

Administration

Reforms and Reality

by Saiful Bari

Over the past twenty-four years, reforms in administration have taken place only in harmony with the policies dictated by successive governments. "The role of the private sector", for example, "kept redefining itself," observes the writer who also underscores a few administrative desiderata including the indispensable need for major changes in, and restructuring, the administrative ethos, apparatus and dynamics in favour of a people-oriented system.

NEXT month's Aid-to-Bangladesh meeting in Paris will be anything but a routine exercise. Finance Minister M Saiful Rahman, who is again going to be the obvious choice for the government to lead the Bangladesh delegation to the meeting, has already got the message to be fully equipped with, among other things, a suitable brief on the latest position of reforms in the country. Donors as well as the World Bank this time are likely to be more exacting than expected in their attitude towards reform measures, particularly those ones related to administration being undertaken by the Bangladesh government.

Ever since the World Bank "has become a global partnership in which more than 175 countries have joined together for a common purpose: to improve the quality of life for people throughout the world and meet the challenge of sustainable development", there has been a persistent pressure on Bangladesh to bring in drastic reforms in administration — both economy-wise and structure-wise.

The Bangladesh Nationalist Party (BNP) government has been telling the World Bank, and through this the donor countries, that it is not only beset with the problem of updating the country's administration, but a high-profile committee is almost ready with recommendations to reorganise the system that can meet the test of time.

When the World Bank speaks of its strong support for economic reforms and restructuring, it also means a positive change in the present style of bureaucratic activities that cause delay in the process of development in the name of "national and administrative constraints".

The World Bank is convinced that Bangladesh could develop faster. In a recent report, it has predicted that "if

firm action is taken to create supportive environment for private investment — especially administrative and judicial reform and much improved management of public utilities — and annual GDP growth rate of 7 to 8 per cent is feasible."

In fact, the World Bank is helping the government reform its public administration. A report is currently being prepared by local consultants with attempts to pull together the conclusions and recommendations of a number of existing studies to provide a basis for an action plan for early reform. Decisive action in this area is seen as a prerequisite for improved implementation of the public sector development programme across-the-board.

The present world puts an emphasis on strengthening public service and governance. This calls for a modern administrative machinery capable of responding to any change that becomes necessary, especially in a democracy.

The part of the sub-continent which is now known as Bangladesh has gone through a variety of experiments on administration and revenue system.

Historically, it is believed that an Austro-Asian race first inhabited this region in an unknown prehistoric age. Then came the Dravidians, Aryans and Mongolians. Muslims conquered the land in the 11th century and established their rule. The British sneaked up behind the Muslim rulers in the mid-18th century. After ruling the country for about 200 years, the British left and the land became part of Pakistan in 1947.

After a nine-month bloody war when Bangladesh was liberated from the Pakistani yoke in 1971, it inherited a worn-out colonial type of administration. Immediately after the liberation, the socio-political and economic goals necessitated major reforms in public administration in the context

of large-scale nationalisation policies and pursuance of a centralised planning system and economic controls at the hand of the government. Moreover, the then provincial government had to be reorganised and developed into a national government in a hurry.

With the subsequent changes in the governments and policies, sometimes towards centralisation and sometimes towards decentralisation and liberalisation, the role of the public sector kept redefining itself.

During the post-liberation period, policy-makers started pleading for administration suitable for an independent country, but, in effect, bureaucracy continued to dominate the scene. So much so that during Sheikh Mujib's time, when it was decided that the districts should be run by the governors appointed politically, a number of bureaucrats got them included in the list. The very purpose to rule the country, according to the wishes of the people was defeated. The experiment failed and the idea of making the administration really dynamic and people-oriented remained unfulfilled.

During Zia's time, bureaucracy continued to get upper hand, albeit discreetly. The experiment to reorganise administration again got bogged down. Administrative reforms and institutional development were sandwiched between two new perceptions called "politics of development" and "services reorganisation". Then came Ershad's regime. On the recommendation of a high-profile committee on Administrative Reorganisation and Reforms, a new decentralisation process began with the upgradation of Thanas to Upazilas which were made the focal point of development transferring part of the responsibilities of planning and implementation of development activities to that level of the local government.

In 1991 when Begum

Khaleda Zia was voted to power, in a sudden move the Upazila system was done away with, and the original position of the Thana was restored. A high-powered committee was set up to make an in-depth study to make the whole administrative system effective.

The committee's work is nearly complete. In the meantime, a USAID-sponsored study has shown that some fundamental weaknesses still exist in case of bureaucratic control of administration, centralised authority in decision making, lack of confidence in delegation of such authority, dearth of professional knowledge in the ministries, anomalous positions in various service cadres.

Unless these anomalies are removed and a new people-oriented system with dynamism introduced in administration through major changes and restructuring, the challenge that lies ahead cannot be met. Since the country has opted for a free economy, improvement in the capability and quality of administration in understanding, analysing and assisting the new process is a must. Also needed is a transformation of the role of public officials (who still feel shy to be called public servants) into catalytic agents of change in a fledgling democracy and within a decentralised framework of bottom-up planning.

Pressure from the donors apart, reforms to increase administrative efficiency are vitally linked with job accountability in the absence of which public service will not only suffer but there will be a growing tendency to shift responsibility, as is the case now.

In this age of competition and computerisation, an outdated administration is a liability for a country like Bangladesh which is to feed more than 110 million people every day with very much limited resource and foreign assistance that will also have to shrink today or tomorrow.

Macroeconomic Development

Stabilisation, Stagnation and Growth

by Wahiduddin Mahmud

One of the leading economists of the country provides here an overview of the macroeconomic developments in Bangladesh since its independence, looking at some of the historical trends so as to come to terms with the problems and prospects arising out of the prevailing macroeconomic scenario. He identifies areas of weaknesses, and at the same time, lights up some avenues of possibilities that demand critical and creative interventions.

THE macroeconomic developments in Bangladesh since the early seventies have undergone successive shifts in the policy environment leading to varying, and often contrasting, trends in macroeconomic outcomes. A study of these trends can be an useful exercise in the political economy of macroeconomic reforms, since the shifts in policy have often been linked to the change in the nature of the political regime. The macroeconomic trends during the most recent phase of such policy reforms, that is, since the beginning of the 1990s, are characterised by a record-high rate of inflation, an unprecedented build-up of external reserves and an improved resource position of the government. The supporters of the present ruling regime would like to interpret these trends as providing evidence of successful stabilisation resulting from sound macroeconomic management. According to the critics, however, these developments could be better interpreted as symptoms of stagnation and low levels of economic activity. There seems to be some element of truth in either of these opposing interpretations.

To appreciate the prospects and problems arising out of the prevailing macroeconomic scenario, it may be useful to look at some of the historical trends. Perhaps the most serious macroeconomic weakness of the Bangladesh economy has been, and remains to be, the low rates of investment and saving. Historically, there was only one short-lived episode of

investment boom, from the late seventies to the beginning of the eighties, with investment in both public and private sectors growing rapidly at nearly 15 per cent annually in real terms. This was made possible by relying increasingly on foreign aid and by adopting a privatisation strategy that relied on a lavish dispensation of cheap credit and provision of other incentives (such as highly protected markets for domestic industries). To a large extent, the present problems of sick industries and loan defaults originated from this experiment with aid-dependent state-sponsored private capitalism. There was no mobilisation of domestic savings, so that the investment boom ended abruptly when the external aid climate severely deteriorated in the beginning of the eighties.

It was against this backdrop of serious macroeconomic imbalances of the early eighties that the policy reforms for stabilisation and structural adjustment were initiated along the guidelines of the World Bank and the IMF. The reforms were aimed at reducing the fiscal aid trade deficits to a sustainable level, consistent with the reduced level of aid availability. However, this was achieved by cutting back on investment (through reduced public development expenditures and through a credit squeeze on private investment), rather than by mobilising larger domestic savings. The ratio of investment to GDP fell from above 15 per cent to a level around 12 per cent, thus undermining the economy's growth potential. Throughout the eighties, the

contribution of the government's fiscal operations to national savings continuously declined because of the rapid growth in current expenditures along with a stagnant level of revenues as a proportion of GDP. As a result, macroeconomic strains started to reappear, with increasing rates of inflation and a deterioration in the balance of payments.

Against this backdrop, the most striking development in macroeconomic management in the nineties is the improvement in the government's budgetary position as reflected in rising revenues and control over current spending. However, the apparently comfortable resource position of the government is also partly due to its inability to raise the level of public development expenditure. The efforts at domestic resource mobilisation has not thus led to an increase in the rate of public investment. Instead, the government has been retiring large amounts of public debt to the banking system at a time when the banking system itself has been suffering from excess liquidity.

For the economy as a whole, the rate of national saving appears to have increased from around 6 per cent of GDP in the eighties to the current level of above 10 per cent; but this has not been matched by any significant improvement in the investment performance. As a result, the net foreign aid inflow in recent years has been far in excess of the economy's savings-investment gap (which is also called foreign saving and is identically equal to the current account deficit in the balance of payments). The huge build-up of foreign exchange reserves, from nearly half a billion US dollars to nearly 3 billion dollars during the last four fiscal years, can be seen as an inevitable outcome of the above developments in the economy's aggregate resource balance.

The strong external balance has emerged at least as much from weak import demand as from increased export earnings. The lagging import demand mainly reflects a low level of economic activity resulting from a feeble growth in investment. Within the domestic economy, the excess liquidity of the banking system and the very low rates of inflation are also symptomatic of a problem of low aggregate demand. It cannot be said that the prevailing macroeconomic balances have come about as the realised targets of the government's fiscal and monetary planning. There is as yet little analytical and implementation capability within the government to use the fiscal and monetary instruments of macroeconomic management in a way appropriate for a liberalised market-oriented policy regime. The real test for the effectiveness of such instruments would come if and when the level of economic activity takes an upward turn, thus putting strains on the fiscal and external balances.

The low rates of investment are reflected in the lack-lustre growth performance of the economy. An overwhelmingly large share of the incremental GDP has been accounted for the growth in the so-called service sectors rather than in

the productive sectors — Agriculture and manufacturing. This raises some doubts about the reliability of the official national accounts as well as the sustainability of the present growth pattern. Agricultural production trends mainly reflect those in rice production which underwent an upward shift towards the end-eighties but have remained nearly stagnant since then. The lower growth in crop production has been to some extent compensated by an acceleration in large-scale manufacturing production in recent years. However, since the fiscal 90, the growth in manufacturing production appears to have been almost entirely due to the increased production of ready-made garments along with fertiliser and pharmaceuticals, while production in other manufacturing sectors have either declined or remained stagnant. Similarly, while the growth in export earnings in recent years has been encouraging, this performance has been almost entirely due to ready-made garment export. Thus the envisaged development of a broader and diversified industrial and export base — on which the success of the on-going macroeconomic policy reforms are premised — still remains to be materialised.

With the current trends in domestic savings and foreign aid availability, it should be possible to raise the investment-rate from the present level of 14 per cent of GDP to, say, about 18 per cent during the five-year period, without creating any undue macroeconomic strains. Although this rate would be still lower than the average of the developing countries (about 20 per cent of GDP), such a boost in investment could lay the ground for sustained economic growth through further resource mobilisation. That window of opportunity would inexorably close if investment demand remains stagnant and the economy settles back into a lower level of savings-investment equilibrium.

There is in fact a danger for the government's policy priorities to get distorted in the prevailing macroeconomic situation. The apparently comfortable budgetary position may tempt the government to slide into macroeconomic populism at a time when the parliamentary elections are drawing near. Instead of trying to raise the quantity and quality of public investment, the government may take the easier route of retreating on resource mobilisation efforts and resorting to the public consumption profligacy of earlier years. The compulsion for fulfilling the targets for development expenditure may lead to the selection of wasteful and politically mandated projects. There is also a danger that, as private investment proves inadequate and economic stagnation continues, the government may adopt policies to lure private investment by providing more and more concessions. In the absence of clearly defined economic criteria for providing such concessions, this can easily degenerate into a process of providing privileges and distributing spoils rather than promoting genuine entrepreneurship.

Foreign Aid

Aid Trades Influence

by Abdul Bayes

"For foreign aid to play its due role, Bangladesh needs to uphold its democratic institutions and upgrade its technical capabilities," argues the author who is an academican-economist specializing in foreign aid, and a writer-columnist on socio-economic issues. The author deals here with the dynamics of aid, and its internal and external influences that have been operating since independence.

THE role that foreign aid should play in the economic development of a newly born state like Bangladesh became an issue of hot debates immediately after independence. By and large, the widely orchestrated viewpoints argued for minimal aid interventions and maximum efforts at domestic resource mobilisation. With socialism anchored as one of the state-principles, the mobilization of local resources through people's participation, quite obviously, stole prominence as a policy option.

However, the theoretical argument in favour of taking foreign assistance could, perhaps, hardly be dispensed with. From its nascent stage, Bangladesh found itself amidst two gaps: foreign exchange and savings investment gaps. With a very weak resource-base and insurmountable constraints pertaining to the expansion of exports, the volume of foreign exchange required to feed imports could hardly be made available from its own source. Likewise, the savings-investment gap also yawned as an outcome of low per capita income and a low domestic savings rate. The then policy-makers, therefore, had to recognize these two gaps, and hence to realize the usefulness of foreign economic assistance in the economic development of Bangladesh.

Once the rationale for foreign aid could be justified, the level, kind and sources of foreign aid soon appeared as a thorny issue. The then policy-makers were seemingly caught in two imperatives: political and economic. The political imperatives, mostly woven by the left-wingers, dictated that Bangladesh should not receive any aid from any country/agency that opposed our liberation struggle. It needs mentioning here that the views of the left forces, more often than not, used to carry heavy weight as far as national policy-making and policy changes were concerned. Given the

pressure at that time, Bangladesh had to expose very little inclinations towards western aid, especially any aid sponsored by the US or China. The Indo-Soviet axis — the ally in our liberation struggle — appeared as the most logical aid avenues. The socialist bloc as a whole emerged as the development partners of Bangladesh.

The economic imperatives were, however, a bit different. The kind and quantum of aid that the war-ravaged economy needed direly at that time could hardly be met by the socialist bloc. For example, food aid, the most sensitive item, could not be delivered by the new aid-givers. Commodity or project-aid commensurate with Bangladesh's needs could also be hardly available. A section of the policy-makers in fact did realize the realities prevailing at that time, but the political imperatives dissuaded them from seeking western aid. The leader of the then political party in power, Sheikh Mujibur Rahman, soon discovered that western aid could immensely help Bangladesh's economic development and at the flag-end of his position as a Prime Minister, he tried to convince the western countries to pour more aid to Bangladesh. During the period 1971/72—1974/75, Bangladesh received a total of \$2184m or \$544m on an average per year. During the first two years, about 90 per cent of the inflow was comprised of grants. And most of those resources flowed from the socialist bloc.

The overthrow of the Awami League government marked a turning point as far as the level and sources of foreign aid are concerned. The then regime in-power embarked upon establishing cordial relations with the Western world and making a departure from the "socialist" hug. China staged a comeback; after a few years of silence, the US and the US-sponsored agencies started determining the aid-fate of this newly-born state.

The foreign policy heavily tilted towards the US bloc in international or regional fora. The western bloc, in return, began to acclaim Bangladesh for its shift away from "socialism", and its growing faith in the market economy. For the period 1975/76—1980/81, aid inflow averaged \$928m/a year almost double of the earlier period. However, about half of that inflow comprised grants, and the other half loans.

The inflow aid since then has increased manifold. For example, from 1982/83—1989/90, aid-inflow averaged \$2936m per year — more than three times the earlier average level. Half of that inflow comprised grants and the other half loans. Till June 30, 1993, Bangladesh is indebted to the tune of \$12,424m that includes medium and long-term loans (90 per cent, of outstanding loans). The repayment on all-out of foreign debt now accounts for about one-fifth of our total export-earnings.

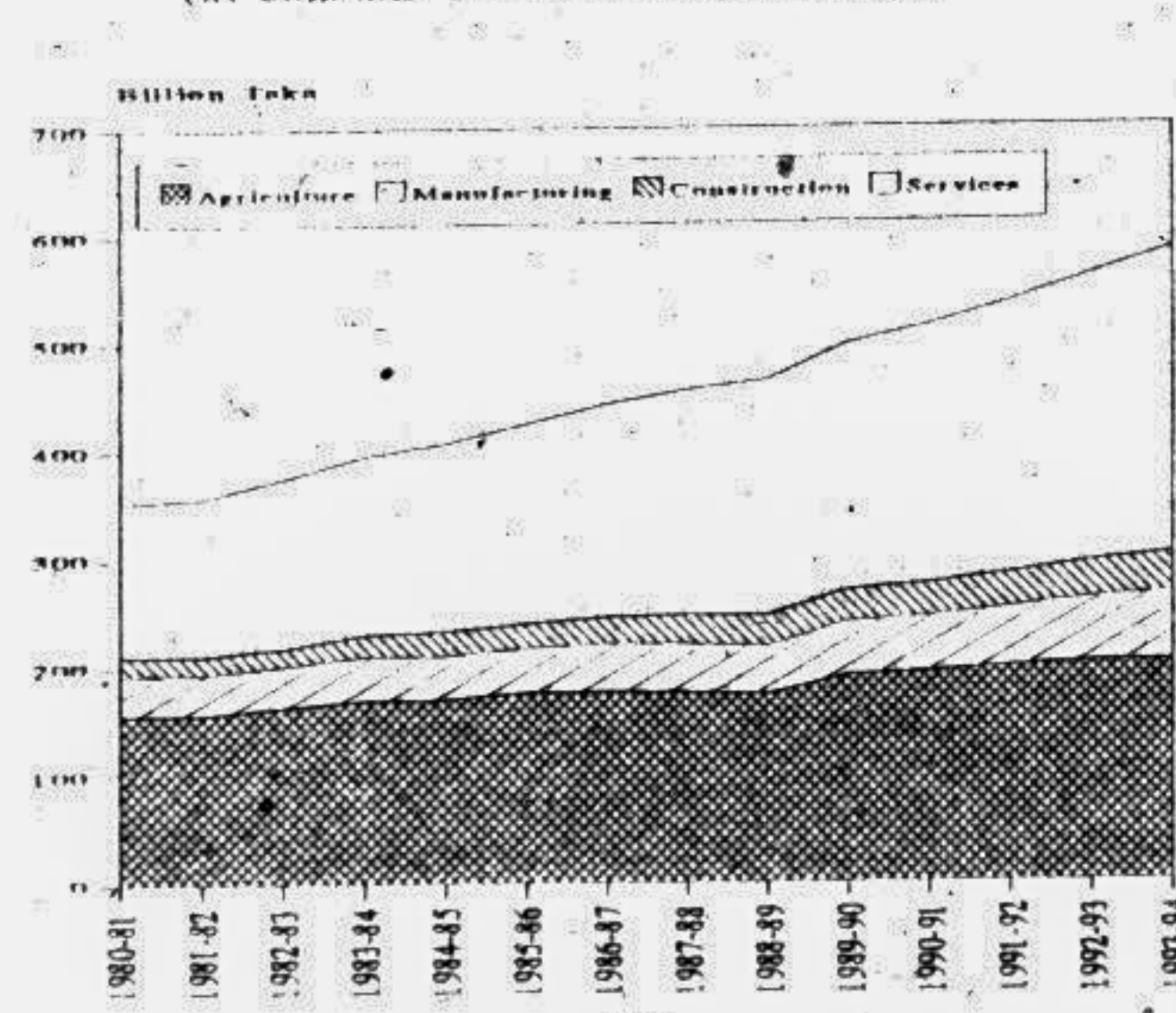
Not only the quantum of aid grew over time, aid is alleged to have invited influence from donors. It is alleged that since the late 1970s, donors, influences on Bangladesh's economic policy issues became undeniable and at times imposing. The current maize of economic reforms is said to have derived their flesh from the World Bank and the IMF, who provided aid with stringent conditionalities. Bangladesh thus is left with no option of its own to spend the aided money in whichever way it likes.

How far the inflow of foreign resources did in fact contribute to our development is a very difficult exercise to grapple with. But a layman's viewpoint would suggest that aid had increased dependency, and Bangladesh is hooked on to international aid-strings. Without contesting any viewpoint, one can perhaps deduce the conclusion that Bangladesh could not benefit from

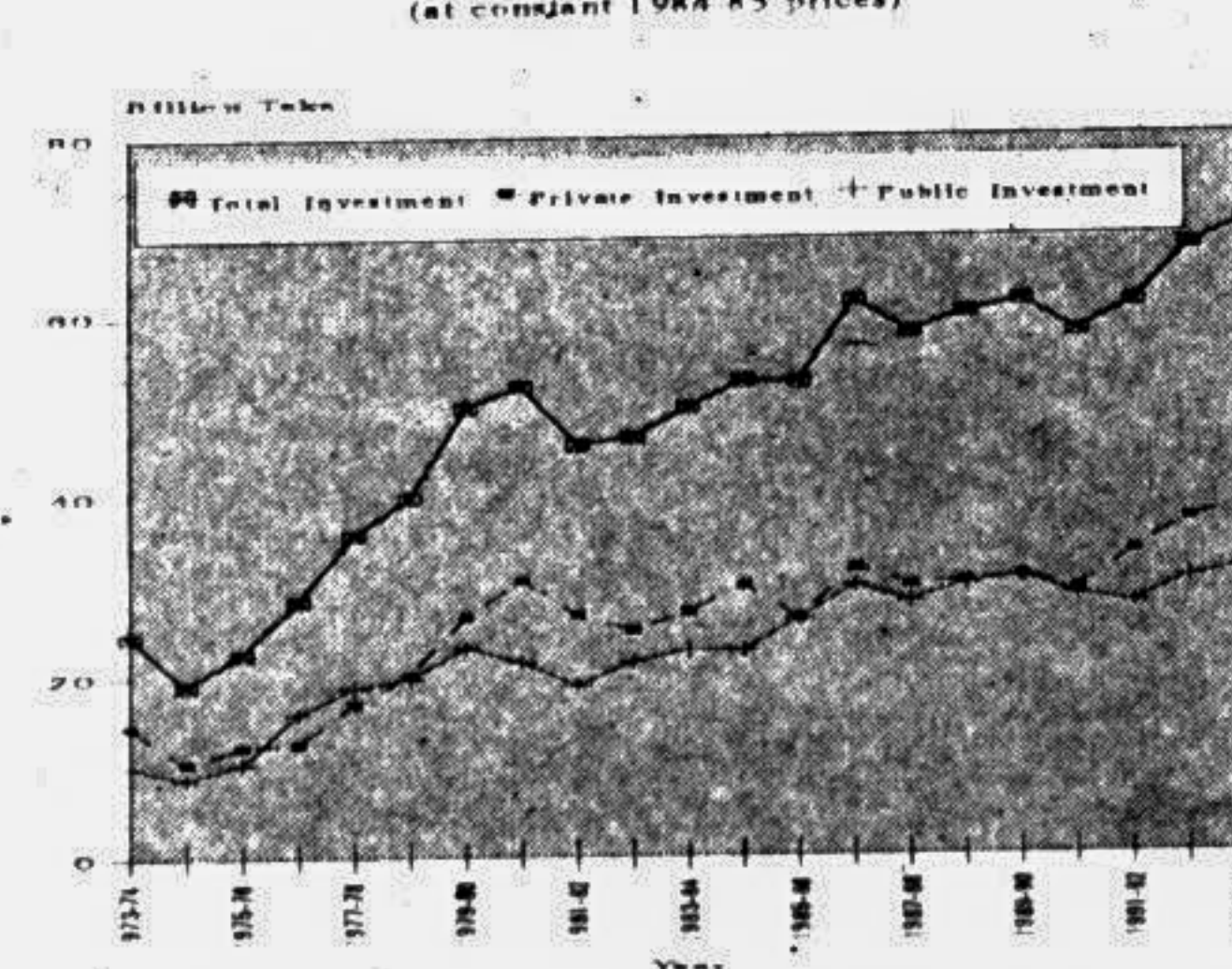
aid as could be expected. It is not the flaws with aid per se, but problems with the regimes during which maximum aid inflow took place. Over its 24 years of existence, Bangladesh has been ruled by the military or quasi military rulers for about three-fourths of its lifetime. Those rulers had very little to do with people's participation, but instead valued most their whims and constituencies. During the last regime, for example, old money is alleged to have been lavishly spent on unproductive and conspicuous consumptions. Lack of local-level initiatives in drawing and designing development projects bestowed the centre with identifying the rural level projects. Mobilization of local resources was not given attention, and at times, over 80 per cent of the developmental budget depended on aid inflow. Aid finance, in fact, substituted domestic finance in place of supplementing it. Those disconcerting occasions never seem to be over, and Bangladesh is poised to gear up its domestic resource generation capacity. About one-third of the ADP reserves now flow from our pockets and the rest from outside.

There is no doubt that over the years, growing aid tended to groom influence. But for this to happen, are the donors to blame altogether? Perhaps not. For the last two decades, the government relied heavily on the military and civil bureaucracy who were positioned in important negotiations with the donors. Even the planning commission starves of good economists and social scientists. Unless domestic technical capacity is upgraded to challenge donors on their agenda, a mere indignation of the influence is not going to uproot foreign influences. For foreign aid to play its due role, Bangladesh needs to uphold democratic institutions and upgrade its technical capabilities.

Sectoral Composition of GDP Growth (at constant 1984-85 market prices)



Growth of Investment (at constant 1984-85 prices)



Society

Avoiding Social Disintegration

by Nilratan Halder

WAR can earn or lose freedom, yet winning a war is no guarantee that it makes any easier the task of achieving the social goal. Because in almost all the cases, the political and military leadership gets concentrated in the hands of the elite and the wealthy classes of society, they work — either deliberately or at times unknowingly — against the interests of the large majority. The post-war aberration of the national ethos, thanks to our politico-military leadership, in Bangladesh has hardly been surpassed anywhere.

A national liberation war is a limitless mighty heave with which a nation lifts itself several notches up. It is a spiritual elevation collectively experienced. But war does brutalise also. The fact is that immense forces get released. Either you make good use of them or get destroyed by them. Our inability to make the most of these forces in the post liberation period is proving highly costly. The war one fights against the enemy actually does not end

with the carving of a geographic boundary; the war then has to be fought within. Mahatma Gandhi's politics may not be liked by many, but where he talks of the continuous war within the self to attain self-discipline and denial, he holds a lesson for the world to emulate.

Even though the common people were ready to wait, it is the privileged and the educated who wanted immediate reward for their sacrifice during the nine months of war, a very short period compared to the gruelling and prolonged independence wars of many a nation. Our impatience has driven us to go for short-cuts in every area of life. This explains why the whole nation could not reap the benefit of the independence war; but a few have been more fortunate and more equal than the rest.

Evidently, the sobering influences that give human character its strength and poise are simply lacking. The social and political gurus have failed

to get the message through that a people must grow from within to sustain the achievement of the liberation war. When the possibilities gradually vanish in the distant horizon, the nation grows still meaner and it no longer commands the self-respect that once catapulted it to a high moral ground. Desensitized, it does not feel any shame when endless affluence and abject poverty stay side by side.

The values, morality and cultural moorings — once the forte of society — give in and a rot is set in. It is the brutalisation that starts to take hold of society. Dishonesty and deception under the veneer of suavity, sophistication and smartness make deep inroad not only in personal relations, but also in official transactions. Those not enjoying the opportunities to abuse official positions and trust go it straight and without pretension. They simply resort to force and firepower to meet their ends. Bangladesh is falling apart.

There is hardly anything to hold this society together.

It is a wasteland vision as seen by T S Elliot of a society where not only hollow but perverted people are shaming the entire nation without knowing that they are doing so. It was a long road to independence, the political gains were achieved bit by bit. But we did not take as long a time to lose them. For only a brief period, during those turbulent war days, did the class difference almost vanish. At least there was an attempt to understand each other. As for the disadvantaged, they held their more educated and privileged peers in some esteem. Today perhaps no more, except in contempt. The betrayal of their cause is so great that their frustration and helplessness are giving in to a new kind of feeling, hatred. Before it turns into a rage, the hollow promises must stop ringing and some practical steps be taken to address their grievances.

Until now the deprived mil

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