of leaders to address the concerns the authors raise.

JBS will continue to raise questions in all areas of policy that must be carefully studied by various groups, not just the government, to seek alternative ways of addressing them more effectively and efficiently. For this, we continue to solicit deep and penetrating articles that are well-researched and offer holistic and comprehensive solutions. We also hope the articles in JBS will spawn further research to explore the multi-faceted and multi-dimensional nature of the situations examined, especially because they have the potential of changing with time and other extraneous variables.

I am also pleased to underscore the decision of the JBS editorial board on reaching a milestone: the 10th year of its publication. Given the dearth of research on policy matters pertaining to Bangladesh, JBS is now available to scholars and researchers free of charge, with a lag of four issues, at http://www.bdiusa.org/publications/jbs.shtml. The decision was made to share our knowledge archive widely to help build and sustain a learning community dedicated to addressing the variety of development challenges confronting Bangladesh in its aspiration to make marked progress.

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Journal of Bangladesh Studies

Call for papers

Journal of Bangladesh Studies (JBS) is inviting academics, experts, and practitioners in various fields to send scholarly papers pertaining to Bangladesh for possible publication. JBS is a peer-reviewed journal and is registered with the National Serials Data Program, Library of Congress (ISSN No. 1529-0905).

Articles are encouraged from fields including anthropology, agriculture, basic sciences, economics, education, engineering, international relations, management, political science, psychology, sociology, and related areas. We seek this diversity of perspective because comprehensive development depends on a broad foundation of knowledge. Broadly, the articles should address Bangladesh's development problems and prospects from a theoretical or analytical perspective prevalent in academic disciplines. Authors are encouraged to prescribe actions and measures that are meaningful, practicable, and amenable to the sector(s) or issues they address. Articles must also be comprehensible to a wide audience. Thus, while technical merit of an article is important, it is even more important that authors are able to communicate lucidly with a variety of readers who may not have the technical sophistication to understand the esoteric methodology of a particular field. In addition, while the articles must be grounded in theory, analysis, and referenced work, they must also communicate outside the specific disciplines of the authors without being perceived as popular, journalistic writing.

Both short communications and full-length articles may be submitted. Analysis of recent developments, short reviews of newly published books or research articles, and expert comments on specific issues are treated as short communications, which should be limited to about 2,000 words. A full-length article, in about 20 double-spaced and typed pages, should provide a reasonable review of the literature and clearly articulate the nature of the problem or issue it addresses as its focus. JBS also invites critiques of published articles to foster debate and discussion. Critiques may be published on the basis of space availability (which is often constrained by budget restrictions) and the advice of the editorial board. Critiques must be about two JBS pages and must be written in a positive demeanor to foster healthy discussion. JBS will attempt to obtain responses from the authors whose articles are critiqued. Please send your manuscripts to: Syed Saad Andaleeb, Editor, JBS, School of Business, The Pennsylvania State University, Erie, Station Road, Erie, PA. 16563. Fax: (814)-898-6223; e-mail: ssa4@psu.edu.

SUBSCRIPTION INFORMATION

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Six-Point Policy Priorities for Bangladesh: 2009-2013

Bangladesh Development Initiative (BDI)

Introduction

Bangladesh Development Initiative (BDI) congratulates the Awami League (AL) on its decisive victory in the recent national elections. We are pleased to see that the leadership is ushering in significant changes in the way the government is run and remain hopeful that these steps will change the lives of the people of Bangladesh in fundamental ways. We also applaud the alignment of AL, BNP and other political parties who have publicly embraced the goal of poverty reduction as one of the major challenges. To achieve the overarching goal of poverty reduction, we offer this policy paper as recommendations on where the new government ought to concentrate its efforts. We believe when changes are made in the suggested six points, Bangladesh will rapidly attain sustainable economic growth and significant social progress.

The six recommendations, outlined below, are designed to help develop a bold and clear vision, formulate detailed policy, and ensure a bright future for Bangladesh:

1. **Ensure human rights, establish democratic values and practices, improve governance, and establish rule of law;**
2. **Generate employment;**
3. **Achieve adequate and long-term food security;**
4. **Increase investment in infrastructure and energy;**
5. **Invest in education and develop human resources, and**
6. **Manage the nation's health and population.**

Policy Recommendation #1: Ensure human rights, establish democratic values and practices, improve governance, and establish rule of law:

In order to achieve a prosperous and progressive society, a clear policy statement must emanate from the government that addresses the most fundamental concerns: (i) human rights (ii) democratic values and practices, (iii) governance and (iv) rule of law. No nation can progress without satisfactorily addressing these fundamentals. The Constitution of Bangladesh stipulates that all power of Bangladesh belong to its people. We recommend its full implementation in letter, spirit and practice and urge the elected public representatives to remain pledge-bound to this sacred trust. It is particularly important for the new government to make a clear statement about Bangladesh's stance on its secular values. At the very least, it must emphasize and reiterate its tolerance and respect for "all" faiths and creeds, giving them the assurance that, as citizens, their legitimate rights will have equal protection.

The people of Bangladesh have also been historically deprived of democratic values and practices that have been replaced by despotic and dictatorial regimes. Re-establishment of democratic values must become a priority of the present government: from the party, to the community, to the national level. Lack of democratic values and practices leads to disregard and neglect of the people's wishes. Policies thus need to be articulated to guarantee that: (1) people have the right to question any elected official, (2) such questioning not be considered as "conspiracies," (3) competition to represent the people not be considered a "threat," and (4) freedom of speech would protect one's right to oppose and protest.

Mismanagement and poor governance are also major obstacles to development in Bangladesh. The bureaucracy must be made responsive to the needs and demands of the public. To this end, civil service reforms need to be seriously and vigorously pursued so that the imbalance and inequity between an under-trained, under-compensated, and unmotivated bureaucracy and a smart, well-trained and well-compensated military is mitigated. The present government has a huge opportunity to train and modernize the bureaucracy and public service agencies to carry out their service and regulatory roles to best serve the public. This is important to reshape the belief that the military can run the country better than the bureaucrats and the politicians. The contributions of the military, however, need to be recognized. They have demonstrated in the past that they are often better at bringing stability to unstable situations. The recent and successful voter drive by the military is also noteworthy. Political leaders, bureaucrats and the military must work together so that their unique strengths are not frittered away in tensions and conflict.

The rule of law has to be established immediately. To

plan the transition to a modern economy, policy makers must create a 21st century regulatory framework. No one in Bangladesh must be above the law, and the current government must ensure not only that this becomes reality, but also that the people of the country come to believe that the rule of law has been firmly established. This would be a historic achievement for the government and serve as a linchpin for governance. The government's authority must be exercised legitimately only in accordance with written, publicly disclosed laws that serve the Constitution of the nation. Due process must also be enforced in all legal matters. The rule of law must be established to safeguard against arbitrary governance and to protect the nation from both dictatorship and anarchy.

Crime and corruption must be brought to an end. Reforms must be undertaken to increase transparency in government policy-making, raise public awareness, establish independence of the anti-corruption bureau, strengthen the independence of the judiciary, and build up the civil society. The party in power and the opposition must each set the tone for bipartisanship and respect for the civil society. Finally, appropriate steps must be taken so that the elections and transition of power occur smoothly every five years.

Policy Recommendation #2 – Generate Employment

Each year approximately two million additional workers enter the labor force looking for jobs. Even if the population growth rate declines dramatically, large annual additions to the labor force will continue for some years given the dynamic effects of demographic transition. The new administration will be responsible for creating roughly 10 million new jobs during its five years in office. The minority communities, including women, must have the same opportunities in the government's efforts to create jobs.

The collapse in crude oil prices and the abrupt end to the real estate bubble in the oil-producing Middle-East may result in the return of many Bangladeshi workers. As the share of the farm sector in the economy continues to decline, the industrial and service sector must be able to create millions of new jobs to absorb the influx of farm labor. In this backdrop, we recommend that the new government take a number of steps to boost employment.

The administration should create jobs for Bangladeshis by facilitating increased flow of remittances that work their way into creating jobs in the economy. Second, a sophisticated and sustained effort must be launched to substantially increase foreign direct investment in Bangladesh. There is no reason why Bangladesh cannot compete with its Asian neighbors like Vietnam, which have attracted a large pool of global investment, thereby creating millions of jobs. Bangladesh must be seen as an attractive destination for global investors. This can be done by developing the physical and information infrastructure, minimizing bureaucratic malfeasance, and eliminating hurdles such as political interventions and opposition party induced disruptions (hartals). In sum, global investors must be made to feel welcome.

The new government should build on the demonstrated record and potential of micro-finance and other non-traditional strategies popularized by the Grameen Bank, BRAC and other globally recognized NGOs to create small- and medium-scale entrepreneurs, who are self-employed and who can create new jobs in the local economy. A massive investment program strategically implemented to build the national infrastructure for the traditional and the new economy will create millions of new jobs directly, as well as through the multiplier effect.

The absorption of the labor force must be planned in ways so that labor productivity levels evolve through learning and development of technology at a pace that is in keeping with indigenous resource endowments, not necessarily those of industrialized countries with labor "shortages". While we can train labor and export them to work in other countries that will have shortages in the future, negotiation of appropriate labor contracts with international organizations such as the World Trade Organization (WTO) (Mode IV) and the International Labor Organization (ILO) deserve the government's attention. This involves training at the government level so that such negotiation can be conducted effectively with countries seeking to use Bangladeshi labor.

Policy Recommendation #3 – Achieve Long-term Food Security

As long as millions of Bangladeshi citizens live on the margin of starvation, any natural disaster or price spike in the international food markets can create a painful food crisis. The recent food crisis (07-08) was partially caused by disruptive price bubbles in the world rice and grain markets. Self-sufficiency in food production is an important challenge, and a stated goal by the major political parties. We

welcome this commitment, particularly in light of the high levels of inflation during 2007-08 that devastated the purchasing power of many ordinary citizens in Bangladesh. The recent reductions in fertilizer and diesel prices reflect the government's concerns about food security. This will bring welcome relief for farmers producing the next *boro* crop. The recent collapse in the price of crude oil should help maintain the lower price of fertilizer and diesel, two very important ingredients for farmers. The extent of price reductions must, however, account for cross-border informal transactions (smuggling) that could run counter to the goal of benefiting the farmers from such measures.

Food security also has more to do with real incomes (buying power) than the available stock of food. The battle for poverty alleviation is thus the struggle for increasing real incomes for all Bangladeshi citizens. Second, major investments in the agricultural and food market infrastructure – roads, waterways, railways, storage facilities, dredging the rivers and embankments for flood control, etc. – will help the farmers increase production and income, while creating jobs, and help the country reach food self-sufficiency. Bangladeshi farmers must also benefit from the ready availability of credit to invest in modern farm machineries, the availability of flood insurance and futures markets to reduce risks, and from having greater access to market information via the mobile phone and the Internet.

Policy Recommendation #4 – Increase Investments in Infrastructure and Energy

Infrastructure: We recommend that the new administration take up the challenge of laying the foundations of a 21st century infrastructure as a top priority. Bangladesh's physical infrastructure is in serious disrepair and has lagged behind compared to its needs. Thus, patients die on their way to hospitals in the rural areas for lack of decent roads and transportation modes. Food supplies do not move readily from one area to another to match demand and supply, causing temporary price spikes. And the clogged streets in the cities that delay deliveries of key shipments (especially garments) increase the uncertainty and cost of doing business and encumber competitiveness. A bold and ambitious strategy of investment to build the country's infrastructure will achieve multiple outcomes: generate immediate employment and income to reduce poverty, reverse the impact of the ongoing global economic slowdown, support readymade garment (RMG) and other export industries, and ultimately create conditions for sustained economic progress.

In the face of a severe global economic slowdown, the time is right to take up this project. Massive and strategically planned investments in physical and digital infrastructure can help Bangladesh leapfrog other nations, and at the same time work as a stimulus package to create jobs necessary to confront the vagaries of global recession. These mega projects should be undertaken with a firm commitment. Each project – monorail, deep sea mega port, Padma bridge, compact townships, communication systems, dredging of rivers to prevent flooding, others – must be justified on national interests alone. For every project, the question must be asked: How will this impact the poorest households? How will this affect land, water, forest, and other resources? A strong and proactive environment ministry that works in concert with other ministries will be able to ensure that the building of infrastructure is done in a manner that conserves resources while minimizing environmental degradation. Bangladesh's main airport should also be developed into an international hub to compete with other international airports such as Dubai and Bangkok. The government must also take up the challenge of urban planning to reduce congestion and urban sprawl.

Energy: Energy is a prime mover of the national economy. With vibrant sectors such as ready- made garments, pharmaceuticals, shipbuilding, agro-industries, ceramics, raw hides and leather goods, jute, tea, and related products, as well as the service industries, that earn huge foreign exchange and are reliant on consistent supplies of energy, the government must have a viable energy policy that will address short and long term energy needs for the country's operation and development. It is important for the government to articulate how the nations' power needs will be met: How much of it is to be met from internal and external sources? What exact role will be played by the different resources (gas, hydroelectricity, coal, and renewables)? This must be determined from a policy perspective that establishes the allocation of energy to various constituencies (households, industries, and the service sectors) for immediate and long term needs. As capacity is gradually increased, how that capacity will be allocated also needs to be projected for a stable and sustainable growth model of the economy.

It may also be noted that roughly 30% of the population presently has access to power supplies. With the present output of roughly 5,000 MW of electricity, effective power generation by the PDB is about 3900 MW while private power suppliers produce about 1200 MW. With a burgeoning

population and the need to extend power to a larger segment of the population, power generation capacity must be increased substantially. We project that a 100% increase in power generation would be immediately absorbed. Reliance on natural gas to generate power must be weighed against alternate sources. For example, coal is abundantly available in the northern districts. While its usage has environmental implications, Bangladesh may need to exploit this resource in the short run, while developing alternative renewable sources for the long term as the technology evolves. Given the resource constraints that the government is likely to face, it should negotiate private investments in the power sector to ramp up quickly. An alternative is to consider public-private partnerships. Also given the adverse environmental impact of coal-generated power, with its huge carbon imprint, the government can bring this to the attention of the developed countries and obtain alternate energy technologies or lower prices for more efficient technologies in return for ensuring a better and more sustainable environment for them.

Reliance on imported oil is not a solution for Bangladesh and hard earned remittances and export dollars should not be spent on unplanned energy expenditure as oil prices rise. Relying on domestic energy will also lower the rate of inflation, the current account deficit, and the continued devaluation of the taka. Energy efficient transportation systems, alternative energy development and use for power and industrialization needs will allow the country to continue its low carbon imprint. Local entrepreneurs should be encouraged to invest in small power plants and renewable energy technologies to increase and diversify the production capacity of the national grid.

Policy Recommendation# 5: Invest in Education and Develop Human Resources

The education system of Bangladesh must be designed afresh. Foremost is the need for a comprehensive and fresh education policy that envisages the specific needs of Bangladesh for the present, as well as for the future. The government must envision a ground-up new education system that integrates the various, unrelated and incoherent streams of education that exist today. What is needed is a unified system that generates synergy and facilitates easy movement from one stream to another so that it can continue to create the needed human resources to power Bangladesh's growth path without the waste that the current system generates (dropouts, unneeded skills, mismatch with national needs, etc.). The government must be able to clearly state what entities are to be produced by the education system and to what purpose. We reiterate that it is imperative for such a system to consider the needs of Bangladesh now and for the next few decades.

The new administration must find resources to invest in education at all levels, aligning this part with the needs of building, supporting and sustaining the nation's infrastructure, industries, and service sectors. The 21st century global economy will increasingly demand knowledge workers. To this end, the government must offer more technical and vocational training opportunities to build people with technical skills—basic machining, operating, repair, computer operations, etc.—with a basic 10th grade education. The government needs to promote and establish programs to train people for retail, transportation, education, and other service sector jobs, since these are the primary areas of employment. By expanding literacy to 100% of the population and ensuring that an increasing number of young people have opportunities for higher education, the nation can succeed in alleviating poverty and achieve other ambitious goals.

The education sector has had chronic problems for long in the following areas: capacity, quality, relevance of curriculum, quality of teachers, accountability, effective assessment tools, research institutions, educational governance, and linkages and partnerships between academia and the market. How the multiple streams of education, beginning from the primary levels, can be unified and coordinated, so that students have clear options as they move from one stage of education to the next, also deserves special attention. Particular attention must be devoted to the assessment system, especially at the SSC and HSC levels where the grading system is too coarse, leading to the same high GPA for very many students. Admission to the next higher level is thus being decided by ad hoc mechanisms such as "first come first served" basis or even by age. The need is a fine-grained norm-referenced grading system.

Another alarming problem is the current capacity of the education system in Bangladesh to accommodate the growing number of willing and capable students. In 2005, out of approximately 73 million students of different age-groups, only 25 million had any education (90% at primary, 44% at secondary, 10% at intermediate college and 1.6% at university levels). During this year, the number of educational institutions was approx: 80,397 (primary), 18,500 (secondary and higher secondary), 3,150 (intermediate, colleges) and 74 (universities). By

2025, the population will grow to a staggering 192.9 million, of which nearly 83 million people, an increase of nearly 10 million additional students, will be of school age. At the current rate of attendance, the nation will have to increase capacity by 15%, i.e., will have to build almost 15,318 additional educational institutions. And, if the demand for education goes up (which is expected to happen), even by adding 100% to capacity, the system will be under tremendous pressure for space, especially at the higher education levels.

The quality of teachers must also be improved by introducing a periodic certification procedure, at least at the primary and secondary levels initially. If the quality of teachers cannot be ensured, how can the nation produce a high quality work force?

The challenges mentioned above involve myriad issues. What is most important is to have a strong political will to create the needed educational infrastructure and opportunities for all who wish to gain access to such opportunities. A 21st century education system is needed as the core foundation from which the nation is to be rebuilt.

Policy Recommendation #6: Manage the Nation's Health and Population

Health: Health and human productivity are intertwined. There is a bi-directional relationship between health and economic development. The positive externalities of keeping a nation's human resources healthy also cannot be emphasized enough. From a policy perspective, the government must be able to envision the desired state of health of the nation reflected in nutrition, water quality, air quality, economic status, mental health, physical health, reduced state of disabilities, etc. What is vitally important is to articulate a pro-poor health strategy where accountability, quality, cost effectiveness, access, and sustainability must be ensured, all focusing on the need for more effective and efficient health programs.

The focus on preventive rather than curative health care must be strengthened. Thus attention must be devoted to various factors connected to health: drinking water, sanitation, and air quality in particular. The crisis facing drinking water is its connection to sanitation, industrial wastes, and natural occurrences like arsenic. Without addressing these sources of health maladies, prevention strategies may be thwarted. Health communication must also play a vital role in strengthening prevention of health problems.

The out-of-pocket (OOP) costs of health care to all, especially the poorer segment of the population, have become outrageously high, while quality is poor, especially for tertiary care. The National Health Accounts study (NHA-2, 2003) estimates household expenditures at Tk. 48.35 billion on health related expenses of which pharmaceutical purchases constitute around 70%, while expenditures on qualified medical providers is only 4.1%. This represents a problem in that the ability to purchase drugs freely can be downright harmful. Legislation must address this problem so that drugs are not available without qualified prescriptions. We also advocate periodic certification of healthcare providers (doctors and nurses in particular) to ensure that the people receive a basic standard of services. In addition, we feel many trained doctors end up in administrative work far removed from the direct provision of health services. We advocate the establishment of health administration training so that a different cadre of health administrators is created for those who want to be administrators. As a result medical doctors, trained with valuable national resources, would not be wasted in administrative positions. Absenteeism of government doctors in the rural centers is a major problem that must be quickly rooted out. Finally, to establish accountability and justice, it must be ensured that medical malpractice, as well as avoidable mistakes can be pursued in the courts of law.

Population: Bangladesh is the eighth largest nation in the world. Estimates are that there are now about 150 million people that number is expected to grow to 250 million before it stabilizes. This can be seen as strength if managed properly. Thus, population management (not control) should be given major attention to harness this strength effectively, both for the local economy as well for earning from abroad. On the latter, demographic patterns suggest that many western countries are aging and declining in population size. According to one source, Europe's population could decline by 88 million by 2015. It is easy to surmise the tremendous opportunities that await a skilled workforce to fill the population bust, thereby sending remittances back to Bangladesh that could be multiples of the present $6.4 billion.

The under-15 population is also roughly 40% of the total population, resulting in the "population momentum" phenomenon driven by the young age-structure of the population. When it comes of age, its needs must be met, not only in education and health, but in employment and various service needs. Scenario analyses with demographic projections must be conducted periodically to ensure future needs and

to avoid social instability. We believe close attention to health, education, and employment strategies (discussed earlier) will ameliorate some of the concerns that population momentum portends. For effective management of this population, it is important to legislate age at marriage and ensure proper education about contraception and economic consequences of unsustainably large family sizes. Service delivery to maintain maternal and child health (MCH), sustain contraceptive prevalence rates (CPR) and decrease total fertility rates (TFR) to replacement levels requires another resolution: the current crisis of whether health and family planning ought to delivered as one integrated organization or two. This "integration" issue has stalled the efficacy of the program and needs to be resolved quickly, the downside being that population "management" will fail otherwise and population momentum will be adversely impacted. This is an organizational culture problem that cannot be solved by decree but by consensus.

Additional Challenges and Recommendations

While BDI recommends six priority areas for the new administration's attention, several additional areas must also be addressed:

Improve the Image of Bangladesh in the International Community: Bangladesh should establish a positive image by highlighting its reform and opening up, the growth of the media, cable television, the rapid expansion of the cellular phone network (the subscriber base should cross 50 million by the end of the year), and technological improvements and reforms in the communications and the ICT sectors. Developments in the ship building, pharmaceutical, textile and RMG sectors also need to be projected. It is also important to communicate widely the on-going initiatives to combat corruption, install regulatory reforms and make improvements in the business climate in the country.

Compete in an increasingly competitive global environment: Bangladesh must continue the strategy of emphasizing trade over aid; it should also take advantage of the foreign investment funds flowing into its dynamic regional neighbors, India, Vietnam, and China.

Remittances and Diaspora: It is important to build bridges with the Non-Resident Bangladeshi (NRB) population. NRBs can contribute most significantly to the national economy of Bangladesh, especially in terms of investments. Thus Bangladesh should promote investment facilities for the NRBs. These investments can help increase the foreign reserves of the country, as well as promote its gross productivity. It is highly likely that if the policies are convenient to NRBs, they will be keener to invest in Bangladesh. Moreover, the diaspora population could potentially allow access to the global economic and financial chain, as they may have linkages with foreign trade channels.

Respond to the global economic crisis: Bangladesh must continue the easy money policy until there are clear signs the economic trends have turned positive. Policy makers must also provide a large fiscal stimulus to modernize the nation's infrastructure and protect the economy from the global economic slowdown.

Reduce regional disparities: To sustain development and gain political support for fundamental reforms, citizens residing in different parts of the country should all experience an improved living standards and quality of life.

Maintain price stability: Since food and energy prices have come down substantially in world markets, the overall inflationary pressures should remain in check in the foreseeable future. The public must be apprised of the global price scenario through media releases.

Improve Bangladesh-India Bilateral Relations: There are still many unresolved issues in the Bangladesh-India bilateral relations. The proper way to mitigate these problems is to pursue an effective and consistent foreign policy. Apart from the regular diplomatic initiatives such as arranging regular summit level meetings, public diplomacy can also play an important role to solve many of these problems. The government of Bangladesh should try to promote public diplomacy; that is, to promote interaction among the people of both the countries.

Strengthen Regional Cooperation in South Asia: Among the most noteworthy achievements of Bangladeshi diplomacy has been the creation of SAARC. As such, our diplomacy should continue focusing on strengthening SAARC as a platform for peace and prosperity in the region. Regional cooperation in the energy sector has become vital for maintaining security and development in the region. A comprehensive and integrated trade facilitation framework needs to be adopted in our foreign policy incorporating: promoting integrated transport infrastructure including transit and transshipment of goods; facilitating and promoting development and modernization of Chittagong and Chalna sea ports as regional hubs; pursuing economic diplomacy to

remove non-tariff barriers in trade between Bangladesh, India, Pakistan, Nepal, Bhutan, and Sri Lanka; promoting regional customs cooperation; and promoting regional energy cooperation. Bangladesh should also pursue market access in different parts of the world. Through economic diplomacy, Bangladesh should develop and maintain close linkages with the OIC, ASEAN, EU, and the Commonwealth, while strengthening relations with the global powers - the USA, Japan, Britain, Russia, and China.

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The Ganges Treaty: Parsing the Dynamics of the Final Negotiations[1]
What have we learned from it?

Tariq Karim

Abstract

Prior to its resolution, the dispute over the sharing of the Ganges River waters between Bangladesh and India had come to be viewed as the defining function of bilateral relations between these two countries. It had held hostage all other matters from resolution. Once the treaty was signed, it opened up the doors to progress in other sectors that had become dormant. It is another matter that many subsequent opportunities for resolving other contentious issues, or even moving forward on areas where cooperation was feasible, were frittered and lost. The Ganges Water Treaty between Bangladesh and India is an outstanding testimony to the fact that despite two decades of wrangling and acrimonious bickering (including ceasing all dialogue for almost a decade), once the two sides were able to mobilize their political wills and seriously negotiate for a resolution of the dispute, Bangladesh and India were able to finalize negotiations on sharing the Ganges waters and did sign a 30-year treaty, that became a landmark achievement

This paper will present a summary of the details of the various stages of the long and tortuous negotiations over the Ganges River, and light the beacon particularly on the penultimate and final stages that led to the agreement finally being reached. It will then parse that narrative and from it identify and extract those elements that constitute a lesson for possible application to future seemingly intractable negotiations that continue to dog the region. Can the wheel that has already been invented, i.e. the lessons learnt from the Ganges negotiations, be fruitfully applied, with such adaptations as may be necessary or prudent, to resolving other festering issues and enable the sub-region in South Asia of which Bangladesh is a part? Will it enable the various national and sub-national entities of this sub region finally, to embark on cooperative ventures that could well result in the transformation of the sub-region from the doldrums into a role model for cooperation, environment-friendly development and prosperity? With this precedent, one may hope that the lessons gleaned from the Ganges negotiations could very well serve to show the way to addressing the larger challenges now confronting the sub-region as a whole.

The Ganges and Bangladesh[2]: The genesis of the dispute

Bangladesh and India share 54 trans-boundary rivers draining through Bangladesh into the Bay of Bengal. The Ganges is one of the most important of these, and the largest trans-boundary river flowing through the South Asian region, with its basin spreading over Nepal, India and Bangladesh. The Ganges originates from the southern slopes of the Himalayas. It flows through Nepal into India, coursing through seven states (provinces) of India before entering Bangladesh. It traverses a total distance of 1,570 miles before discharging into the Bay of Bengal.

The Ganges has three trans-Himalayan tributaries, namely the Karnali, the Sapt Kosi and the Sapt Gandaki emanating from Nepal which provide 71% of the total dry season flows and 41% of the annual flows of the Ganges at Farakka. Farakka, situated in the province of West Bengal in India, is of relevance in this reckoning because it was here, 11 miles upstream of the Bangladesh border, where India constructed a Barrage for diverting waters to the Hooghly River, thus affecting Bangladesh's traditional apportionment of the share of the Ganges waters.

The precipitation over the Ganges Basin is mainly due to the South-West Monsoon. Glaciers in the Himalayas are also an important source of water for the Ganges, with numerous glaciers draining part of their waters into the Ganges. The most important of these glaciers, by far, is the Gangotri Glacier, one of the largest in the Himalayas. However, according to NASA data, the Gangotri Glacier has been receding since 1780, with its retreat quickening after 1971. Over the last 25 years, the Glacier retreated more than 850 meters, with a recession of 76 meters recorded from 1996-1999 alone[3].

The flows of the Ganges are highly seasonal. Floods during the monsoon and scarcity during the dry season are the two extreme characteristics of its flows. The total availability of the Ganges at Farakka during peak monsoon floods often exceeds 2.5 million cubic feet per second (cusec). In stark contrast, during the driest months (March-April for Bangladesh) total availability at Farakka, before the commissioning of the Farakka Barrage by India, used

to be between 55 and 65 thousand cusec.

It would be relevant to note here that the Ganges basin in Bangladesh is home to about one third of Bangladesh's total population. The inhabitants of the Gangetic plains in Bangladesh are dependent on this river for agriculture, domestic and municipal uses of water, fisheries, industries, forestry, and navigation. The Ganges also provides for bio-diversity in the environment and maintenance of the delicate balance in the ecosystem of the south-western region of the country where the Sundarbans, the largest mangrove forests of the world, are located. Historically, the fresh water flow through the Gorai River, a principal distributary of the Ganges in Bangladesh, served to flush down the salinity intruding upstream from the Bay of Bengal. During the monsoons, there is a surfeit of water in the region, but during the dry season the situation reverses drastically.

The commissioning of the Ganges Barrage by India in 1972 was, therefore, viewed as adversely affecting the above factors and causing harm to Bangladesh's economy, since it dramatically reduced the historical dry season flows into Bangladesh. The problem was further exacerbated by the fact that there was no other major source of water in this region to supplement the needs of the people, the land and the ecosystem during the dry season. This is where the dispute started, although its origins go further back in time to the days of Pakistan and its relations with India. Earlier, during the period when the British ruled India, there were varying opinions on how the progressively drying Hooghly, on which Calcutta Port was built, could be resuscitated.

The negotiations over the Ganges River between India and Bangladesh may be analysed essentially in five phases: the early negotiations (1947-72), when Bangladesh was a part of Pakistan; the period between 1971-75 (under the first Awami League government in post-Liberation Bangladesh); the period between 1975-1990 (when Bangladesh was under military or quasi-military rule); the period between 1991-1996 (when the Bangladesh Nationalist Party - BNP was in power after the return of democracy in Bangladesh); and the final phase, from July-December 1996, (with new political dispensations in both India and Bangladesh).

Early Negotiations (1947-71)

Four years after the Partition of India, Pakistan first drew India's attention to reports of a contemplated Indian project to divert large amounts of the Ganges during the dry season, to augment the flows of the Bhagirathi-Hooghly River which serviced the Calcutta port. India responded, in March 1952, that the project was only under preliminary investigation and described Pakistan's concern as purely hypothetical.

In May 1952, Pakistan quoted press reports that India was engaging in a multipurpose scheme envisaging the resuscitation of not one but five rivers in West Bengal, and that large quantities of the waters of the Gandak, a tributary of the Ganges, were being diverted for irrigation schemes in Bihar, Uttar Pradesh and Nepal. Pakistan pointed out that these withdrawals, combined with the reported Barrage to be constructed across the Ganges at Farakka, would have ruinous effects on East Pakistan (now Bangladesh). India replied a year later, in May 1953 reassuring that the reports were unfounded since the feasibility of the project proposals were still under examination. At the same time, India also expressed the desire for cooperative development of the water resources of the Ganges with Pakistan.

Subsequently, there was exchange of correspondence between the two countries, but no real bilateral talks or negotiations on the subject took place until almost nine years later, in June-July 1960 when an Expert-Level bilateral meeting was held. This meeting was inconclusive.

In January 1961, the Government of India formally informed Pakistan about its intention to go ahead with the plan to build a Barrage across the river at Farakka. India started construction on the Barrage soon thereafter. At a meeting in London in March 1961, the Prime Ministers of the two countries agreed to initiate Minister-level consultations, but these never materialized. Subsequently, four experts-level meetings were held between 1960-62, followed by one in 1968 after a gap of five years. Subsequently, five meetings at the level of at Permanent Secretaries were held between 1968 and 1970. This disjointed pattern indicates clearly the degree of seriousness (or lack of it) with which either side addressed the matter. It would not be unreasonable to surmise here that the Pakistan central government, based as it was in Karachi (and later Islamabad) in West Pakistan, was more consumed with viewing India-Pakistan problems within the narrowly focused parameters of Kashmir and the Indus waters issues on the western front, at the cost of ignoring serious issues on its

eastern realm. In the meantime, India completed the construction of the Barrage in 1970, with only the Feeder Canal remaining to be completed for operationalization of water diversion.

The Negotiations (1971-1975)

Bangladesh separated from Pakistan in 1971, wresting independence from the latter. Immediately thereafter, Bangladesh took up the matter on a priority basis with India. Sheikh Mujibur Rahman, the leader of the Awami League party which had led Bangladesh to independence from Pakistan, raised the matter with the Indian Prime Minister, Mrs. Indira Gandhi, in February 1972 during his stop-over at New Delhi on his way back to Bangladesh from his long incarceration in Pakistan. In March 1972, the Prime Ministers of Bangladesh and India in a Joint Declaration announced the establishment of the Indo-Bangladesh Joint Rivers Commission (JRC). The Joint Declaration stated, *inter alia* :

> "Consistent with the decisions taken at the meetings of the Foreign Ministers of Bangladesh and India in January, 1972 and of the Prime ministers early in February, 1972 to strengthen economic and developmental cooperation, the two Prime Ministers decided:
>
> A. To establish a Joint Rivers Commission comprising of experts of both countries on a permanent basis to carry out a comprehensive survey of the river systems shared by the two countries, formulate projects concerning both the countries in the fields of flood control and to implement them.
>
> B. Experts of the two countries are directed to formulate detailed proposals on advance flood warnings, flood forecasting, study of flood control and irrigation projects on the major river systems and examine the feasibility of linking the power grids of Bangladesh with the adjoining areas of India, so that the water resources of the region can be utilized on an equitable basis for the mutual benefit of the peoples of the two countries."

In that same declaration, the two Prime Ministers also announced their intent to sign a Treaty of Friendship, Cooperation and Peace between the two countries. Article 6 of this Treaty stipulated :

> "The High Contracting Parties further agree to make joint studies and take joint action in fields of flood control, river basin development and the development of hydro-electric power and irrigation."

The Statute of the JRC was signed eight months later in November 1972. One of the major functions of the JRC was to maintain liaison between the two countries for exerting joint efforts in maximizing the benefits from common river systems to both the countries. Interestingly, the question of sharing the waters of the Ganges was kept out of the purview of the JRC, to be settled at the level of the two Prime Ministers. *This was a tacit acknowledgement, even in those early days, that this particular problem had acquired political dimensions and implications and, therefore, had to be resolved politically at the highest level.*

The two Prime Ministers met once again in New Delhi in May 1974 and discussed, among others, the Ganges issue. Following their meeting, a Joint Declaration was issued on May 16, 1974. This Declaration observed that during the periods of minimum flow in the Ganges, there might not be enough water and, therefore, the fair weather flow of the Ganges in the lean months would have to be augmented to meet the needs of Calcutta Port and the full requirements of Bangladesh. The two Prime Ministers also mandated the JRC to study the best means of augmentation through optimum utilization of the water resources of the region available to the two countries. The two sides expressed their determination that before the Farakka Project was commissioned they would arrive at a mutually acceptable allocation of water available during the periods of minimum flow in the Ganges. The original mandate of the JRC was thus expanded, but essentially to consider the technical feasibility of how water availability at Farakka could be augmented, not specifically to work out how waters could be shared.

The Commission accordingly took up the question of augmentation, but the vastly differing perceptions held by the two sides prevented the JRC from arriving at any agreed conclusion. Without resolution of the augmentation question, the sharing issue could not be addressed. The Bangladesh side took the position that there was a potential for storage of monsoon flow in the Ganges basin in India and Nepal that, if realized, could significantly augment the fair weather flow of the Ganges in the lean months. The Indian side, on the other hand, held the

view that additional storage possibilities in India were limited. It also felt that it would not be realistic to depend on storage reservoirs as means for augmenting the Ganges flows in the lower reaches. The Indian side was also opposed to considering the question of development in Nepal on the grounds that it was outside the scope of the JRC. It suggested, instead, that the Brahmaputra basin in India offered storage feasibilities, which could be developed, and the construction of a Brahmaputra-Ganges link canal held prospects for optimum utilization of the resources of the region. This suggestion was an anathema to the Bangladesh side.

Two Ministerial level meetings in February and April, 1975 failed to break the impasse. Given this situation, the Indian side proposed that while discussions on allocation of waters in terms of the Prime Ministers' Declaration of May 1974 continued, a test run of the Feeder Canal of the Farakka Barrage was necessary in view of the advent of the lean period of the dry season that year. The Bangladesh side agreed to this proposal. A Joint Declaration between the two countries was signed by Abdur Rab Serniabat and Jagjivan Ram, Water Resources Minister of Bangladesh and India respectively on April 18, 1975. The two sides further agreed that India would carry out varying discharges ranging from 11,000 cusec to 16,000 cusec, in 10-day periods from April 21 to May 31, while ensuring continuance of remaining flows for Bangladesh.

The discussions between the two governments to implement the directives of the two Heads of Government, would no doubt have continued further, in good faith, and one may surmise that a summit level break in the impasse might have been achieved, but for a cataclysmic event which intervened in Bangladesh a few months later. Sheikh Mujibur Rahman, was assassinated in a bloody coup led by some disgruntled military officers, and a junta took over[4]. The junta which executed the coup also happened to be stridently anti-India in its political stance. As a result, relations between the two countries plunged sharply into a tail-spin, and all meaningful communication on important issues, including the question of sharing of the Ganges Waters, effectively ceased.

The Negotiations (1975-1990)

With such break-down in effective dialogue and in the absence of any further agreements, India continued with unilateral withdrawals throughout the next dry season in 1976, resulting in a drastic drop in the flows at Hardinge Bridge (the point within Bangladesh where flows were monitored). In the continuing political stalemate, President Ziaur Rahman of Bangladesh decided to internationalize the issue by taking it to the United Nations in November 1976.

On November 24, 1976, the Special Political Committee of the UNGA devised a compromise in a consensus statement wherein "both parties agreed that the situation called for an urgent solution and to this end the parties have decided to meet urgently in Dhaka at Ministerial level for negotiations with a view to arriving at a fair and expeditious settlement." *Bangladesh, in effect, did not get anything out of this bid to internationalize the issue, except sympathy and an exhortation to resolve the issue through direct negotiations with India.*

This was followed by several rounds of talks that led to the two sides signing a short-term agreement on November 5, 1977, by Rear Admiral M. H. Khan, Minister-in-charge for Water Resources of Bangladesh and Mr. Surjit Singh Barnala, Minister for Agriculture and Water Resources of India, for sharing the dry season flows of the Ganges available at Farakka for a period of five years (1978-82). The sharing was apportioned according to a schedule of 10-day flows, from January 1 to May 31. Under this arrangement, the lowest flow of the Ganges at Farakka (during the last ten days of April) was determined at 55000 cusecs. Bangladesh received 34,500 cusecs (roughly 60% of the Ganges flows as available at Farakka) and India 20,500 cusecs (the remaining 40%). For flow below 55000 cusecs, a Minimum Guarantee Clause stipulated that 80% of 34500 cusecs i.e. 27,600 cusecs was guaranteed to Bangladesh.[5]

The provisions of this first short-term agreement became firmly imbedded as the minimum benchmark acceptable by the Bangladesh side in the context of its domestic politics, and defined its attitude in the negotiations well into the 1990s.

The 1977 Agreement also directed the JRC to arrive at an agreed recommendation for augmenting the dry season flows at Farakka within a period of three years from the date of signing of the Agreement. This is the point of the Agreement where the two sides entered into a vicious cycle that held them hostage for the next two decades – the sharing of the waters and the finiteness or otherwise of the duration of the

Agreement was henceforth inextricably tied up with the two parties agreeing to a mutually acceptable means of augmentation. The JRC failed to live up to this injunction, the two sides on the contrary merely hardening their previously enunciated respective positions on storage dams[6] (Bangladesh proposal) and link canal[7] (Indian proposal). In the meantime, the tenure of sharing of the 1977 Agreement expired on May 31, 1982.

In order to avoid another period of agreement vacuum, following urgently convened discussions between A.R. Shams-ud Doha the then Foreign Ministers of Bangladesh and his Indian counterpart P.V. Narasimha Rao, a Memorandum of Understanding (MOU) was signed on October 7, 1982, basically extending the terms of the 1977 Agreement until May 31, 1984, or effectively for two more dry seasons, but with some changes to its modalities of sharing. *A departure (and important concession to India) made in this MOU was the dropping of the Minimum Guarantee Clause, and its replacement by what became known as the "burden sharing" clause for exceptionally low flows.* Under this clause, if the lowest flow at Farakka fell below 75% of the standard flow which governed the schedule, the difference between that and the standard flow was to be shared on 50:50 basis by the two sides. This MOU once again enjoined upon the JRC to come up with a mutually acceptable augmentation solution. *Notably, this quid pro quo was achieved at the political rather than the technical level.* Subsequently, once again, the JRC's ceaseless technical wrangling over the best means of augmentation failed to reach any solution, and the MOU lapsed.

The 1985 dry season was an agreement vacuum period, as no instrument now existed for apportioning the share of the waters. Under the circumstances, a second MOU was signed by Anisul Islam Mahmud, Minister for Irrigation, Water Development and Flood Control of Bangladesh and B. Shankaranand, Minister for Water Resources of India on November 22, 1985, this time renewing the terms of the MOU of 1982 (i.e. the 1977 Agreement without the Guarantee Clause but incorporating the burden sharing clause), for three more dry seasons of 1896, 1987 and 1988. This MOU also provided for the two sides to arrive at a mutually acceptable solution for augmentation, but this time the task was entrusted to a Joint Committee of Experts (JCE). Essentially, this turned out to be comprised of the same body of engineering experts who had previously dealt with this thorny question within the JRC, and therefore augured no qualitative change in mindset or approach. Their 24-month deliberations were as devoid of a solution as in the past, and once again the arrangement was set to expire before the next dry season commenced in January 1989.

A final Ministerial level meeting held in New Delhi towards the end of 1988 failed to break the impasse.[8] Following the expiry of the 1985 MOU on May 31, 1988, a long period of agreement vacuum followed. Reflecting the slump in political relations in the meantime, meaningful dialogue on the subject ceased altogether for the next five years until the end of 1990, when the government of President Ershad (in power since 1982) was forced to step down, following a mass movement led by an alliance of all the opposition parties. A neutral caretaker Government took over with a mandate to conduct free and fair elections. In the meantime, the water situation in Bangladesh worsened with continuing unilateral withdrawals by India in the absence of any sharing instrument.

The Negotiations (1991-95)

In March 1991, the Bangladesh Nationalist Party led by Begum Khaleda Zia, widow of the Late President Ziaur Rahman (assassinated in early 1982) won the elections, and formed the government. Hopes were aroused that the new democratic dispensation in Bangladesh would help to revive relations and renew negotiations. The new government of Prime Minister Khaleda Zia initiated discussions on the subject once again with India. The matter was discussed at summit level in May 1992, 1993 and 1995, but these meetings belied earlier hopes of a change in the mind-sets. Khaleda Zia, emulating her late husband, also decided to internationalize the issue once again, taking it to the UNGA in October 1993, essentially reaping the same result as her husband had earlier got and, in the process, stiffening India's position. Two rounds of JCE meetings also were so frustrating that Bangladesh in a fit of pique suspended all contacts at the JRC level. For various reasons, particularly since the situation had become vastly complicated with the passage of time (unfortunately to Bangladesh's detriment), the negotiations failed to achieve any momentum. This situation dragged on further, until 1995, with increasingly adverse consequences for Bangladesh in the Ganges basin area.

During the SAARC Summit at New Delhi in May, 1995 the Prime Ministers of Bangladesh and India,

during their bilateral meeting, directed their respective Foreign Secretaries to immediately commence talks and try to break the logjam in the resolution of this long festering problem. The two Foreign Secretaries held one round of talks immediately, and agreed to follow up further on these talks at Dhaka. It was during this period, when India's relations with Pakistan had reached a widely perceived low point that India sought to send out signals to its smaller neighbors (particularly Bangladesh and Nepal) that it was willing to arrive at settlements of some of the disputes plaguing them bilaterally. *It so happened that senior officials of Bangladesh and India in their respective foreign ministries also happened to reflect an alignment of professionals who shared similar visions.*[9]

Indian Foreign Secretary Salman Haidar visited Bangladesh during June 23-25, 1995. Although this was not officially reflected in the records of the meetings, the Indian side indicated that it was ready to significantly, if not entirely, accommodate Bangladesh's demands for a restoration of the provisions of the 1982 agreement.[10]

Unfortunately, with the next elections less than a year away, the zero-sum-politics of both the major parties in Bangladesh, namely the BNP and Awami League, had forced them both to significantly, and needlessly, ratchet up *the ante* on public rhetorics on the issue. The BNP government of Begum Khaleda Zia appeared to have decided to use the "India card" in its domestic election campaign, and the Indian offer, albeit conveyed informally, was spurned. Despite this, the two Foreign Secretaries did, in principle, agree upon the following.[11]

"A. to arrive at a permanent sharing arrangement on the basis of existing dry season flow in the Ganges without linking it to the augmentation question;

B. to revive the Joint Rivers Commission expeditiously to work out the modalities for sharing. JRC, among other things, should exchange information on projects, like the Tipaimukh, Ganges barrage, Kanpur project etc, on both sides;

C. to jointly monitor the flow of Ganges at selected points;

D. to arrive at a sharing arrangement of other common rivers on long term predictable basis."[12]

Although an alignment of minds at the professional level had served to achieve these modest results, it was not matched by a commensurate alignment of the political wills of the two countries, and no further progress was made thereafter in the wake of the political uncertainties that plagued both countries.[13] Another period of stalemate ensued with practically no high level contacts between the two countries. At the same time, other developments of more positive nature between India and Nepal served to militate against Bangladesh's interests.[14]

In May 1996, the Congress party of India lost the elections and the United Front-led coalition government came to power with Mr. H.D. Deve Gowda as Prime Minister and Mr. Inder Kumar Gujral as External Affairs Minister.[15] In Bangladesh, a month later, the Awami League was voted back to power again, after two decades in the political wilderness. Sheikh Hasina, the elder of the two surviving daughters of the late Sheikh Mujibur Rahman, as Leader of the Party her late father had led until his assassination in 1975, assumed office as Prime Minister. These two developments, happening almost at the same time brought all the political and professional stars in unusual alignment and marked a turning point in the negotiations for both the countries.

The Final Stage of Negotiations (July 1996-December 1996)

Serious discussions for arriving at a solution to the problem were now resumed in earnest. Both the sides realized the urgency of the matter, and also conveyed to each other their political commitment to seriously address and resolve the issue. Both new governments also shared the perception that there was a need to come to an agreement within the year, before the onset of the next dry season.[16] The fact that India's new External Affairs Minister, I.K. Gujral had earlier been an ardent advocate in Track-II diplomacy of India's accepting a relationship of asymmetry in reciprocity in its bilateral relations with its small neighbours was of particular significance in this new dispensation. Above all, the newly elected Prime Ministers of Bangladesh and India must be credited with the fact that they decided to go for an agreement, lending to the process, the full weight of their offices and respective political will for a quick resolution of the issue.

The Bangladesh Foreign Secretary visited India from August 6-10, 1996, to prepare the ground work in

earnest.[17] Prime Minster Deve Gowda while receiving the Foreign Secretary said that his government was very keen to see that the issue was resolved within the shortest possible time and added that if the problem was solved, the two countries could move on to other areas quickly. At the suggestion of the Indian side, the Foreign Secretary also met with other leading political figures of other parties in the ruling coalition or in opposition, notable among them Mr. Atal Bihari Vajpayee, the BJP leader of the Opposition. These meetings were all positive in tone and conducive to strengthening the consensus within India and resolution of the dispute.

The Foreign Secretary during this visit, at the suggestion of the Indian External Affairs Minister, also held a meeting with West Bengal Chief Minister Mr. Jyoti Basu at Calcutta. He requested the Chief Minister for help and support in finding a permanent solution to the problem of sharing of the Ganges waters. Mr. Jyoti Basu assured that he would do everything possible on his part to bring the matter to an amicable resolution. *Involving the Chief Minister of West Bengal was a critical departure from previous negotiating practice to date.*[18] By making the Indian state of West Bengal a fellow sufferer from upstream withdrawals of the Ganges waters by other upper riparian states within India, notably UP and Bihar, Bangladesh gained the sympathy of the West Bengal Chief Minister, Mr. Jyoti Basu, and was able to enlist the considerable political clout that he wielded at the time in the new political configuration at the federal level in India.[19]

During the Indian External Affairs Minister's visit to Bangladesh (Sept 6-9, 1996), the two sides had detailed discussions on sharing of the Ganges waters. The two sides agreed that a Joint Committee would be convened, *this time by the Foreign Ministries of the two countries*, which would bring together experts from both the countries, to work towards finalization of an agreement on water sharing at the earliest.[20] The Joint Committee was to meet immediately, and as often as required, and would report to their respective authorities, keeping in mind the time frame envisaged by the two sides for arriving at such an agreement. The Joint Committee had four such meetings.

The formation of the Joint Committee under the Foreign Offices of the two countries was another major departure from the past,[21] *where such committees had been under the jurisdiction of the technical line ministries – the Water Resources Ministries of the two countries. By bringing the technical experts under the supervision of the Foreign Ministries, the dynamics of the negotiations were dramatically altered, and discussions were moderated in a manner so as to lend flexibility and give pre-eminence to the political agenda of reaching a solution to the problem over the obfuscation of engineering technicalities. The engineers were exhorted to think as part of the solution, not as agents for exacerbating the problem.*

This was followed soon after by the visit of the Bangladesh Minister for Water Resources to India, from October 28 to November 1, 1996 to hold talks with his Indian counterpart on the issue. His visit helped to advance the process of negotiations on the sharing of the Ganges waters, by ensuring that the line Ministries of both the countries were talking the same language as the Foreign Ministries and the Joint Committee of experts.

The Foreign Minister of Bangladesh then visited India from November 9-13, 1996. Both sides reiterated their intention of arriving at an agreement on fair and equitable terms before the onset of the next dry season. The Foreign Minister, apart from his discussions with his counterpart, Mr. Gujral, also had very useful and fruitful meetings with the Indian Prime Minister, and prominent and important leaders of all the political parties, whether in alliance with the coalition government or in the opposition. The Bangladesh Foreign Minister and his delegation also stopped over at Calcutta on their return journey, to ensure keeping Mr. Jyoti Basu on board as a supportive actor in the process. The West Bengal Chief Minister was invited to visit Bangladesh, from where he originally hailed.

The joint efforts of the Governments of Bangladesh and India to arrive at an amicable resolution of the vexing issue of sharing of the Ganges waters received a big boost during the visit of the Chief Minister of West Bengal, Mr. Jyoti Basu, to Bangladesh from November 27 to December 2, 1996. During the visit he held critically important discussions with both the Bangladesh Prime Minister and the Foreign Minister, while the West Bengal Finance Minister and senior West Bengal and Central government officials held intensive discussions with the concerned officials from Bangladesh (the Senior Officials' team, that included the Joint Committee members, was led by the Foreign Secretary and subsequently by the Secretary to the Prime Minister of Bangladesh[22]).
While negotiations were going on at the level of the

political leadership, the Joint Committee met several times to look into the technicalities involved and worked towards arriving at a draft agreement to be placed before the two Governments. The Committee had one last marathon session, from December 5-10 at New Delhi. The Secretary to the Prime Minister of Bangladesh led the Bangladesh side with the author as deputy Leader, while the Indian Foreign Secretary led the Indian side at the Senior Officials' level. It was during this final round of negotiations that the nature of the instrument to be drawn up (Treaty instead of Agreement) and the duration (30 years[23]) were agreed upon. All that remained now was for the two Prime Ministers to sign the Treaty.

The Treaty

The Prime Ministers of Bangladesh and India signed the historic Treaty on the Sharing of the Ganges Waters in New Delhi on December 12, 1996, during Prime Minister Sheikh Hasina's 3-day State visit to India from December 10-12, 1996.

Major Features of the Treaty are:

- The Treaty is valid for 30 years from the day of its signing. It is subject to review by the two Governments at five-year intervals, or earlier, as required by either party.
- It would be open to either party to seek the first review after two years to assess the impact and working of the sharing arrangement as contained in the Treaty.
- The quantum of water agreed to be released by India to Bangladesh will be at Farakka.
- The sharing will be by ten-day periods from January 1 - May 31 every year.
- The sharing of the waters will be on 50-50 basis if the availability at Farakka is 70,000 cusecs or less.
- Bangladesh will get 35,000 cusecs and India the balance of flow if the availability at Farakka is between 70,000 and 75,000 cusecs.
- In case of availability of 75,000 cusecs or more, India will receive 40,000 cusecs and Bangladesh the rest.
- During the most critical month of April, Bangladesh will get a guaranteed flow of 35,000 cusecs in the first and last ten days of April and 27,633 cusses during the period April 11-20.
- If the flow at Farakka falls below 50,000 cusecs in any 10-day period, the two Governments will enter into immediate consultations to make adjustments on an emergency basis.
- The Treaty also incorporated an indicative schedule, which was based on the average of 40 years flow data (1949-1988) at Farakka. Unlike the 1977 Agreement in which the sharing was determined by the Schedule to that Agreement and governed it, the Schedule of the 1996 Treaty was merely an indicative schedule which was to be applied to the sharing formula in Schedule I**.** In the 1996 Treaty, the sharing formula actually governs the Treaty. This was a fundamental departure from the previous agreements. However, as an indication of good faith, the Indian side undertook to make every effort to protect the flows at Farakka as in the 40 years average availability as mentioned in the indicative schedule.[24]
- The Treaty has a fail-safe provision against treaty-vacuum, unlike previous agreements. While the two sides are bound to meet every five years to review the Treaty and make adjustments if so required, in the event no mutual agreement emerges, India is obliged to release downstream of the Farakka Barrage water at a rate not less than 90% of Bangladesh's share as enjoined in the Treaty, until such time as mutually agreed flows are decided upon.
- A Joint Committee, comprising equal number of representatives of the two Governments, shall set up suitable teams at Farakka and Hardinge Bridge to observe and record the daily flows below the Farakka Barrage, in the feeder canal, and at the navigation lock, as well as at the Hardinge Bridge.[25] The Joint Committee shall submit to the two Governments all data collected by it and shall also submit annual reports. The Joint Committee held its first meeting at Dhaka in late December, 1996.

However, in effect, (and in the author's view to the detriment of Bangladesh's interests) it shifted the locus of negotiations back to the technical people of the line ministry, although the remaining problems also needed sustained political approach and application of the political will. With hindsight, perhaps this was a mistake. Essentially, all remaining problems between the two countries are so hyper-charged politically, they can only be effectively addressed and resolved at the political level, with sustained political will at the highest levels.

Importance of the Treaty and Lessons Learned

The Treaty was a landmark event in Bangladesh-

India relations. It symbolized that given political commitment and goodwill the two or more parties (in this case, the sovereign governments of Bangladesh and India and the provincial government of West Bengal) can resolve even the most intractable of problems between them. The important lessons learnt from the above history of negotiations may be summarized as follows:

1. ***Make sure of existence of the political will at the highest level possible, and seize the opportunity***

   As the history of the negotiations will have revealed, this is perhaps the most important factor, and the starting point of any initiative. Sheikh Mujibur Rahman and Prime Minister Indira Gandhi both had understood this, but following Mujib's assassination, the political dynamics of the bilateral relations changed. During the military era, relations were at best uneasy, and those governments did not shy away from using the "India card" (or rather the "anti-India card", in their own political games. Some give and take was in evidence very briefly, in 1982, when two Foreign Ministers negotiated an interim 2-year MOU.

   There was a brief period between 1985-87 when Rajiv Gandhi[26] and President General Ershad had established a personal rapport, and towards the end of 1985, at the Commonwealth Heads of Government meeting at Nassau, Bahamas, they had, in principle, reportedly almost arrived at a comprehensive package deal for resolving the issue.[27] But soon after, before it could be implemented on the ground, election politics took over once again in Bangladesh[28] and Ershad also used the anti-India card and, in the process reaped Rajiv Gandhi's animosity. India took a very hard line subsequently, and in 1988, the interim arrangements lapsed. Subsequently India ratcheted up the screws, withdrawing waters unilaterally at will.[29]

   Prime Minister Khaleda Zia squandered a golden opportunity for a very favorable deal because she too decided to play the anti-India politics before elections, which was taken as a personal affront by struggling Prime Minister Narasimha Rao then fighting for survival and hoping to gain domestic political mileage from resolving a thorny issue with a small neighbor. Had Khaleda Zia wanted a resolution of the problem, she could have had it in 1995, and perhaps, with hindsight she might have gotten a better deal than what Bangladesh eventually did. Even senior Ministers closest to her felt that it was worth reciprocating India's goodwill gesture, but they were over-ruled.[30]

2. ***Political dynamics has to take precedence over technical-mechanical drivers. Resolution mechanism has to be political, not technical***

   The dispute had become highly politicized and politically charged, even from before the Bangladesh era (during Pakistan times). The Joint Rivers Commission (JRC), comprised of engineering experts from the two sides had met regularly, at least once a year, sometimes more often, but their periodical exercises in negotiations remained hostage to the politics. As a result, instead of being a part of the solution, they became a part of the problem, stretching out and sustaining continuation of the problem, even exacerbating it at times.

   This was acknowledged by both the sides in the final phases of the negotiations. That is why, for resolving this dispute, the Foreign Ministries were given charge of the negotiations, line ministries were exhorted to reading from the same script as the respective foreign ministries, and the Prime Minister's office kept a close watch over the process to ensure discipline.

3. ***The state/provincial governments have to be incorporated as primary stakeholders and made active participants in the negotiating process***

   As long as West Bengal remained unsympathetic to Bangladesh's plight, it played an active role as spoiler on the Indian side. However, it had become progressively clear that the purpose for which the Farakka Barrage had been built – diverting additional

waters from the Ganges River into the Hooghly River to prevent silting of Calcutta (Kolkata) port had not really been served – and that over time, vessels of progressively larger drafts were in any case unable to enter Calcutta, necessitated the search for an alternative solution.

Moreover, with the other upper riparian states (provinces) also served by the Ganges (it flows through seven states of India before entering Bangladesh) withdrawing increasing quantities of water upstream, West Bengal also became an aggrieved party along with Bangladesh. So while Bangladesh could leverage the political clout of West Bengal with the center at New Delhi, West Bengal leveraged the political necessity of India projecting a benign image in its relations with smaller neighbors to demand the required funds for construction of an alternative deep sea port for itself as compensation for its "spirit of sacrifice". Thus, a "win-win" situation was created for all parties concerned.

This first example of Bangladeshi interaction with provincial governments in a national dispute served as a precedent, and since then other state/provincial governments of India adjacent to Bangladesh have established sporadic conversations with Bangladesh on matters related to trade and commerce and transit trade, although none of these initial tentative contacts have really translated into more meaningful, substantive interaction because of lack of sufficient political will at the highest levels engaging proactively to follow up .

4. *The web of diplomacy has to be expanded beyond engaging primarily (and only) with the ruling establishment of the other side*

The Bangladesh side engaged in intense diplomatic contacts at senior levels that extended beyond merely the senior officials and cabinet members of the ruling party in India. They also reached out to leaders of coalition partners and parties in opposition at national and state levels, as well as enlisting media and think-tanks' sympathy and support.

Similarly, to the extent possible within Bangladesh's strangely and unnaturally fractured polity, the Bangladesh side also elicited support from some political actors domestically within Bangladesh, as well as senior government functionaries who had dealt with the issue in the past.

5. *Breaking down embedded myths that generate suspicion helps*

The engineers on the Bangladesh side had long come to believe that India was siphoning off water through additional measures at the Jangipur Barrage that they had built downstream of the site of the original diversion. This myth had been fed, either deliberately or not, by certain Bangladesh agencies which had asserted forcefully that this was factually correct. This deep-rooted suspicion had over time been transformed into deep-seated conviction, because the Indian side had not allowed Bangladeshi officials to visit the Farakka site.

The author, as leader of the Joint Committee on its first visit to India, prevailed upon the Indian side for his team to be allowed to visit Farakka, enlisting political support of the Indian External Affairs Ministry at the highest level to get the Indian line Ministry to agree. At the site, he asked the Bangladesh engineers to walk about the site, and then give their opinion. The engineers were forced to admit that their presumptions were wrong, that water could not possibly flow upstream, and their doubts were dispelled. This single act of transparency dispelled pre-conceived but unsubstantiated notions and considerably mellowed their mindset.

6. *Enlisting personal/emotive ties of provincial leaders/officials on other side helps*

Bangladesh side took extra pains to cater to the emotional attachment of Chief Minister Jyoti Basu with his ancestral links in Bangladesh. They arranged for him to visit his ancestral home that had fortunately been very well kept and turned into a museum, and also listened to his suggestions for

establishing a bus link between Kolkata and Dhaka.[31]

7. ***Setting a firm time frame for completing negotiations rather than keeping it open-ended can be of critical importance***

While admittedly the setting of a time-frame could work to the disadvantage of one side or the other, considering that the negotiations had been dragging on without arriving at any long-term solution was certainly not beneficial to the lower riparian. Given the fragility of the domestic political situation in Bangladesh, where the politics had progressively tended to display the entrenchment of a zero-sum culture, a failure by the Awami League to get an agreement before the onset of the next dry season would have inevitably placed it on the defensive *vis a vis* the often stridently anti-Indian BNP and its political ally, the Jamaate Islami Bangladesh. With this in mind, the author suggested that Bangladesh should set a target for achieving an agreement before the next dry season set in – that is, within six months from after the Awami League took over and resumed negotiations. In actuality, the new government had even less time than that.

Once this principle had been politically accepted, the intensity and pace of diplomatic activities were calibrated and set to meet that time frame.

8. ***De-linking solution of different issues from each other – pursuing negotiations on different issues on separate but simultaneous tracks facilitates arriving at practicable solutions***

The linkage of augmentation of waters at Farakka had tied up both sides from reaching any solution earlier on the water sharing, because the approaches of the two sides on augmentation were diametrically and radically opposed to each other conceptually – building dams in Nepal (that required a third party being involved, with its own set of problems with India), or upper reaches of India as favored by Bangladesh, vs. linking the waters of the Brahmaputra with the Ganges by constructing a canal within Bangladesh, as favored by India.

In the face of this, the Bangladesh side, for a change, took a pragmatic approach – ascertaining that even without augmentation, there was sufficient water at Farakka that could be shared, and then arriving at an arrangement for sharing that. Thereby, both sides could get on with their lives and with their other plans for development;

Looking Forward -- Can We Learn Anything from the Above?

The Ganges is but one of the 54 rivers that are shared by Bangladesh and India. The author had recommended in 1996 that after resolving the Ganges dispute, Bangladesh should seize the opportunity of the goodwill generated bilaterally and the more conducive atmosphere created, to launch negotiations for arriving at an equitable and mutually beneficial agreement on the remaining rivers as well. Alas, that did not happen. In the meantime the effects of global warming and climate change have overall served to imperil the environment of the region and pose grave implications if not addressed collaboratively. India has long thought of ways to harness the waters of the Brahmaputra River, and every time such reports surfaced, Bangladesh would respond with alarm and acrimony. Now there are credible reports that the realities and pressures of existing water and energy shortages within China are galvanizing that country into tapping into the Brahmaputra upstream of India, with a view to diverting 200 billion cubic meters of water a year to the Yellow River.[32] Ironically, India now finds itself in the same disadvantaged position of lower riparian on a major river as Bangladesh had been, and continues to be vis-à-vis India. Should China go ahead with such a project, and there is no rational reason to think it would not, the flow of the Brahmaputra at the point where it enters India could decrease by up to 60% of its historical volume. India too is in a similar position in terms of facing acute water shortages as well as energy deficits in the foreseeable future. There is no reason why it should also not be contemplating similar measures for optimizing-maximizing on available resources within its own territory. At the same time, environmentally, the South Asian sub-region of which Bangladesh is an integral part because of its geography, geology and morphology is already reeling from anthropogenic and natural activities that have resulted in massive deforestation, progressive river bank erosion, repeated calamitous flooding as well as

a gradual degradation of the river systems as a whole. The pressures on available land will increase exponentially with the steady growth of population even at its most conservative estimates. Conceivably, in less than fifty years from now, if not earlier, the cumulative negative effects of all these factors could result in large scale socio-economic upheavals with dangerous political consequences, and people adversely affected in lower riparian regions (whether in India or in Bangladesh) voting with their feet. The spectre of water wars will graduate from the realm of science fiction to the real world. While political leaders typically tend to think in terms of time being spliced in convenient office-term segments, neither they nor the people affected can afford to do so any longer.

Being the lower riparian with three major river systems flowing downstream from the Himalayas into the Bay of Bengal, Bangladesh is hostage to environmental forces that it cannot hope to manage or mitigate on its own. On the other, ironically, it has acute shortages of water as well, and is actually subject to severe drought conditions, with longish spells of dry weather and moderate drought spread over an area of 5.46 million hectares. Very severe drought conditions have hit the country in 1951, 1961, 1975, 1979, 1981, 1982, 1984, and 1989, affecting 47% of the land and 54% of the population.[33]

Of its total land surface of 12.31 million hectares, 7.85 million hectares are under agricultural cultivation. Due to population growth, the share per capita of this land is progressively "shrinking every year, making the resource base for agriculture, forest and wetlands more vulnerable and marginalized".[34] Forestry coverage has "dwindled by 30 to 40 percent due to unabated deforestation in the last three decades".[35] More alarming is the fact that the Inter-governmental Panel on Climate Change (IPCC) in its latest report (released in February, 2007) identified Bangladesh as being extremely vulnerable to climate change, and at risk of losing a sizeable chunk of its territory because of continuing global warming that could result in a rise of ocean levels.

Chinese intervention on the Brahmaputra and Indian intervention on rivers flowing into Bangladesh will, without doubt, adversely affect Bangladesh. Both the Indian and Chinese actions, while reflecting the harsh realities of meeting increasing water and power shortages for their fast growing populations of over 1 billion each, could spell disaster for lower riparian Bangladesh. It would be unrealistic of Bangladesh to indulge in injured self-righteousness and acrimonious recriminations against either or both the other parties. Previous experiences with trying to invite world support against bigger powers were not only singularly unsuccessful, they only complicated matters more, and weakened Bangladesh's opportunity for deriving maximum advantage when available. Trying to play off India against China is not likely to succeed either, given the trajectory of global developments today. If anything, the lessons of the Ganges negotiations would point to the need for all parties to engaging proactively, collaboratively and cooperatively, on basis of good will and with the spirit of mutual accommodation of each others' needs. We cannot, even with the most fervent and devout longings and prayers, set the clock back a fifty or hundred years in order to start all over again. The time machine has not yet been invented, and will not be in our lifetime, or our children and grandchildren's lifetimes. We all have to work with what we have left ourselves with and then try and retrieve the situation as best as possible, with pragmatism, goodwill and sensitivity to each other's needs. This can be done.

Now, more than ever, there is an urgent and critical need for policymakers to change mindsets, from being merely reactive to engaging in anticipatory thinking. And they need to involve their peoples also, giving them a sense of shared ownership of the endangered commons.

Endnotes

1. This is an edited and adapted version of a paper commissioned by the World Bank last year for their in-house use.

2. This part is largely based on a paper by the author published by the Bangladesh Institute for International and Strategic Studies, Dhaka, titled *"The Bangladesh-India Treaty on Sharing of the Ganges Waters: Genesis and Significance"* (BIISS Journal, Vol. IV, No. 2, 1998), and from copies of personal notes and records in the author's possession.

3. NASA website.

4. Also killed were Mujib's wife, three sons and two daughters-in-law. Only his two daughters, who fortuitously happened to be abroad at that time, escaped the massacre.

5. The flows at Farakka were reckoned at 75% availability of waters as per observed data of flows from 1948-73.

6. Bangladesh wanted storage dams to be built in Nepal or upper reaches in India.

7. India was opposed to the dam suggestion in Nepal as it did not wish a third party drawn into the matter, and also opposed to construction of dams within India for the purpose. It proposed the construction of a canal from the Brahmaputra to the Ganges traversing Bangladesh to augment the Ganges flows. This was not acceptable to Bangladesh.

8. It was at this time that a senior Indian External Affairs Ministry official told the author, then Bangladesh's Deputy High Commissioner in New Delhi, that India was deeply concerned with its own foreseeable water shortages nation-wide in the future and was drawing up a national water plan, and that it would like to have Bangladesh's cooperation in solving the issues of shared rivers, but if necessary would proceed on its own following its domestic needs and imperatives.

9. During the period 1990-91, the Indian Foreign Secretary, Salman Haider and the Bangladesh Foreign Secretary, Farooq Sobhan had both served as Ambassadors in Beijing. They served together again, in New Delhi, where Farooq Sobhan was posted as High Commissioner in 1992, and where Salman Haider on his return from Beijing in 1992 took over as Foreign Secretary. When Sobhan joined as Foreign Secretary, he summoned the author, who had been his DCM in Beijing to return to Dhaka from Tehran where the latter was was Ambassador, and take over as Additional Foreign Secretary for South Asia and SAARC affairs. The author and Salman Haider had earlier developed friendship during their concomitant posting in New Delhi between 1984-88,, when Salman Haider was posted as Joint Secretary and later Chief of Protocol in the Indian External Affairs Ministry and the author was Deputy High Commissioner for Bangladesh there, that was renewed when they met again in Beijing in 1990-91. Shafi Sami who had succeeded Farooq Sobhan as Ambassador in Beijing in October 1991 also got to know Salman Haider his Indian counterpart there for a short period. Shafi Sami subsequently succeeded Farooq Sobhan as High Commissioner in New Delhi, when the latter was appointed Bangladesh Foreign Secretary, and continued interacting with Salman Haider who had preceded him there to take over as Indian Foreign Secretary. By a strange coincidence, therefore, four senior officials, who had all had overlapping periods of serving together in Beijing and India, either together or at different times, were now in key positions to be able to make a difference.

10. From author's personal notes. The author was Additional Foreign Secretary for South Asia at this time.

11. *This marked a very important departure from the previous Indian position, and therefore forward movement from the long stalemate.*

12. From copy of Bangladesh Foreign office memo with author.

13. The Congress government of Narasimha Rao was clearly in serious trouble and encountering disenchantment with the electorate, with elections looming in the horizon. In Bangladesh, also with elections about a year away, domestic politics launched into confrontational mode with the BNP facing off all other parties ranged against it.

14. Soon after Salman Haider returned to India, he resumed negotiations with Nepal over the long-festering dispute over the common river Mahakali -Sarda shared by them. India and Nepal signed a treaty resolving this dispute in February 1996, an agreement from which Nepal gained significantly of what it had wanted. Problems related to the Sapta-Kosi high dam project were also smoothed out. By these acts, India achieved part of its goal in demonstrating that it could deal with smaller neighbors generously, provided they were willing to reciprocate in spirit. Bangladesh, on the other hand ratcheted up its bellicosity with India, and a series of unfortunate cross-border incidents, notoriously the Purulia arms dropping incident in which India accused the Bangladesh military of being involved and which Bangladesh has always denied, exchanges of hostile fire between the BDR and BSF along Tamabil border check post that served to shut down border trade there, and increased bellicosity on the part of the BDR in some border face-offs, vitiated the political atmosphere. These developments only served to further weaken Bangladesh's negotiating position considerably.

15. Mr. Gujral had been actively involved in Track-II diplomacy and had advocated India's following a policy of accommodation with its smaller neighbors and making concessions on water and trade issues.

16. The author had suggested that it was essential for an agreement to be reached before the onset of the next dry season. Failure to do so would trigger off adverse domestic political dynamics in both countries, but particularly in Bangladesh, and place the Awami League on the defensive against a belligerent BNP.

17. The author accompanied the Foreign Secretary in this visit, and participated in all exchanges, public and private, that took place during this period.

18. This raised some ire on the part of the BNP and some right-wing parties, who accused the government of lowering national prestige by negotiating with a provincial government of India; but some other parties consulted privately and quietly by the author signaled that they approved of this move.

19. Mr. Jyoti Basu would have become Prime Minister but his own state's compulsions forced him to decline that offer; but he wielded considerable political clout and commanded immense respect of the coalition dispensation.

20. As Additional Foreign Secretary for South Asia, the author was assigned leadership of this Committee from the Bangladesh side with his counterpart from India leading the Indian side.

21. The author advocated this approach, since the dispute over the years had acquired overbearing political overtones that required political give-and -take for resolution.

22. It was at this stage, when the leadership of the official team from the Bangladesh side was abruptly and somewhat mysteriously changed, that the talks almost got derailed. The author was to play a critical role to get it back on the rails that led to final resolution.

23. Why 30 years? For Bangladesh, the earlier 25-year Treaty of Friendship had become a flashpoint in its domestic politics, so it wished to avoid evoking that, and even balked at India's offer to make it for 50 years or even for perpetuity. The author suggested 30 years as a way out of this ticklish issue, keeping in mind that a sufficiently long duration was required if Bangladesh was to get anywhere with its own contemplated downstream barrage project.

24. India did commence negotiations with Bhutan for diverting some water from the Sankosh River to Farakka to ensure this, but as the political stars in India and Bangladesh went out of alignment once again, that initiative appears to have fizzled out and has so far not been renewed.

25. Monitoring at the Navigation lock was not there previously.

26. Rajiv after taking over as Prime Minister after his mother's assassination is to be credited with the first major attempt at reaching out proactively to India's smaller neighbors. He believed that it was in India's interest to help its smaller neighbors overcome poverty and develop resilient and robust economies. Seeking dispute resolution became a priority within this rubric.

27. As confided privately to the author by the then Water Resources Secretary of Bangladesh.

28. General-President Ershad had decided to hold elections to gain domestic and international legitimacy for his regime.

29. By this time, Rajiv felt that Ershad had betrayed his trust. The realities of *"realpolitik"* , in coping with domestic political dynamics and regional relations was also catching up with the former airline pilot-reluctant politician thrust into political fame by circumstances.

30. Among her two closest advisers at that time were the Foreign Minister Mustafizur Rahman and Water Resources Minister Majedul Huq, both former Army officers who had been very close to Zia and had helped him form the BNP in 1976. Both these persons shared with the author their personal views that the deal being offered was good and worth seizing the opportunity. But the compulsions of the internal party dynamics militated against their inclinations and better judgment.

31. That link is not only operational, but has since been extended to Agartala in Tripura state (east of Bangladesh). This has been followed up with the restoration of railways link between the two neighbors, cut off after the 1965 India-Pakistan war (ironically, while Bangladesh severed these

links, Pakistan West Pakistan retined and continued using those links on the Western front, dispute fighting more wars with India) .

32. Ryan Hodum, "*Conflict over the Brahmaputra River Between China and India*" ICE Case Studies, Number 205, May 2007, American University, The School of International Service, Washington, D.C.

33. Bangladesh Department of Environment and IUCN report, *National Action Programme of Combating Desertification in Bangladesh*, August 2005.

34. Ibid.

35. US Ambassador to Bangladesh Patricia Butenis in a statement made in May 2006 – Daily Star, Dhaka,June 16, 2006.

Tariq Karim is a former Bangladesh Ambassador to the United States and was a member of the Pakistan/Bangladesh Foreign Service since 1967. He was Additional Foreign Secretary for South Asia and SAARC affairs at the Bangladesh Foreign Ministry from 1995 to 1997, Director General from 1982 to 1984, and Director from 1973 to 1975. The author was associated with the negotiations on sharing of the Ganges waters.

Commentary

Y. M. Bammi

In his article, Mr. Tariq Karim, a retired officer of Bangladesh Foreign Service has analyzed the need, importance, impediments, positive and negative stages of negotiations, and the final success achieved by the two neighboring countries in resolving an old and outstanding issue, amicably.

He rightly highlights that while the waters of River Ganges shared by the two countries are vital for the rural economy of vast areas of Bangladesh, especially during the dry season (Mar-Apr), he could have also highlighted the importance of the Farakka Barrage built by India 18 km upstream in her territory for diverting waters to River Hoogly at Kolkata, for de-silting of the rivers during the lean season. The data included in the article is correct, except on page 1 where he mentions that the Ganges flows through Nepal (which is factually not correct), though he clarifies later that three tributaries from Nepal (Karnali, Sapt Kosi and Sapt Gandaki) flow into the main Ganges, as do a number of other rivers flowing from the Himalayas, before it enters Bangladesh .

The article is very timely and is important from three angles. One, the author was involved in the process of negotiations with India from Bangladesh side throughout, hence it is authentic. Second, it critically examines the reactions, both of technocrats and politicians of the two countries, at each stage of negotiations since Bangladesh became Independent in 1971 and mentions how at times the data were wrongly interpreted or "the political will" was lacking for resolving the issue. Lastly, the most valuable part of the paper is that it makes a strong case to adopt a similar approach and "road map" for resolving remaining outstanding issues between the two countries, preferably bi-laterally or through regional mechanisms like SAARC.

As regards details and authenticity, Mr. Karim has quoted extensively from records including his personal notes taken during the discussions between delegations of the two countries. He points out that most of the times from 1971 to 1995 the negotiations did not succeed due to the political environment in Bangladesh, which tried to internationalize the issue, even playing the China Card against India -- both attempts proving unsuccessful. Though a number of temporary agreements were arrived at to share the waters below Farakka Barrage, they were only for limited periods and often lapsed (though India continued to honor her part by releasing the promised water to Bangladesh). It was only when PMs Sheikh Hasina of Bangladesh and Shri H D Deve Gowda of India (ably assisted and advised by Shri IK Gujral, then Foreign Minister) showed genuine concern for arriving at a treaty, that their officers got down to serious talks to resolve the issues, amicably.

This highlights the central theme of the paper: that political will is vital in resolving bi-lateral issues between Bangladesh and India -- two neighbors who can develop strong socio-economic ties. Once the political masters insist, all details can be ironed out in a give and take atmosphere, creating a win-win situation for all. Though Mr. Karim has suggested regional cooperation forums like SAARC also for resolving issues where more than two countries of the region are involved, in my opinion bi-lateral resolutions are more likely to succeed. Once arrived at, then other beneficiaries can be co-opted, if they so desire, but initially expanding the forum for consultations is likely to create more impediments rather than solve the issues, unless mutual trust has been established between all concerned parties.

The article merits wider publicity both in Bangladesh and India as both countries prepare to go for national elections. It has positive message for politicians and the people who support and run the government machinery on how to keep "National Interests" in mind and overcome personal differences, while dealing with neighbors.
Mr. Tariq Karim needs to be congratulated for his timely article, which I am sure will encourage not only him but his colleagues, to share their experiences. India and Bangladesh have a few un-resolved bi-lateral issues: the Huji and other terrorists from Bangladesh operating in India's soil being critical from India's point of view and trade deficits being critical from the Bangladesh side.

This article can work as a beacon to resolve these and other issues, one by one as suggested by the author, for which politicians on both sides need to show strong will.

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Commentary

Sudhir T. Devare

Relations between neighbors are often seen to be complicated and difficult given their overlapping interests and differing perceptions. Natural resources can become a point of contention between them. In some cases a single divisive issue comes to dominate the differences or tensions among them and the relations tend to get linked to the success or otherwise of the resolution of the issue. At the same time, it is also seen that the dominant issue can be only a symbol of the underlying differences between the two countries. Between India and Bangladesh, the question of sharing of the Ganga waters had been a major issue ever since the time of the independence of the latter.(This had been a point of difference between India and the then East Pakistan even before the formation of Bangladesh) Its resolution and the signing of the Treaty in December 1996 marked a historic development in the relations between the two neighbors. The largely problem-free implementation of the Treaty over the past decade can also be described as a significant achievement for the two countries which still has a number of outstanding bilateral issues.

Ambassador Tariq Karim's paper entitled' The Ganges Treaty: parsing the dynamics of the final negotiations; What we can learn from it?' is a fascinating account tracing the historical background of the issue, its evolution over the past fifty years and its eventual solution. Where and how importantly the issue featured in the foreign policies of the two countries and how the necessary political will to resolve it came about forms the central theme of the study. Here the author has emphasized that political dynamics should take precedence over technical-mechanical drivers. He further argues that a fortuitous combination of policy makers both at the political and official level played an important role in finding a solution to the intractable problem between India and Bangladesh which had missed a series of opportunities. Clearly the emphasis was on a bilateral approach. India was opposed to any outside pressure or attempts towards the internationalization of the issue. Bangladesh too had realized the futility of trying internationalization, having raised the issue in the United Nations on more than one occasion.

The crux of the matter is the lack of availability of adequate water flows in the Ganga during the dry season and the resulting problem of distribution. With a substantial increase in the population in the entire Gangetic valley, spanning both India and Bangladesh, and rapid agricultural and industrial development, a situation has arisen that the optimum quantity of water required to meet these needs is no more available in the basin. Augmentation of the Ganga flows provided a long-term and satisfactory solution to the problem. However, any technical approach or a possible solution on this line ran counter to the political realities in South Asia. In spite of years' of negotiations, India and Nepal could not arrive at the decisions to build major reservoirs on the tributaries of Ganga which could have provided the necessary water flows, especially in the dry season. On the other hand, Bangladesh's reluctance to agree to the construction of a link canal from Brahmaputra to Ganga going through the northern part of Bangladesh precluded the possibility of using the quantity of water from the Brahmaputra in the Gangetic basin.

With climate change and receding of the glaciers in the Himalayas the situation with regard to the dry season flows would only aggravate further. If China were to construct barrages on the Brahmaputra as some reports suggest, India would be the lower riparian and both India and Bangladesh could stand to suffer considerably.

In the evolution to the solution of this issue there were a number of important steps each of which indicated that the governments of India and Bangladesh did not wish to allow this highly politicized issue to impact heavily on their bilateral relations. The agreement of 1977 which provided a formula for sharing of the dry season flows was further modified in 1982 when the minimum guarantee provision was replaced by the burden sharing concept. Under the Treaty signed in December 1996, India and Bangladesh shall receive guaranteed 35,000 cusecs of water in alternate three 10-day periods during the period March1 to May 10.[1]

In search for a solution, the involvement of the West Bengal government was also considered important and desirable. In December 1996, in replying to a question in the Indian Parliament whether 'Prime Minister Sheikh Hasina called for employing Bengali factor to end the water row', the Indian Minister for Water Resources said that representatives from West Bengal would continue to be associated with the talks on Ganga water sharing.[2] This was an interesting example in the Indian foreign policy in which a State government was involved in a diplomatic issue with another country. The Chief Minister of West Bengal Jyoti Basu said at a press conference on Decemebr 14, 1996 that the water pact was a necessary step to open up corridors of friendship between the two

countries.[3] In his statement in Rajya Sabha on 12 December, 1996 Shri I.K. Gujral, India's Foreign Minister, expressed appreciation of the very constructive role played by the Chief Minister of West Bengal in bringing about an improved atmosphere in which the Treaty could become possible.[4] Ambassador Tariq Karim also mentions in his paper the meetings which the Bangladesh Ministers and officials had with Mr Jyoti Basu.

The importance of the Ganges Treaty was hailed by the leaders on both sides. Bangladesh Prime Minister Sheikh Hasina said in a press conference on 13 December 1996 that 'This treaty is a milestone in the country's history and a big step towards expansion of regional cooperation. It opened the door for cooperation not only with India, but with the remaining SAARC states and other countries as well.'[5] The Indian Foreign Minister Inder K.Gujral said that with the removal of what had been a constant irritant in bilateral ties, we could look forward to an entirely new phase of cooperation.[6]

As Ambassador Karim poses a question as to what we can learn from the negotiations leading to the signing of the Ganges Waters Treaty, it will be important and useful to reflect if India and Bangladesh have been able to use the opportunity of resolving this issue for further major gains in their bilateral relations. The author's observation that in the future too, parties concerned will need to engage proactively, collaboratively and cooperatively is unexceptional. No doubt the overall bilateral relationship is marked by a good understanding, larger economic and commercial exchanges and greater people-to-people contacts. However, a number of apprehensions and problems remain. The continuing violence in India's northeast creates deep concern as regards security and peace in the entire region. Even in the area of economic cooperation, the full potential does not appear as being tapped. Both in the context of SAARC and the trans-regional grouping BIMSTEC, India and Bangladesh could contribute much more to bring about greater integration. The upcoming BIMSTEC summit in Delhi on November 12-13, 2008 could mark a new beginning in this direction. The elections and peaceful return to democracy in Bangladesh in December would expedite the process further.

In the paper, Tariq Karim's personal involvement and commitment to resolving outstanding issues between Bangladesh and India comes out clearly in his efforts to seize the opportunity offered by favorable political climate obtaining in both countries and the desire on the part of the leadership to find a solution. Similar pursuit and vision will be necessary to address the other complex challenges that Bangladesh and India face today.

Endnotes

1. Treaty between the Government of the Republic of India and the Government of the People's Republic of Bangladesh on sharing of the Ganga/Ganges Waters at Farakka. New Delhi, December 12, 1996; Annexure –I.

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3. India-Bangladesh Relations, Documents 1971-2002, Avtar Singh Bhasin, Geetika Publications, 2003, page 1108.

4. 'Continuity and Change: India's Foreign Policy' by I.K.Gujral, Macmillan India Ltd, 2003, page 217.

5. India-Bangladesh Relations, Documents 1971-2002, Avtar Singh Bhasin, Geetika Publications, 2003, page 1103 ' Press Conference of the Bangladesh Prime Minister Sheikh Hasina on the signing of the Ganga Water Treaty with India , Dhaka , December 13, 1996.

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Understanding Inflation in Bangladesh[1]

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Abstract

Inflation in Bangladesh increased steadily from 1.5 percent in FY01 to 7.2 percent in FY06. Subsequently, the year-on-year inflation reached a nine year high of 11.6 percent in December, 2007. It had a similar rising trend in both rural and urban areas with rural inflation generally higher than urban inflation. Food price inflation has dominated the increase in overall inflation since FY03. A positive feature of Bangladesh's inflation is its low and declining volatility. The paper notes that there is conclusive evidence internationally of a negative correlation between the level of inflation and income growth for all but low inflation countries. High inflation distorts decisions private agents make about investment, saving and production. There is also evidence that inflation hurts the poor relatively more. Given this strong socio-economic impact, it is understandable why inflation tends to worry governments more than any other economic issues. Bangladesh is no exception. Bangladesh's tolerance of inflation has a low threshold because of the risks it poses to social and political stability. The paper finds that international price increase and growth in domestic demand are mainly responsible for recent high inflation. The paper finds little evidence in support of the popular claim that inflation is driven by higher domestic costs of supply and collusion by key market players. The paper recommends a cautious monetary policy along with better market monitoring, information sharing, adequate supply of agricultural inputs, and restoring business confidence to curb inflation in Bangladesh. The paper concludes with a reminder of the limitations of how much government can do to contain inflation when it is driven primarily by international price increases.

Overall Trends: Macro and Micro Evidence

Macro Evidence: The recent surge in inflation in Bangladesh is part of a longer term trend that started in FY01. Inflation (CPI) increased steadily from 1.5 percent in FY01 to 7.2 percent in FY06-07 (Figure-1-a). The increase continued in FY08 and kept hovering around 10 percent through November before reaching a nine year high of 11.6 percent in December, 2007 (Figure 1-b). Inflation had a similar rising trend in both rural and urban areas with rural inflation generally higher than urban inflation (Figure 1-c). Food price inflation has dominated the increase in overall inflation since FY03. It increased from 3.5 percent in FY03 to 7.8 percent in FY06 and accelerated to 14.5 percent in December, 2007. Persistent increase in prices of essential commodities—rice, wheat, edible oil, pulses—in particular has become a major concern.

Increase in food price inflation has driven overall inflation because of the large (64.5 percent) weight of food items in the CPI basket as well as the larger magnitude of the food price inflation itself. Non-food inflation has been creeping up since October, 2006 and reached 8.2 percent in July, 2007 before declining to 3.9 percent through May, 2008.[2] Bangladesh appears to be riding the wave of general consumer price inflation. However, it is not the only country facing high inflation. In developing countries, inflation increased from 4.4 percent in 2004 to 6.2 percent in 2006. In May 2008, inflation rates in India, Pakistan and Sri Lanka were 8.3, 19.3 and 28.2 percent respectively (Figure-1- d).

A positive feature of Bangladesh's inflation is its low and declining volatility. The standard deviation of monthly (y-o-y) inflation declined from 3.2 percent during July, 1994 to June, 2000 to 2.5 percent during July, 2000 to May, 2008. While developing countries continue to experience higher and more volatile inflation than the industrial countries, they too have seen volatility fall since the early 1990s. There is robust evidence that inflation volatility is negatively correlated with growth, even after the effect of the level of inflation is controlled for. Higher inflation levels are typically associated with higher inflation volatility.[3] While this has not happened in Bangladesh yet, the recent rise in inflation is a concern from this point of view as well.

Micro Evidence: In order to analyze inflation at the disaggregate level it is useful to look at the composition of the CPI. The rural basket has 215 items, of which 106 are food items, and urban basket has 302 items of which 113 are food items. Food has more than sixty percent weight in rural basket while the urban basket has less than forty five percent

weight to food. Table 1 and 2 in Annex-II list some main CPI food and non-food items. Since these items make up more than fifty and seventy five percent of the food and non-food baskets respectively, it is useful to look at some of their recent price trends.

A monthly trend analysis[4] of prices at the individual commodity level indicates that in Bangladesh (a) price of rice started to rise in January 2005, following which it remained stable in rural areas and the rate of increase slowed in urban areas, since July 2007 it started to rise again in both urban and rural areas, reaching peak in March-April 2008; (b) wheat prices has been rising sharply since December 2006 in both rural and urban areas, and its rate of increase has been on the rise too; (c) prices of pulses have increased sharply in last twelve months in both urban and rural areas; (d) price of edible oil has been increasing sharply since December 2006 reaching peak in May 2008; (e) onion prices have been highly volatile; and (f) prices of potato, sugar, and garlic have stabilized or declined in recent time.

Even though some prices have declined and some have been stable, increase in the ones that have higher weights in the CPI-food basket have persisted, resulting in rising inflation. During June 2007-May 2008 period rice, edible oil, wheat, and pulses, major components of the Bangladeshi diet, accounted for 48 to 140 percent of total inflation in rural areas and 31 to 78 percent in urban areas. During the same period, gross house rent, kerosene, firewood and transport and communication accounted for 10 to 18 percent of total non-food inflation in rural areas and 16 to 27 percent in urban areas.

The Role of Supply Side Determinants of Inflation

In a globally integrated economy, domestic prices are often subject to foreign price shocks even under a flexible exchange rate regime. With the development of more liberal international trade and the deepening of Bangladesh's market-oriented economic and trade reform, trade between Bangladesh and the rest of the world has increased. Price changes in international markets therefore are becoming increasingly important as a source of domestic price change.

International price increases. Indeed, the most important supply shock in recent years has been the increase in international prices. Bangladesh is a net importer of all essential food items. Global food shortages since 2005 and consequent world price increase of cereals and edible oil has contributed significantly to the increase in food prices. Rising demand for food and feed, bio-fuels, high oil prices, climate change, slowdown in agricultural productivity growth and malfunctioning of world grain markets contributed to the international grain price increase. Restrictions on grain exports imposed by a dozen of countries in already thin major markets for cereals resulted in additional price increases. There is also evidence of build up of speculative bubbles, causing overregulation in some countries. Strong growth in China, India and other emerging markets has led to a steady rise in the demand for industrial raw materials and commodities in general. Lower than expected oil production by both OPEC and non-OPEC countries and political uncertainties in oil producing regions together with strong demand growth have pushed oil prices to an all time record high level, thus creating further cost pressure on international commodity prices.

Bangladesh's inflation rate shows a fairly strong correlation with inflation in developing Asia and the world. But, as may be expected, the correlation is far less than perfect (Table-1).

Other empirical investigations also show that international price movements cannot fully explain the movement of domestic prices in Bangladesh. While the amplitude of domestic food price fluctuations is a lot smaller than at the international level, domestic prices rarely decline even when world prices fall significantly (Ahsan, 2007). Econometric analysis of the linkage between prices of six essential commodities in Bangladesh and India suggests that the linkages are non-existent in most cases, except rice and (weakly) mustard oil (Box-1). Rice markets in India and Bangladesh appear to be integrated, but the rest are not. International commodity price increases thus constitute at a best a partial explanation of inflation in Bangladesh. Inflation is not entirely imported, although an important part of it certainly is.

A combination of factors has been identified by various think tanks (CPD, 2007) and researchers to explain the above. These include non-competitive behavior (syndication), hoarding, poor crop harvests, disruption in retail sales network caused by eviction of neighborhood vendors, enforcement of tonnage restrictions in grain transportation, and the April, 2007 administered oil price increases. Poor harvests of aus and aman in 2006, increase in administered prices of oil, distortions in the supply chain (syndication), the anti-hoarding drive and restriction on export of rice and wheat from India may have played a role.[5] During the October 2007 to April 2008 period India successively raised minimum

export price from $210 to $1000 per ton which significantly affected rice price in Bangladesh--every time India either imposed a ban on rice exports or raised the export price, the price of rice in Dhaka spiked. Twin floods in July-August 2007 and cyclone Sidr in November 2007 destroyed about 2 million tons of rice. These supply shocks, taken in isolation, can only cause level effects and thus cannot lead to persistently rising prices. But when they come sequentially one after another over time, the price level keeps stepping up, thus giving the appearance of inflation.

Increase in administered prices: A widely shared perception is that increase in administered petroleum prices fuel inflation. Overall inflation is expected to move up with energy prices. Diesel and kerosene prices were last increased by 37.5 percent and motor spirit prices were increased by 34 percent on July 1, 2008. Kerosene and motor spirit prices have direct effects on CPI while diesel can only have indirect effects through increase in production and transportation costs.

Note first of all that the price paid by the end-user is the same as the administered price only in case of motor spirits. As shown in Box-2, there is a large difference between the administered and the end-user price in case of kerosene in both rural and urban areas. This is because kerosene is not sold through government regulated pumps. The difference also partly reflects retail margin and some local monopoly rents. But the two prices move together and the contemporaneous pass through coefficient of administered price to end-user price is 0.34. The end-user price of kerosene also exhibits a strong degree of persistence. The change in price of kerosene paid by the consumer is smaller than the change in administered price.

Table-2 below presents information on the likely contribution of kerosene, motor spirit price, and bus fare increases to the July, 2008 year-on-year inflation rate. Inflation in July 2008 is estimated to be 0.98 and 0.35 percentage point higher than inflation in May 2008 in rural and urban areas respectively.

- Kerosene's contribution is highest with 1.08 percentage points. It is 0.95 percentage points higher than its contribution in May 2008 in rural areas. In urban areas its contribution is 0.12 percentage points and it is 0.10 percentage points than its contribution in May 2008.

- Motor spirit is used only by urban consumers. Its contribution to urban inflation in July 2008 is estimated to be 0.12 percentage points which is 0.13 percentage points higher than its contribution in May 2008.

- Bus fare (per 16 km distance) is estimated to contribute 0.04 percentage points to the rural inflation in July 2008 which is 0.03 percentage points higher than its contribution in May 2008. Bus fare is estimated to contribute 0.10 percentage points to the urban inflation in July 2008 which is 0.12 percentage points higher than its contribution in May 2008.

The major impact of administered oil price increase on inflation is indirect, and works through irrigation and transport fares. However, cereal prices (particularly rice) are determined at the border, Bangladesh being a net importer of cereals. Econometric analysis suggests that rice markets in India and Bangladesh are well integrated (Box-1). Indian rice prices have fully reflected the higher energy costs as India passed through almost entirely the world diesel price increase, leaving little room for any new maneuver at Bangladesh's farm gate level. Transport fare adjustments in response to diesel price increases are fairly rapid, thus stimulating non-tradable inflation temporarily (level effect). Hence, overall the full impact of administered petroleum price increases over time appears to be rather limited.

Table-3 below reports the likely effect of fuel (diesel, kerosene, motor spirit) and urea price rise on CPI inflation. The estimated impact is a 2.4 percentage point rise in CPI tradable inflation and a 0.3 percentage point increase in CPI non-tradable inflation. The direct impact on the overall CPI is estimated at round 2.5 percentage points.

The results suggest that the adjustment of domestic administered fuel price is likely to have caused a spike in inflation in July 2008 and this may extend beyond July in both rural and urban areas due to indirect effects of administered price pass through on the rest of the economy. However, it will have a level impact on prices, and a temporary effect on inflation. For example, the pick up in inflation in April 2007 was widely assumed to reflect the transitory effects of pass-through of increased energy costs; in April 2007 when fuel prices were raised by 21 percent, inflation increased from 7.4 percent in March 2007 to 8.4 percent in April 2007 and the base effect continued for the next 12 months.

Domestic Supply Distortions: A Centre for Policy Dialogue (CPD) (2007) study reinforced popular perception about the role of "syndication" in driving inflation.[6] However, the CPD study has only

established empirically the presence of some large players, together with many small players, in the supply chain of essential products. Reported concentration ratios are rather low by international standards and at best suggest the presence of loose oligopolies. It is possible that these large players implicitly or explicitly collude to provide price leadership, but the study sheds no light on how these players actually operate. If the existing players are making "excess profits", what is preventing entry of new players to compete for these profits? There are no legal or policy barriers to entry. It would be hard to argue that there may be "natural" or technological barriers. The source of the market failure is not clear from the study. Access to finance may be one barrier. The study also does not explain how syndicates contributed to the rise in inflation. After all, syndication is not something that suddenly emerged last year. The concentration ratios even declined in some cases (lentil, rice, wheat, raw sugar) in FY07 (Table-4). One could still argue that these syndicates use the increase in world prices as an excuse to increase domestic prices. But this begs the question- why did they not do this before? Were they not maximizing profits before?

In case of rice, Letters of Credit data indicate the participation of hundreds of importers, and a close correlation of price movements across India and Bangladesh. These suggest that rice trade is competitive. Even the CPD study found that the difference between import price and retail price to be about 15 percent and their estimates of rate of return show that rice markets in Bangladesh are competitive. The drive against hoarding, based on the assumed existence of syndicates and their alleged role in driving up inflation last year, and administrative efforts to control the prices of essentials may have fuelled inflation by disrupting import and supply. There was a significant decline in the dollar value of LC settlements for import of food grains in January-February, 2007 relative to January-February, 2006. This may have contributed to a self fulfilling prophecy: anti-hoarding drive based on perceived market manipulation by syndicates created panic, resulting in depletion of stocks, import slowdown and higher prices; this in turn is blamed on syndicates.

This does not mean non-competitive market structures and inefficiencies in the domestic supply chain do not exist. But the issue is to what extent these inefficient market structures contribute to inflation? Certainly, changes in demand and supply fundamentals cannot explain phenomenon such as the recurrence of rice price increases, following a temporary drop, as the bumper boro harvest came in this year. Rising expectations and speculations may have contributed to the increasing level and volatility of rice price in particular, and food prices in general in Bangladesh. These are empirical questions and hence the answer must be grounded in empirics, not conjectures. Ahsan (2007) attempted to capture the impact of domestic supply distortions (DSD) by constructing a proxy defined as the difference of annual change in domestic food price index and world food price index. He finds that DSD tends to increase the CPI in the short run but not necessarily in the long run.

Exchange Rate: Several empirical studies have found exchange rate to have a significant positive influence on inflation in Bangladesh, much more so in the short than in the long run (Mortaza, 2006; Alichi, 2007; Ahsan, 2007). Since the exchange rate together with international price determines the shape of the supply of tradable in the domestic market, it has been correctly described as a supply side factor. Given the relevant world tradable inflation rate, domestic tradable inflation rate should have a one-to-one relationship with the percentage change in exchange rate.[7] It is therefore somewhat surprising that all econometric estimates of the elasticity of CPI with respect to exchange rate are less than one. This may be because none of these analyses separate tradable from non-tradable CPI.

The dynamics of the foreign exchange market may have fueled inflation in recent years. The period average exchange rate depreciated by 16.5 percent during FY04-08. Imports, exports and remittances dominate the movement of foreign exchange market in Bangladesh by contributing the major share in the country's demand for and supply of foreign exchange.[8] Bangladesh had a $952 million current account surplus in FY07 and $185 million in FY08 (July-April). The overall balance of payment surplus declined from $1.5 billion to $140 million during the same period. In FY07, (end-period) taka appreciated by 1.2 percent against US$ and by another 0.6 percent in FY08. BB's net purchase of US$ from the Authorized Dealers amounted to $650 million in FY07 prevented much larger appreciation of the taka in FY07 and despite its net sale of $307 million during July-March FY08, may have contributed to further appreciation of the taka.[9] According to BB[10], the spread between REER-based rate and the weighted average inter-bank rate stood at Tk. 9.4 per US$ in FY07 and at Tk. 11.8 at end-May, 2008 (see Table 5 for summary). Without BB intervention in FY08 the spread would have been even higher in FY08. Arguably, this undervaluation of the currency

exacerbated the increase in prices of imported commodities in FY07-08 while protecting external competitiveness.

The Role of Monetary Policy

Nobel Prize winning Chicago economist Milton Friedman had long ago shown persuasively that in the ultimate analysis "inflation is always and everywhere a monetary phenomenon". Using the classic quantity theory framework, Friedman demonstrated that over the long-term the rate of inflation is simply the difference between the rate of growth of money supply and the rate of growth of real output (GDP). So, the only viable long-term solution to the inflation problem is to align the rate of growth of money supply to the rate of growth of real GDP and the target rate of inflation. However, given the lack of a stable relationship between money growth and inflation, the pure monetarist view has taken a beating since then, but Friedman's more fundamental point that inflation is ultimately something that central banks determine, at least on average, over time is now widely accepted. Central bank can influence inflation by adjusting interest rates to lean against inflationary disturbances.

Monetary policies in developing countries typically have multiple objectives. Bangladesh is no exception. Historically, Bangladesh Bank has articulated its monetary policy with the objectives to "support the highest sustainable output growth while maintaining price stability through adjusting smoothly to internal and external shocks faced by the economy" (MPR, October 2007). The role of monetary policy in causing and managing inflation has been a contentious issue in Bangladesh. The acceleration of inflation to double digit level in 2007/08 has intensified this debate. The Fund has consistently advocated tightening of monetary policy to tame inflation. While a lot of heat has been generated in the internal debate on whether such a policy stance is desirable under the circumstances currently prevailing in Bangladesh, there is inadequate understanding at an empirical level on what actually was the monetary policy stance pursued by the Bangladesh Bank and its underlying rationale.

Analytical Underpinnings: In a small open economy, which Bangladesh is generally assumed to be, domestic monetary conditions can influence inflation through the exchange rate and through domestic demand for non-tradable goods and services. Monetary growth can increase the demand for tradable, but that cannot have a direct impact on tradable prices since the latter are internationally determined. Increased demand for tradable translates into increased demand for imports, which in turn could lead to currency depreciation and hence increases in domestic prices of tradable. Increased demand for non-tradable in contrast has a direct impact on the prices of non-tradable since the latter are determined entirely by domestic demand and supply conditions.

If the relative purchasing power parity condition holds in domestic markets for tradable, then the effect of exchange rate depreciation and international tradable inflation on domestic tradable inflation are symmetric with unitary coefficients. Whether or not increase in monetary growth will increase tradable inflation through exchange rate depreciation depends on the underlying source of increase in monetary growth. Suppose the source is an expansion of domestic credit which lowers interest rate and thus increases aggregate demand. This in turn spills into increase in demand for imports leading to currency depreciation and hence increases in tradable inflation. Domestic credit growth also increases demand for non-tradable, thus increasing non-tradable inflation. Such monetary expansions will thus have powerful inflationary effects.

Now suppose there is an increase in the flow of remittances which, if not absorbed into building up foreign exchange reserves, will appreciate the currency. Assume BB does not want this to happen. Building up foreign exchange reserves increases the net foreign assets held by Bangladesh Bank which, if not completely sterilized, causes monetary expansion. Such a monetary expansion prevents currency appreciation and thus domestic tradable price deflation. While this precludes tradable inflation from falling, thus preserving the initial inflation rate, at an empirical level monetary growth will be observed to rise while tradable inflation will remain unchanged (assuming for simplicity that excess supply of dollars is sufficiently absorbed into reserves to prevent any currency appreciation). Non-tradable inflation will rise, but the impact on overall inflation is likely to be feeble particularly if non-tradable is not the dominant component of CPI.[11]

It follows that irrespective of whether the source is domestic credit or non-sterilized increases in net foreign assets, increased monetary growth increases prices of non-tradable. Typically, monetary growth increases from both sources. This has particularly been true in Bangladesh in recent years with surging remittances and strong growth in domestic credit due to increased borrowing in both public and private sectors. In such a situation, other things equal, one

would expect monetary growth to have a stronger influence on non-tradable inflation relative to tradable inflation.

BB may also increase money supply to accommodate increases in international tradable inflation. The latter reduces real income and significantly so if the weight of tradable in the consumption basket is large. Lower real income reduces aggregate demand for both tradable and non-tradable. This in turn will reduce prices and output in non-tradable sector. In the tradable sector, decreased aggregate demand will shrink imports, not domestic production. Decreased import demand could, in theory, appreciate the currency, leading to some dilution of the initial increase in tradable prices.[12] Concerned about contraction in the non-tradable sector, BB may choose to expand domestic credit to reverse the adverse income effects on the demand for non-tradable, thus allowing the increase in tradable inflation to feed into overall inflation by preventing the offsetting decrease in non-tradable inflation. In the tradable sector, decline in demand for import and the resulting appreciation of currency will be partially or fully reversed. Thus, monetary accommodation of international tradable price increases will manifest in sturdy correlation between monetary growth and tradable inflation and less so, if at all, with non-tradable inflation.

The analytical distinction between monetary <u>expansion</u> and monetary <u>accommodation</u> is diagrammatically illustrated in Annex-III. The tradable market is initially in equilibrium at a world price P_0^w with the non-tradable market in equilibrium at P_0, Q_0. Suppose world tradable price increases to P_1^w. The resulting adverse income effect shifts down the demand for non-tradable to D'_{NT}. In the absence of any policy response, both the price and quantity of non-tradable will decline. Monetary accommodation is central bank's response that seeks to reverse the decline in demand for non-tradable back to where it was before the change in price of tradable. It always follows pro-cyclically the change in price of tradable. In contrast, monetary expansion seeks to expand demand for non-tradable from its original position to further right in order to increase production. In this case price change follows monetary change whereas in case of accommodation monetary change follows the price change.

Finally suppose that price stability is the sole objective of monetary policy. In that case, monetary growth is likely to be set equal to the projected GDP growth rate plus the target rate of inflation, with some allowance for financial deepening. If foreign exchange supply increases, BB will absorb it into reserves by increasing net foreign assets, but this will be sterilized to contain non-tradable inflation. If international price increases, BB will let the resulting income effects to work their way through in the non-tradable market, thus allowing non-tradable inflation to decline to offset the impact of tradable inflation on overall inflation. Consequently, there will be no systematic relation between observed monetary growth and both tradable and non-tradable inflation.

The above discussion assumes away domestic supply shocks. Such shocks in the tradable sector can have an impact on tradable prices by depreciating the currency as import demand increases. Monetary accommodation of this shock will reinforce this impact. Similarly, monetary accommodation of supply shocks in non-tradable exacerbate the impact of the shock on non-tradable prices, thus suggesting strong correlation between tradable and non-tradable inflation and monetary growth in the presence of persistent domestic supply shocks.

Implications for Policy Stance: The analytical distinctions laid out above help gauge the actual conduct of monetary policy from the observed relation between monetary growth and tradable and non-tradable inflation. It suggests the following inferences:

- Monetary expansion driven by domestic credit implies a strong correlation between monetary growth and tradable and non-tradable inflation. Exchange rate depreciates. This suggests a monetary stance aimed at maximizing growth even at the cost of price stability.

- Monetary expansion driven by non-sterilized increases in net foreign assets implies a strong correlation between non-tradable inflation and monetary growth and a relatively weak correlation between monetary growth and tradable inflation. This suggests a monetary stance aimed at protecting the exchange rate from the risk of over-valuation which could imperil external competitiveness.

- Monetary accommodation of international price increases implies a strong correlation between monetary growth and tradable inflation and relatively weak correlation with non-tradable inflation. This suggests a policy stance aimed at protecting the non-tradable sector even at the risk of accelerating overall inflation.

- A strong correlation between monetary growth

and both tradable and non-tradable inflation indicates monetary accommodation of domestic supply shocks. Even in the absence of these shocks, such correlation can also exist if monetary policy is most often loose.

- A monetary policy that assigns the highest weight to price stability implies no orderly relation between monetary growth and both tradable and non-tradable inflation.

Recent Trends in Tradable and Non-Tradable Inflation: The weight of tradable goods in Bangladesh's rural and urban CPI is 85 percent and 65 respectively and the weight of non-tradable goods in rural and urban CPI is 15 percent and 35 percent respectively.[13] Though the weight of non-tradable goods in the rural CPI is quite low, the weight of non-tradable goods in the urban CPI compares well with other countries. For instance, the share of non-tradable goods in the national consumption basket is between 30 to 50 percent in the OECD countries[14] and it is around 50 percent in countries like Argentina, Korea, Mexico and Thailand[15]. Assigning the rural and urban basket 70.9 percent and 29.1 percent weights respectively, the weight of tradable goods in the national basket turns out to be 78.7 percent while the weight of non-tradable goods is 21.3 percent. Note from the charts in Figure 3 that:

- Tradable goods inflation has been higher than non-tradable goods inflation in both rural and urban areas; since August, 2005 year-on-year non-tradable inflation averaged 5.4 percent in urban areas and 4.9 percent in rural areas, and tradable inflation averaged 9.7 percent in urban areas and 9.4 percent in rural areas. Average (national) non-tradable goods inflation since August 2005 has been 5.1 percent and average (national) tradable goods inflation has been 9.5 percent during the same period.

- Since January, 2007 there has been a rising trend in both tradable and non-tradable inflation with tradable inflation showing a sharper rising trend. This is true for both rural and urban areas. Prices of tradable relative to non-tradable have clearly increased, particularly since May, 2007. However, both tradable and non-tradable inflation have been declining since January 2008.

- Tradable inflation was more volatile than non-tradable inflation as measured by standard deviation. Standard deviation of tradable and non-tradable inflation is 3.0 and 1.1 respectively in the national basket. Standard deviation of tradable inflation is 3.1 and 3.0 in rural and urban areas respectively, and standard deviation of non-tradable inflation is 1.2 and 0.9 in rural and urban areas respectively.

Evidence on the link between money and prices: An IMF study[16] on inflation dynamics in Bangladesh has identified inflation inertia[17] and monetary factors to be major determinants of inflation in Bangladesh. A previous Bangladesh Bank study[18] also found that contribution of money supply increase to inflation is more significant than other variables such as nominal exchange rate and nominal deposit rate though exchange rate and deposit rate have significant positive and negative relation with inflation respectively. These results indicate that tightening broad money or private credit in one month will cause lower inflation starting the next month, and up to 12 months later.

A more recent econometric exercise by the Policy Analysis Unit of the Bangladesh Bank found long run equilibrium relationship between monetary variables (M1, M2 and private sector credit) and CPI. Both measures of money have statistically significant and positive impact on inflation at different lags.[19] These findings belie Osmani's (2007) claim that over the short run there is no systematic relationship between monetary growth and inflation.[20] Osmani argues that monetary growth has followed rather than preceded the rise in inflation. BB pursued an accommodating rather than an expansionary monetary policy and thus prevented a collapse of the non-traded sector as a result of increase in the world prices of tradable. None of these studies distinguish between tradable and non-tradable inflation in their analysis of the link between the dynamics of money and prices.

Evidence on the monetary policy stance: While the literature cited above persuasively established the existence of an equilibrium relationship between money and prices in Bangladesh, it is much less enlightening about what underlies this relationship. Does it reflect endogenous accommodating response of money supply to international tradable price increases, as argued by Osmani, or is it more a reflection of the conventional wisdom of too much money chasing too few goods (expansionary monetary policy)?

What are the facts? BB, which had been pursuing a cautious monetary policy stance since the last quarter of FY05, moved to accommodating monetary policy since second half of FY08 to boost economic activities to recover from series of natural disasters

and weak business confidence early in the year. In the latest MPS (July 2008) BB has announced a policy for the first half of FY09 that "aims at ensuring reasonable price stability and providing support to sustainable and high output growth…." Note from Table-6 that the key policy rates such as the reverse repo and the 28-day T-bills have increased during FY04-07 and remained unchanged later. The Cash Reserve Ratio and Statutory Liquidity Ratio were last raised respectively from 4.5 percent to 5 percent and from 16 percent to 18 percent on October 1, 2005. From June 2005 until December 2007 there have been virtually no repo operations. However, there has been steady withdrawal of liquidity via reverse repo auctions, and the excess liquidity in the banking system which had remained high throughout 2007 has recently started to decline. Excess liquidity at end of May 2008 stood at Tk. 82.5 billion compared to Tk. 140 billion at end of December 2007.

Year-on-year growth of monetary aggregates such as reserve money, narrow money and broad money increased significantly in FY05 and FY06 and, although they declined in FY07, the growth rates picked up again in FY08. During this period, nominal GDP growth averaged about 12.5 percent per annum. Even allowing for 1-1.5 percentage point of GDP per annum rate of financial deepening (M2/GDP), the divergence between nominal GDP growth and monetary growth is rather large. Increase in reserve money growth was driven by large non-sterilized increases in net foreign assets held by the Bangladesh Bank as well as monetary financing of central government deficit. Contribution of NFA to monetary growth increased from one-fifth of average monetary growth in FY03-07 to one-third in the last 12 months ending May, 2008.[21] Accumulation of official foreign exchange reserves siphoned off supply of foreign currency in the foreign exchange market and prevented possible further appreciation of the taka.[22] Monetary financing of fiscal deficit has also tended to increase precipitously since FY04-07, but this was partially reversed in FY08. Growth of bank credit to the private sector increased during FY05-06 and reached 24.5 percent in May 2008 after declining to 15.1 percent in FY07. The share of non-tradable sector[23] in bank advances to the private sector, after declining from 9.1 percent in FY04 to 8.1 percent in FY07, increased again to 9.1 percent in third quarter of FY08. Except the latter, these facts do not sit well with the notion of monetary accommodation of international commodity price increases to protect the non-tradable sector. They are more consistent with the hypothesis that monetary expansion was driven by concern for protecting external competitiveness[24] and avoiding crowding out of private sector credit through monetary financing of central government budget deficit, given for the most part the need to bank financing of continued and rising loss of SOEs.

It is therefore useful to examine the link between monetary growth and tradable and non-tradable inflation from the prism of the analytical underpinnings laid out earlier. Note from the correlation coefficients presented in Table-1, Table-2 and Table-3 in Annex IV that:

- M1 and M2 growth, with lags of 6 and 5 months and higher respectively, are positively and statistically significantly correlated with national non-tradable inflation (Annex IV-Table 1). M1 growth with lags of 8 months or higher and M2 growth with lags of 9 months and higher are positively and statistically significantly correlated with national tradable inflation. The size of the coefficients when lags are 6 to 11 months is larger for non-tradable in cases of both M2 and M1 growth.

- Both M1 and M2 growth, with lags of 6 months and higher, are positively and statistically significantly correlated with both rural and urban non-tradable goods inflation (Annex IV-Table 2). The correlation is stronger in rural areas for both measures of monetary growth.

- Rural and urban tradable inflation is statistically significantly correlated with M2 and M1 growth when money growth has lags of 10 months and higher, and lags of 8 months and higher respectively (Annex IV-Table 3). The correlation of both measures of money growth with tradable inflation is stronger and the lags shorter in urban areas relative to rural areas.

Summing up, while contemporaneous and short run (less than 7 months' lag) correlations are weak and perverse (negative sign), monetary growth lagged 7 months and above generally appears to be strongly correlated with both tradable and non-tradable inflation; correlation with non-tradable is stronger than tradable for all lags and in rural areas; and the correlation with rural tradable inflation is much weaker compared with urban tradable inflation. Presence of strong correlation with both tradable and non-tradable inflation indicates the pursuit of expansionary monetary policy stance and stronger correlation with non-tradable inflation indicates that monetary policy was also driven by the objective of protecting external competitiveness. The relatively

weak correlation with tradable inflation in all cases is telling evidence against the hypothesis of monetary accommodation of international tradable price increases.[25]

That money growth affects inflation with lags is not atypical; the literature on monetary policy and inflation finds as long as two-years lag between monetary policy actions and their main effect on inflation 'a common estimate'[26]. European Central Bank also documented an approximate 18-month lag between money growth and inflation in the Euro area.[27] Among others, lags may arise partly from the existence of long-term contracts and of legal obstacles to changes in prices and wages, and partly from the persistence of inflationary expectations. Another important source of lags is that firms, even when they have the opportunity to change prices after a monetary policy change, initially *do not find it optimal* to change them by a large amount[28] Lags could also be attributed to factors such as the adaptation of the public's inflationary expectations, payment lags, and informational frictions that prevent instantaneous responses to price information by firms and households.[29]

The much shorter lags in Bangladesh reflects the fact that long term contracts are rare and prices are more flexible than sticky because of the near absence of the practice of posting prices on the commodities even in the organized part of the economy, thus completely avoiding menu costs.

Policy Response to Inflation

The government has taken several initiatives to rein in soaring prices. It engaged the Trading Corporation of Bangladesh (TCB) in the marketing of onion, lentil and sugar at a few vantage points of Dhaka city and appointed dealers for Open Market Sale (OMS) of rice in cities and towns across the country. It allowed Bangladesh Rifles (BDR) to open a number of retail outlets in Dhaka for selling essentials. The government has also withdrawn the 5 percent duty on import of rice and wheat, and 10 percent duty on edible oil. In addition, BB has taken steps to increase agricultural credit disbursement to augment agricultural production, especially in the boro season and to increase industrial term loans. BB has encouraged banks to extend credit facilities to new importers on softer terms, lowered the LC margin for food items, and extended the time limit for customer facility. BB has also taken steps to arrest currency depreciation. These measures initially had some positive impact in terms of moderating the increase in prices, which could not be sustained mainly because of the persistence of international price increases. Floods in July-September and the November cyclone made a precarious situation more extreme.

The policy responses have almost entirely been directed towards easing the supply side constraints. BB has been reluctant to tighten monetary conditions by adjusting CRR and SLR and raising the policy rates further. Even though the Phillips Curve has long been discredited in the empirical literature, it continues to have an influence on the conduct of monetary policy in many countries. A couple of studies in Bangladesh (Hossain, 2002; Hossain and Younus, 2007) claim that monetary growth has a positive impact on output growth. BB's October, 2007 Monetary Policy Review (MPR) concludes that "it is prudent…for the present monetary policy in Bangladesh to mainly focus on a policy stance conducive to maintaining robust output growth to ease the domestic supply constraints and ensuring price stability." There is an implicit assumption, albeit unverified through rigorous empirics, that many productive sectors are credit constrained. This is evident from the following statement in the MPR: "BB is also committed to ensure adequate flow of credit to the productive sectors, especially in those sectors where the market fails to deliver properly, e.g. agriculture, SMEs, low cost housing, women entrepreneurs, and the like."

Conclusions and Reflections on Policy

International commodity price increases have unquestionably been the most salient driver of inflation in Bangladesh, particularly in recent years. The surge in international prices of rice and wheat (most dominant items in Bangladesh's CPI food basket) nearly coincided with the surge in food inflation in Bangladesh. Increase in international prices of oil, raw materials and intermediate inputs; internal shocks such as poor crop harvests and natural disasters; domestic supply distortions; and the unintended consequences of measures to address these distortions exacerbated the pressure on prices emanating from abroad. Exchange rate depreciation also contributed. This in all probability is a plausibly adequate, though not necessarily full, explanation of food, or more generally tradable, inflation in Bangladesh. The story of inflation in Bangladesh will, however, remain deficient if it stops here. The reason is straightforward. Non-food inflation and, perhaps more pertinent, non-tradable inflation have also increased during periods of sustained monetary expansion. Both intuition and evidence on the actual monetary policy stance as well as the correlation between monetary growth and tradable and non-

tradable inflation suggest that high monetary growth, driven by monetary financing of fiscal deficit and concern for protecting external competitiveness, did play a nontrivial role.

Current international market trends provide no reason for expecting a reversal of tradable price increases experienced recently. In particular, countries' reactions to food price increases have exacerbated the problem. In addition to restricting exports, several countries have adopted retail price controls, creating perverse incentives for producers. Developing countries are rebuilding their national stocks and reconsidering the merits of food self-sufficiency to ensure food security "at any cost". These reactions perpetuate the crisis by creating a feedback loop with high food prices. They further increase price levels and volatility and distort price signals to farmers.

The persistence of inflation and inflationary expectations over a protracted period and output and asset losses from natural disasters warrant a reappraisal of the underlying monetary policy framework as well as supply chain issues. The unlikely near-term prospect of a reversal in global commodity price trends definitely raises questions about the relevance of adjusting policy rates to curb inflationary expectations as well as the efficacy of the monetary transmission mechanisms in taming inflation. A devastating successive round of floods followed by a catastrophic cyclone in the last half of 2007 have thrown additional challenges for monetary policy. Under these circumstances, the government is well advised to focus on what is doable in the short-term without taking recourse to direct price controls. Both historical and contemporary international experience shows that the impact of quick fixes like these are never sustained, particularly in an environment of weak internal governance in the relevant public sector agencies. In response to natural disasters, efforts to mobilize additional concessional external financing as well as budgetary allocations to rebuild assets lost and to compensate households for income losses appear to be the most prudent course.

Quite apart from coping with natural disasters, the authorities in Bangladesh are confronted with the challenge of reviving economic activity and containing quasi-fiscal deficit. Monetary growth has been declining in first half of FY08, reflecting in large part a slowdown in the economy, but also some reversal of monetary financing of government deficit. After peaking in December 2006 at 38.2 percent and 22.3 percent, reserve money growth (y-o-y) and broad money growth was brought down to 4.7 percent and 14.1 percent, respectively, by January 2008. Monetary aggregates have picked up pace again as food imports jumped, private credit growth increased with return of business confidence, and public sector credit grew because of the additional financing needs of the SOEs. Reserve money growth (y-o-y) through May increased to 17.3 percent and broad money growth through May increased to 17.5%, driven primarily by 24.5% growth in credit to the private sector. BB made extra effort to ensure availability of credit to farmers in the boro season. As a result, net disbursement of agricultural credit increased to Tk. 21.5 billion in the first eleven months of FY08, compared with only Tk. 4.7 billion during the corresponding period of FY07. However, this increase accounts for only 6% of the increase in credit to the private sector. The rest have come from increased working capital financing for traders and industries and perhaps also increases in the disbursement of industrial term loans. LC openings for capital machinery have increased very significantly during January-May, 2008. Allowing monetary growth to expand passively to such a pick up risks overlooking the balancing act needed to contain inflation. The latter would continue to require a cautious monetary policy stance.

While knowledge about inflation is incomplete and uncertain, practitioners have no option but to follow a course that has the best probability of success. There is much we do not know about the inflation process in Bangladesh. Policymakers would of course like to be 100 percent certain that they have the right way of looking at the world. Unfortunately, economics has never been nor it is ever likely to be such a perfect science. Policy makers therefore always need to be open to the possibility that other forces may be at work or that other interpretations better explain observed inflation behavior. However, one can be fairly sanguine that low and stable inflation can be brought about by guarding against looming inflation risks, and conducting monetary policy in this vein is most sensible (Box-3 provides some food for thought). Continuing to conduct policy in a way as to keep inflation low and stable is an approach that also promotes full employment and maximum sustainable real growth of the economy.

There is also a great deal of misconception about how much the government can do to tame inflation when confronted with unabated international price shocks and to make it bearable when subject to pressure for all sorts of subsidies. That the rise in inflation is in large part a global phenomenon is not well appreciated. Many, including well informed elites, believe that the government is not taking adequate steps to curb prices of essential goods in

their localities. Such misconceptions need to be dispelled through repeated and continued dissemination of the sources of price increase backed up by hard facts. The government can certainly do a lot more to make inflation bearable for the poor and the urban fixed income groups only if its budget constraint permits. This cause is not helped when it has one of the lowest revenue-GDP ratios in the world and is inter-alia faced with subsidizing diesel, fertilizer, power, gas, exports, education, health, food for defense and police, and to provide relief to victims of consecutive natural disasters of horrific proportions.

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Endnotes

1. The authors are respectively Senior Economist and Research Analyst, World Bank Dhaka Office. Views expressed in the paper are strictly those of authors' and not World Bank's. The authors are grateful to Shantayanan Devarajan,

Chief Economist, AFRCE, World Bank for providing extremely useful comments at several stages during the preparation of this paper.

2. The Granger Causality test finds no causality between food and non-food inflation, either way.

3. Ari Aisen and Francisco Veiga, Political Instability and Inflation Volatility, IMF Working Paper, September, 2006.

4. Please refer to Annex-I: Figure 1 & 2.

5. The current debate on inflation in Bangladesh has paid inadequate attention to this factor. When supply from the least cost source of imports is administratively restricted, it essentially turns those tradable into non-tradable, thus raising its price. As importers find alternative sources of imports (Thailand, Vietnam), international forces come back into play in determining domestic prices of the relevant tradable, but compared to the pre-restriction price, the post restriction price would still be higher since by definition the second and third best alternate sources of imports are more expensive.

6. CPD, Price of Daily Essentials: A Diagnostic Study of Recent Trends, Overview and Summary, May 20, 2007.

7. Assuming relative PPP holds in the markets for tradable.

8. BB, Monetary Policy Review, October, 2007.

9. BB, Monetary Policy Review, April 2008, p. 54.

10. BB, Monetary Policy Statement July-December 2008, July 2008, p. 13.

11. Increased remittances increases domestic income and hence domestic demand for non-tradable and tradable. This leads to increase in price of non-tradable. Increase in demand for tradable increases demand for imports, but the effect on exchange rate in this case is of second order. It only means that BB initially does not need to absorb fully the increase in remittances in order to maintain the initial exchange rate.

12. Can happen only if import demand elasticity is greater than one. This is implausible in the short run and given that the imports are essentials.

13. For the purpose of this exercise we considered house rent, household repairing, medical and health expenses, transport & communication, recreation, entertainment and educational expenses, and domestic household services as non-tradable goods.

14. Duarte, Margarida and Maurice Obstfeld (2007) *Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored*.

15. Burstein, Ariel *et al*. (2005) *Large Devaluations and the Real Exchange Rate*. Journal of Political Economy. Vol 113 No. 4.

16. Selected Issues: Inflation Dynamics in Bangladesh, IMF, June 1, 2007.

17. This means that inflation adapts slowly to unexpected changes in the underlying economic conditions.

18. Sources of Inflation in Bangladesh: Recent Macroeconomic Experience, Policy Analysis Unit, Bangladesh Bank, Working Paper # WP 0704, December 2006.

19. It also finds world food prices and domestic diesel price as relevant in explaining inflation.

20. S. R. Osmani, Interpreting Recent Inflationary Trends in Bangladesh, CPD Dialogue at BRAC Centre Inn Auditorium, September 8, 2007.

21. The ratio of NFA to NDA increased from 1.1 at end-FY04 to 1.9 at end-FY07.

22. Growth in domestic income resulting from export and remittance growth was not likewise matched by growth in imports that could have resulted from the appreciation of the taka in the absence of reserves accumulation. This can explain the increase in non-tradable inflation.

23. Defined to include construction, transport & communication, and storage. The other categories in the data on bank advances by economic purpose do not allow a neat separation of tradable from non-tradable, but these (agriculture, industry, working capital) are tradable dominant categories.

24. According to a recent BB Policy Paper, over the July-September 2008 period, the nominal

effective exchange rate (NEER) depreciated marginally while the real effective exchange rate (REER) index appreciated. The REER based exchange rate shows that Taka remained undervalued by around 10 percent duringSeptember 2008 against major trading partners. Although REER based exchange rate rose in September 2008, the nominal effective exchange rate is still higher than REER based exchange rate indicating that Bangladesh enjoys some export competitiveness. BB, *Navigating the Global Financial Storm: Challenges for Bangladesh*, Policy Paper #903, November 2008, p. 12.

25. This hypothesis also fails the Granger-causality test. Tradable inflation does not Granger-cause either measure of monetary growth.

26. Bernanke, *et al* (1999) *Inflation Targeting: Lessons from the International Experience*. Princeton University Press.

27. Gerlach, Stefan and Lars E. O. Svensson (2001) *Money and Inflation in the Euro Area: A Case for Monetary Indicators?* BIS Working Paper No. 98.

28. Batini, Nicoletta and Edward Nelson. (2002) *The Lag from Monetary Policy Actions to Inflation: Friedman Revisited*. Bank of England External MPC Unit Discussion Paper No. 6.

29. Kravchuk, Robert S. *Budget Deficits, Hyperinflation, and Stabilization in Ukraine: 1991-96* Harvard University Ukrainian Research Institute Working Paper.

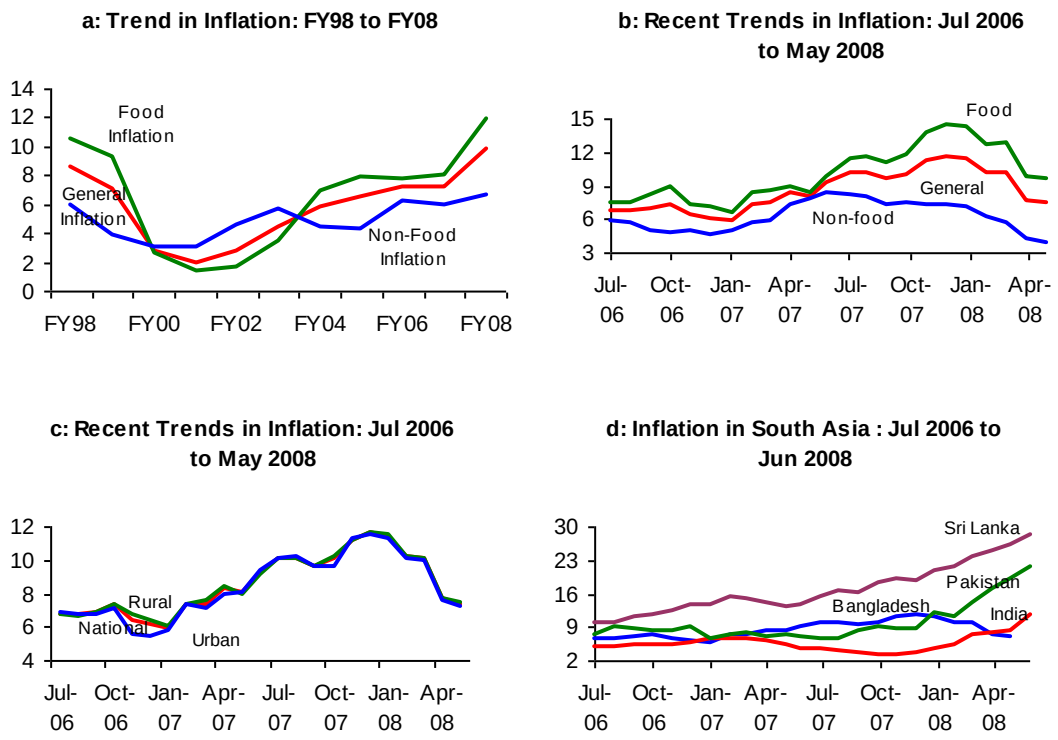
30. Bangladesh Bank, Monetary Policy Statement, 12 July 2007.

31. BB's choice of a range rather than a point target owes to the difficulties in predicting inflation, as well as the uncertainty surrounding the precise time frame of the monetary transmission lag.

32. Eser Tutar, The Inflation Targeting in Developing Countries and Its Applicability to the Turkish Economy, Blacksburg, Virginia, July 18, 2002.

33. At the end of April 2007, the public sector outstanding debt to the banking system stood at Tk. 507 billion, of which Tk. 243.6 billion was held by the Bangladesh Bank.

Figure 1: Trends in Inflation



Sources: Bangladesh Bureau of Statistics, Department of Census and Statistics, Sri Lanka, Office of the Economic Advisor, Ministry of Commerce & Industry, India, and State Bank of Pakistan

Table-1: Correlation between inflation in Bangladesh and international inflation

*World**	0.5
*Developing Asia**	0.6
*India***	0.4
*Pakistan***	0.4

*data covering 1995-2006
**data covering 1991-2007
Source: World Economic Outlook and Staff Estimate

Box 1: A Case Study of the Law of One Price

It is commonly assumed that the law of one price holds for primary commodities that are traded in international markets once prices are adjusted for transaction costs. The Law of One Price (LOP) states that identical goods in different countries should have identical prices, once the prices are expressed in common currency units. Exchange rates should equalize the price of a basket of goods in any two countries. If international prices affect domestic prices and hence inflation in an open economy, then we would expect the LOP to hold in the long run. However, despite its fundamental nature, the empirical evidence concerning the law is rather mixed.

An empirical analysis was carried out to verify LOP between Bangladesh and its largest neighbor India using cointegration procedure. The premise of this analysis is that LOP should be seen as an equilibrium concept, to which common currency prices in international commodity markets will converge. For this analysis, cointegration is tested by the conventional (Augmented) Dickey–Fuller unit root test using individual commodity-level data to eliminate biases arising from the use of aggregate price indices. The data consist of six commodities- rice, wheat, sugar, mustard oil, potato and onion spanning July 2004 to April 2007.

Methodology

Let p_t and p^F_t stand for logarithms of home country prices of commodity *i* in the domestic (Bangladesh) and foreign (India) country, respectively, *e* being a logarithm of the exchange rate defined as the domestic currency price (Taka) of foreign currency (Indian Rupee).

The (logarithmic) common currency price for p^F_t is given by $p^*_t = e + p^F_t$. Suppose further that $p_t(t)$ and $p_t^*(t)$ are integrated of order one. Now the LOP is said to hold in the long run if the spread of the common currency prices of commodity *i*, denoted by $z_t(t)$ is a stationary process:

$$z_t(t) = p_t(t) - p_t^*(t) = u_t(t) \sim I(0)$$

In such a case, p_t and p^*_t are said to be cointegrated with the cointegrating vector $(p_t, p^*_t) = (1, -1)$.

Empirical Results

The ADF test fully supports the LOP in rice (with and without trend), implying the rice markets in India and Bangladesh are completely integrated. The LOP is also valid for mustard oil, but only partially, as the test statistic is only significant at 10 %. This implies fractional support for the hypothesis and partial segmentation of the markets.

ADF Test Results		
Commodity	**Without Trend**	**With Trend**
Rice	-2.7*	-4.5***
Wheat	-1.1	-2.4
Potato	-1.4	-1.3
Mustard Oil	-2.2	-3.3*
Sugar	-2.2	-2.1
Onion	-1.0	-2.0

*= Significant at 10 %, ** = Significant at 5%, *** = Significant at 1%

The LOP was rejected in five cases without trend and four cases with trend. This maybe due to quality differences in the commodities, trade restrictions, unstable prices, changing price differential and its variability, different production techniques employed in India and Bangladesh and difference in input costs. The rejection of LOP implies that factors other than international prices affect domestic price.

Limitations

Major limitation and restriction of this study include difficulties in obtaining long term data from reliable sources as cointegration is a long term concept.

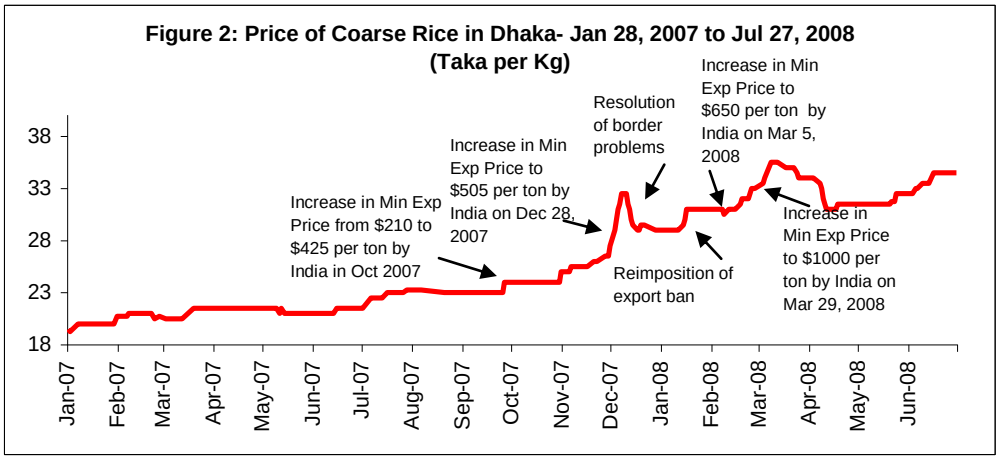


Table-2: Direct Impact of the Change in the Administered Price of Fuel on the Change in CPI in July, 2008

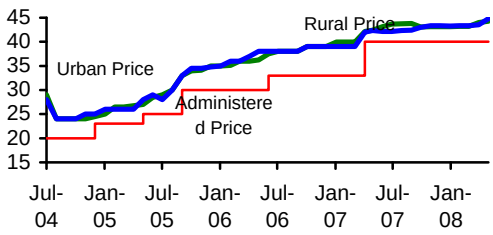
Percentage point contribution of	Rural CPI			Urban CPI		
	Weight	Year-on-year	Relative to May	Weight	Year-on-year	Relative to May
Kerosene	2.89	1.08	0.95	0.33	0.12	0.10
Motor spirit	0.00	..	..	0.35	0.12	0.13
Bus fare	0.55	0.04	0.03	1.58	0.10	0.12
Total	3.54	1.12	0.98	2.26	0.34	0.35

Source: Staff estimates

Box 2: A Case-study of Administered and End-user Price Differential of Kerosene

There is a large divergence between the end-user price of petroleum and the administered price, at least in the case of kerosene (see chart), in both rural and urban areas. The prices paid by the end-users of kerosene have always been well above the administered price. Kerosene retailers charge a margin over and above the margin allowed under the government's petroleum pricing policy.

Price of Kerosene (Tk/litre): Jul 2004 to May 2008



Regression Results

	Rural	Urban
Dependent Variable	Retail $Price_t$	Retail $Price_t$
Constant	1.42 (2.17)*	1.63 (2.21)*
Administered $Price_t$	0.38 (5.55)*	0.33 (4.54)*
Retail $Price_{t-1}$	0.63 (9.20)*	0.67 (9.04)*
Adjusted R^2	0.99	0.98
F-statistic	1630	1332
Durbin-Watson Stat	0.89	1.14

Note: * = significant at .99 level of confidence

There exists a less than proportionate relationship between the administered price and the end-user price. A one taka increase in the administered price leads to slightly less than Tk. 0.4 contemporaneous increases in the end-user price in both urban and rural areas. The retailer takes a cut in its "excess margin". This cannot happen in markets that are highly competitive. In competitive markets, if the administered price is less than the free market price (which is the case here), a change in administered price will have no effect on the free market price as long as the new administered price is less than the free market price. It is most likely to happen in the presence of market power. However, there is a dearth of evidence whether or not such market power exists.

Table-3: Impact of Recent Fuel & Urea Price Hike (Percentage Point Contribution to CPI Inflation)

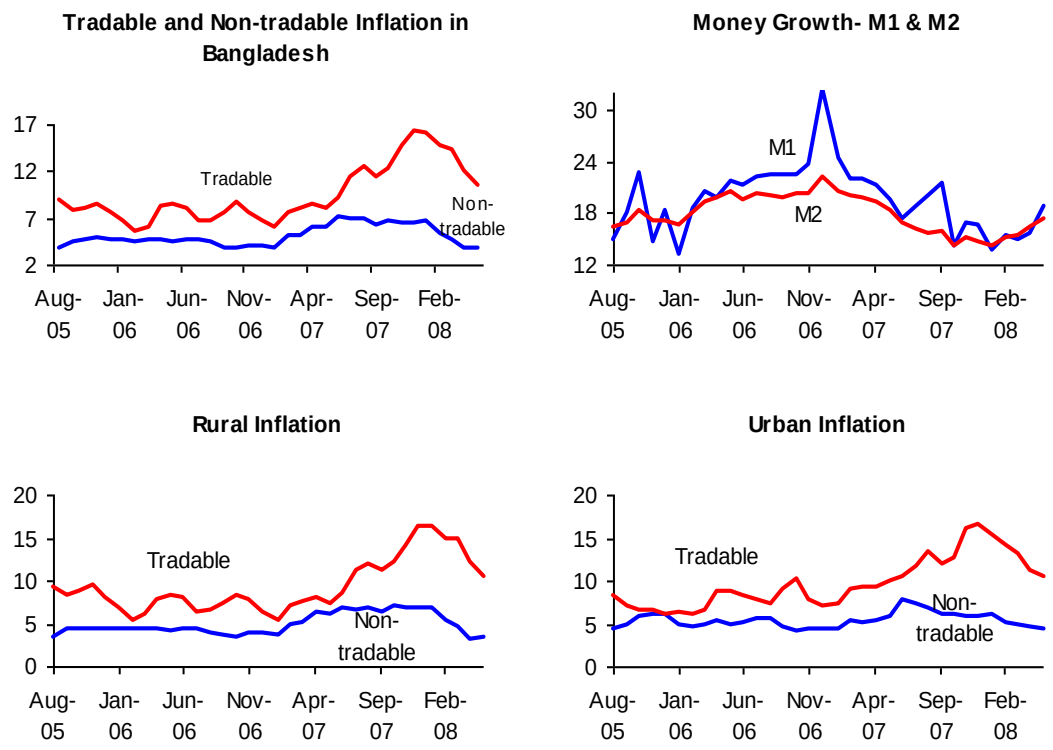
	Tradable	Non-tradable	Total
Rural	2.91	0.04	2.94
Urban	1.21	0.10	1.32
National	2.41	0.32	2.47

Table-4: Import Concentration Ratios of Essential Products
(Share of top 5 importers in percent)

Year	Onion	Lentil	Rice	Wheat	Crude soybean oil	Crude palm oil	Raw sugar	Refined sugar
FY06	31.3	41.8	38.7	51.7	58.2	61.7	57.8	64.2
FY07	31.3	30.6	37.3	48.8	67.3	60.1	46.5	96.0

Source: CPD, Price of Daily Essentials: A Diagnostic Study of Recent Trends, May 2007

Figure 3: Tradable and Non-tradable Inflation
Aug 2005 to May 2008



Source: Bangladesh Bureau of Statistics and Bangladesh Bank

Table-5: Foreign Exchange Indicators

	FY07	FY08
Current Account Surplus (US$ million)	952	185 (Jul-Apr)
Balance of Payment (US$ million)	1500	140 (Jul-Apr)
Taka Appreciation against US$ (percent)	1.2	0.6
Spread between REER-based rate and the weighted average inter-bank rate (Tk. per US$)	9.4	11.8 (end-May)

Source: Bangladesh Bank

Table-6: Recent Trends in the Indicators of Monetary Policy and Monetary Conditions

(Percent)

Indicators	FY04	FY05	FY06	FY07	FY08
Nominal GDP	10.8	11.3	12.1	13.7	14.7
Broad Money (M2)	13.8	16.8	19.5	17.0	17.5
Narrow Money (M1)	14.0	16.6	21.3	17.4	18.9
Reserve Money	8.0	12.5	28.1	17.7	17.3
Net Foreign Assets of BB	13.4	8.4	26.5	52.9	1.7
Net Domestic Assets of BB	2.5	17.2	29.8	18.3	42.2
Claims on Government (net)	16.1	32.1	59.5	3.4	-13.0
Change in claims on Govt./Budget deficit	18.1	34.8	69.5	5.8	-16.7
Key Policy Parameters					
CRR	4.0	4.5	5.0	5.0	5.0
SLR	16.0	16.0	18.0	18.0	18.0
Reverse Repo Rate	2.5	4.5	6.04	6.5	6.5
28-day T-bill Rate	4.04	6.6	7.1	7.3	7.3
Banking System Credit to Private Sector	14.2	17.0	18.3	15.1	24.5
Banking System Credit to SOEs	18.9	24.8	34.9	15.6	-21.5

Source: Bangladesh Bank, Bangladesh Bank Quarterly, July-September 2007 and Monetary Policy Review, Volume III, Number 1, October, 2007.

Box 3: Should Bangladesh Bank Strictly Pursue Inflation Targeting?

Inflation targeting is a monetary policy framework that commits the central bank to achieving low inflation. By announcing that Bangladesh Bank's monetary policy will target an annual average CPI within a range of 6.5 to 7 percent for FY08,[30] BB has in effect adopted inflation targeting as a strategy for conducting monetary policy, albeit only patially.[31] In the early 1990s, many OECD countries successfully implemented inflation targeting and this encouraged a number of developing countries to adopt a similar strategy to tame inflation, enhance credibility, and anchor expectations. Inflation targeting relies on rules, since the adoption of explicit targets requires a commitment by the central bank to policy consistency. However, the decision about how to deploy the monetary policy instruments remains at the discretion of the central bank in order to allow for some flexibility in responding to unforeseen domestic and external shocks.

Successful implementation of inflation targeting requires a policy environment with operational independence of the central bank; a sole target; and existence of stable and predictable relationship between monetary policy instruments and inflation.[32] Historically, BB independence has been mainly hindered by fiscal dominance through monetization of moderate central government deficit and significant contingent liabilities involving obligations incurred by state owned financial and non-financial enterprises.[33] BB does not really satisfy the operational independence criteria due to problems associated with the appointment of the Governor and the share of the Treasury within the bank. Having a sole inflation target is hindered by the desire to limit the flexibility of the exchange rate, even though Bangladesh switched to a floating rate regime in May, 2003. BB's empirical investigation using vector autoregressive models support the view that "money supply has an explanatory power of forecasting the movements in consumer price index, although the fluctuations seem relatively weak." However, the IMF study of inflation dynamics suggests that inflation is also an inertial phenomenon in Bangladesh—a month's inflation contains the influence of all previous months' shocks, which form inertia for the following month. Thus, the direct linkages between monetary policy instruments and inflation do not seem to be strong, stable, and predictable.

Inflation targeting has become a universally accepted monetary policy framework. It has been adopted by at least one country in every continent. Countries have been successful in attaining their goals of price stability by targeting inflation explicitly. Not a single country has abandoned the regime other than to join a monetary union. Despite the absence of its pre-requisites, some developing countries—Thailand, Indonesia, Israel, Chile, Brazil, Colombia, Mexico—have implemented inflation targeting with successful results. More and more countries are adopting some form of inflation targeting because it offers a number of operational advantages and compels policymakers to deepen reforms, enhance transparency, improve the fiscal stance, and eventually converge to international level of inflation.

Bangladesh has relatively low level and variability of inflation, which helps make accurate prediction of future inflation; is committed to adopting no other nominal target; and BB has reasonable operational autonomy. On these counts the country appears ready for inflation targeting. But there are several challenges. Adapting BB's analytical work to an inflation targeting framework would require substantial strengthening of the capacity of its Policy Analysis Unit, not to speak of sustaining the capacity gains achieved in last three years. It also requires the use of appropriate monetary instruments and a clear understanding of the underlying monetary policy transmission mechanism. Also, the IMF will have to decide whether this monetary framework calls for any modification in the way Fund conditionality and program monitoring currently operates. Imposing a floor on net foreign reserves and a ceiling on BB's net domestic assets can in some circumstances generate inconsistencies leading to confusion about the country's monetary policy priorities.

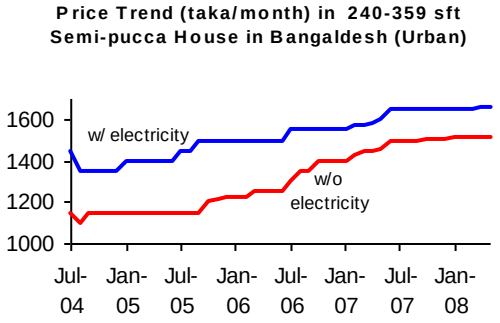
The conclusion thus is that while Bangladesh is not quite ready for switching completely to inflation targeting, the stage appears to be set for implementing it gradually and flexibly in order to bring inflation in line with international levels without incurring substantial output costs.

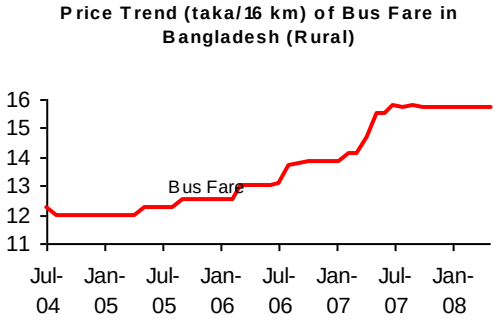
Annex-I

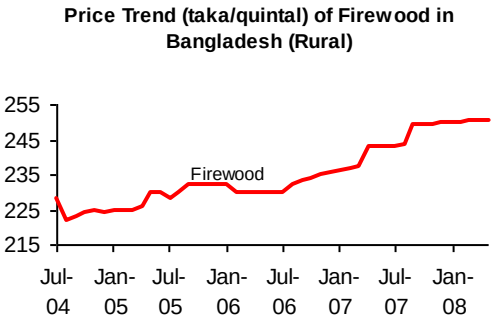
Figure 1: Price Trend (Taka/ kg or liter) in Major Food Items in Bangladesh FY05-FY08 (May)

Source: Bangladesh Bureau of Statistics

Figure 2: Price Trend in Major Non-food Items in Bangladesh FY05-FY08 (May)







Source: Bangladesh Bureau of Statistics

Annex-II

Table 1: Weights of Main CPI Food Items

	Rural	Urban
Food, beverage and tobacco	**63.0**	**48.8**
Food	**60.5**	**44.5**
Rice	23.8	11.3
Edible Oil	2.3	2.4
Wheat	1.9	2.1
Milk	1.8	1.8
Pulses	1.6	1.4
Hilsa	1.5	2.1
Potato	1.4	1.0
Beef	1.4	2.2
Onion	0.7	0.8
Sugar	0.4	0.5
Total	**36.7**	**25.4**

Table 2: Weights of Main CPI Non-food Items

	Rural	Urban
Non-food	**37.0**	**51.2**
Gross House Rent	6.0	17.2
Firewood	4.4	1.5
Kerosene	2.9	0.3
Medical & Health Expenditure	2.8	3.0
Educational Expenses	2.7	5.2
Ladies' Clothing	2.4	2.6
Luxury	2.3	1.8
Men's Clothing	2.1	1.9
Public Transport	1.9	4.7
Electricity	1.0	2.0
Total	**28.6**	**40.2**

Annex III

Distinction between Monetary Accommodation and Monetary Expansion

Figure 1

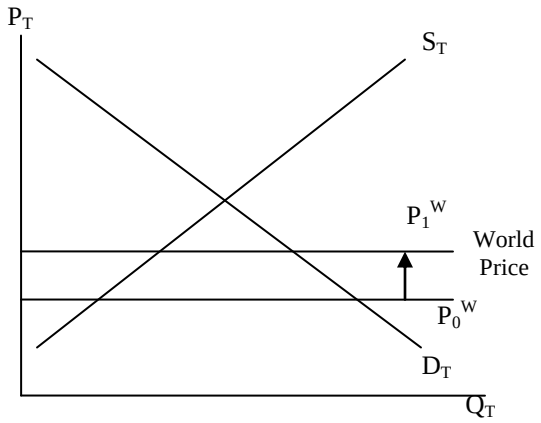


Figure 2

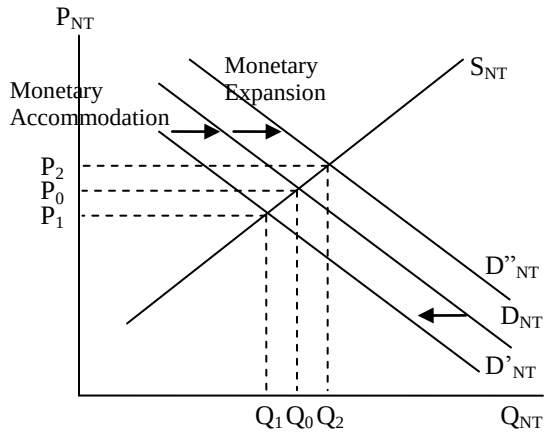
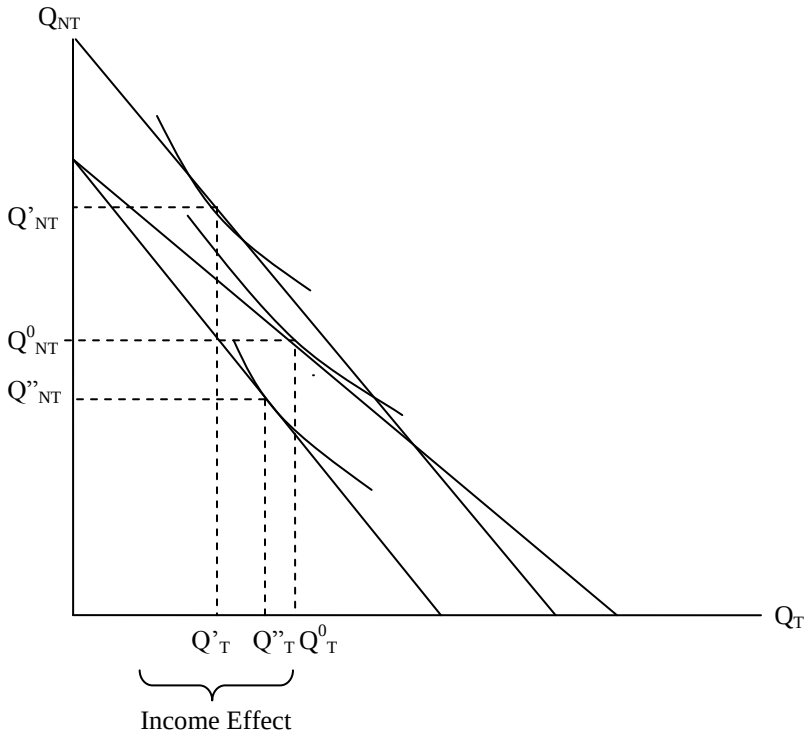


Figure 3



Annex IV

Table 1: Correlation between Money Growth and Tradable and Non-tradable Goods Inflation

	M2 Growth				M1 Growth			
	Tradable		Non-tradable		Tradable		Non-tradable	
Contemporaneous	-0.80		-0.58		-0.54		-0.33	
1 Month lag	-0.76		-0.40		-0.47		-0.16	
2 months lag	-0.70		-0.22		-0.37		0.01	
3 months lag	-0.62		-0.06		-0.26		0.12	
4 months lag	-0.52		0.12		-0.17		0.27	
5 months lag	-0.38		0.24		-0.11		0.35	*
6 months lag	-0.18		0.40	*	0.08		0.51	*
7 months lag	0.02		0.51	*	0.25		0.50	*
8 months lag	0.18		0.63	*	0.34	*	0.57	*
9 months lag	0.32	*	0.73	*	0.35	*	0.66	*
10 months lag	0.51	*	0.78	*	0.48	*	0.69	*
11 months lag	0.65	*	0.75	*	0.66	*	0.68	*
12 months lag	0.74	*	0.69	*	0.81	*	0.62	*

* implies significance at .05 level
Number of observations 34

Table 2: Correlation between Money Growth and Non-tradable Goods Inflation

	M2 Growth				M1 Growth			
	Rural		Urban		Rural		Urban	
Contemporaneous	-0.59		-0.46		-0.33		-0.27	
1 Month lag	-0.41		-0.27		-0.16		-0.12	
2 months lag	-0.24		-0.12		0.01		0.01	
3 months lag	-0.07		-0.02		0.15		0.02	
4 months lag	0.11		0.12		0.31	*	0.10	
5 months lag	0.24		0.22		0.37	*	0.24	
6 months lag	0.40	*	0.36	*	0.48	*	0.51	*
7 months lag	0.52	*	0.38	*	0.50	*	0.43	*
8 months lag	0.66	*	0.43	*	0.58	*	0.45	*
9 months lag	0.76	*	0.51	*	0.67	*	0.50	*
10 months lag	0.80	*	0.56	*	0.72	*	0.50	*
11 months lag	0.78	*	0.52	*	0.71	*	0.48	*
12 months lag	0.73	*	0.42	*	0.65	*	0.42	*

* implies significance at .05 level
Number of observations: 34

Table 3: Correlation between Money Growth and Tradable Goods Inflation

	M2 Growth				M1 Growth			
	Rural		Urban		Rural		Urban	
Contemporaneous	-0.82		-0.68		-0.58		-0.41	
1 Month lag	-0.79		-0.62		-0.51		-0.32	
2 months lag	-0.75		-0.51		-0.43		-0.18	
3 months lag	-0.68		-0.42		-0.32		-0.08	
4 months lag	-0.59		-0.30		-0.24		0.01	
5 months lag	-0.46		-0.13		-0.19		0.09	
6 months lag	-0.27		0.06		0.02		0.23	
7 months lag	-0.07		0.23		0.19		0.37	*
8 months lag	0.09		0.39	*	0.29	*	0.44	*
9 months lag	0.24		0.51	*	0.30	*	0.45	*
10 months lag	0.43	*	0.66	*	0.44	*	0.56	*
11 months lag	0.57	*	0.78	*	0.62	*	0.72	*
12 months lag	0.68	*	0.85	*	0.79	*	0.81	*

* implies significance at .05 level
Number of Observations: 34

Can Proportional Representation Help Stabilize Democracy in Bangladesh?

Nazrul Islam

Abstract

This paper examines whether a switch from the current Winner Takes All (WTA) system to the Proportional Representation (PR) system can help Bangladesh stabilize her democracy. It begins by considering the underlying reasons for unstable democracy in Bangladesh and in developing countries in general and the ways in which this instability can be overcome. Next it surveys the international experience with the PR system and identifies different channels through which the system can exert its stabilizing influence on Bangladesh democracy. The paper also discusses certain potential problems of the PR system and the ways to overcome them in the context of Bangladesh. The paper ends by emphasizing the need for an open public discussion in order to generate popular support for a switch to the PR system.

Introduction

This paper examines the question whether a switch from the current "Winner Takes All (WTA)" method of representation to the "Proportional Representation (PR)" method can help stabilize democracy in Bangladesh. The tumultuous political history of post-independence Bangladesh shows that democracy has been and still remains unstable in the country, even though independent Bangladesh itself was the result of a protracted struggle for democracy.

The problem of instability of democracy is not unique for Bangladesh and is rather a generic problem for developing countries. The root of this problem lies in the mismatch between the less developed economic base of these countries and democracy, which is the political superstructure of developed capitalism and took centuries to evolve. The long run solution to this instability therefore lies in overcoming the above mismatch through transformation of the economic base by rapid economic growth.

There are countries which have achieved rapid economic growth under authoritarian rule. However, more numerous are examples of authoritarian rule ending in economic failure. Moreover, Bangladesh's history illustrates that it is difficult to subjugate its people to authoritarian rule for long, vindicating the reality that she has to achieve economic growth through democracy. This necessity however creates a "chicken-egg" problem for Bangladesh: On the one hand, she needs economic growth for democracy; on the other hand, she needs democracy to achieve economic growth. How can Bangladesh break out of this vicious circle?

Fortunately, the international experience shows that under certain specific circumstances even countries with low per capita income can practice democracy, as the example of India illustrates. The question therefore is whether Bangladesh can create a configuration of institutions allowing her to have stable democracy, despite her low income level. Bangladesh has already shown some ingenuity by devising the system of Care Taker Government (CTG) for holding elections. However, the experience shows that CTG has not been sufficient to stabilize Bangladesh democracy.

The regime that took over on January 11, 2007 (popularly known as the 1/11 regime) tried to bring about changes in Bangladesh politics too. Unfortunately, many of its attempted reforms, particularly the "minus-two" idea, were ill conceived and ultimately backfired. As a result, no meaningful political reforms actually took place, and the election of the ninth Parliament is now being held (on December 29, 2008) under more or less unchanged political set up. This failure to bring about political reform has given rise to concerns as to whether the corrupt and criminal will again dominate Bangladesh politics and whether the country will again get embroiled in a rejection behavior by the losing side, leading to a boycott of the Parliament, street agitation, continuous *hartals* aimed at toppling the government before completion of its term. The future of Bangladesh democracy therefore still remains uncertain.

The main reason why the 1/11 regime failed to change Bangladesh politics was that its reforms were individual-focused. What is necessary instead is to adopt an institutional approach and think of reforms that are impersonal, hence democratic and impartial, and focused on process. Proceeding from such an institutional approach, Islam (2001) and others earlier suggested shortening of the government term as a measure helpful to stabilize Bangladesh democracy.

The current paper argues that a switch to the PR system, in addition to shortening of the government-term, may help Bangladesh further to stabilize her democracy. Contrary to the popular belief in Bangladesh, the PR system is actually widely prevalent in the world, particularly among developed countries, and the tendency towards the PR system is growing over time across the world.

In the particular context of Bangladesh, whose political scene is dominated by two political camps of roughly equal electoral strength, a close examination shows that a switch to the PR system may help to stabilize democracy in the following different ways: (a) preventing large and perverse fluctuations in electoral outcomes arising from small shifts in parties' vote shares, (b) reducing the objective scope and subjective incentives for manipulation and abuse of the voting process, (c) promoting better quality of candidates for the parliament, (d) making elections more educative and enlightening, (e) strengthening political parties, (f) creating better conditions for functioning of local governments, (g) being more inclusive of minority groups and small political parties, and (h) being more just and hence more conducive to peace.

One potential shortcoming of the PR system lies in ensuring geographic representation. However, given her small physical size and relatively homogeneous population, this shortcoming may be less of a problem for Bangladesh. Furthermore, additional measures can be taken to ensure geographical representation under PR, such as application of the system at the divisional (instead of the national) level and conferring some role in national governance to *Upazilla* chairpersons. A review of other contentions against the PR system shows that these are not that potent and apply equally, if not more, to the WTA system.

Despite its merits, it will not be easy to get the PR system adopted and implemented. It will face the hurdles of inertia, suspicion, lack of information, reluctance, and vested interests. Overcoming these hurdles will require broad popular support for the PR system. It is hoped that by facilitating an open public discussion of the merits and demerits of the PR system as compared with the WTA system, this paper will help to build up that support.

The paper is organized as follows. Section 2 portrays the unstable nature of democracy in Bangladesh. Section 3 discusses the underlying reason of this instability. Section 4 provides the international perspective on the PR system. Section 5 discusses the specific ways in which the PR system can help Bangladesh to stabilize her democracy. Section 6 discusses the potential shortcomings of the PR system and suggests various ways in which Bangladesh can overcome them. Section 7 concludes.

Unstable democracy in Bangladesh

Bangladesh is having problems in practicing democracy. During the Pakistan period, there was not much of democracy, and as a result the struggle for self-determination of the people of Bangladesh became intertwined with the struggle for democracy. In fact, the 1971 Liberation War, in its immediate sense, was a result of Pakistani ruling clique's unwillingness to accept the verdict of the 1970 elections. However, it is instructive that even independent Bangladesh, which was born as a victory of democracy, is now having problems in practicing democracy.

These problems surfaced even during the times of *Bangabandhu* Sheikh Mujibur Rahman. Immediately after the Liberation War Victory, many thought that the task of relief, rehabilitation, and reconstruction was too urgent and daunting to allow concerns for parliamentary niceties. Indeed, some called for holding off parliamentary democracy for a while and for forming a national government headed by *Bangabandhu* and including members from different political parties, very much along the spirit of the Advisory Council set up by the provisional Bangladesh government during the Liberation War, to function until the country got on a sure footing. However, *Bangabandhu*, due to his attachment to parliamentary democracy and other reasons, did not heed to such calls, and instead devoted considerable time and energy in 1972 to draft a constitution enshrining parliamentary democracy, and then to hold another round of elections in 1973 to uphold the distinction between a Constituent Assembly and a Parliament. Yet in just over a year's time, *Bangabandhu* himself scrapped parliamentary democracy and introduced what he called "democracy of the exploited" in the form of the one-party rule by BAKSAL (*Bangladesh Krishak Sramik Awami League*).[1]

The tragic coup of August 1975 put an end to that experiment, and the country went under military and quasi-military rule. The multi-party set up was revived during the end of 1970s and several elections were held during 1977-1990. However, the legitimacy of those elections and the associated constitutional changes remain open to question to this day. A civilian uprising in 1990 put an end to the era

of quasi-military rule and ushered in a new phase of civilian rule in Bangladesh. Elections were held in 1991 under an interim, neutral government headed by the sitting Supreme Court Chief Justice. Drawing inspiration from this experience, Bangladesh in 1996 devised the innovative system of Care Taker Government (CTG) for holding elections. The subsequent elections in 1996 and 2001 were indeed held under CTGs.

Unfortunately, even the CTG innovation could not stabilize Bangladesh democracy. The Parliament did not function well, with the Opposition boycotting it for most of the time and engaging in street agitation and frequent calls for nation-wide work stoppage (*hartals*) aimed at bringing down the government ahead of its due term. Public bodies and institutions, beginning with the Presidency down to local school boards, were politicized and debased. Constitutional commissions, such as the Election Commission, the Public Service Commission, and the Anti Corruption Commission became prominent casualties of this debasement process. Corruption became rampant, and money and hired muscle-men became the mainstay for winning elections. Politics became just another line of (immoral and often illegal) business, a lucrative way of making money, misusing state and government offices.

By January 2007, this process of political degeneration led Bangladesh to a stalemate and deadly confrontation, prompting the armed forces to intervene, disband the incumbent CTG, and put in place a regime (on January 11, 2007 and hence popularly known as the 1/11 regime), with a wider agenda and a longer time frame. In addition to the task of holding elections, the 1/11 regime embarked on an anti-corruption drive, reform of constitutional bodies, and some other reforms (such as separation of judiciary from administration, improving transparency of governance, etc.).

Most importantly, the 1/11 regime took up the problematic task of reforming politics. To this end, it promoted formation of new parties and encouraged groups within existing political parties to initiate inner party reform, including disposing off their current leaders. To facilitate the latter task, the government also engaged in selective prosecution of political leaders for corruption. Unfortunately the political reform attempts by the 1/11 regime did not prove successful. In particular, its "minus-two" operations ultimately backfired and ended up making the regime itself a hostage in the hands of the two leaders it wanted to dispose of! Ultimately, the experience forced the regime to abandon its hopes for political reform and to search for a safe exit for itself by holding an election keeping the political landscape basically unchanged.[2]

The failure of the political reform attempts by the 1/11 regime is however now raising concerns as to whether the same old corrupt and criminal forces will dominate politics again and whether the losing side of the upcoming (December 29, 2008) election will engage in a rejection behavior, involving boycott of the parliament, street agitation, and continuous *hartals*, aimed at toppling the government before its due term is over, as happened after previous elections. These concerns are valid and point to the fact that Bangladesh democracy continues to be unstable.

Underlying problem of democracy in Bangladesh

The problem of instability of democracy is not unique to Bangladesh. Looking across developing countries, we see most of them suffering from similar instability, the root of which lies in the basic mismatch between the economic base and the political superstructure of capitalism in these countries.[3]

What is generally known as "democracy" is actually "bourgeois democracy," the political superstructure of mature capitalism developing over the course of several centuries in tandem with the development of the capitalist economy itself, beginning in England, and west Europe, and then the USA. Even in England, women attained franchise only in 1918, and in the US, the women had to struggle to get the same till the Nineteenth Amendment to the US Constitution was passed in 1920. This simple fact illustrates the long and arduous process through which democracy, as we know it now, came into being. In view of the above genesis of democracy, it is not surprising that developing countries, with their relatively undeveloped economic base, are struggling with democracy.

The corollary of the above diagnosis is that the ultimate solution to the problem of instability of democracy in Bangladesh and in other developing countries lies in eradication of the above mismatch between base and superstructure through rapid economic growth. In more prosaic terms, when the people are well fed and well read, it is difficult to preside over their lives in undemocratic fashion. This is borne out by the recent experience of South Korea, Taiwan, Singapore, Indonesia, Thailand, and some countries of Latin America, which graduated to some form of democracy from authoritarian rule after a certain degree of transformation of their economic

base through rapid economic growth.
This does not mean that Bangladesh should give up on democracy and accept authoritarian rule to reach a high level of per capita income. It is true that rapid economic growth can be achieved under authoritarian rule, as the experience of the above mentioned countries and more recently of Viet Nam and China testifies. However, there are more examples of authoritarian regimes ending up in economic failures. The key to economic growth therefore lies not in authoritarian rule *per se*, but in other features of the society.[4]

The authoritarian route to economic development is particularly unsuitable for Bangladesh because of her particular history and political culture.[5] As already noted, the very birth of Bangladesh is rooted in a struggle for democracy. Bangladesh's post-independence history demonstrates that it is difficult to subjugate her people under authoritarian rule for a long time. Bangladesh therefore has to achieve economic growth via democracy.

This compulsion however creates a "chicken-egg" problem for Bangladesh. On the one hand, she needs economic growth to have stable democracy. On the other hand, she needs democracy to achieve economic growth. Can Bangladesh break out of this apparently closed circle?

Fortunately, the international experience shows that some developing countries have been successful in having stable democracy despite their low level of per capita income. India is a prominent example in this regard. The glorious tradition of India's independence movement, the survival of its leadership (except Mahatma Gandhi), the depth of human capital (though not widely distributed), etc. have enabled India to follow the democratic path, despite her low per capita income level.[6] Similarly, the presence of a mature political party, namely the African National Congress (ANC), has helped South Africa to have a stable democracy when it has faltered in many other African countries. These experiences show that under certain particular combinations of factors it may be possible to stabilize democracy despite low per capita income. The question is what such a combination for Bangladesh can be.

Bangladesh has already displayed some ingenuity by devising the system of Care Taker Government (CTG) as a way of holding elections. However, as noted above, the CTG has a mixed record, and ultimately failed to hold acceptable election in 2007. On the other hand, vigorous efforts by 1/11 regime to reform Bangladesh politics ultimately failed. The main reason for this failure was the regime's wrong approach, focused on individuals and thereby subversive to the very integrity of the reform process. What was instead necessary was an institutional approach and to think of reforms which were impersonal, and hence impartial and democratic, and focused on process.

Proceeding from the institutional approach, and observing continuing problems of Bangladesh democracy despite the CTG system, Islam (2001) and others suggested earlier shortening of government tenure as a helpful measure to stabilize democracy. That proposal still remains on the table for discussion. This paper presents the additional idea of switching to the PR system as a concomitant measure to stabilize democracy in Bangladesh. Before discussing the specific ways in which the PR system can be helpful, it is useful to have some international perspectives on this system.

Proportional representation system: The international perspective

Prominent features of democracy as a political system include: (i) multiple political parties, representing different class and interest groups, (ii) freedom of speech and assembly, (iii) regular change of government through elections on the basis of adult franchise (political egalitarianism), and (iv) existence of a free press and media to facilitate all of the above.[7] Despite these common features, there are many concrete variations in the way democracy is practiced even in developed capitalist countries.

One of the important variations lies in the system of representation. While there are many different systems of representation, these may be classified broadly into two types, namely the "Winner Takes All (WTA)" system and the "Proportional Representation (PR)" system. In general, under the WTA system the party winning the highest number of votes gets all the seats. Under the PR system, the seats are allocated among parties in proportion to votes they receive.[8]

Wide prevalence of the Proportional Representation (PR) system

Table 1 provides a list of countries, indicating whether they practice the PR or the WTA system, and providing some information regarding their income level and economic growth rate. A perusal of Table 1 leads to the following broad observations.
First, countries following the PR system seem to

outnumber those following the WTA system, particularly among the developed countries. This may come as a surprise to many in Bangladesh, because the country has been used to the WTA system all along, largely due to the influence of the British parliamentary system, after which the political systems of the countries colonized by Britain were modeled. That is why a large number of countries practicing the WTA system are actually British ex-colonies. The impression of universality of the WTA system has been further fostered by the fact that the USA, the country that dominates the international scene in many respects, also follows the WTA system, at least in the general elections.[9]

Second, there is a growing move towards the PR system. Some developed countries practicing the WTA system so far, such as New Zealand, are now switching to the PR system. Most of the transition countries, after noting the international experience of PR and WTA systems, have opted for the PR system. Even in the United Kingdom, there are now trends away from the WTA system and toward the PR system. For example, the composition of the newly formed Scottish Parliament and of the Welsh and Northern Ireland Assemblies and also of local government bodies of Scotland and Northern Ireland are decided according to the PR system. It thus appears that the PR system is emerging as the system of choice for the 21st century.[10]

Third, though the PR system is more prevalent among developed countries, many developing countries use this system too. As Table 1 shows, there are a large number of low income developing countries of Africa and Latin America also practicing this system. Close to Bangladesh, Nepal has now opted for a partial PR system.

Fourth, an interesting question is whether the economic performance of a country differs depending on whether it practices the WTA or PR system. To the extent that the PR system can help countries have stable democracy, and stable democracy can promote economic growth, it is likely to have a positive influence on economic growth performance too.[11]

Variations of the PR system

The international experience also shows considerable variation within the PR system. The important dimensions of these variations are as follows.

The first dimension concerns whether the system is based on 'Closed list' or 'Open list.' Under the former, each party's list is determined entirely by the party itself, and general voters cannot change the ranking of candidates within the lists through their votes. By contrast, the Open List variant allows voters to influence the ranking.

The second dimension concerns the level at which the PR system is applied. The simplest and more prevalent practice is to apply it at the *national level*, i.e. to consider the entire country as a single constituency to which all the seats of the parliament belongs. Under this system, the number of votes received by each party is tallied at the national level and the total number of seats of the national parliament is divided among parties according to their vote shares.[12] The problem with the national level PR system is that it may not be able to ensure geographical representation. Largely to address this problem, the PR system in many countries is applied at a *sub-national* level (e.g. province or district). Under this arrangement, votes received by parties are tallied at the chosen sub-national level and seats belonging to that level are allocated among political parties in proportion to their vote shares. The higher the level at which the PR system is applied, the truer it is to the spirit of the PR system. On the other hand, the lower the level at which the PR system is applied, the closer it becomes to the WTA system.[13]

There is some association between variations along the two dimensions above. For example, the sub-national PR system is usually associated with the "Open List" variant. This is because in order for voters to influence the ranking of candidates within the list, they ideally need to know well all the candidates within the list. This becomes difficult if the PR system is national, in which case party lists will be long, containing as many names as are seats in the country's parliament, making it difficult for voters to have information about all these candidates in order to rank them satisfactorily. Under a sub-national level PR system, party lists can be shorter, containing as many names as are seats belonging to a particular sub-national level, thus making it easier for voters to formulate their own ranking. Under the "Closed List" variant, however, citizens vote basically for the party, and hence it does not matter much whether the list is long or short, thus making it easier to apply the system at the national level.

A third dimension of variation concerns whether proportional representation is supplemented by the WTA system, so that what emerges is a combination (or hybrid) of both. Japan is a prominent example of such a hybrid system. Such supplementation, in turn, can be done in several ways. One is to have two chambers of the parliament with one elected

according to the PR system and the other according to the WTA system. The second is to stick to a single chamber parliament, but to have two types of members, some elected following the PR system and others elected following the WTA system. A third option is to combine the above two and have at least one of the chambers have both WTA and PR members. The latter in turn can be done in two ways. One is to have WTA seats added to the PR seats. This is supplementation in the form of *addition*. The second is supplementation in the form of *substitution*, so that the total number of seats in the Parliament is kept unchanged. It is interesting that Nepal has now opted for a hybrid system.

A fourth dimension of the variation of the PR system concerns whether the representation is implemented in the form of single transferable vote (STV) or single non-transferable vote (SNTV) and cumulative voting. These are more complicated systems, which may not be too relevant for Bangladesh and hence are not discussed in this paper.[14]

Thus it is clear that the PR system is widely prevalent, growing in popularity, and offers a wide range of variation and flexibility, so that a country can customize the system according to its conditions and needs. We may now turn to the question of concrete ways in which the PR system may help to stabilize democracy in Bangladesh.

Potential merits of the PR system for Bangladesh

A close analysis shows that the PR system can exert a stabilizing influence on Bangladesh democracy along the following channels.

a) Prevent large impact of small changes

Bangladesh's recent political history has been mainly a history of rivalry between two political camps led by *Awami League (AL)* and *Bangladesh Nationalist Party (BNP)*.

Table 2 provides some information on vote shares of major political parties in Bangladesh's recent elections. It may be noted that although in the historic 1970 elections AL got 160 of 162 seats (98.8 percent) from East Pakistan, in terms of vote share, AL received 74.9 percent. The progressive *National Awami Party (NAP)* received 1.8 percent and Independents received 3.4 pct. The rest went to various religious and rightist parties. This shows that, even at the height of Bengali nationalism, there was about a quarter of voters who did not vote for AL.[15] AL fell into a crisis in the post August 1975 coup years, so that AL's vote share decreased to 24.55 percent in 1979 election. However, AL has since recovered and has increased its vote share in successive elections, reaching 33.33, 37.44, and 40.13 percent in 1991, 1996, and 2001, respectively. BNP, on the other hand, started off in 1979 with 41.16 percent of vote share, which decreased to 30.81 percent in 1991, and then increased to 33.61 in 1996. In 2001 BNP contested as a part of the 4-party alliance (*Jote*), which together won 47.03 percent of vote.[16]

The situation of roughly equal electoral strength implies that under the WTA system small changes in the vote share can lead to very large and unexpected changes in election outcomes. For example, between 1991 and 1996, BNP *increased* its vote share from 30.81 to 33.61 percent; yet its number of seats *decreased* from 140 to 116. More dramatically, between 1996 and 2001 AL's vote share *increased* from 37.44 to 40.13 percent, and yet its number of seats collapsed from 146 to 62! This illustrates two disturbing features. The first is the fact of *amplification*: Relatively small changes in vote shares can lead to very large changes in the number of seats. The second and more striking aspect is *reversal*: The outcome in terms of number of seats often moves in *opposite* direction to that of the outcome in terms of vote share. In short, the WTA system not only amplifies the impact of small changes in vote shares, it does so in such a violent manner that even the direction of outcome sometimes gets reversed.

By contrast, the PR system rules out any reversal, as it guarantees that the outcome in terms of number of seats will move in the same direction as do vote shares. Second, the PR system also rules out amplification. The changes in the number of seats will be exactly proportional to the changes in vote shares. Thus while WTA exacerbates instability, the PR system promotes stability.

Through this stabilizing influence, the PR system can also provide more predictability of the outcomes, allowing everybody to adjust their expectations and actions. In the context of Bangladesh this means that rival political camps can be sure of continued robust presence of each other in the national parliament, hence accept the reality that neither will be able to marginalize (let alone annihilate) the other. Accordingly, they may become more agreeable to sharing of power, sequentially, depending on election results, and also contemporaneously, within the framework of the parliament, through its various committees, as provided by the Constitution. Thus,

rival political camps may be forced to accept the necessity of cohabitation and cooperation rather than engaging in a fight to the death. The entire dynamic of Bangladesh politics may therefore change for the better.

The changed geo-political conditions have made it easier for such accommodation and cohabitation. Though the opposing political camps of Bangladesh differ with regard to their stance regarding nationalism and religion, they do not differ radically with regard to main economic policy issues. Hence succession of one by the other in power would not result in fundamental changes in the economic direction of the country. However, even within the broadly agreed parameters, opposing political camps can make a difference, and they can therefore engage in a healthy competition, and this competition can work for the betterment of the country.

b) Reduce objective scope and subjective incentives for manipulation and abuse

The very fact that the PR system prevents large changes in outcome arising from small changes in vote shares implies that it also reduces the objective scope for and effect of manipulation. In general, the marginal cost (broadly defined) of manipulation and abuse increases very steeply, so that the total cost of large changes in vote shares may prove to be prohibitively high. Yet, without large changes in vote shares it will not be possible to bring about appreciable changes in election outcomes. Thus the objective scope for manipulation and abuse of the election system will decrease.

Second, the subjective pressure for manipulation and abuse will also decrease. The PR system severs the direct link between the local vote outcome and whether or not local political leader gets elected to the parliament. Hence local political actors will not have as much stake in the local voting outcomes as they have now. As a result, they may not be as desperate to influence the local voting outcomes as they are under the WTA system.

The decrease in the objective scope and the subjective pressure for manipulation and abuse of the voting process will undercut the importance of muscle power and money. Elections under PR therefore may not be as dependent on *mastans* as they are now. Furthermore, under the PR system, there will be no scope and incentive to manipulate election through resetting the boundaries of constituencies (gerrymandering).

c) Improve the quality of election campaign

To the extent that the election will no longer be about local candidates, the quality of the election campaign will improve. The attention will now be focused on national issues and the role of particular parties with regard to national issues. In other words, while the WTA lowers the attention from the national to the local, the PR system may help raise the attention from the local to the national level.

Also, the WTA system creates pressures for formation of pre-election alliances, forcing political parties often to make compromises that are unwarranted from the point of view of both the political parties themselves and the nation. By contrast, under the PR system, there is no necessity for parties to form pre-election alliances.[17] They can therefore contest on the basis of their distinctive platforms or manifestoes, and feel free to highlight differences among themselves and test their true strength without any restraint. Such a "clean" campaign, together with a focus on the national issues, is likely to lead to an improvement in the election campaign.

d) Promote better quality candidates

A switch to the PR system may also help nomination and election of better, more qualified candidates to the parliament. The essential function of the parliament is enactment of laws concerning national issues. This function requires certain special qualities, including breadth of knowledge, ability to engage in national level discussion, and conviction and capacity to defend national interests. Unfortunately, the current WTA system is often leading to nomination and election of parochial and wrong kind of people to the parliament. Political parties are often becoming hostages to local level *mastans* who are assuring "delivery" of their constituencies. The system has therefore promoted criminalization of politics in Bangladesh.

The PR system, by contrast, may create greater scope and justification for nominating better quality candidates. People all over the country will vote for the same party list. Hence parties will feel pressured to include in their lists people with national reputation. It is generally people with exceptional qualities who are likely to be nationally reputed.

Through a feedback process, the PR system may encourage people of better quality to join political

parties and be active in them, because it will be easier for parties to provide recognition to such persons by including them in their lists of candidates for the parliament. Thus, while the WTA system conduces to debasement and coarsening of candidates, the PR system may generate a reverse process, a process towards upliftment and refinement, and towards gathering in the national parliament national talent from different spheres of life.[18]

e) Strengthen political parties

The PR system may conduce to strengthening of political parties. Currently, the WTA system is exerting a *centrifugal force* on the political parties, often pulling them in as many directions as are there constituencies, and thereby weakening them. The PR system is likely to change the dynamics and generate a *centripetal* force strengthening the political parties.

Under PR, the election will be on the basis of party lists and not individual candidates in individual constituencies. The probability of candidates on the list getting into the parliament increases if the party as a whole gets more votes nationally. Hence the party as a whole has to work for votes, and the process is likely to lead to more cohesion within parties.

The PR system will also undercut the tendency towards running as renegades by people who do not get nomination (i.e. not included in party lists), because people wanting to do so will now have to form a party, get registered with the Election Commission in time, etc. It will be difficult and late to cross these hurdles by the time parties make up their lists. This feature of the PR system should also work to strengthen the parties.

It has been already noted how the PR system may give parties the scope to reassert their right to select candidates and not be hostages to local actors. With "right" however comes "responsibility." While under WTA it is basically the responsibility of individual local candidates to come out as winners from respective constituencies, under the PR system, the responsibility falls more on the party leadership to make the party list win by garnering more votes. This two-fold necessity of selecting good candidates and having the entire party behind the chosen list is likely to force the party to promote inner party democracy, because without the list chosen through a democratic, fair, and transparent process within the party, it will be difficult to attain consensus and to mobilize the entire party behind the list.[19]

Though Bangladesh political parties have the unfortunate practice of concentrating all power in the hands of their supreme leaders, such a practice may not be sustainable under PR in the long run. Unless the entire party can participate in a meaningful and transparent way in preparing the party list of candidates, it will be difficult for the list to gain legitimacy and energize the rank and file. Also those wanting to be included in the party list will have to work harder for the party during the entire inter-election period so as to earn recognition and admiration within the party. The PR system may therefore empower party activists with a greater role in the party and in selection of party candidates for the parliament. The inner party life may therefore become more important. In particular, parties now may be forced to convene, at least once during every election cycle, their national conferences/congresses, in which the party list of candidates and party platform will be formulated. Holding party national conferences every election year will be a big improvement over the current practice of not holding such conferences for decades.

Thus, by making the party as a whole more responsible for election outcomes, by forcing the party to campaign as one candidate, and by promoting inner party democracy for formulation of party platforms and party lists of candidates, the PR system is likely to revive active party life and strengthen political parties.

f) Create better conditions for functioning of local governments

By ending the direct link between parliament members and individual constituencies, the PR system is likely to create more space and better conditions for the functioning of local governments.

One unintended negative consequence of the current WTA system has been weakening of local governments. The WTA system, by linking MPs to individual constituencies, imparts a *dual role* to MPs, because they are, on the one hand, supposed to deal with national issues, and on the other hand, represent particular constituencies. This dual role provides an objective basis for a conflict between MPs and local governments. While in more developed and law abiding countries, such duality may not be a problem, in countries such as Bangladesh, this dual role has become a serious hurdle to the development of local governments.

As Bangladesh's experience shows, using their

leverage over the central government, MPs often marginalize local government, usurping the power that should belong, not only in theory but also in practice, to elected local government officials. During the *Jote* government of 2001-2006, this *de-facto* situation was to some extent even formalized and promoted through enactment of rules of business conferring much power to MPs over local affairs.

The PR system can bring about a radical change in this situation. By establishing a clear distinction between the roles of MPs and local governments, it will end the dual role of MPs, and thus ease the current conflict between MPs and local governments. The MPs elected through the PR system should assume more of a national personality, which actually accords better to their purported role of looking after national affairs from a national point of view. Local governments will be freed from the domination and suffocation by MPs, and get more space to function and flourish.

g) Be more inclusive

The PR system may also prove to be a more inclusive, because it will create a level playing field for minorities and small political parties to be represented in the parliament. The WTA system, by contrast, tilts the field in favor of larger groups and thus in a sense discriminates against small groups and parties.

For example, the current WTA system makes it difficult for various minority groups to be represented in the parliament, particularly if they are dispersed across the country. Similarly, the system prevents various small political parties from being represented, if they do not have geographically concentrated support base. The WTA systems creates the "wasted vote" problem, which refers to the fact that under the system many do not want to vote for smaller parties because their candidates do not have a chance to get the highest number of votes in a particular constituency. Voting for such "unviable" candidates objectively amounts to wasting of votes. This deprives minority groups and small political parties from the opportunity to muster, test, and develop their electoral strength. The WTA system therefore reinforces the importance of the majority groups and handicap, diminish, or even exclude smaller groups of the society. Unfortunately, such exclusion in representation for a prolonged period may lead to socio-economic and overall neglect of these groups, which may in turn lead them to apathy and discontent.

Under the PR system minority groups and smaller parties may represent themselves in the parliament in accordance to their numerical strength, no matter whether they are geographically dispersed or concentrated. These groups and parties can pursue their interests and demands more freely and directly, without having to depend on bigger parties. The PR system may thus encourage small groups and parties to channel their grievances and energy through the parliament rather than through un-parliamentary means. The national parliament can therefore be more truly national in terms of representation.

h) Be more just and conducive to peace

As a consequence of the features mentioned above, the PR system may prove to be more fair and just. First, as already noticed, the PR system reduces the role of chance or fluke in election outcomes. The actual outcome is firmly based on vote shares, and there is no scope for a party to lose out even after getting more votes. Hence, the outcome will appear to be fair and easier to accept. Second, PR provides everybody with equal chance to be represented, no matter whether s/he belongs to the majority or minority groups and to large or small political party. The system will therefore prove to be more just from this point of view too. A system that is more just is also likely to be more peaceful.

Overall, the PR system therefore holds considerable potential for stabilizing democracy in Bangladesh.

Potential problems of the PR system for Bangladesh

The above listed possible merits of PR system for Bangladesh do not mean that there are no potential problems with the system. In the following, we discuss some of these problems and what can be done to mitigate them.

Issue of geographical representation

One of the problematic features of the PR system, as mentioned earlier, concerns geographical representation. Although an individual party, in drawing up its party list, is likely to include candidates from different parts of the country, to draw votes from all parts of the country, it is not certain how many seats it will ultimately get. Hence individual political parties cannot guarantee uniform and comprehensive geographical representation through their lists. This applies no matter whether party lists are Closed or Open. It is quite possible that when elected MPs from all parties are taken together, the parliament may turn out to be geographically

quite representative. However, this outcome is not guaranteed.

The problem of geographical representation may not be that serious for Bangladesh, given its small physical size and relatively homogenous population. The PR system applied at the national level can therefore work quite well for her. However, if necessary, further measures may be taken to address the issue of geographical representation. One of these, as mentioned earlier, is to apply the PR system at a sub-national level. In Bangladesh, for example, such a sub-national level may be the former divisions, namely Dhaka, Chittagong, Rajshahi, Khulna, Barisal, and Sylhet. Assuming that the divisions are of equal size in terms of number of voters, and assuming a parliament of 300 members, each division will have 50 seats. The votes can then be tallied at the division level and 50 seats of each division may be apportioned among parties in accordance to their vote share in the division. Such a system will guarantee 50 representatives from each division. To the extent that the divisions also represent Bangladesh's regions, such a system may go a long way to ensure geographical representation in the parliament.

One may feel tempted to go further in this direction and take districts as the sub-national level. However, with about 60 districts, each will have just 5 seats. Application of the PR system to such a small number of seats will result in serious "rounding" problems and hence not prove satisfactory.

More importantly, as mentioned earlier, the smaller the sub-national unit chosen for application of the PR system, the more of its merits is lost. For example, the smaller the unit, the more tied the candidates become to the locality and the outcome of local votes, and hence stronger becomes the incentive for local political actors to manipulate, and to resort to money, muscle power, and other malpractices necessary for such manipulation. Similarly, the smaller the sub-national unit, the more limited becomes the system's capacity to create space for effective functioning of local governments, to be inclusive, etc. Thus application of the PR system to sub-national level as a way to ensure geographical representation has its own problems.

Another way to ensure geographical representation, as mentioned earlier, is to opt for a hybrid variant that combines the PR system with WTA system. Essentially there is a trade-off between the WTA and PR systems, and different hybrid variants discussed earlier represent different compromise points along this trade-off. The more the system leans towards WTA the more it gains in terms of geographical representation but loses the benefits of the PR system. The converse is true when the system leans towards PR system applied to the national level. It is for individual countries to take stock of their respective situation and decide.

So far as Bangladesh is concerned, a switch to the PR system as a way to elect the main chamber of the parliament may indeed be counter balanced by introduction of another chamber that will be elected following the WTA system. However, this may undercut many of PR's stabilizing influence that provides the rationale for the switch away from the WTA system in the first place. Hence instead of creating a separate chamber and/or adding WTA members to the PR members in the single-chamber parliament, Bangladesh may think of other options. One such option may be to create a *National Forum* of *Upazilla Chairperson* and use that forum as a counter-weight to a parliament elected through the PR system. For example, the budget may require the approval of this Forum. Such an arrangement may be more expeditious than creating a new chamber of the parliament. This option may help strengthen local governments and not create ambiguities in the role of MPs.

Thus, though the PR system has an issue with respect to ensuring geographical representation, there are many ways around this problem, and Bangladesh can apply its own ingenuity and find the solution that is most appropriate for her local conditions, taking relevant international experience into account.

Issue of frequent changes in the government (instability of the government)

Another contention that is often made against the PR system is that it may lead to unstable governments. This contention refers to the fact that by being more inclusive the parliament elected through the PR system may also prove to be more fractious, with many small parties, and no party gaining absolute majority. Such a fractious parliament will have several consequences. First, only coalition governments will be possible. Second, such coalitions will collapse frequently because of switch of allegiance by parties. Third, large parties will become hostage to small parties, whose support they will need to form government.

However, these consequences cannot be avoided even under the WTA system, if the underlying political realities promote them. An example is provided by neighboring India, which used to have

strong single party governments for a long time, but now has a fractured parliament and can therefore have only coalition governments, and is also witnessing frequent collapses of government. All these changes came about even though the Indian parliament continues to be elected following the WTA system as before. Thus the reason for the changes lies not in the election system, but in the fact that the underlying political landscape of India has changed.

Similarly, political "horse trading" is endemic to the WTA system too. In Bangladesh itself, we saw in 1996 AL offering cabinet posts to two very small parties in order to forge a majority and form a government. Similarly in 2001 the BNP forged a pre-election coalition with religious parties to win the election. Also, parties can switch allegiance and cause coalition governments to collapse under the WTA system too, as happened in India several times in recent years.

The good thing about PR, as noted before, is that there is no necessity for pre-election political horse trading. Instead, such trading under it can take place after accurate values of "horses" (political parties) have been revealed through the vote shares received by them. Also the inclusiveness of the PR system means that there will be more "horses" for trade. By contrast, the WTA system, as noted earlier, by encouraging pre-election coalitions, often leaves true values of individual "horses" murky, and it also bars many smaller "horses" from entering the trade altogether! So even horse trading under the PR system will be a better one than it is under the WTA system.

Finally, it should be noted that *unstable government* is not the same as *unstable democracy*, and the former may be better than the latter. The best example is probably provided by Italy, where collapse of coalition governments is a frequent (almost annual) phenomenon. Yet the Italian democracy is stable; the rise and fall of governments does not harm the general functioning of her economy and society. It should be noted that rise and fall of coalition governments at least imply that all political parties are using the parliament as the main theater of action. In Bangladesh we have the unfortunate situation where the opposition boycotts the parliament and resorts to harmful for the economy and the society street agitation to topple the government from outside. The PR system can do a great service to the nation if it can bring all parties to the parliament and keep them there.

'Nomination trade'

A third contention against the PR system is that it may encourage people to buy their way into party lists. In other words, the worry here is that PR may intensify "nomination trade." We already noticed nomination trade that occurs under the current WTA system. However, under the WTA system there is an outside check. The people "buying" nomination have to prove their "worth" by actually getting elected from respective constituencies. By contrast, the PR system lacks such a direct outside check, because a person making his or her way into the party list can just piggy back on the entire party. This opportunity to piggy back may strengthen incentives to buy nomination and thus debase the PR system.

However, PR also has some antidotes that may help to prevent "nomination trade." As noted earlier, the PR system increases the responsibility of the party leadership in making the party list win. A failure by the party list to garner expected share of votes will signify a failure of the party leadership in a much sharper way than it does now, where the responsibility of winning falls on the shoulder of individual candidates. Therefore, under the PR system, the party leadership will feel compelled to share this responsibility with the entire party. This necessity, as noted earlier, is likely to force the party leadership to follow a transparent and democratic inner party procedure for formulation of the party list, rather than to engage in nomination trade.

For this antidote to work, however, it is necessary to have frequent elections, so that the party leaderships can be held accountable. That is one reason why shortening of the government tenure is necessary. The current five year term is too long. Such a long term delay accountability and makes the opposition impatient and encourages it to look for extra parliamentary ways to bring down the government before completion of the term. A shortened term will encourage the opposition to have patience and stay with and work through the parliament. A switch to the PR system, together with more frequent elections, is therefore likely to help stabilize Bangladesh democracy in more than one ways.

Concluding remarks

This paper argues that a switch to the Proportional Representation (PR) system, combined with shortening of the government tenure, holds the key to stabilization of democracy in Bangladesh.

The PR itself has many variants. The one to be chosen for Bangladesh has to be simple and potent. This suggests that the PR system of the "Closed List" variety and applied to the national level (i.e., treating the entire country as the single constituency) may be more suitable for Bangladesh. However, the issues of customization of the PR system to Bangladesh's conditions can be discussed in more detail when the necessity for a switch to this system in principle is agreed upon.

There is a view that PR may be difficult for Bangladesh voters to understand and follow because of their long familiarity with the WTA system. However, Bangladesh voters are also known to have generally voted going by party symbols. In that sense, the switch to the PR system may not present as big a psychological barrier as it is presented by this view. Voting for party-lists may not be all that different from voting for party symbols, and in fact, party-lists will come with party-symbols. Thus the PR system may be more in synch with what the people of Bangladesh actually want to practice.

The change from the WTA to PR system has two aspects. The first concerns the "form" or the formal aspect of it, namely the necessary changes in the Constitution and the People's Representation Order (PRO). This is more easily done. The second aspect concerns the "content," which will be determined by how political parties and the people through their own actions make use of the newly created form. Bangladesh's own experience with the CTG illustrates this distinction. The introduction of CTG created a new form, which had the potential to hold a new content. However, actions by political parties debased the content and thus frustrated the purpose of this form. Furthermore, validating the law of unintended consequences, the introduction of CTG led to a process of politicization of the top judiciary. The history with CTG therefore illustrates that design of a process is important in determining the direction it will take and the outcome it will produce.

The formal switch from the WTA to the PR system will create a form which the political parties and people will have to supply with necessary content through their own conduct. Of course, it cannot be expected that political parties and political culture of the country will change overnight. What is important is that steps such as shortening of the government-term and switch to the PR system will trigger some processes which will force the political parties to respond in such a way that over time will change their conduct for the better.

It would have been better if the two proposed reforms, namely shortening of government term and switch to the PR system, were discussed and adopted during the 1/11 regime so that the ninth Parliament could be elected under these reforms. Unfortunately that did not happen. The best thing now to do is to lay out the rationale for these reforms, so that the people can see it more clearly as they experience the upcoming election (of December 29, 2008) and its aftermath. Many in Bangladesh have already rallied behind the demand for a shortened government term. The support for the PR system is also becoming discernible.[20] It may be hoped that with more information, clarification, and advocacy, the popular support for the switch to the PR system will grow and lead to its eventual acceptance.

Table 1

Representation systems across the world

Country	*Representation System*	*Initial per capita income*	*Per capita income in 2000*	*Average annual growth rate*	*Comment*
Algeria	PR	3,843	5,753	1.01	Party list
Angola	PR		1,975		Party list
Antigua and Barbados	WTA	5,143*	14,065	3.41	
Austria	PR	8,444	27,000	2.95	Party list
Argentina	PR	7,838	11,332	0.93	Party list
Bahamas	WTA	16,911*	19,088	0.41	
Bangladesh	WTA	1,348**	1,851	1.60	
Barbados	WTA	7,039	16,086	2.09	
Belgium	PR	8,070	24,662	2.83	Party list
Belize	WTA	3,439*	6,015	1.88	
Bhutan	WTA	227*	828	4.41	
Bolivia	PR	2,431	2,929	0.47	Mixed
Botswana	WTA	1,168*	7,257	6.28	
Bulgaria	PR		7,258		Party list
Burkina Faso	PR	768	933	0.49	Party list
Burundi	PR	677	699	0.08	Party list
Cambodia	PR	1086*	514	-2.46	Party list
Canada	WTA	10,576	26,821	2.35	
Cape Verde	PR	1,417	4,983	3.19	Party list
Chile	PR	5,086	11,430	2.05	Party list
Colombia	PR	2,819	6,080	1.94	Party list
Costa Rica	PR	4,513	8,342	1.55	Party list
Cyprus	PR	5,413*	20,457	4.53	Party list
Czech Republic	PR	13,447***	13,617	0.13	Party list
Denmark	PR	11,438	27,827	2.25	Party list
Dominica	WTA	4,356*	8,197	2.13	
Dominican Republic	PR	2,080	6,497	2.89	Party list
Equatorial Guinea	PR	970	6,495	4.87	Party list
Estonia	PR	11,380***	11,081	-0.27	Party list
Ethiopia	WTA	400	725	1.50	
Finland	PR	7,785	22,741	2.72	Party list
Gambia	WTA	722	954	0.70	
Germany	PR	13,686*	25,061	2.04	Mixed
Ghana	WTA	412	1,392	3.09	
Grenada	WTA	2,937*	5,896	2.35	
Guinea-Bissau	PR	493	762	1.10	Party list
Guyana	PR		3,733		Party list
Hungary	PR	5,721*	11,383	2.32	Mixed
Iceland	PR	8,381	25,795	2.85	Party list
India	WTA	892	2,644	2.75	
Indonesia	PR	1,071	3,772	3.20	Party list
Ireland	PR	5,294	24,948	3.95	Preference voting

Israel	PR	6,745	22,237	3.03	Party list
Italy	PR	7,167	22,487	2.90	Mixed
Jamaica	WTA	3,477	4,521	0.66	
Kenya	WTA	1,179	1,268	0.18	
Latvia	PR		8,998		Party list
Lesotho	PR	576	1,834	2.94	Mixed
Liberia	PR	2,004*	472	-4.71	Party list
Liechtenstein	PR				Party list
Luxemburg	PR	12,920	48,217	3.35	Party list
Malawi	WTA	461	839	1.51	
Malaysia	WTA	1,801	11,406	4.72	
Malta	PR	2,997*	18,863	6.32	Preference voting
Mexico	PR	3,719	8,082	1.96	Mixed
Micronesia	WTA	2,297*	3,782	1.68	
Moldova	PR		2,218		Party list
Morocco	WTA	1,299	3,720	2.67	
Nepal	WTA	800	1,421	1.45	
New Zealand	PR	12,063	20,423	1.33	Mixed
Namibia	PR	5,256*	5,269	0.01	Party list
Netherlands	PR	10,463	26,293	2.33	Party list
Netherlands Antilles	PR	11,965*	14,014	0.53	Party list
New Caledonia	PR				Party list
Nicaragua	PR	4,428	3,438	-0.63	Party list
Nigeria	WTA	1,106	1,074	-0.07	
Norway	PR	9,473	33,092	3.18	Party list
Pakistan	WTA	801	2,477	2.86	
Palau	WTA	8,692**	9,357	0.37	
Papua New Guinea	WTA	2,150*	4,355	2.38	
Paraguay	PR	2,510	4,965	1.72	Party list
Peru	PR	3,129	4,205	0.74	Party list
Poland	PR	3,973*	8,611	2.61	Party list
Portugal	PR	3,689	17,323	3.94	Party list
Romania	PR	1,276*	5,211	4.80	Party list
Saint Kitts and Nevis	WTA	3,757*	14,393	4.58	
Saint Lucia	WTA	2,877*	6,839	2.93	
Saint Vincent and Grenadines	WTA	2,540*	7,672	3.75	
Samoa	WTA	2,591*	3,071	0.57	
San Marino	PR				Party list
Sao Tome and Principe	PR	1,006	1,300	0.86	Party list
Singapore	WTA	4,219	29,434	4.98	
Slovakia	PR	9,874	9,697	-0.18	Party list
Slovenia	PR	15,202	18,206	1.82	Party list
Solomon Islands	WTA	1,988*	2,013	0.04	
South Africa	PR	4,927	8,226	1.29	Party list
South Korea	WTA	1,458	15,702	6.12	
Spain	PR	4,880	19,536	3.53	Party list
Sri Lanka	PR	866	4,047	3.93	Party list
Suriname	PR	3,704	4,753	0.84	Party list

Swaziland	WTA	2,785*	8,517	3.80	
Sweden	PR	11,065	25,232	2.08	Party list
Switzerland	PR	15,253	28,831	1.60	Party list
Tanzania	WTA	502	817	1.23	
Tonga	WTA	1,054*	3,398	3.98	
Trinidad and Tobago	WTA	6,274	14,770	2.90	
Turkey	PR	2,250	5,715	2.36	Party list
Tuvalu	WTA				
Uganda	WTA	873	1,058	0.48	
United Kingdom	WTA	10,323	24,666	2.20	
United States	WTA	12,892	34,365	2.48	
Uruguay	PR	6,143	10,740	1.41	Party list
Venezuela	PR	6,092	7,323	0.46	Mixed
Wallis and Futuna	PR				Party list
Yemen	WTA	974***	1,082	1.06	
Zambia	WTA	910	866	-0.12	
Zimbabwe	WTA	2,298	3,256	0.88	

Sources:

1) Information regarding income is from Penn World Tables, Version 6.2 compiled by Alan Heston, Robert Summers, and Bettina Atten at Center for International Comparison of Production, Income, and Prices at the University of Pennsylvania, September 2006 (http://pwt.econ.upenn.edu/php_site/pwt62/). Growth rates are calculated by the author. Information regarding representation system is taken from Wikipedia (http://en.wikipedia.org/wiki/Plurality_voting_system and http://en.wikipedia.org/wiki/Proportional_representation_system) as of November 22, 2007.

Notes:

1) PR and WTA stand for 'Proportional Representation' and 'Winner Takes All.'
2) Per capita income refers to the RGDPCH variable of Penn World Tables and refer to real GDP per capita measured as chain series in constant prices in terms of I$ of 2000.
3) Initial income refers generally to that of 1960. However, for some countries it refers to income in 1970, 1980, and 1990, and these are marked by *, **, and ***, respectively.
4) The growth rate is average annual compound growth rate for the respective periods.
5) Comments are mainly with regard to the type of Proportional Representation practiced in particular countries.

Table 2

Percentage of votes and number of seats received by major political parties in recent elections in Bangladesh

Year	Awami League (AL)		BNP		Jatiyo Party (JP)		Other	
	Vote (%)	Seats	Vote (%)	Seats	Vote (%)	Seats	Vote (%)	Seats
1979	24.55	39	41.16	207			34.29	54
1991	33.33	100	30.81	140	11.81	35	27.30	25
1996	37.44	146	33.61	116	16.23	31	12.72	7
2001	40.13	62	47.03*	216	7.25	14	5.59	8

Source: Choudhury (2006a, and 2006b)

Endnotes

1. See Islam (1980) for a more detailed discussion of these issues.

2. See Sobhan (2007a and 2007b) for some *ex-ante* discussions of exit problems of the 1/11 regime.

3. See Islam (2007) for a more detailed discussion of this issue.

4. See Islam (2004) for a more detailed discussion of this issue.

5. This dependence of the current and future on the past and on slow- or unchanging characteristics of a country is often referred to in the literature as *path dependence*.

6. Many argue that democracy has cost India in terms of economic growth. However, democracy has helped India to hold together, and is now not preventing India from enjoying growth acceleration when necessary global opportunities have presented themselves at India's doorsteps. Nevertheless, even the Indian democracy remains far from perfect. See Sen (1999) for an evaluation of the role of democracy in India.

7. There are limitations to each of these under prevailing democracy, though that is not the main issue for this paper. Also, as mentioned earlier, the democracy under discussion is capitalist (or bourgeois) democracy.

8. For general discussions on the WTA and PR systems, see Amy (2000 2002), Barber (2000), Colmer (2003, 2004), Cox (1997), Hill (2003), Linton and Southcott (1998), and Loenen (1997).

9. It may be noted that the USA itself was, in a sense, British colony.

10. The primaries of the US Democratic Party actually use the proportional system, and that was one reason why the Democratic Party primaries of 2008 proved to be more interesting than primaries of the Republican Party, which still uses the WTA system

11. A more firm answer to this question however requires a more thorough investigation.

12. Of course, rounding is an issue, and there are many methods of rounding and allocation from which to choose.

13. In the extreme case, when single seat constituencies are chosen as the sub-national level, the PR system becomes equivalent to the WTA system!

14. Interested readers can see the references cited in the previous footnote.

15. See Wikipedia (2008) for details.

16. See Choudhury (2006a, 2006b) for more discussion of Bangladesh's recent vote arithmetic.

17. Parties can always think about forming alliances after the elections are over when everybody knows everybody's true electoral strengths.

18. Put differently, it may be said that under the current WTA system in Bangladesh, "bad politicians are driving out good politicians," an outcome that is analogous to what happens in the currency market where "bad money drives out good money."

19. The PR system may therefore generate a process something similar to that of party primaries in the US. However, unlike the US, where primaries are held to choose only the party candidate for presidency, in Bangladesh the party primaries will have to focus on the entire list of candidates for the parliament.

20. See for example, Rashid (2007).

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The Vicious Cycle of Administrative Politicization in Bangladesh

Ferdous Jahan
and
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Abstract

The paper argues that the excessive and extra-legal practice of politicization in public service recruitment system in Bangladesh creates a vicious cycle of incompetence: because of politicization, fewer competent candidates enter the civil service; with fewer competent new entrants, the scope for politicization increases; and less-competent civil service and politicization together deter the most able candidates from entering the civil service.

Introduction

Present day Bangladesh was part of the British Empire for almost two hundred years until 1947 and then was under Pakistani rule until 1971. Consequently, colonial and Pakistani imprints still persist in political and administrative arrangements of Bangladesh. The British tradition helped the bureaucracy to become an essential tool of governance and the Pakistani convention encouraged bureaucrats to get involved in power politics (Huque 1997). After its independence in 1971, Bangladesh has experienced a series of political transitions. A few years of democracy were followed by nearly fifteen years of military rule. In 1990, Bangladesh again adhered to a democratic structure that was in place until January 11, 2007. However, the nature and role of bureaucracy in both the pre-democratic and democratic period remained almost the same except for an increase in number of ministries, divisions, departments and statutory bodies (Ahmed 2002). But, at the same time, the nature and the role of government have changed. For example, after independence its focus was on the attainment of development in all spheres of life by direct state intervention. From the beginning of the 1990s, adhering to the market economy principle forced the government to change its' role from an intervener to a referee; instead of playing the game, its main duty has been to make sure that a fair game is being played. This reinvented role of the government necessitated redefining the role of the bureaucracy. Bureaucracy should be considered as an "open" system interacting with domestic, economic, political, and social environment as well as with global threats and opportunities (Welch and Wong 2001). The performance of a public organization depends largely on how the domestic political institution handles global pressures as well as how it utilizes its bureaucracy to this end.

However, it may be difficult for the bureaucracy to adapt to global needs as fast as it needs to do. There is a common perception that civil servants are more or less apathetic to the needs of the people and that they are unwilling to listen to them (Alkadry 2003). In a country like Bangladesh, where global pressure is imminent and the domestic political institutions are ill-structured, the colonial legacy places the bureaucracy in a more intricate position. Consequently, it is possible—but not necessarily desirable—that the two primary state institutions, politics and bureaucracy, forge an alliance. This alliance, however, may make the bureaucracy more inefficient and ineffective. Undue and extra-legal politicization in public service may pollute the civil service recruitment process by selecting a non-qualified person in a public office. Eventually, it may cause a decline in the morale of the civil servants and reduce their efficiency and effectiveness. Thus, faulty and politicized recruitment may create a vicious cycle: because of politicization fewer interested, meritorious candidates enter the civil service; with fewer meritorious new entrants, the scope for politicization increases; and this further deters the most able candidates from entering the civil service. This paper argues that this vicious cycle existed in Bangladesh Civil Service during the 1991-2006 period.

To understand and explore the extent and nature of problems related to politicization in civil service recruitment process, we conducted qualitative, interview-based primary research. We interviewed 5 members of the Civil Service of Pakistan,[1] 15 mid-level and 20 fresh BCS officers, and 50 recent graduates of public and private universities. For the purpose of the study, we consider mid-level civil servants as those who have been in the civil service for more than 5 years and hold a rank no higher than deputy secretary. Fresh civil servants are defined as those with not more than 5 years experience. In this paper, we first provide an overview of the public administration system of Bangladesh and analyze the

existing recruitment system of the Bangladesh civil service and describe the process and problems of this system. The next section deals with the growth, nature and extent of politicization in the civil service of Bangladesh. The fourth section contains an analysis of our primary research data and findings. Efforts have been made to analyze the impact of the existing recruitment procedure and the practice of politicization on the career choice of recent university graduates. The final and concluding section describes and scrutinizes the reform efforts made so far by the Care Taker Government (CTG). We argue that the CTG is in an unique position to initiate reform efforts to break the vicious cycle of recruitment problems and negative politicization. However, through analyzing the reform efforts undertaken so far by the Caretaker Government (CTG), this paper concludes that these reforms are cosmetic in nature and are unlikely to bring any systematic change to the existing civil service status-quo.

The Bangladesh Civil Service: Structure and Reform Efforts

The Structure of Bangladesh Civil Service

The government of Bangladesh has a two-tier administrative system. The upper tier is the central secretariat at the national level consisting of the ministries and divisions to provide policies and to perform clearinghouse functions. The other tier consists of 'line' departments/directorates attached to the ministries and divisions that are mainly responsible for general administration, service delivery to citizens and implementation of various government development programs at the sub-national level (Ahmed 2002). At present, the Bangladesh civil service has more than one million civil servants in 37 ministries, 11 divisions, 254 departments and 173 statutory bodies (ADB 2005). The internal organization structure of a ministry reflects a hierarchical order. A minister is in charge of a ministry and is normally the "political head" of that ministry. A ministry consists of at least one division. A secretary or, in his absence an additional secretary, is considered the "administrative head" of the ministry. He/she conducts and looks after the duties of a division, which includes routine operation, supervision of its staffing and organizational processes. He/she is also the adviser to the minister regarding policy and administrative issues. A division can further be divided into wings. A wing is composed of branches. The head of a wing—a joint secretary—supervises the activities of the branches within his wing. Each branch is under the charge of a deputy secretary. A section is the lowest level of administration headed by an assistant secretary (Zafarullah 2005). There are four classes in Bangladesh civil service. Class I and part of class II officers are treated as "gazetted" officers; the rest are considered as "non-gazetted" officers (Ahmed 2002).

Administrative Reform Efforts

Bangladesh inherited an archaic and colonial administrative structure. The performance of the bureaucracy has not been beyond question (Khan and Zafarullah 2005). To meet the demands of a changing society, successive governments tried to reform the administrative system by appointing fifteen administrative reform commissions and committees. Each tried to reform the administrative system to make it more dynamic, efficient and representative. Two of them, Administrative and Services and Reorganization Committee (ASRC-1973) and Committee for Administrative Reform and Reorganization (CARR-1982) went beyond "the domain of the traditional administrative system and pleaded for democratization of administration and devolution of power to elected local governments". The reform efforts by the Public Administration Reform Commission (PARC-2000) were clearly influenced by the New Public Management movement. PARC provided some innovative ideas, submitting 70 short-term and 37 long-term recommendations. Considering citizens as customers, the commission urged the improvement of public service delivery, reform and downsizing of the civil service, and taking measures to combat corruption, among others (GoB 2000). However, most of the recommendations of the reform committees were never implemented; in a few cases, the recommendations were implemented in a modified form (Ahmed 2002).

The literature on administrative reform suggests that the reform efforts were unsuccessful mainly because of the lack of commitment of the government and the strong resistance by the civil servants. Most of these reform efforts tried to provide technical solutions and neglected the socio-political dimensions (WB 2002). Moreover, bureaucrats, in general, are reluctant to change. A review of the literature suggests that, so far, they have succeeded either to resist any reform agenda or to create impediments in implementing it. Resistance has two phases. First, power and authority to make the reform successful is concentrated in the hands of bureaucrats and, second, after taking control, they adopt a non-cooperative or a go-slow approach. A study conducted by Monem (2006) on the privatization experience of the country provides a classic example. From the beginning of the

privatization experience, "successive regimes placed enormous responsibility and authority for privatizing enterprises in the hands of a group of senior bureaucrats" (Monem 2006, p. 114). A number of bureaucrats supported the privatization policy but their main interest was "to get a share of the pie." Public corporation bureaucrats always resist privatization, as there is every possibility of losing power and authority. By maintaining strong connections with the ministerial bureaucrats, who could not get a share of the pie, the impediment is created. The impediment is manifested by "non-co-operation or slow official actions on privatization affairs" (Monem 2006, p. 123). Reforms that threaten the status of the civil service face even more resistance. For example, the Rules of Business followed in the civil service of Bangladesh was initiated in 1975. Though it has been revised, the bureaucracy has so far been successful in resisting any effort that can pose a threat to its centralized character (Siddiqui 2006). The decentralization agendas of various governments has met the same response. Whatever the method used, the bureaucracy has successfully created impediments to ensuring people's participation (Morshed 1997).

Politicization of Bureaucracy

The national government that came into power immediately after independence openly showed its antipathy towards the elitist civil service of Pakistan and took measures to eliminate elitism and make the bureaucracy a dynamic organization. To reduce the power of the generalist civil servants, academicians were appointed to the highest posts of the civil service. This effort made the bureaucracy uncomfortable; the government later withdrew from the reform efforts, but the bureaucracy remained in a vulnerable position (Hakim 1991). Within a few years, assassination of leaders, coups and counter-coups disturbed Bangladesh; and this political instability created an opportunity for the bureaucracy to regain its previous status. In 1972, Alavi commented that there was a chance that in the future Bangladesh might come under military rule and new bureaucratic-military oligarchy would then come into existence. (Alavi 1972). This is exactly what happened after 1975. In spite of some efforts made by politicians, no viable, transparent or accountable political institution developed and, in its absence, an alliance between the civil and military bureaucracies emerged. From 1975 to 1990 there was military rule, in various forms, in Bangladesh. The military authority needed the support of bureaucracy; and the bureaucracy strengthened its position in return for supporting the military regime. The bureaucracy's power continued to expand because its "organizational strength and managerial skills" were essential for supporting successive governments. Thus, the bureaucracy attained considerable autonomy.

When Bangladesh decided to embrace a democratic system in 1991, the bureaucracy found its autonomy challenged. Eventually, the bureaucracy found out a new strategy to overcome this *"problem"*. It was done in two ways. First, after retirement, senior bureaucrats began "infiltrating the ranks of politicians". Second, the bureaucracy allowed itself to be politicized. The political parties did not prevent this process as the bureaucracy's support was necessary to run and manage the country. This gave rise to massive politicization and to an erosion of the traditional values of public service neutrality held by the bureaucracy (Huque and Rahman 2003).

However, the politicization of bureaucracy is not unique to Bangladesh. In one way or another, politicization is present in the administration of almost every developed country. It exists to allow the political leadership—those who are elected and the advisors they hire or appoint directly—to coordinate with the administrative leadership, senior career civil servants. Reorganizing ministries and transferring selected senior civil servants are political actions, but they can be justified or rationalized as enhancing efficiency and can be considered positive or allowable politicization. In this discussion we focus on the negative aspect of politicization. It exists when personnel management decisions like transfer, promotion, and contractual recruitment depend not on quality and efficiency but on the person's loyalty to a certain political party: the subversion of merit and seniority standards damage the civil service as an institution. The democratic era in Bangladesh has witnessed massive politicization but it was not to gain efficiency and increase effectiveness. Rather, the primary emphasis was placed on recruiting "party men bureaucrats" irrespective of their qualifications.

In the first five years of democracy—1991 to 1996—the Bangladesh Nationalist Party (BNP) ruled the country. Politicization appeared in various forms including the placement of party loyalists in important civil service positions. The government also tried to manipulate the recruitment process of the civil service by letting in candidates with links to the student wing of the party (Khan, Rahman, and Zafarullah 1997). On February 8, 1992, the government decided to promote as many as 654 officials, which created controversy. Further, from 1991 to 1996, the government issued orders of forced retirement of at least 51 civil servants, most of whom

were never shown any reason for the order (Karim 1996). After coming to power in 1996, the Awami League continued the process of politicization. A number of senior civil servants, in 1996, were directly involved in a movement to remove a democratically elected government. The government decided to reward these civil servants by including one of them in their ministry and by promoting the others (Huque and Rahman 2003). In 2001, 355 officials were promoted depriving many competent officials of promotion, as the government was not sure about their political loyalty (The Daily Prothom Alo, January 14, 2001). Moreover, the number of contractual recruitment increased significantly through 2000: 174 civil servants were recruited on contractual basis (The Daily Sangbad, August 8, 2000).

In 2001, the BNP formed the government and maintained firm control over the bureaucracy by making it highly politicized. The government created a record by appointing 978 officials as "Officer on Special duty" (OSD) (The Daily Janakantha, May 21, 2006). Allegedly, promotion decisions were no longer being made according to seniority or merit; rather importance was given to party loyalty. Furthermore, the number of contractual appointments also increased and most of these appointments, and extensions of contracts, were made on the basis of political allegiance (The Daily Star, July 17, 2006). It was reported that the government initiated a new process of politicization. With the consent of Prime Minister's Office (PMO), an unofficial cell was created to make sure that no civil servant who was sympathetic to Awami League was promoted (Khan 2003). The SSB (Superior Selection Board) was made dysfunctional as the decisions were made by the PMO and the SSB's only duty was to approve the list supplied by the PMO (The Daily Janakantha, May 5, 2006). These examples illustrate just a few instances of a broader pattern: the problem of negative politicization had been very common between 1991-2006.

Civil Service Recruitment: Process, Problems and Politicization

During colonial times, the bureaucracy was simply an apparatus to govern the country as per the requirements of the colonial lords. Special emphasis was on making the bureaucracy an elite and organized force totally alienated from the society (Alavi 1972). Access to civil service was limited to young university graduates belonging to the rich upper class. This pattern continued during the Pakistani period. After liberation, the Bangladesh constitution ascertained that equal opportunity for all citizens should be the guiding principle in public service recruitment and special arrangements were undertaken to create opportunities for disadvantaged groups. According to the current recruitment policy, there are three means of recruitment: direct recruitment—open competitive examinations; promotion and transfer; and direct lateral recruitment (GoB 2004). Class I Officers (the key decision makers and roughly 8% of all civil servants) are recruited directly by the PSC through an open competitive examination into 28 cadres and other government services. The Ministry of Establishment gathers staffing requirements from ministries and government bodies to determine the number of new officers to be recruited. It then advises the PSC to conduct the competitive examination and finalize the list of potential recruits. Finally, the Ministry of Establishment appoints officers from the list supplied by the PSC. Recruitment follows the Bangladesh Civil Service Recruitment Rules of 1981. While Bangladesh largely follows a closed entry system, there is a provision for 10% "lateral" entry into the civil service to more senior grades from outside the service. In addition, the PSC is required to reserve appointment of Class I posts according to the following quotas:

- 30% reserved for freedom fighters or the children of freedom fighters
- 10% reserved for women
- 5% reserved for tribal groups
- 10% reserved for different districts (based on district population density)

This quota system leaves only 45 percent of the posts for recruitment to be filled following a merit-based open competitive system.

In case of direct recruitment, the literature suggests that the examination system is not sufficient to bring meritorious personnel into the public service. It does not test for creative thinking and analytical ability. Most candidates memorize study guides, write the answers mechanically and pass. The questions are prone to favour the "impetuous" and "shallow-knowledged" candidates (Zafarullah 2005). Moreover, since the beginning of the democratic era, the PSC itself became both a victim and a tool of political manhandling. Whereas in the past, people with the highest integrity and competence were appointed as PSC Chairs and Members, during this period, inclination towards the ruling party substituted integrity, and absolute loyalty to that party replaced competence as the criteria required for appointment in these constitutional posts (Jahan and

Shahan 2008). These political appointments had a number of consequences. First, it allowed the ruling political party to take control over the recruitment procedure. Second, a number of politically appointed Chairs and Members engaged in corruption to accommodate political appointees as well as for their own gain. It was alleged that the PSC Members and Chairs got involved in 'selling' different cadre service posts at different prices, tampering with the mark sheets of the BCS examination and also in giving away the question papers to the activists of the ruling party. These practices eventually tarnished the image of this constitutional body (IGS 2007). The PSC had to cancel the 24th BCS preliminary test due to alleged leakage of question papers (The Daily Star, August 11, 2003). In fact, allegations of leakage continue to emerge at every preliminary and written test. The persistent concern about leakage as well as politicization damages the credibility of the public service examination process and is causing meritorious students to reconsider pursuing public sector careers. Because of loopholes in recruitment procedures, a large number of incompetent candidates have entered the civil service and the outcome has been embarrassing for the country. In a number of occasions, the capability of Bangladesh civil servants in implementing foreign aid projects has been questioned (The Daily Star, July 17, 2006). A senior PSC member confessed that the performance of the civil service is sometimes embarrassing for the government as some civil servants lack a basic command of the English language and communication skills (The Financial Express, October 29, 2005). The increase in contractual recruitment in the civil service may also reflect the competency problem: the government often has no alternative but to contract because of the insufficient number of skilled public servants.

Perception of Bangladesh Civil Service: Analysis of Primary Data

In the previous sections, we have found that the civil service has been politicized negatively by successive regimes and recruitment of entry-level officers has not been free from faulty recruitment process, politicization and corruption. On the other hand, the conventional view is that the Bangladesh civil service attracts the country's meritorious students and cultivates an elitism that makes civil servants apathetic to the needs of citizens, especially the poor. A review of the existing literature indicates that the conventional wisdom may no longer fit the fact: the civil service is losing its appeal as the best career choice for many able candidates. The two major problems discussed in the first part of the paper—defective recruitment system and politicization—have contributed to the declining status and appeal of civil service careers.

Our primary research attempts to understand the impact of faulty recruitment procedures and rapid politicization on the status of civil service in general. The research questions that we have examined are: Are bright recent graduates from public and private universities still interested in joining the civil service? If not, what are the reasons? If they still want to join the civil service, what factors make the civil service an attractive career option? Is the recruitment process sufficient to select the best candidates? Are the status and power of the civil servants declining? What do civil servants and prospective candidates think about politicization of the bureaucracy?

Our survey instrument is a semi-structured questionnaire consisting of both open-ended and close-ended questions. The interviews were conducted during July-November 2006. While our primary focus is on the perceptions of prospective candidates, we also examine whether entry-level and mid-level civil servants share similar perceptions. This part of the paper analyses the qualitative data obtained through interviews with mid-level and entry-level civil servants and potential BCS recruits.

Table 1 reports the demographic characteristics of our interviewees. Almost all of our potential BCS candidates are below 30 years of age. The entry-level officers—those with less than five years of service—are no older than 35 years of age and are mid-level civil servants —those with five or more years of service—are mostly older than 35 years of age. We did not consciously try to keep an equal male-female ratio when selecting our interviewees. Given the time constraints and lack of availability of the civil servants to interview, we followed a snowball method in interviewing willing and available officers. In the end we found that we have more than 80 percent male respondents among the serving civil servants. This corresponds with the fact that the representation of women in civil service of Bangladesh is very low. According to UNDP's Human Development Report, 2005, women

Table 1: Demographic Data

Respondents	Age Range				Sex		Total
	20-25	26-30	31-35	35+	Male	Female	
Prospective Candidates	28 (56%)	21 (42%)	1 (2%)		27 (54%)	23 (46%)	50
Entry-level Civil servants		8 (40%)	12 (60%)		16 (80%)	4 (20%)	20
Mid-level Civil Servants			2 (13%)	13 (87%)	13 (87%)	2 (13%)	15
Total and Percentage	28 (33%)	29 (34%)	15 (18%)	13 (15%)	56 (66%)	29 (34%)	85 (100%)

administrators and managers in Bangladesh is only 8.5 percent. However, we tried to ensure better gender representation when interviewing potential candidates.

Change in Society's Attitude Regarding Civil Service Jobs

Society is a complex system in which people from different classes and educational and occupational backgrounds interact. In a modern state, people from all walks of life interact with civil servants. Hence, to determine whether a change has occurred in society's perception about civil service is not easy. However, we tried to find out what actually comes into our interviewees' mind when they hear the word "civil service". Haque described bureaucracy in Bangladesh as an effective tool of governance (Huque 1997). Do the interviewees think so?

We found that both the prospective and serving civil servants perceive that a change has occurred in society's attitude towards the civil service. The change is not positive. More importantly, we have discovered a high degree of dissatisfaction among the prospective candidates. They described the Bangladesh civil service as a corrupt, politicized and an over-centralized organization where getting things done is almost impossible. In 1997, Zafarullah pointed out that the civil service is over-centralized, unaccountable and inefficient. The prospective candidates agree with this statement. While being interviewed, one job seeker showed his disgust about civil service by describing it as "worthless". Widespread corruption seems to be "the new feather in the cap". Civil service to prospective candidates is "absolutely corrupt and politicized."

Most of the entry-level civil servants agree with this view. They agree that people now "show less respect to the civil servants". Nonetheless, some of them disagree. One of them commented, "Well, it is the digital age. People get more information and they are more conscious. Their consciousness and the pressure of globalization have forced the civil service to be more citizen-oriented." They opined that civil service no longer poses an "elitist" character and thus people can rely on them more.

However, the mid-level civil servants' opinion differs on this issue as one-third of them believe that society's attitude has been changed positively towards civil service. This supports the idea that the civil service of Bangladesh is more or less a closed system as slightly more than half of the mid-level officers perceive either that the change has been positive or that there has been no change.

Perception of Recruitment Process

During the post-1991 democratic era, political leaders started taking control over the bureaucracy (Haque et al., 2003). The situation took an important turn after the "*Janatar Mancha*"[2] movement initiated by the civil servants in 1996. Since then, the political party in power tried to prevent repetitions of such movements. The immediate impact was upon the recruitment process. Thus, we asked the respondents what they thought about the recruitment process of Bangladesh Civil Service.

For the purpose of this study, recruitment process means entire procedures of civil service examinations except the question pattern. To both prospective candidates and entry-level civil servants, the recruitment process is highly corrupt. While being interviewed, a prospective candidate admitted that he had bribed a viva board member to make sure that he could get the job. Leakage of question papers has

Table 2: Change in Society's Attitude

Respondents	Change in society's attitude towards civil service			Total
	Positive Change	Negative Change	No Change	
Prospective Candidates	5 (10%)	43 (86%)	2 (4%)	50
Entry-level Civil servants	5 (25%)	11 (55%)	4 (20%)	20
Mid-level Civil Servants	5 (33%)	7 (47%)	3 (20%)	15
Total and percentage	15 (18%)	61 (72%)	9 (11%)	85 (100%)

Table 3: Perception about Recruitment Process

Respondents	Do You Think That The Present Recruitment Process is Corrupt?				Total
	Yes	No	Negligible	No Comments	
Prospective Candidates	41 (82%)	7 (14%)	2 (4%)	0	50
Entry-level Civil servants	15 (75%)	3 (15%)	2 (10%)	0	20
Mid-level Civil Servants	5 (33%)	6 (40%)	3 (20%)	1 (7%)	15
Total and percentage	61 (72%)	16 (19%)	7 (8%)	1 (1%)	85 (100%)

become common and one prospective candidate said, "I actually got a suggestion before the preliminary test consisting of only 90 questions. When I saw the question paper, I realized about 95% of them had come from that so-called suggestion." While the current environment is producing a negative perception, the mid-level civil servants interviewed have yet to realize this. Although one third of them agreed that the recruitment process is corrupt, for 60% of them the process is either quite all right or the scope of corruption is negligible.

Political pressure is undoubtedly one of the reasons behind this extensive negative perception regarding civil service recruitment. We find that roughly half of the civil servants interviewed identify the appointment and conduct of the PSC chair/members as responsible for the corruption of recruitment. One retired CSP officer commented, "as long as the senior bureaucrats headed the PSC, the recruitment process was fair. They knew what they were doing. But, you tell me how a university professor from a pure science discipline understands who we need to recruit for civil service." Moreover, in our discussion with mid-level and entry-level officers, we found that, to them, the appointment of the chairperson and the members of the Public Service Commission based on their political loyalty is the seed of all misdeeds. They do not play an adequate role and sometimes they join the party in power by infiltrating corruption using their influence. "They are greedy," one entry-level officer remarked, "Besides, as they are politically appointed they know they can get away with that." The prospective candidates though did not identify the role and nature of appointment of PSC members as the main source of corruption; however, they agreed that political pressure indeed played a major role in the case of civil service recruitment. One prospective candidate recalled, "Facing the Viva board was really a horror experience for me. All sort of political questions were asked and when they found out that my political view was different from theirs, I realized that that was the end of the journey for me. Later, I came to know that I was rather lucky. One of my friends was asked why she did not wear a *hijab* to cover her head and whether she knew the *quranic* verses needed for prayers. That was too much for her. She walked out of the room and now both of us are private sector employees." Another prospective candidate said, "Well, we all know about the leakage of question paper, but let me tell you something, the real beneficiaries of this question leakage practice are the activists of the student wing of the ruling party. It is they, who got hold of the question paper and it is they who circulate it." He further added, "Now, tell me, if the examination is designed in such a way that it would favor alone a certain group of people, how can I depend on my

Table 4: Sources of Corruption

Respondents	Reasons behind Corruption in Civil Service Recruitment*			
	Political Pressure	Nature of Appointment & Role Played by PSC Members	No Idea	Others
Prospective Candidates	45 (90%)	5 (10%)	0	0
Entry-level Civil servants	7 (35%)	12 (60%)	5 (25%)	5 (25%)
Mid-level Civil Servants	3 (20%)	5 (33%)	6 (40%)	4 (27%)
Total and Percentage	55 (65%)	22 (26%)	11 (13%)	9 (11%)

(*Multiple answers were allowed)

merit only to pass the BCS examination?"

What Motivates and what De-motivates Potential Candidates?

We tried to find the core factors that may de-motivate future candidates in joining the civil service and we found three: inadequate salary, faulty examination procedure and existing bureaucratic culture. There is a difference between the inside-the-job view and the outside-the job view. For prospective candidates the main de-motivating factor is the faulty examination procedure whereas according to mid and entry-level civil servants, both inadequate salary and job environment play a vital role in discouraging one from sitting for the BCS examination. It is likely that once inside the civil service the faulty examination procedure does not seem significant. It is striking though how evenly divided the responses are among the three factors. For civil servants, examination ceases to matter, and their responses are relatively evenly divided between salary (28 responses from 35 interviewees) and job environment (25 responses from 35 interviewees).

Faulty examination procedures includes the length of the entire examination process, the leakage of questions, politicization in case of recruitment, an unaccountable viva board, etc. One prospective candidate said, "When I was in the examination hall scanning through the question during the preliminary test, I looked around and found that almost everybody had gotten the exam questions earlier. It was so frustrating. Then I decided even if I passed the preliminary test, I would not sit for the written test," and, "well, I passed in the preliminary test and that was the end. I never sat for the BCS examination again." On the other hand, another prospective candidate enjoyed the preliminary test and the written examinations. However, "the real horror started when I faced the viva board. I was asked no academic questions rather; the chairman of the viva board, in front of everyone, told me that if I wanted to get my desired cadre, I had to 'spend' something. He even asked me to see him after the viva voce. I ignored his request and after a few days, he called me up and told that if I said that if I was interested in spending money, he would see that I got my desired cadre."

Almost all of them agreed that the examination procedure was too lengthy. However, a few of the prospective candidates supported the present recruitment procedure. To them, "it is the most cost effective way to select the best." An entry-level civil servant agreed, saying, "It is the best the country can offer."

The three categories of respondents agreed that inadequate salary benefit is a major obstacle in joining the civil service. They also found the job environment too rigid to allow an individual to do something creative. "Taking initiative and coming up with creative ideas is not well appreciated," commented one entry-level civil servant.

A potentially positive finding is that despite all of its flaws, more than half of the bright meritorious students are still willing to sit for the BCS exam. They still consider civil service jobs as prestigious and attractive. "Whatever happens, civil service is civil service," remarked one public university graduate. However, the private university students are not at all interested in joining the civil service. In fact, students coming from the private universities have little idea about the civil service of Bangladesh. Seventy percent of them admitted that they were not aware about the salary benefits provided by civil service and had no clear idea about the composition of the civil service or what it did.

Another dimension is rural versus urban background. For meritorious students from urban areas, especially from the capital city, a job in the Bangladesh Civil Service is no longer a lucrative career choice. To them, private sector jobs and having their own business enterprise have become more attractive. To

Table 5: De-motivating factors

Respondents	De-motivating factors in case of sitting for BCS exam*		
	Inadequate Salary	Faulty Exam Procedure	Job Environment
Prospective Candidates	20 (40%)	22 (44%)	18 (36%)
Entry-level Civil servants	16 (80%)	1 (5%)	16 (80%)
Mid-level Civil Servants	12 (80%)	1 (7%)	9 (60%)
Total and Percentage	48 (56%)	24 (28%)	43 (51%)

(*Multiple answers were allowed)

Table 6: Civil Service as Career Choice (Public versus Private University Graduates)

Respondents	Will You Consider Sitting For BCS Exam?			Total
	Yes, I Will	May be I Will	No, I Will Not	
Prospective Candidates (Public University)	21 (52%)	8 (20%)	11 (28%)	40
Prospective Candidates (Private University)	2 (20%)	2 (20%)	6 (60%)	10
Total and Percentage	23 (46%)	10 (20%)	17 (34%)	50 (100%)

Table 7: Civil Service as Career Choice (Urban versus Rural Background)

Respondents	Will You Consider Sitting For BCS Exam?			Total
	Yes, I Will	May be I Will	No, I Will Not	
Prospective Candidates (Coming from urban Area)	8 (28%)	4 (14%)	17 (58%)	29
Prospective Candidates Coming from rural Area)	15 (71%)	6 (29%)	0	21

students from the suburb or rural areas, however, civil service jobs have not lost their attraction.

This new trend in career choice among job seekers may in the long run help the country in two ways. First, if the civil service becomes more representative of Bangladeshi demography (more officers coming from rural and suburban areas instead of big cities) it may help eliminate elitism that persists in the civil service. Eventually, the civil service may become dynamic and reliable and more connected to the pro-poor development agenda. Second, it may accelerate the bottom-up approach and the people's voice may more likely be heard by the bureaucracy.

Interestingly, though recent graduates willing to join the civil service have a positive outlook about civil service jobs, the opposite is not always true for the graduates who are reluctant to join the civil service. A good number of the latter possess a positive attitude about civil service as a career choice. Their reluctance centers on some institutional failures of the public sector, not on the relative attraction of the private sector. For example, if problems with the examination procedure were rectified (i.e., leakage of question paper, lengthy, politicized exam procedure), more than half of the prospective candidates would consider civil service jobs as their first choice. Similarly, if civil service salary benefits were made equal to that of the private sector, then 60% of prospective candidates would sit for civil service jobs. According to one respondent, "If salary benefit is increased, I think everyone will go for civil service jobs."

Table 8: Motivating factors

Respondents	Motivating factors for Joining Civil Service*					
	Job Security	**Status/ Power**	**Salary Benefit**	**Serving the Nation**	**Desire/ Suggestion of Family member**	**No Idea About Civil Service/No comment**
Prospective Candidates (Public University)	19 (48%)	6 (15%)	0	3 (12%)	0	12 (30%)
Prospective Candidates (Private University)	2 (20%)	4 (40%)	0	0	0	4 (40%)
Entry-level Civil Servants	9 (45%)	11 (55%)	0	7 (35%)	0	0
Mid-level Civil Servants	5 (27%)	2 (14%)	0	0	6 (40%)	2 (14%)
Total and Percentage	35 (41%)	23 (27%)	0 (0%)	10 (12%)	6 (7%)	18 (21%)

(*Multiple answers were allowed)

So far, we have found a mixed picture. The most important finding is that, despite all these problems, meritorious, bright students are still attracted to civil service jobs. The basic question is: What can the civil service offer that may attract the best candidate on the job market? We have found a number of factors and of them the most important is job security. As a number of prospective candidates with working experience in private sector pointed out, "Job security is the main thing; if certain things were changed we would definitely go for public sector."

Job security has always been an important factor motivating people to join the civil service. Our data indicate that as a motivating factor its importance is actually increasing. Due to the "horror" stories of politicization or corruption, the status of the civil service is no longer the main determinant. Only 20% students think that at present the status that civil servants enjoy is sufficient to attract prospective candidates; Public university graduates have a more favorable evaluation of the status than private university graduates. An important point to consider is that the flourishing private sector may offer better salary and benefit package and innovative challenges, but it lacks job security. Many prospective employees prefer job security to challenge or competition.

The reason behind joining the civil service also reflects a more realistic or pragmatic bent. As society adopts an urban, capitalist structure, its impact is felt in various institutions, especially the oldest one, the family. Our research indicates that for mid-level officials, choice of a career largely depends on guidance from family members. The younger, newly appointed officials are more individualistic. Family plays a role but the basic reasons behind joining the civil service, in their case, are the social status and recognition that civil service can still provide. On the other hand, for the students who are likely to join the civil service, the main reason is the job security they can enjoy while performing their duties. In fact, from prospective through entry-level to mid-level applicants of civil service, job security is the only factor that has never lost its appeal.

Trends in the Administrative System in Bangladesh

Existing literature as well as analysis of the empirical study findings reflect a certain trend regarding the administrative system in Bangladesh that existed during 1991-2006. Politicization, i.e. partisan control of the bureaucracy, became the order of the day and the recruitment procedure became a major source of enforcing partisan control. During this period, it became evident that linkage with the student wing of the ruling party could provide one with a place in the once-elite civil service of Bangladesh. In fact, the PSC turned into a gateway of the party loyalists

within the civil service. As a result, it might have allowed many not-so-competent personnel to get into the civil service.

Due to this unbridled politicization in the recruitment process the meritorious and competent candidates with no political linkages had accepted the fact that the civil service had no entrance for them. As the data show, meritorious students with an urban background were reluctant to join the civil service, whereas, students coming from the rural areas were still interested. It is highly likely that if the existing trend continues, soon they will lose all their enthusiasm. At the end of the day, the government will be left with a few "on the verge of losing interest" meritorious candidates and "many keen to join the civil service" political loyalists. This trend will provide the government an opportunity to further enhance its political control over the civil service. Thereby, a vicious cycle has been created as reflected in the following diagram.

The diagram shows that 'efforts' taken by the party in power to politicize the recruitment process highly discourage the meritorious and competent candidates to join the civil service. This trend increases the scope of politicization as the keen-to-politicize government would grab this opportunity to include the party loyalists within the civil service. The cycle continues as this scope results in further political control of the recruitment procedure.

Considering these trends, the civil service presents a grim scenario. The civil administration has become an ineffective instrument of governance where politicization has destroyed the expected level of efficiency, faulty recruitment procedure marred the expected level of competence and the apparent rule-bound framework followed by the civil service does not allow the practitioners to exercise the little creativity left within them. The result is a decline in the 'thinking capacity' of the government.

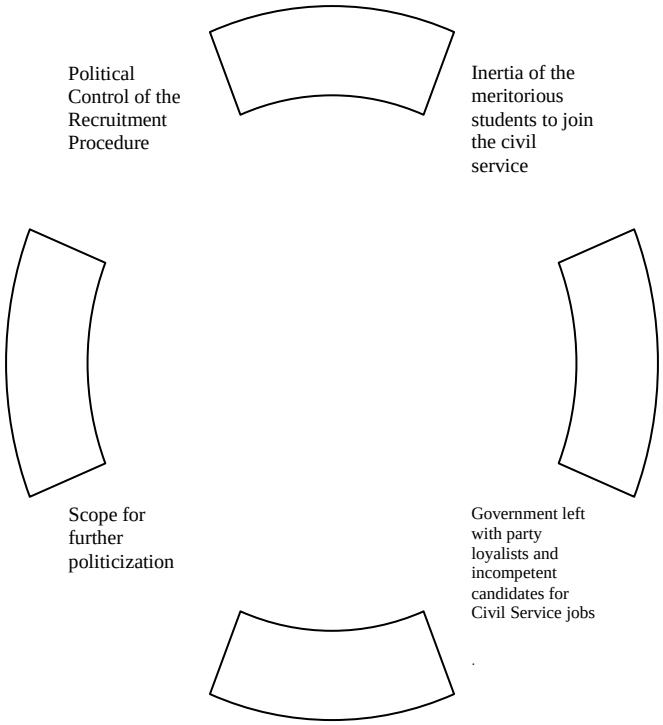

Fig 1: Vicious Cycle of Politicization in Civil Service Recruitment

Therefore, reform efforts should be directed primarily at:

- Ensuring neutral competence at the highest level of the government
- Encouraging meritocracy in the recruitment procedure through both bringing change in the examination pattern and offering incentive package
- Emphasizing efficiency and output rather than input

It was thereby expected that the present Caretaker Government (CTG) will take initiatives to bring these changes into the civil service.

Reform Efforts Initiated during the Tenure of the Caretaker Government

So far, the CTG has restrained itself from directly intervening in bringing changes in the recruitment system. The CTG's attempts have been limited to bring change in leadership in the constitutional body (PSC). Later, the PSC introduced a number of initiatives to bring reforms both within the PSC and in the existing BCS examination system. It has already submitted a proposal to the Ministry of Establishment which once implemented, will be followed for the upcoming 28th BCS examination (IGS 2008). The key changes outlined in the proposal are:

- Disclosure of marks for any specific subject to the candidates and a possibility of re-examining the marks on payment of an additional fee.
- Amendment of the Bangladesh Civil Service Recruitment (Age, Qualification and Examination for Direct Recruitment) Rules, 1982. Formerly, the application forms were verified by the PSC employees and a minor mistake caused cancellation of the application forms. The PSC now will verify the application forms in four phases- first by the Deputy Director, then by the Director, then by a PSC Member, and finally by the Chair. Moreover, the Commission will not cancel any application if 'late' or 'designations of freedom fighters' before parents' names are not mentioned.
- Providing telephone and cell phone numbers on the application form will be prohibited as it provided an opportunity for corruption in the past enabling the PSC employees to contact applicants directly.
- In the past, if the number of applicants was less than 100, the PSC held only *viva voce*. From now on, written examination will be held by the PSC regardless of the number of applicants for the vacant posts.
- Redesigning the preliminary test by introducing negative marking for wrong answers in the multiple choice questions.
- Formation of *viva* boards comprising of newspaper editors, bureaucrats, teachers of both public and private universities and heads of corporate organizations.

However, most of these proposed changes are incremental and preventive in nature. Instead of bringing a radical change to the examination system, they aim to prevent corruption in the existing examination procedure. The PSC, so far, has not taken any initiatives to abolish or revise the quota reservation policy for recruitment and to modify the recruitment policy of the PSC's in-house employees, or to design any measures to increase their efficiency. The reform efforts so far are unlikely to bring any radical changes to the existing bureaucratic structure of the civil service.

At the same time, the CTG has not taken any initiative that may threaten the status-quo of the civil service. Though at times, it has followed a procedure of reshuffling the administration, so far it has not taken any initiative to ensure the freedom of the civil servants from the grasp of the politicians. Moreover, no effort has been taken to devise a systematic transfer or promotion policy. It seems that rather than agitating the civil service the current government is more to build a partnership with the civil service.

Conclusion

To function properly the government needs to maintain an able and efficient workforce. To do so the government must ensure that the civil service remains an attractive career choice. Our literature review and empirical study reveal that partisan control of the recruitment process diminishes the competitiveness of a public service career.

Therefore, the challenges are to reform the recruitment process, de-politicize the bureaucracy and ensure the civil service promotion system is not tainted. These reforms, if undertaken successfully, would place efficient and skilled personnel in the right positions and attract the best and brightest students to public service careers. However, there is a large difference between what is necessary and what can be achieved when it comes to public administration and good governance in Bangladesh.

We found in this paper that contemporary public administration in Bangladesh is all about politics. However, the standard bi-lateral game between the government (political leadership) and the bureaucracy (civil service, administrative leadership) is becoming increasingly complicated for a number of reasons. First, politicization of the bureaucracy blurs the formerly crisp distinction between politics and administration. Second, other actors have entered the game: the private sector, development partners, and civil society organizations. The private sector desires an efficient bureaucracy that will facilitate, or at least not impede, the development of predictable working environment. Development partners and civil society advocate civil service reforms and a dynamic, "non-procrastinating" bureaucracy. Development partners are particularly influential because they can advance or withhold financing as an incentive for reform.

With more players, the game has changed: politicians increasingly find bureaucrats as allies and together they resist the effective functioning of the government against the pressures of non-governmental actors. The non-governmental actors—development partners, private sector, civil society, and NGOs—each exert pressure on the government. The government tries to pursue its agenda and resist pressures while sustaining support. When the pressures are in alignment, or at least not in direct opposition, a reform initiative can be implemented.

Therefore, to enact or implement reforms, the interests of the major actors must be in alignment, otherwise reform will be prevented or neutralized. This alignment, which was almost impossible during the democratic period of 1991-2006, can very well be structured during the tenure of the present government. The CTG, due to its unique set-up, does not have to play the role of a patron to any particular group. This allows it to become more reform-friendly. Thus bringing reform, even the radical long-sought ones, like redesigning the recruitment system, or injecting new public management principles in line with political and administrative reality should become much easier. Unfortunately, the CTG so far has not made any significant attempt to bring reform to the administrative arena.

The problem is, without an efficient and accountable bureaucracy, development goals may remain neglected. Leaving the bureaucracy unscathed may bring back the semi-autonomous bureaucratic reign. It seems like the current CTG is driving itself towards this trap where a political cleansing may bring inexperienced leadership at the top and if they have to depend on an "un-reformed" bureaucracy, the repercussion can be catastrophic.

A famous satirist of this subcontinent once wrote a story about a crazy man who loved to bang his head on the wall. When asked about the reason, the man answered, "Well, when I stop doing so, it feels great." The current caretaker government has to solve this "crazy man's dilemma." It has to make a choice--whether it wants the continuation of 'feeling great' where this feeling can be short-lived or go for comprehensive treatment. The choice will have consequences down the line.

Endnotes

1. Bangladeshi civil servants who entered the civil service prior to 1971 were recruited and trained in the Civil Service of Pakistan (CSP). The CSP was unapologetically elitist and the new Bangladesh Civil Service (BCS) was less selective and less elitist. Although serving in the Bangladesh Civil Service, these CSP-trained officers emphasize this distinction by exhibiting their CSP pedigree.

2. In 1996 AL created the *Janatar Mancha* movement as a platform for citizens and civil society to oppose the incumbent Government's decisions.

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Population Growth Projections for Bangladesh from 2000 to 2025: Policy Implications for Education

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Abstract

Bangladesh has a large population compared to its size and resources. In 2000, the population of Bangladesh stood at 130 million people, making it the 8th most populous country on Earth.[1] By 2025 this population will grow to a staggering 192.9 million--an increase of nearly 62.9 million people, representing a growth of 48.3% in 25 years.[2] This huge population explosion will impact almost all aspects of modern life. One important area to be affected by this considerable growth is the education system, especially its capacity to absorb students at the college, graduate and post-graduate levels. Unless the government and the relevant institutions realize the enormity of the impact of population growth and adopt appropriate measures for the education sector, and beyond, the situation portends serious complications, resulting in overall worsening of the quality of life in general, and the quality and capacity of the nation's education system in particular.

Introduction

This paper examines the estimated population of Bangladesh in the years 2000 and 2025, looks carefully at the pattern of population growth, identifies the number of people in the various age-groups (that could be attending educational institutions), and projects the capacity needs (for the purpose of this paper, "capacity" addresses only two major components: 1. the physical buildings and 2. teachers) in education for 2025. Examination of the population will be limited to five groups in the year 2000, and to the population that will attend these institutions in year 2025; the five age-groups correspond to primary (5-9), secondary (10-14), higher secondary (15-19; popularly known as "intermediate college" level), graduate/university (20-24), and post-graduate (25-29) age groups.

First, two population pyramids are examined for the years 2000 and 2025. Looking at the pattern of population growth over time, the paper describes the growth of primary, secondary and higher secondary school age groups, both male and female, as well as the population in the higher education age groups (20-24 and 25-29). Next, the paper describes the changes that are projected between the years 2000-2025 and addresses the area of capacity building and allied services that will be necessary to serve the educational needs of the projected population in 2025. The projections for 2025 are made based on the data available in 2005.[3] The paper concludes with what needs to be done to build an effective and modern education system, consistent with the impending demographic changes.

Bangladesh has a high population density. In 2000, in an area of 56,126 square miles, less than the size of the state of New York, Bangladesh had over 2,316 people per square mile. By 2025, according to the US Census Bureau International Data Base, this density will become almost 3,436 people per square mile. A few comparisons might place this number in perspective: by 2025, Bangladesh's population will be larger than the population of 11 countries in South America (not including Brazil), all 14 countries in the Middle East (not counting the top two—Egypt and Iran), and larger than the population of Germany, France and Spain taken together. One out of every 43 persons in the world of a projected 8.5 billion people in 2025 will live in Bangladesh. The impact of this population growth will be many and diverse. This paper discusses some of the implications of this growth for the education system of the nation, especially at the higher-secondary and undergraduate/graduate levels.

A careful analysis of the population pyramid 2000 reveals a number of notable features: in the year 2000, there were almost 71.5 million school and college-age people representing 52.5% of the total population; and 66 million people, nearly 48% of the population, were between the ages of 20-65--the most productive members of the society capable of providing the educational services needed.

An analysis of the population pyramid 2025 also reveals a number of notable features: the number of school and college-age people would grow to 82.7 million—an increase of more than 11.2 million people from 2000; the percentage of this age-groups in relation to the total population, however, drop from 2000 to 42.8% from 52.5% ; almost 114 million people, 59% of the population, compared to 48% in

Population Pyramids of Bangladesh: A View of Years 2000 and 2025

Figure 1: Year 2000

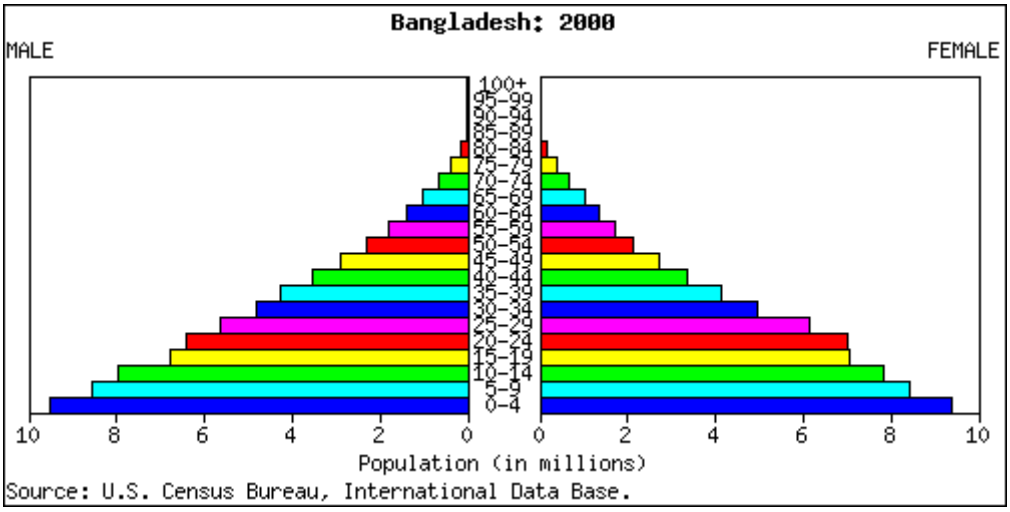
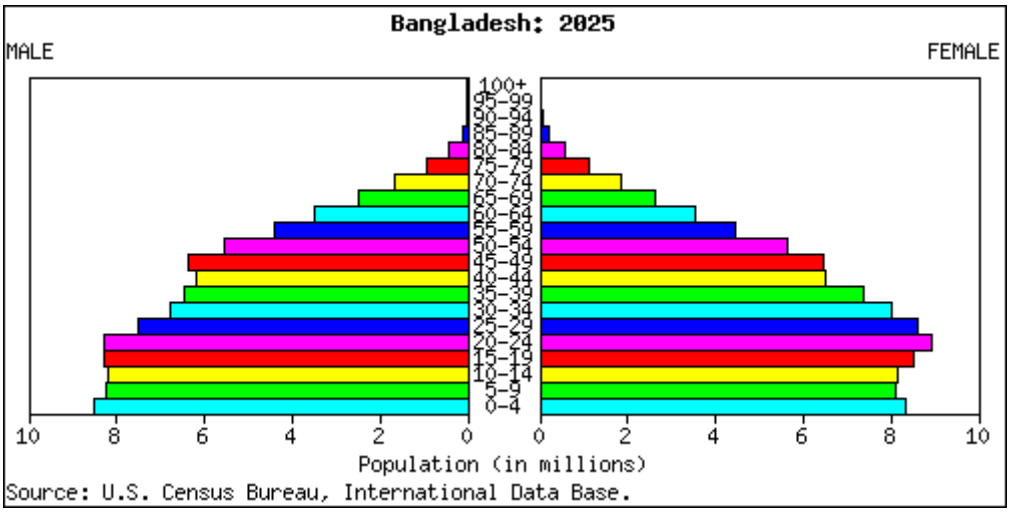


Figure 2: Year 2025



2000, would be between the ages of 20-65, the most productive members of the society, suggesting that this population cohort would also be able to provide the educational services needed by the growing population.

The pyramid also shows that there have been two spurts of population growth, one in 2000-2005 and a bigger one in 1995-2000. The reasons ascribed for such spurts are related to the growth of the national economy, resulting in real GDP/capita growth in Bangladesh at between 5-6% per year, per capita income increase from less than $100 to $470 (The World Bank 2008), and the improvement of important social indicators such as infant mortality, life expectancy and access to clean water, as well as child immunization growth from 10% to 70% (*Bangladesh Education Sector Review*, 2000). Since the two spurts, population growth has slowed down, apparently reflecting an effect of economic growth and increase in the levels of education and literacy rate.

The key demographic indicators have also been

showing improvements. Population growth rate has dropped from 2.0 in 1995 to 1.3 in 2008; total fertility rate has dropped from 3.8% in 1995 to almost 2.8% in 2008. However, despite the drop in growth and fertility rates in current years, demographic pressure will continue to build and will cause major problems for the nation for at least the next five or six decades. With a delay of a decade in achieving replacement fertility levels, an additional 20 to 50 million people are expected to add to the population of the nation, and due to unchecked population growth of earlier decades, almost another 63 million people are expected to be part of the projected population of the nation in 2025 (Table 1). The pressures that the education system will have to bear from this enormous population will be formidable and the challenges it will have to face will be daunting. Let us take a look at the individual population groups and their growth in numbers.

Year 2000-2025: Age-groups 5-9: Male and Female

In 2000, 16.9 million children were in the age-group 5-9, and could attend primary school; among these, 8.5 million male children, and 8.4 million female children were age appropriate to go to school. In 2025, these numbers are expected to go down marginally to 16.3 million—a negative growth of approximately 3.5%. Among them, the male population is expected to go down to 8.2 million--a negative growth of 3.5%, while females are expected to go down to 8.1 million, also a negative growth of nearly 3.5%.

Year 2000-2025: Age-groups 10-14: Male and Female

In 2000, 15.8 million children were between the ages 10-14, and could go to secondary school; among then, 7.9 million were male and 7.8 million were female children. In 2025, the population in this age-group is expected to grow by 3.1%, to 16.3 million children. Among them, 8.2 million would be male and another 8.1 million would be female children. The growth of population in this age-group would be approximately 3.1%.

Year 2000-2025: Age-groups 15-19: Male and Female

In 2000, a total of 13.8 million males and females belonged to the age-group 15-19; among them, 6.7 million males and 7 million females were age appropriate to go to higher secondary school. In 2025, this population is expected to spike to 16.8 million—a growth of nearly 21.7%. And, there would be 8.3 million men and 8.5 million women. The male population would grow by 23.8% and female population by 21.4%.

Year 2000-2025: Age-groups 20-24: Male and Female

A total of 13.3 million young men and women were between the ages of 20 and 24 in 2000; 6.3 million among them were young males and another 6.9 million were young women. By 2025, this number will grow to 17.2 million—a robust growth of 3.9 million people representing an estimated increase of 29.3%. Males will grow by 1.9 million, i.e., a rise of 30%--from 6.3 million in 2000 to 8.2 million in 2025; and females will grow by 2 million, from 6.9 million in 2000 to 8.9 million in 2025, also a growth of 29%.

Year 2000-2025: Age-groups 25-29: Male and Female

In 2000, 11.7 million adults belonged to the age-group 25-29; among them, 5.6 million were males and 6.1 million were females. In 2025 this number is expected to grow spectacularly to 16.1 million people—4.4 million additional adults. Within this population, 7.5 million would be males—an increase of 1.9 million potential students, and 8.5 million women—an additional 2.4 million adult women representing a growth of 39.3%.

Changes in Student Population Projected from 2000 to 2025

Based on Table 1 and the data from the two pyramids, the first major change that is projected between the years 2000-2025, taking the current rate of attendance as constant, is a general growth of school and college going population by 11.2 million—a growth of 15.6%. Even before looking at the changes projected for specific age-groups, these numbers suggest that a major capacity building effort in the education system will have to be undertaken if the nation wants to keep educating its children at the current rate. This also means increasing the current capacity of the education system by almost one sixth (i.e., for every six existing schools and colleges, one more will have to be built to accommodate this growing population).

Enrollment of students, especially in the higher educational institutions, at 1.6% of the age-appropriate group (see Table 2),[4] is far below average and considered low for a developing economy; and if

Table 1: Growth of School & College going Population in Bangladesh from 2000 to 2025

	2000			2008			2025			Growth: 2000-2005: In Million	Growth: 2000-2025: In %
	Tot Pop	M	F	Tot Pop	M	F	Tot Pop	M	F		
Age											
All ages	136.6	68.2	68.4	154.0	74.5	79.4	192.9	93.9	99.0	56.3	41%
5-9	16.9	8.5	8.4	18.3	9.1	9.1	16.3	8.2	8.1	-.6	-3.5%
10-14	15.8	7.9	7.8	17.1	8.5	8.6	16.3	8.2	8.1	.5	3.1%
15-19	13.8	6.7	7.0	15.4	7.2	8.2	16.8	8.3	8.5	3.0	21.7%
20-24	13.3	6.3	6.9	12.7	5.5	7.1	17.2	8.2	8.9	3.9	29.3%
25-29	11.7	5.6	6.1	12.3	5.4	6.8	16.1	7.5	8.5	4.4	37.6%
Total school/ college pop	71.5			75.8			82.7			11.2	15.6%

Source: U.S. Census Bureau, International Data Base: Data retrieved December 15, 2008. [5]

Table 2: Percentage of Enrollment in Higher Education of Age-group 17-23 of Select Countries & the relationship of national education expenditure with income: Year 2006 [6]

	Country	% attending university	Education expenditure as % of GDP	Per Capita Income in 2007
1	Bangladesh	1.6% (4%)	2.7%	$470
2	Pakistan	3.5%	2.6%	$2,400
3	India	12%	3.2%	$1,000
4	Malaysia	29%	6.2%	$6,452
5	Thailand	37%	4.2%	$3,737

Source: UGC Report 2006 & UNICEF 2008

Table 3: Number of Universities in Neighboring Nations: Year 2008

	Country	Population	# of universities	Ratio: university: pop
1	Bangladesh	154 m	74	1: 2,000,000
2	Pakistan	172 m	106	1: 1,600,000
3	Malaysia	23 m	23	1: 1,000,000
4	Thailand	65 m	67	1: 970,000
5	India	1001 m	1600	1: 625,000

Source: IDB & UNICEF, 2008

the nation decides to follow the lead of the international organizations and of other countries to establish the goals of achieving 100% secondary education, encourage more children to go to higher secondary school, and help more young people to pursue higher education, the capacity addition to the education system will have to be far larger.

Given the growth of the university going population in the past decade, it is conceivable that predictions made based on the current rate of attendance (of school, college and university) will fall short of actual needs in 2025. If the growth of the university-going population that has occurred in just the last decade is any predictor, then the needed capacity increases to accommodate this population is going to

be significantly large. Bangladesh has seen a remarkable growth in students attending higher education since the passage of the Private University Act of 1992. In 1998, all of the private and public universities recorded enrollment of 8,718 students attending undergraduate and graduate programs in the universities. In only three years, by 2001, this number grew to 35,968—a total growth of more than 400%; and by 2006, the private universities alone combined an enrollment of more than 100,000 students—a staggering growth of nearly 1200% compared to 1998. A University Grants Commission (UGC) report projects that the total higher education enrollment might grow from 1.0 million in 2005 (this number includes degree colleges, but does not include the non-teaching public universities, i.e., National University and Open University) to between 1.3 and 3.5 million in 2025 (UGC, 2007). Let us look at the individual age-groups to establish their specific needs for capacity.

Capacity development needs in educational services in 2025

The most important and immediate educational needs that Bangladesh will have to provide to serve this growing population are capacity additions (Andaleeb 2003). The nation will have to build physical infrastructure and facilities, create and supply teaching and learning materials, develop human resources (e.g., teachers, principals, inspectors, supervisors, administrators, etc.), and establish proper management and school governance.

The population pyramid 2005 and Table 4 provide data on the total number of age-appropriate students in each age-group, the percentage and the number of students who attended school, total number of schools and colleges (physical buildings), and total number of teachers that provided educational services. Based on the numbers available for this year, this paper projects the numbers of schools, colleges as well as teachers for 2025. The reason for taking year 2005 as the reference point, as explained earlier, is the availability of data on the items discussed.

As seen in Figure 3 and Table 4, in 2005, 18.2 million children were age-appropriate for primary school, out of which 90%, i.e. 16.2 m attended; and, 80,397 schools and 344,789 teachers served the educational needs of this population. During this same year, 17 million students were in the age-group for secondary school; 44% of this population, i.e., 7.4 million attended 18,500 schools and were served by 232,929 teachers. Approximately 1.3 million students or 10% of a total population of 13 million students in this age-group attended 3,150 higher secondary schools/intermediate colleges where 90,401 teachers were serving. And a very small percentage, i.e. 1.6%, of students out of a total population of 13 million in the age-group 20-24 attended 74 higher educational institutions/ universities served by a total of 10,339 professors and instructors.[7]

To project the capacity development for 2025, let us, first, take the rate attendance (third column in Table 4) from year 2005 and assume that this rate will remain same through 2025. What we find, are the results shown below in Table 5 taking into account the total population in 2025 in these age-groups.

Figure 3: Year 2005

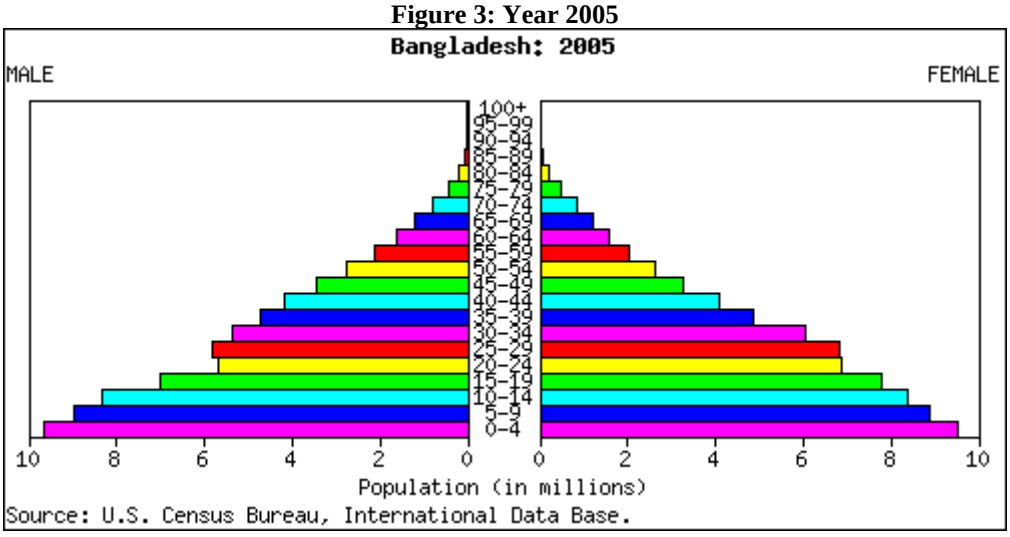


Table 4: Education Statistics of Select Items for 2005

	Tot # of age-appropriate children	% of children attended school	Tot # of children attended school	Tot # of institutions/ physical buildings	Tot # of teachers serving
Primary School: Age 5-9	18.2 m	90%	16.2 m	80,397	344,789
Sec School: Age 10-14	17 m	44%	7.4 m	18,500	232,929
Higher Secon/ Int. College Age 15-19	13 m	10%	1.3	3,150	90,401
University: Age 20-24	13 m	1.6%	207,577	74	10,339

Table 5: Year 2025: Population growth and capacity needs at the rate of attendance seen in 2005

	Tot # of Age-appr. Students	% of Students @ 2000 rate of growth	Tot # of students expected to attend	# of institutions needed to accommodate	# of add'l institutions that will be needed	# of teachers needed to teach	# of add'l teachers that will be needed
Primary School: Age: 5-9	16.3 m	90%	14.7 m	72,952	-7445	312,234	-32,555
Sec School: Age 10-14	16.3 m	44%	7.2 m	18,000	-500	226,800	-5,200[8]
Higher Sec/ Int.College: Age 15-19	16.8 m	10%	1.6 m	3,883	733	111,437	21,036
University: Age: 20-24	17.2 m	1.6%	275,200	98	24	13,692	3,353

Data from Table 5 show the projected population in each group in year 2025 and the corresponding needs for educational institutions and teachers.

Because of the falling birth rate, there appears to be some relief in sight in terms of the age-group 5-9 (a negative growth rate of 3.5%), and the secondary school population, Age 10-14 (-3.1%), implying that there may not be any need to build additional primary and secondary schools or to increase capacity. In fact, based on the average number of children per school in 2005, almost 7,445 primary and 500 secondary schools will not be needed in 2025. Most of the population growth, however, will take place in the areas of higher-secondary and higher/university levels of education, with the largest capacity-building needs projected in the area of higher education. Almost 300,000 more students will attend intermediate college in 2025 requiring an additional 733 colleges and 21,353 teachers to serve this age-group population. And, nearly 68,000 more students will want to attend university in 2025. This will require the nation to build an additional 24 universities at the *current rate of students per university*, and add another 3,353 university professors and instructors at the current student-teacher ratio.

However, since today's "knowledge economy" and "information society," will gradually become more intensely competitive by the year 2025, invariably the completion of high-school, and even a university degree will gradually become almost a "requirement" to get good jobs and achieve higher standards of

living; this will drive the demand for higher education exponentially, as it has been in the past few decades, especially in the developing nations (Psacharapoulos 2002 & Schultz 2001). Aside from this, there is also an increasing awareness among the population that education is directly related to income (see Table 2 for relationship of education with per capita income; also, Hanushek, 2000). Let us, then, look at some hypothetical situations taking into account this demand for education in the next two decades or so. Tables 6, 7 and 8 below are some possible scenarios and projections for primary, secondary, higher secondary, and university students and their demand for educational services.

The data for primary and secondary school age population and their growth is quite realistic. It is not unlikely that 10-year of schooling will soon become mandatory, and a reality, in Bangladesh, as in most developed nations, mainly because of the financial incentives (Reimers 2000; Sceerens 2000) and with the growing call for universal education. And, if this were to happen by 2025, Bangladesh will have to invest major resources for developing capacity to provide the educational needs of this group: An additional 697 primary schools and 22,250 secondary schools will have to be built (or, capacity developed in existing schools to absorb these students); at the same time, the nation will have add almost 282,814 new teachers for these schools!

A massive capacity development drive will have to be undertaken if 100%, 50% or even 25% of the secondary school population decide that they will go to college. As can be seen in Table 7, at 25% increase of attendance, 9,450 two-year colleges will have to be built and an additional 271, 203 teachers trained; at 50%, the nation will require an additional 22,050 colleges and 632,807 new teachers; and, at 100%, an incredible 47,250 colleges and almost 1.3 million teachers will be needed to serve this population.

Table 6: 2025: Primary & Secondary School: Age-groups: 5-9 & 10-14

	Tot # of Age-appr Students	% of Students @ 2000 rate of growth	Tot # of students expected to attend	# of institutions needed to accommodate	# of add'l institutions that will be needed	# of teachers needed to teach	# of add'l teachers that will be needed
Primary School: Age: 5-9	16.3 m	100%	16.3 m	80,893	697	347,082	2,293
Sec School: Age 10-14	16.3 m	75%	12.2 m	30,562	12,062	385,081	152,152
Sec School: Age 10-14	16.3 m	100%	16.3 m	40,750	22,250	513,450	280,521

Table 7: 2025: Higher Secondary/Intermediate College: Age-group: 15-19

	Tot # of Age-appr Students	% of Students @ 2000 rate of growth	Tot # of students expected to attend	# of institutions needed to accommodate	# of add'l institutions that will be needed	# of teachers needed to teach	# of add'l teachers that will be needed
Higher Sec/ Int.College: Age 15-19	16.8 m	25%	4.2 m	12,600	9,450	361,604	271,203
Higher Sec/ Int.College: Age 15-19	16.8 m	50%	8.4 m	25,200	22,050	723,208	632,807
Higher Sec/ Int.College: Age 15-19	16.8 m	100%	16.8 m	50,400	47,250	1.4 m	1.3 m

Table 8: 2025: University: Age-group: 20-24

	Tot # of Age-appr. Students	% of Students @ 2000 rate of growth	Tot # of students expected to attend	# of institutions needed to accommodate	# of add'l institutions that will be needed	# of teachers needed to teach	# of add'l teachers that will be needed
University: Age: 20-24	17.2 m	1.6%	275,200	98	24	13,692	3,353
University: Age: 20-24	17.2 m	5%	860,000	306	232	32,480	22,111
University: Age: 20-24	17.2 m	12% (as in India)	2.1 m	748	674	94,452	84,113
University: Age: 20-24	17.2 m	29% (as in Malaysia)	4.9 m	1,778	1,704	238,595	228,256
University: Age: 20-24	17.2 m	37% (as in Thailand)	6.3 m	2,268	2,194	307,272	296,933

Incredible as it may sound, the possibility of opening such a flood-gate is not impossible. If the recent hike in demand for university education is any indicator, the government may as well take heed. At the growth rate seen in 2005, an additional 24 universities (or, the development of similar capacity) will be necessary to serve the demand of this population. Taking into account the fact that it took over 35 years to build about 50 additional universities (since the birth of Bangladesh), 24 additional universities in less than 20 years will be a Herculean task. And, if, for the reasons of competitiveness and economic growth, prosperity, etc., this population decides to go in large numbers for higher education, it will become a major challenge for the government to accommodate their demands. If 5% of Bangladesh's university-going population decide by 2025 that they need higher education, the country will need an additional 232 universities and 22,111 professors to provide this education; if the nation decides to catch-up to our neighbor India's level of higher education (at least, in numbers of students attending university), it will have to build 674 universities and train/find 84,113 professors (see column 3, rows 5, 6 & 7 in Table 8). And should Bangladesh decide to catch up with Malaysia and Thailand, it will have take on the daunting, and as it appears now—virtually impossible, task of building an additional 1,704 and 2,194 universities respectively. Is Bangladesh prepared to move onto the 21st century? Looking at the data, it appears that the nation and its leadership has a lot of work to do to get anywhere close to even our neighbors, let alone the developing nations.

There are other, even more complicated, challenges to be met such as the following: build a wider and deeper foundation of basic education, strive for equity in educational opportunities and quality in learning achievements, transfer vocational training to non-government institutions, revitalize, and reorient and partially privatize higher education. Most of the existing higher educational institutions in Bangladesh are far behind in achieving these goals. A recent UGC Report notes that:

"The public universities, except for the top few, do not have the facilities needed for quality teaching. The faculty is not up to an appropriate standard, and student quality is also poor… A large number of private universities are operating in makeshift arrangements. They have failed to meet the minimum requirements of physical infrastructure, full-time qualified faculty, libraries, teaching aids and other facilities… National university colleges are even worse. Teaching quality is generally unsatisfactory. Logistics and facilities are also poor. In Bangladesh, the higher educational institution and the programmes they offer largely operate without any sustained and periodic critical review that is needed for quality maintenance and enhancement (UGC, 2006, p. 14)."

And, emphasizing the need for governance and management of education based on the needs of a changing society and the world, rather than tradition and custom, the Chief Adviser of the Care-taker Government of Bangladesh recently suggested the following:

"We are aware of instances where weakness in governance, including corruption, waste, mismanagement and inefficiency, undermine the initiatives for reform in education and prevent achievement of intended outcomes…We should devise an optimal arrangement now for all education-related service-providers in a geographic unit, such as

an upazila, to function cohesively. They should work together through a mechanism of local coordination to ensure that every child can participate in an institution which meets the minimum agreed standards of instruction, whoever the service provider may be. The mental barriers between the government and non-government programs must be bridged in order to fully utilize existing social capital and achieve educational goals (Governance in Education Conference, 2008a)."

Conclusion

The analysis in this paper does not address some of the more fundamental problems of education in Bangladesh which are formidable challenges in their own right and which must also be tackled adequately. These issues include: improving the quality of education, developing relevant curriculum, training and recruiting good quality teachers, establishing accountability, revamping and establishing effective assessment tools (exams, reviews, etc), developing research institutions and departments, proper education governance and building linkages and partnerships between academic institutions, industries and employers.

Each one of these challenges involves myriad issues that need to identified, studied and resolved. What is most important is having a strong political will to address the outlined challenges. Finally, the government and the nation will have to mobilize vast amounts of planning, management and financial resources for effecting these changes in educational services necessary to serve the projected population in 2025. Only when all of these issues are approached in a systematic manner and resolved with care and competence, can Bangladesh and its younger generations expect to see a bright and hopeful future.

Endnotes

1. Bangladesh is the 8th most densely populated nation on earth not taking into account the 3 city-states of Macao, Monaco and Hong Kong. See http://www.nationmaster.com/graph/geo_pop_den-geography-population-density.

2. U.S. Census Bureau, International Data Base.

3. The 2025 projections are made on the basis of data available for 2005 and not on the basis of 200 because data on the number of schools and colleges are available from Bangladesh Census Bureau only for year 2005.

4. Another example of inconsistency and the difficulties of policy projection can be seen in the following example: When population pyramid data was retrieved from US Census Bureau International Data Base in 2005, this is how they appeared for the years 2000 and 2005. (See the two graphs below.) By now, December 2008, the data have changed significantly (this paper bases its predictions on data currently available). If predictions were to be made on the basis of data shown in 2005, the analysis and the policy implications would have been very different. The population pyramid for 2000 shows that there have been two spurts of population growth, one in 1980-85 and a bigger one in 1985-90. The effect of these two spurts would be far reaching, as shown in the next graph, where this population group bulges as they attain ages between 35-45. These graphs were retrieved on October 15, 2005.

5. The basic data, e.g., "2000 Tot Pop," and "2008 Tot Pop" were retrieved from IDB; however, the rest of the numbers were estimated by the author.

6. In 2005, according the Bangladesh Bureau of Statistics, there were 207,577 students attending the 74 universities. This is 1.6% of the total age-group. This number does not include various other types of educational institutions, e.g., madrashas, vocational and technical schools, as well as students enrolled in the National and Open universities. While, the government reports these students as "higher education population" (and, hence gets to higher % of population attending university, they have not been included in our analysis, especially because the last two mentioned are not teaching institutions. The number of students included in the latter schools amounts to over 518,000, about 4% of the total age-group population.

7. Data on age-group 25-29 is not available separately from the age-group 20-24.

8. While compared with year 2000, the population in the age-group 10-14 appears grow by 3.1% in 2025. However, when compared with year 2005, the population drops by 3.1%.

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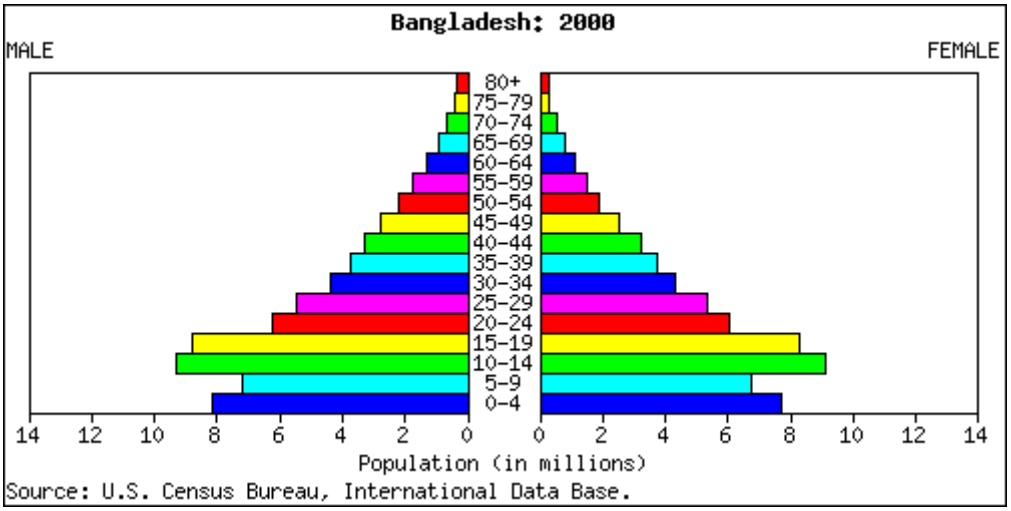
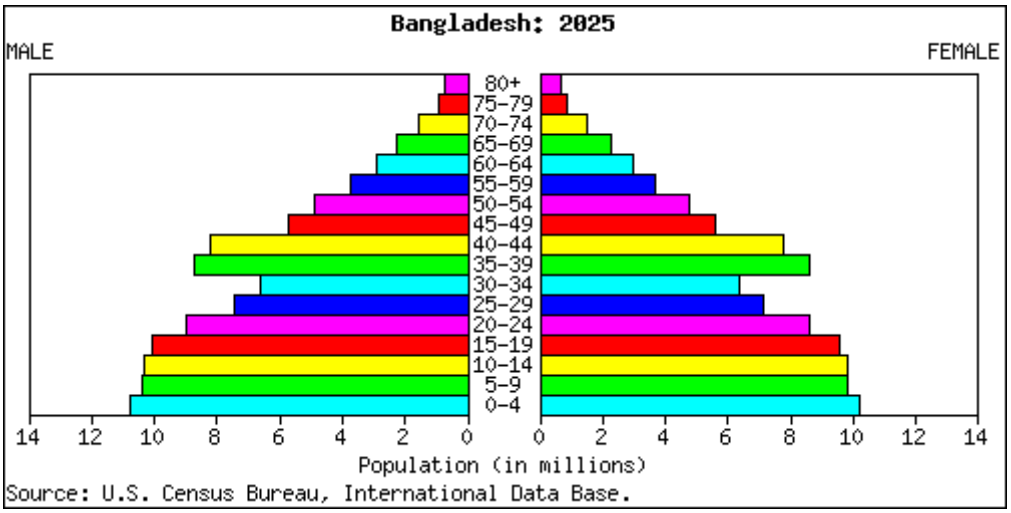

Bangladesh: 2000
MALE
FEMALE
80+
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
14 12 10 8 6 4 2 0 0 2 4 6 8 10 12 14
Population (in millions)
Source: U.S. Census Bureau, International Data Base.


Bangladesh: 2025
MALE
FEMALE
80+
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
14 12 10 8 6 4 2 0 0 2 4 6 8 10 12 14
Population (in millions)
Source: U.S. Census Bureau, International Data Base.