

Priority Agenda for 1996: Options and Challenges

Special Supplement

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If not in politics, at least in the area of economic policies, a sort of national consensus can be said to have emerged over the last few years. Pushing forward the reforms, making public sector more efficient, removing poverty, and creating an enabling environment for private sector-led growth are the essential elements of that consensus. Given the experience of the last four-and-a-half years, what should be the priority thrust for 1996? To find an answer to that question, we brought together ministers, political leaders, administrators, business leaders, scholars, representatives of international bodies and NGOs in a Daily Star Roundtable, held a few weeks back.

What emerged through the across-the-table dialogue is a catalogue of missed opportunities for our economy. It became clear that in spite of an excellent macro-economic environment, the economy did not do well because of an on-again off-again reform thrust and because of inordinate delays in policy formulations in different sectors.

So what needs to be done in the coming year, especially by the new government which should be in place following the elections? In the following pages, experts give their views about the urgent policy challenges that lie ahead which, taken with boldness and in a concerted manner, will help us to break away from the present inertia and give a growth rate of 7 to 8 per cent that we need to make any substantial dent in our poverty situation.

Transcript prepared by PROBE News Agency

Mahfuz Anam: I welcome you all to The Daily Star Roundtable on Priority Agenda for 1996. This is a very broad topic and we have tried to define it a little by the agenda which all of you have received. As you will see, there are three main thrust areas: making better use of public resources; attacking poverty; and the third, energising the private sector.

For these three thrust areas I will invite three speakers to start the discussion. Our Finance Secretary Nasimuddin Ahmed has very kindly agreed to start the discussion on the public resource issue. For poverty, we will ask Mr. Landell-Mills of the World Bank. Then, for the private sector, Mr. Taufiq Elahi Chowdhury, Chairman of the BOI.

I now request Nasimuddin Ahmed, our Finance Secretary, to speak on the first subject — making best use of public resources.

Nasimuddin: I propose to touch on the first two sub-items of item one. The third sub-item, on taxation, I think Dr. Akbar Ali Khan could elaborate.

We are looking at the agenda for the future, 1996 onward. I propose to highlight some of the important and salient dimensions of reform of the public sector with a view to reducing its losses and eventually to take it to the path of profitability. The first issue which needs to be addressed is developing a corporate culture in the public sector. Corporatisation of state-owned entities, enterprises. We have a three-tier system at the moment. The government is the owner of public corporations and the corporations are under the terms of the President's Order No. 27 of 1972.

In 1977 we introduced this new concept, of holding corporation, with the Petroleum Corporation. All the shares of public enterprises of the petroleum sector were transferred to the corporation. This was important in order to develop an appropriate framework of inter-relationship between the ministries representing the government, the corporation and enterprises, to define the boundaries of each, and these boundaries should not be transgressed. Corporatisation also includes the issue of converting state-owned entities, as far as feasible, into companies, preferably public limited companies with a view to their eventual privatisation. This should be within a time-bound action programme. This the government should enunciate in the form of a public policy statement on the role of the public sector and privatisation. This will facilitate the privatisation process.

We also need to go into the modalities and mechanics of privatisation. It is convenient to do so through the capital market, the equity market. It achieves two singular purposes. One, it helps public participation and broad-based capital formation, and it helps in the development of the equity market itself. It energises, stimulates an equity market.

The next issue for improving the efficiency of SOEs (state owned enterprises) is the reorganisation of capital structure and rationalisation of manpower. We need to establish also, in clear as possible terms the boundaries of authorities in the corporation structure. We need to look also into whether or not SOEs should remain within the purview of national scales. Today, most of the corporations are governed by the relevant law which is equivalent to national scales.

Whether we should give the new compensation packages or not is an issue to be deliberated upon. My personal opinion is that we need not do so, but this may be discussed. But there is a need for a complete refurbishing, review of the recruitment, promotion policies of the corporate sector. We have to build into the system the culture of meritocracy, which is a performance-oriented system, a structure which rewards merit on the basis of objective performance criteria already laid down, and which penalises delinquency and inefficiency. It is the most critical factor in improving both financial and operational performance in the public sector.

The issues of effective management are very important. The issues relating to

the role of CBA should be confined strictly within the boundaries of law. Today we witness flagrant transgression of those boundaries and consequent demoralisation of corporation management.

There is a need to clearly define the role of the public sector and its future place in the economy so that it is widely understood. There are of course some vested interests in any reform measure in some form or the other. So there will always be resistance to change. If we are taking a longer term view, it is simply imperative that there will be political commitment to reform without which sustainability is inconceivable.

The public sector suffers today from problems of technological obsolescence, poor and wasteful industrial practices leading to declining profitability. Everyone knows about the alarming financial losses which the state-owned enterprises are suffering to-



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day and the consequential burden on the national budget as well as the financial institutions. This the government directly or indirectly will have to bear, the tax bearers will have to bear.

Moudud Ahmed: I agree to a great extent with the points Mr. Nasim has raised and I do not want to dispute them. But one thing we see from experience is that we have been discussing these points for many, many years. I think it would be better if in the parliament or in the government they come forward with an evaluation of how things are going. I think that the Independent Review done by Professor Rehman Sobhan did a wonderful job in this regard. There are some points in that of which we could take note of.

We have still not been able to establish true accountability and transparency in the running and management of business in the public sector. I think the basic philosophy should be that business should be left with the businessman, and the government should, as far as possible, come out of the public sector, particularly from the enterprises which are engaged in business. That will in itself reduce the burden on the government in managing these enterprises. These will also improve if they are put on a competitive plane. If they are run on a corporate basis. As Mr. Nasim has hinted, a corporate culture has to develop. They have been given total independence, freedom and they must also operate on the principles of market economy. If that can be done then

improve. There were certain measures, like a public sector management law was made, there was a monitoring system, a scrutiny system, a criterion system and all sorts of things. We use to preside over these meetings quite regularly but I don't know how much has been achieved. **Al-Hussainy:** I have a question here. When you say the



perhaps public sector resources could be utilised in a more fruitful manner and the burden could also be reduced.

Mahfuz Anam: Moudud Bhai, you were the Industries Minister for a period. What were the major obstacles you faced, that prevented you from going in the direction that you have just mentioned?

Moudud Ahmed: I do not want to make any rash comment but I think the main problem is realisation on the part of the political leadership. It is the question of the leadership's commitment.

Mahfuz Anam: Which you didn't have during your time, or what?

Moudud Ahmed: We did. Some of us had, but there is no point in the Industries Minister having a commitment, the President or the Prime Minister having commitment. It is down the line the people who really handle all these things, starting from an Assistant Secretary upwards in a ministry and in the corporation people who are handling these things. The basic orientation is still not proper, and congenial for a market economy. There is no change in the old orientation as such. The basic issues are still the same old things that we have been trying to rectify and



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Industries Minister or the Prime Minister may have the commitment, but it does not work down the line, is it a reflection of the weaknesses in leadership or the weakness in the system? Perhaps the commitment wasn't firm enough and so it didn't work all the way down?

Moudud Ahmed: I think that it is both. An individual is not important here. I will give more importance to the system itself. But the system cannot improve unless there is a commitment from the leadership. By leadership, I don't only mean the political leadership. The secretaries are very much the leaders. They are heading ministries, a lot of things are depending on them. So the bureaucratic leadership is also equally important as the political leadership.

Akbar Ali Khan: The first point I would like to make concerns what the Finance Secretary mentioned about the direct losses of the public sector entrepreneurs. They are very important and may even amount to one or two per cent of the GDP per year. I would like to highlight the indirect effect of the public sector enterprises on our economy. I would like to submit that there are dead weight losses incurring to the society because of the public sector enterprises. Most of these are monopolies and because of their existence we do not allow any competition. These monopolies charge enormous prices from the consumers and they stifle economic growth. For example, what is happening to the power board? If the losses were limited just to the losses which are shown in the balance sheet, then things would not be so bad. But the power board system

loss is one of the highest. I think it is the third highest in the world according to the latest world development report. Investment in energy sector is not taking place. As a result, the cost of power consumption is going up. It is adversely affecting our industry, our agriculture. These spill-over effects are far more dangerous. We should not only think of corporatisation. We should think of introducing more competition and we should have no monopoly either in the public sector or the private sector. This should be the cornerstone of our economic policy.

Rehman Sobhan: I think the Finance Secretary made the point that the agenda should be on creating a corporate culture for the public sector. Of course, he has been in the service for a very long time. Mr. Al-Hussainy has been both in the public sector and in the secretariat. The operative issue really is that the concept of a corporate culture and this has been under debate for quarter of a century. The main hostility to liberating the public sector, to corporatising it, has traditionally come from the secretariat. What I have never understood is that when there is virtually universal consensus on the creation of a market-driven competitive corporate culture in the public sector, why have successive governments not been able to create this freedom of action?

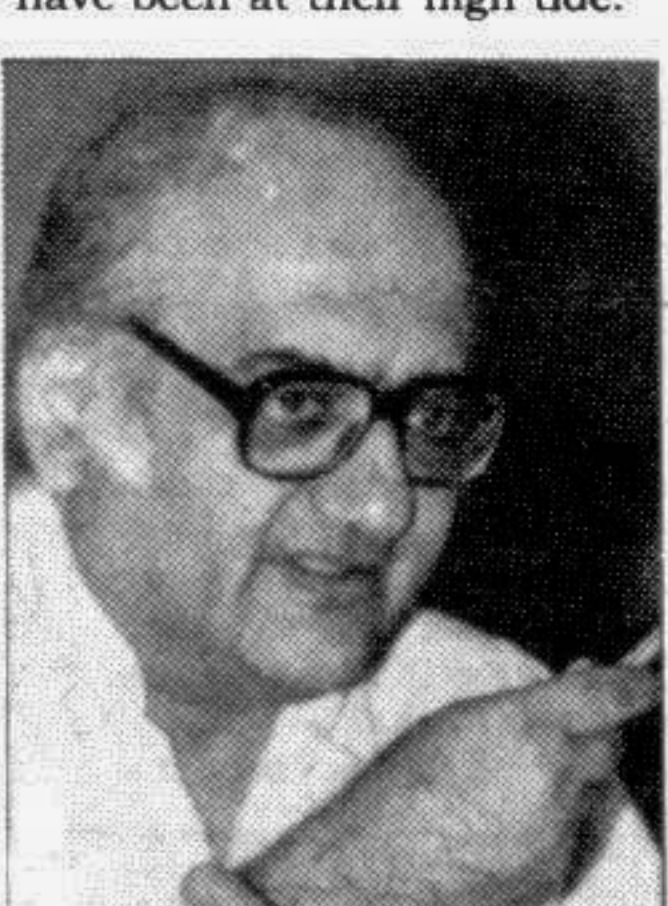
The second point arising from this, we have all been given copies of the World Bank's Country Economic Memorandum which, in spite of the preparation of our own Independent Review, I am very happy to quote and have found always most useful. In Table 5.5, on the financial

performance of state-owned enterprises, you will note the progressive deterioration in the financial performance in the public sector. By some peculiar coincidence, the deterioration has become more severe during the period where economic reforms have been at their high tide.

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In the last few years it has become astronomical. It is not that the performance of all corporate public enterprises have universally been bad or have been bad as they have been particularly in the last few years. Sometimes they did actually make profits. In some public sector entities, profits were made for quite a sustained period of time. In the bad days of the early 70s, out of about eleven sector corporations, at least about seven were operating profitably, including the much more adversely affected textile mills corporation. Why have all these deteriorated so badly in these years? Someone has to explain this otherwise we will be faced with a universal deterioration of performance.

Thirdly, does automatic privatisation solve the problem? Whilst you have a soft budget constraint for public corporations, Bangladesh has pioneered the soft credit constraint uniquely over here where the accumulated losses of the private sector can be transformed into debt defaults which will then be absorbed by the banking system and then will be compounded by the exchequer who will reclassify this, will recapitalise the banks. So you are surely facing here not some peculiar dichotomy between the practice of the public and the private sector

but a universal deterioration in the qualities of governance which seem to be common to the performance of the public and the private sector.

Someone around this table who has been around the government long enough should explain this qualitative deterioration in governance which is permeating the performance of the public sector.

Nasimuddin Ahmed: The financial performance or operational performance is clearer today because we have a more transparent system now. And particularly in the jute sector, when subsidy was done away with then its impact on their profitability of the finance performances was more clearly evident, otherwise it was hidden.

The other point was that, with the reform of the financial system, the financing facilities were denied to them as well as the low rates of interest, well below the market, which they had before. Corporations were allowed free access to money in those days. They no longer have that facility. So reform does have an impact, but it is eventually in the final analysis a good thing that we have a clear perception of what is happening. Then there are other factors as well. Textile, for example. The cotton situation over the past two years has been very difficult. The world prices have gone up. Jute, too, has had difficulties. The pricing policies have something to do with it, as far as the internal market is concerned. There is no denying the fact. Then we have to keep the wage settlements in view. The wage enhancements have contributed to the deteriorating financial performance of the corporations. Productivity is stagnant, trapped.

Rehman Sobhan: About deterioration, the numbers are quite conspicuous.

Morshed Khan: I would like to make some quick observations on what Professor Rehman Sobhan has said and also what our Finance Secretary has said. I am very glad that as usual Mr. Moudud has been very frank on successes and failures.



Morshed Khan

If the total political leadership play the tune in total harmony, the reforms and the delivery system should work like an orchestra. Therefore, I think we should be very careful in the delivery system. I am not going to blame the politicians or bureaucracy or any others. I think we are all to be blamed. It is the mindset. We must play this game of reform and privatization in total harmony.

Over the years since the reforms started, there is more one can say in favour of reforms than against it. Maybe one or two pockets would be hurt, but reforms itself cannot be blamed. About economic deterioration. We expected it to deteriorate, in fact much faster than it actually did. Because when competition comes, when market opens up and they lose their monopoly

when more and more competition is coming in private sector, they cannot squeeze the consumer in the manner they squeezed earlier. Obviously the public sector will lose more. In the energy sector, the way we are squeezing the petroleum sector. We should be very frank in a roundtable like this. We have only one refinery in the whole country, none of us can escape from this responsibility. With one refinery in the country we have three marketing companies, three boards. For each marketing company there is a full board, a full structure. And selling what? Selling the product of one factory, one outlet. Three marketing companies and all are in the public sector.

Let us first identify the area where the taxpayers' money is going, where the donors' fund is going, how much money was spent to create infrastructure in the country, why infrastructure is not built. One after another we accept the dictate of somebody else, like we have accepted the Machine Tools Factory. We accepted the GM Plant at the dictates of somebody.

I think the politicians, in the government and in the Opposition, in their heart of hearts feel it. The senior bureaucrats all feel it. But somewhere in the mid-level delivery system, we get stuck. There is much left to be done. Let us take the case of BOI. The Executive Chairman of BOI is here, also Mr. Moudud Ahmed is here. We spent days in and days out during the flood of 1988. Mr. Moudud Ahmed sent for me. I came and worked out a statute for BOI. We wanted to change but could not. What has happened? BOI today is nothing but a group of six hundred people. Some are mid-level clerks and low-level clerks. It is nothing but the old office of the Director General Industries in a new name. Old wine in a new bottle. No matter if you send a super star in BOI, he can deliver nothing. Why has BOI been kept within the government pay structure? BOI does not need 600 clerks. BOI does not need 64 upazila or district town offices. BOI needs 40 brilliant MBA with engineering background or financial background and then BOI will be all right.

Mahfuz Anam: Why aren't we doing it now? You are a part of the government.

Morshed Khan: I told you we need a political consensus. What I was saying is let us not blame the reforms. The government has got no business to be in business. That should be the cardinal principle, for all of us.

Moudud Ahmed: We all know the problems as a matter of fact. It's not that we do not know. It is a question of cohesiveness in the (a) ideological biases of what kind of economy or system you would like to have and (b) to really have the determination of implementing or trying to solve these problems. I think the government is too big and those who are in decision-making position, are too busy with too many trivial matters to concentrate on one or two or three particular issues. If they are committed and if they really concentrate say for a period of six months or so, to bring in cohesiveness in the implementation problem that we have, I think it can be improved.

Mahfuz Anam: Moudud Bhai, as a member of the public and as a journalist what is frustrating to us is to hear people like yourself say things that we like to hear, but when you go to power, you do things that don't change things. That is our frustration.

Moudud Ahmed: This I think will take a long time to explain. I don't have so much time. As I had said earlier, we lack cohesion not only in the policy making but more so in implementing policies. And every government, not of the past only, in future also, will face the same problem and they will have the same kind of frustration. The system will take time to change. But in order to change, the amount of cohesiveness and determination that you need, is lacking in the leadership level. By leadership I mean, not only political leadership. Even a bank manager is a leader, a factory manager is also a leader, a school headmaster is also a leader. Mine is a leadership concept as a whole. They need a lot of

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List of Participants	
Morshed Khan Special Envoy of the Prime Minister	Samson H. Chowdhury Vice President, MCCI
A. Moyeen Khan State Minister of Planning	Al-Hussainy Former Secretary and Adviser to FBCCI
Moudud Ahmed Vice President Jatiya Party	Kazi Faruk Ahmed Chairperson, ADAB
S.A.M.S. Kibria Former Executive Secretary, ESCAP and Political Adviser to AL President	Hossain Zillur Rahman Senior Researcher, BIDS
Rehman Sobhan Executive Director, CPD	Runa Alam Managing Director, Peregrine
Nasimuddin Ahmed Finance Secretary	Petra Osinski Team Leader Management Development Unit (Health/Population)
Akbar Ali Khan Chairman, NBR	Pierre Landell-Mills Chief of Mission, World Bank
Taufiq-E-Elahi Chowdhury Chairman, BOI	Tercan Bayson World Bank
Moderator Mahfuz Anam Editor, The Daily Star	