

The Daily Star WEEKEND MAGAZINE

Conversation

The Finance Minister Calls for a More Active Private Sector, Warns About Possible Decline in Aid but Says the Economy is on The Right Track

With the stage set for the presentation of the country's annual budget before the Jatiya Sangsad, now scheduled for June 18, Finance Minister M SAIFUR RAHMAN took time off from his busy schedule to talk to The Daily Star, on wide-ranging issues facing the economy of Bangladesh. Although we were curious to know what kind of budget Rahman would place before the nation, the conversation largely focussed on such areas as the role of the private sector, the aid climate, the banking scene and the performance of the administration as a whole. Instead of getting some hard news — or scoops — we had one of the most comprehensive and stimulating background talks ever given to a daily newspaper by the Finance Minister. While the questions were direct and often critical, the answers were forthright and even hard-hitting, not without occasional biting references to the administration and the private sector. The conversation which took place last week was conducted by The Daily Star Editor S M ALI who was assisted by the paper's Executive Editor MAHFUZ ANAM and Assistant Editor SABIR MUSTAFA.

THE DAILY STAR (DS) : Finance Minister, would you like to give us a very quick assessment of how you see the economy and the work that you have done during the last one year and the present situation — its performance, success, and the areas of problems.

SAIFUR RAHMAN (SR) : You see, during the last year, the government, that is the new government, started with transitional problems.

It took some time to settle down. Then we experienced or suffered the cyclone, then there was the flood in the North and Northwest, North East and this went on almost till the end of October. In between we had the new parliament, all the constitutional amendment bills and all that — so it took a lot of energies of the government of that time to settle down to the constitutional process.

Now, in the early part of the fiscal year, the economy was somewhat slow paced because of all this problem. But it gained momentum towards December, somewhat by the beginning of this year — it started picking up a much faster pace.

But the success of the government is that, in the macro-economic stabilisation programme which was to contain expenditure and which was to increase the internal saving for government revenue, to create surplus in the budget, so that we could have an enlarged investment programme, for a larger GDP (Gross Domestic Product) growth.

This thing went very well because, for the first time in our 20-year history I must say, that the revenue target has not only been attained but it has exceeded the budget. The expenditure has not only been controlled despite paying the dividend of the year to the tune of 450 crore taka (Pay Commission settlement for state-sector employees), but we have absorbed this and yet our final expenditure as of today is less than what we had budgeted for, during the July-August budget session of parliament.

So I must say this is a unique achievement.

During the budget we thought we would contribute only 14 per cent from our internal revenue resources to the annual development programme (ADP). But as of today we have contributed 24 per cent from our internal revenue to the ADP of '91-'92, which is going to end within the next few weeks.

So taking all these factors, I say that we have done very well. And that has found its reflection in various reports produced by the IMF (International Monetary Fund), the World Bank, and other institutions like the Asian Development Bank (ADB) as well.

What we should have done more in is the implementation of annual development programme.

See, we took up a 7,500 crore taka ADP, but I think we will not be able to achieve more than 7,150 crore. In fact, I have a feeling from the information I'm getting from the various ministries that it might range from 7,000 crore to 7,100.

But even that difference — hardly six per cent — is a tolerable or acceptable margin. In any country when you budget, such a small difference in actual realisation would not be unacceptable.

The private sector, however, did not take up to the extent we wanted or expected, rather well it is very difficult to identify...

DS : Why don't we interject and just say, in the light of the performance you have just talked about — what is the area that you regard as a failure and as you said that you regard the private sector performance as a failure?

SR : I would not say failure, I would say they did not come up to expectation.

However, I don't blame them either, because the private sector has also to get used to the new administration. They have got used to a particular form of administration in the past nine years. Their work habit or work pattern developed attune to the previous administration.

We are a new administration, an elected government, and we had committed ourselves to render accountability to the parliament, transparency in the transaction. And also we have followed certain action — like publishing the names of those who had defaulted on the payment of bank loans, which they did not like very much.

the defaulters list, was done as a final resort, after other efforts failed to produce the result, on the plea, perhaps, that social sanction would force them to make the repayment. It appears, however, that not much result has come out of this programme.

DS : Can we interrupt you here, just one second. It has been said by the private sector, what you describe as the final move — the publication of the defaulters' list — was not preceded, at least to their thinking, by other moves, that is, they did not see anything as being done to restructure the banking system, loan recovery system... rather a very strong action was taken against the defaulters.

SR : Naturally they will say their part of the story, but I would say that the process of recovery started during (former president Lt. Gen. Hussain Muhammad) Ershad's regime, that is during 1985-86.

The Ershad government then engaged a consulting company to look into the loan recovery process of both the BSB (Bangladesh Shilpa Bank) and the BSR (Bangladesh Shilpa Rin Sangstha). They reported that the situation was very bad, so much so, that the World Bank financed the programme to classify the defaulters.

In fact, one of the recommendations even at that time was that, may be, publication of the defaulters list might be one of the area where social sanction can get some results.

The borrowers have been persuaded from then onwards, that is from 1985-86, to pay their loan. I can tell you, I was a Finance Minister when I last left this government in March, 1982 and the recovery rate

plying any cash credits. Result is, from 1989 till today you do not have any credit line available for financing new industries.

After all you want to have a new industry, see new entrepreneurs come along to set up new industries for creating new employment. So it was a final move to see whether they could be prompted, or encouraged at least, by the pressure of public, to pay off the loan. We thought they would care for the public image, and pay back the loans.

But, as I could see it, there has not been much improvement.

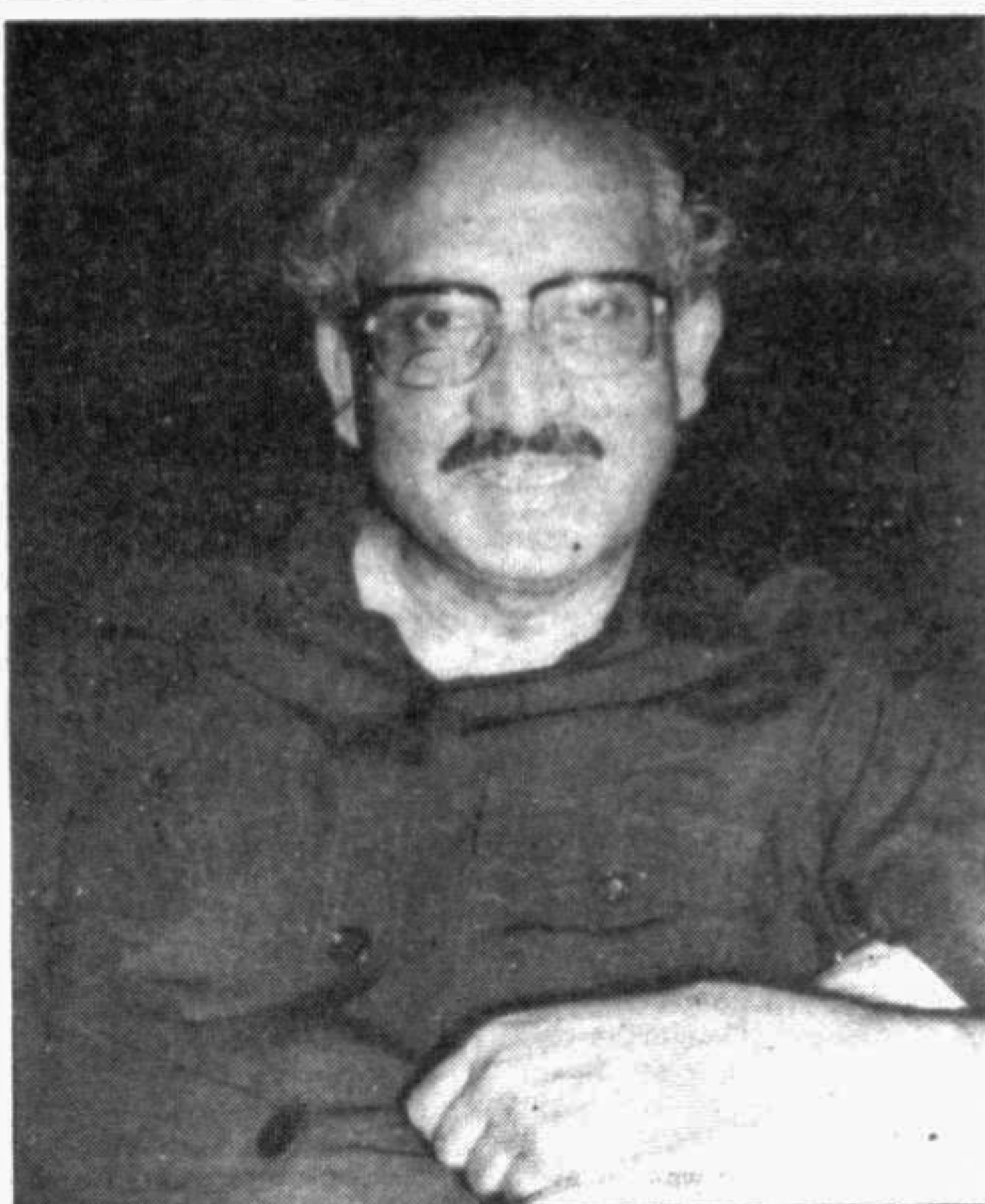
DS : So what's your next move then with the defaulters?

SR : My next move is what I told you. We have set up another loan court and we are bringing in some new tips to the law.

Already the law has been amended. It is in the final process, so that we are trying to bring about the legal situation like Hong Kong, for instance. There if you do not pay your loan by a month, you're just declared bankrupt and your property is sold.

DS : Are you considering such a move?

SR : Yes, we cannot perhaps go through this quick process because our legal system is very much an arduous process. But loan courts have been brought to cut short some of the circuitous ways. But even then there are weaknesses in the law. For instance, formerly we could not make attachment with the judgement. The borrower himself could put accountability with the judgement. We are taking legal measures to ensure that this sort of weakness is removed so that



"I am hopeful that the private sector will actively participate now that they know us better and we are familiar to them after one year. They will make a much better response next year."

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DS : Even before you got elected, from your election manifesto and from your own public image the Bangladesh Nationalist Party (BNP) was a party of the private sector. So don't you think it is a bit strange that the private sector is so hesitant after your gov-

ernment had, as you know, taken away.

We started the privatisation process and it picked up momentum. We had given permission for the private banks, I agree. But they came into being only after we had been thrown out of power — the permission being given at our time.

Why there is a strange relationship now? The private

are the people who have made a lot of money during Ershad's period.

They are the ones who have the capital. During our administration, or during our movement I mean, we have said that there were a lot of irregularities going on in Ershad's administration by introducing what we call policy-based corruption, institutionalised corruption in the private business practice.

Naturally these private sectors thought that, now that these fellows have come they might try to have their pound of flesh from us. Naturally if I were in their position, I would not be different. So that psychology mastered them. But now after one year, now that they've found that no we have not gone into stopping them from seeking business, they are as much free to do business as anybody else. I think this year they will have much more confidence than they had in the early part of this administration.

DS : One perception in the private sector is that there is a lot of gap between your policy pronouncements and your actual steps. So this government has been very firm in declaring their pro-private sector position. But in terms of actually implementing it they have got mixed signals. For example, you talked about, lets say that, retrenchment of labour to make industries viable. But yet, in actual practice there has not been any follow-up. Similarly there are other mixed signals?

SR : Well, unfortunately you see, I am being tangled up with everything. I am not the industries minister, nor the labour minister, (nor the prime minister...) I am the finance minister.

The excess labour that is talked about by me, by you or by anybody. This is the result of the reports by international agencies who scrutinise or evaluate Bangladesh's economic programme and policies. The country mission report of the World Bank, the IMF report, the ADB report, all these reports have identified areas where there are surplus manpower, which is distorting the cost-structure for which Bangladesh industries is not in a position to compete internationally, because of excessive cost. And they talk of the rapid industrialisation programme.

"Our intention by no means is to create a further labour problem in this country...our job is to relocate, rehabilitate, through voluntary process with adequate compensation. There is no such thing, at all, not even a remote possibility of any retrenchment."

"Bangladesh's current problem is not finance. It is proper management. Management capability, project identification and implementation capability are the three sectors which are hampering our development efforts."

ernment got elected, because it is not that they did not know BNP as a party because you were in power before and now you have come back again. So, is this to say that the transition is the cause — or may be there is some other cause?

SR : In a way transition is the cause. Let me tell you one thing. It is true. It is we who started this privatisation process in 1977. We started the privatisation process with disinvestment in the tea gardens and all those sorts which the

gap between my utterances and their performance, I do not think I could answer that. I think you should ask them.

But the totality of labour is very small, — the total employment in industry will be seven or eight per cent of the total labour force or may be 10 per cent, it varies. Actually, in fact we should create more jobs and give more employment.

In a situation characterised by this nature there is a question — I do not accept this word retrenchment, frankly speaking. Because retrenchment is something which is compulsory in nature. I am forcing him to go. Frankly speaking, excepting the jute sector, even the other institutions did not identify much of a surplus.

What they identify as surplus is the government sector — it is in the railways, BADC, Water Development Board, and others. And only other industrial sector was jute sector — which came out of a jute study report which they call "jump" study and that report went in depth into the jute structure and they said, it is over-manned, over-capacitated. So capacity has to be reduced and manning level has to be brought to the earth.

Active operation-level retrenchment is something which is compulsory and I have no intention of it whatsoever, at this stage. I do not think we need to, during the first two or three years at best — next year and the year after, there is no need for retrenchment.

In fact erroneous impression was given to the public and some opposition people are also taking advantage of this confusion that has been created.

What the government has taken, is a manpower rehabilitation programme. In the process of this rehabilitation programme we have a fund — 100 crore for this or 200 crore for that, plus we get some money from outside also.

First those industries where the labour retired voluntarily, they would get compensated and they would go away. But I believe from the application of jute, textile and other sectors, there are people who have already applied — they want to retire. Because some may get two or three lakh takas. It is something with which they can do something on their



Depositors protesting closure of bank

sector got used to a different sort of government, different kind of administration. And that administration and our administration are quite different. We have been fighting that administration. This very private sector was supporting that administration through and through. There are some people identified as top level people — who have made a lot of money during Ershad's regime. And they are the entrepreneurs, whether through import, whether through licensing, whatever it be. They

own. It is a very good self-employment process.

So, I would like to say it very categorically — the government has no, at least at this stage, for the next year or year after next — no need for any retrenchment at all. Because the voluntary retirement, the willful retirement — the option of retirement, is more than enough for us to cope with, in terms of giving them compensation, to be very frank.

Bangladesh, by the very nature of the country, the structure, the over-population, resource constraint, recurrent visit of floods, cyclone, tidal bore — the whole character of the country, the Ganges, the delta basin and subjected to the recurrence of the natural disasters, and the severe man and land ratio in the country, has to depend on surplus capital to be brought in from outside, which means foreign aid.

Now this aid thing, developed even during Pakistan days and, during Bangladesh time we also got into the same aid business. And the country's economy cannot generate certain surplus. The foreign assistance has to fill in the investment gap which will help the government for public sector development, annual development programme.

That was done in a world scenario. We took advantage of the East-West divide, or North-South divide. But more East-West divide, and more or less the aid climate was better because the OECD countries, at that time thought for various political and diplomatic reasons — to be much more friendly, by giving aid to the Third World countries.

The situation has drastically altered — with the collapse of

to see if they could be absorbed in some other areas. So training programme is there.

So it is a combination of various policies. The government sector is an aging and ailing agency, and in any case people are seeking retirement, getting compensation, they are going away and starting a different life of their own. So I think that if there is inconsistency between the pronouncements and actions, I am sorry that I cannot answer that question.

But our intention by no means is to create a further labour problem in this country, curtail the job — in other words our job is to relocate, rehabilitate, in a way, that is a different way, a different pattern altogether. Through voluntary process with adequate compensation. There is no such thing, at all, even a remote possibility of any retrenchment. At least, it will not be for 1992, 1993, 1994, — for the first few years, I do not see any possibility.

DS : A very, very categorical statement. But have you worked the cost of rehabilitation?

SR : It is very expensive even from today. This is where we have to get fund from outside, with our own fund, if you have, mind you, it does not solve your problem.

Why I say that question of retrenchment does not arise because voluntarily retirement, the number of people who are willing to go with a satisfactory compensation level.

First of all, if we want the people to voluntarily retire, we not only have to give them what is due to them under the law, we also have to give them something extra. Because we have to give them incentive. Say you are 56 years of age, why don't you wait for 57, — you can take your sum when you retire. The cost is heavy. That is why the programme has to have a longer period of time phase.

DS : That leads us to the whole issue of aid and assistance from outside. Now you are generally satisfied from what I know from newspapers and your statements with the last aid consortium meeting. But certain questions have been asked. One question is about the conditionalities and at one point we have to swallow it. And the other question that has been asked is — whether we can expect the aid level to be maintained. So, Mr. Minister may be we first take up your general reaction to the aid situation. And then take up the question of conditionalities and the general prospect of our being less dependent on aid over a period of next five years?

SR : Thank you very much for a nice question. People have got used to, what I call aid-addiction and if you hear that we are going to get less aid, one section of the people become very jumpy, that aid is being reduced. Another section of people, who will say, if I bring more aid, that here is a minister who is going to mortgage the country, to the outside agencies and making the country less self-reliant.

So this sort of ambivalence exists in the society. Love-hate relationship with aid. Who loves more, whether lovers are more or haters are more it is for you to determine because you are in the press industry. And therefore you will be knowing the people's view.

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