

# Unfazed, focused in times of trouble

**A**FTER 33 months, three budgets, and ahead of the third annual meeting of aid-givers, Finance Minister Shah AMS Kibria exudes confidence. He cites figures to claim that he has been able to erase the marks of devastation wrought by the 10-week flooding last year. Even the low revenue collection caused by the lack of economic activity during the prolonged deluge is being covered up by an increased flow into the state coffers. By the end of the fiscal year, he does not see a shortfall beyond five per cent, a good performance even in normal circumstances. Excerpts (See Internet Edition for the full text) of an interview:

**DAILY STAR (DS):** The devastation wrought by the worst floods last year definitely put a huge brake on your targeted growth. Where do we stand today after six months?

**SAMS Kibria (SAMS K):** Let me begin by saying, thank God we are standing and have not fallen flat on our faces in spite of a flood, the like of which I have never seen in my life. I have never seen a flood that lasts for three months. There is a qualitative difference when a flood lasts for a week or two and a flood lasts for one month or two months. People of this country know how to deal with floods of one or two weeks. They can cope with this. But when it continues for one month or two months, three months, there is a qualitative change. Things get destroyed. So the damage was enormous, not only in terms of the damage to the infrastructure, to agriculture, to industries, but also damage to the household economies. The household economies will take some time to recover. That is what we had in mind when we launched our reconstruction programme of agricultural credit. The damage to the household economies was huge, how to rebuild their economies (was our major concern). They lost poultry, equipment, cattle and seeds.

We directed all our energy, attention and resources towards the rural economy, towards the agricultural economy. So let me claim, in all humility and modesty, that the country has recovered from the floods and now we are on the way to regaining the momentum of growth as before.

I will claim this by using one symbolic indicator. Our revenue collection had fallen behind the target. This was the subject of much criticism, much breast-beating on the part of some professional pessimists. Excuse me for using the term "professional pessimists", but they love to take a pessimistic view of life. They would be the happiest people if I also joined their ranks and started wailing and crying that everything is lost.

Actually, in terms of revenues, I have got a bit of good news. It is also an indication of how we are recovering from the flood. For example, the revenue in March was just a little over the target. So this is something that has to be taken into account. The recovery is proceeding gradually. It is regaining momentum. At this moment we are behind our target by about eight per cent, but we hope that we will bring this down. It will not be more than five per cent by the end of the year.

The recovery in the months of April-May and particularly June is expected because some of the taxes are paid in June. So we expect that even if we don't reach the target, we will be reaching at least 95 per cent of the target which is not bad. In the previous years, the actual collection was always a little less than the target. In this particular year, since we have had this devastating flood, if we end up with a revenue collection just about 95 per cent of the target, I would consider this to be a success. In March the target was Tk 1,434.55 crore and we have collected Tk 1,435.10 crore. So the situation is improving and one can take some satisfaction from this.

**DS:** But you will be running short of money considering your expenses. How are you going to cover it up?

**SAMS K:** We will see at the end of the year to what extent the ADP implementation is done. There is usually three or four per cent shortage in the implementation, so I don't expect any serious difficulty in this regard. This is one indicator of the situation.

The other indicator is even more serious for the health of the economy and the prospects for the future. That is the rate of inflation. As I have said before, and I have no hesitation in claiming this that I am a man who believes in non-inflationary growth. I don't believe in an illusion of growth that everybody's income is rising, but the cost of living is also rising. That is not one that I like. A very moderate degree of inflation, say five per cent, is not so bad, but well above five per cent is not acceptable to me. Fortunately, here also the latest trend is good.

As you know, there are two components of inflation. One is related to food prices and the other the non-food prices. The food prices were definitely affected by the floods and caused inflation. For example, the annual rate of inflation in 1997-98 was 6.99 per cent. But point to point inflation is what indicates the real, current trend. And the point to point inflation had started to rise directly as a result of the flood beginning from September. In August, it was 7.78 per cent, and then in September 8.35, in October 9.27, in November 12.44, in December 12.67. But then in January it came down to 10.09 per cent and in February to 8.34 per cent. So this is the trend. The trend is more important in in-

flation matters. Here there was a rising trend and again there is a falling trend.

Equally significant is the non-food price. Always, all through this period, remained below five per cent. Non-food inflation in July was 4.45 per cent. In August it was 4.33. In September, it was 4.12. In October, it was 4.20, in November 4.15, in December 4.34, in January 4.13 and now it is 4.09. So this is again something that I take some pride in.

We can take some credit that the inflationary situation, in spite of the flood and the effect on the food prices, has remained stable. The fact that the non-food prices have remained stable is perhaps the most significant factor in our overall inflationary situation. In previous interviews with the press, I have said that we are not excessively concerned about inflation. This was the reason, if this also started to rise, I would be concerned. As a conservative economist, I would be concerned.

**DS:** What about other indicators?

**SAMS K:** As regards, the growth rate and other indicators, we were hoping that we would be able to achieve a growth rate of at least 6 per cent this financial year. This was our hope. It is a matter of calculation now. By the end of the year if this trend is maintained and if we have inflation rates falling, revenue collection rising, if the crop is a bumper one which, by the Grace of Allah, it seems it will be, and if industrial production continues gaining momentum, we should have a good growth rate.

**DS:** You have revised your target. What is the target now?

**SAMS K:** For the growth rate one does not fix a target like that. It is just a notional target. It is not a calculation that we are going to exactly reach this. We see how various segments of the economy perform. Fortunately we invested heavily in the agriculture sector and this sector has responded.

We are seeking to reinvigorate the industrial sector as well. I hope it will also respond. For example, we are issuing bonds to increase investment in the industrial sector. Those who say that the industrial sector is not getting any resources or term lending, they exaggerate. I have the latest figures and I find that term lending, excluding working capital and trade finance, is Tk 1144 crores in 1998. In 1997, it was 1029 crore. Mind it this is term lending. These are new projects.

**DS:** Which sectors came up well?

**SAMS K:** I will give you the figures. Jute, cotton and weaving, apparel industries got 25 per cent of the investment. Engineering, basic metal and metal products 8.36 per cent. Paper, paper products 6.16. Manufacturing of chemical products, plastic products and rubber 8.48. Beverage and tobacco industries accounted for 5.07 per cent. Food stuff 3.68. The other categories are large, 33.41.

**DS:** You had identified certain areas as thrust sectors. Are they giving you the expected returns?

**SAMS K:** I would say that the garments sector is still way ahead of the others. The support to the other sectors is gradually showing results. We have had a fairly large investment in cement, paper products, foodstuff and apparels and textiles. In chemicals, I had expected it would be more. In small industries, the investment is very small, 4.53 per cent.

**DS:** Why is the situation with small industries?

**SAMS K:** Small industries are not always able to take advantage of professional management and modern machinery. So they suffer. Just like handloom and power loom where productivity is low.

**DS:** So they need government support?

**SAMS K:** Small industries definitely need support.

**DS:** Has that support gone to them?

**SAMS K:** We have given small industries large measures of support. In matters of taxes, cottage industries are virtually free although some of the cottage industries like weaving, handloom industries pay very little taxes. The interest rate is also lower.

At a lower interest rate is acting against the small industries because they are charged two per cent less than the other sectors under the orders of the government. But the banks are free and they don't like lending at a lower interest rate so it is actually working against small industries. The banks have no incentive. The banks are not lending them money. Private banks don't finance small industries. Even the state-owned banks, they don't like lending to the small industries. If we equalised, perhaps the small industries would have received a larger share of loan because banks are profit-seeking institutions.

**DS:** Some people say tax breaks and fiscal concessions create a distorted situation in some areas in the sense that these are often discriminatory.

**SAMS K:** That's true. That is why I am not very keen on discriminatory interest rates. Sometimes it acts against the purpose. By keeping the rate of interest of small industries low, you are denying virtually credit to the sector. No one is interested in giving credit to the small industries. Whereas if there was no such instruction from the government, then perhaps they would have considered them on the merit of their proposals. This is a matter which should be considered very carefully by the government, and we are doing so. We have to bear in mind that this

The prolonged and pervasive flood did all that it could to damage the economy, but things, "thank God", are back on track, says Finance Minister Shah AMS Kibria in an interview to Toufique Imrose Khalidi



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type of discrimination in interest rates in the long run creates distortions.

**DS:** What about other indicators. For example, foreign exchange reserves and ...

**SAMS K:** The other indicators are not too bad. Imports have increased by 4.42 per cent. Import figures are rather late in coming. Import is a lengthy procedure. Until the LC is discharged, it is not possible to get a final figure.

There has been a massive increase in food imports. There has been an increase in capital machinery. In other sectors there has been some decrease like in intermediate goods.

Following on during the floods, the garment industry definitely lost some business. Many of the buyers who visited Bangladesh or saw the pictures or received reports were convinced that this country would not be able to deliver the goods in the next few months. Some thought it might take years. So Bangladesh lost some orders.

We have the figures until January and it is just about the same as last year's. But the annual average growth this year will not be like last year's which was 16 per cent in exports. Remittance is growing at 9.27 per cent steadily. Last year, between July to February, we had received about 100 million dollars. This year we have received 109.7 million. Just about a 100 million more.

We have received 138 million from the IMF as emergency assistance and 200 million from the World Bank. All of the 200 million has not been disbursed yet, maybe even less than a 100 million dollars. But we will eventually get this.

**DS:** Did you know that this mini World Cup cricket did a world of good for Bangladesh?

**SAMS K:** I am in full agreement with you. It rehabilitated our image abroad. The whole world saw things were normal in Dhaka.

**DS:** So the international community responded very positively?

**SAMS K:** Very positively.

**DS:** But don't you think this international community is going a bit too far?

Kibria: The donors have expressed their concern. I think it is the opposition and the press which are unduly politicising it. The donors have expressed their concern, and I think they are fully justified in feeling concerned because, after all, they are our friends. They are interested in our development and they are giving us assistance. If they see that the people are unable to work and cannot make use of these resources that they make available by work stoppage and other activities of a disruptive nature, they will be concerned. But their concern has been given political connotations by the opposition and by the media.

The media has played it up to such a great extent. Why should the media give it exaggerated publicity? They present it as if the donors are either pressurising the government and the opposition or holding it as a kind of threat, which is not the case. They are not holding this as a threat. At the same time, why should the donors have a mediator's role?

I don't believe that the donors want to mediate, or to arbitrate, or to play a political role. All this is being suggested to them by the press and a section of the political establishment, particularly the opposition. They think that here is an opportunity. The donors will arm-twist the government. This is very unfortunate.

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**DS:** But you are sometimes arm-twisted by donors.

**SAMS K:** No, I would not say "arm-twisting" is the right word. When the donor countries engage in a very lively discussion with us, I think it is very good. In the relationship that we have with the donors, there should be free exchange of views and ideas. I personally think that the government always retains the right to act in the way that it does. I have acted the way I wanted. But I have always had very pleasant, friendly and co-operative relations with the donors and I have agreed to disagree with them on many issues. For example, I declared at the very beginning that we would give some subsidy to agriculture if it was in the national interest. Did I get frightened by the donor reaction?

When our perceptions and the donors' perceptions do not tally, the only way is to discuss, argue, debate and then agree on a common course.

**DS:** But in some cases we see that they try to overstep their limits. For example, in the case of KAFCO ...

**SAMS K:** In the case of KAFCO, we are doing what we want to do. The Hon'ble Minister of Commerce and Industries is the person to ask about this. Those who negotiated this deal in the eighties were not patriots. They did not safeguard the interests of the nation, and now we have to take care of national interests under very difficult circumstances because the lenders who have lent money might misunderstand us if the contractual obligations are not fulfilled. So we are trying to safeguard our interests and at the same time keep our face with the lenders. It is a difficult job, but I think there should be some kind of inquiry as to how such an agreement was signed. The people who are responsible should be tried and punished for this unethical conduct. We are trying to deal with a difficult situation.

**DS:** When it comes to putting undue pressure on the government of Bangladesh by one of our big donors, how do you look at that? The Japanese ODA arm OECF virtually issued threats to the minister concerned ...

**SAMS K:** The Japanese government has been very very considerate. The government and OECF are not identical. So you must keep this distinction. The government of Japan is trying to be helpful. I have discussed the matter with the Ambassador and I found him extremely helpful. But there is a question of contractual obligations. We are trying to find a so-

lution which will safeguard our interests and the government is acting in this matter with great care, both about our interests and also about our international image and reputation.

**DS:** Let's turn to other areas of economic management. How do you find the situation in the banking sector today?

**SAMS K:** I have been trying to reform the banking sector for the last two years. I have made any progress?

The results have started coming in. I am very glad to tell you that the quality of the loans has improved and the rate of all the classified loans since June 1996 have fallen to less than 10 per cent from 35 to 40 per cent. To be precise, the classified loan rate has fallen to 9.36 per cent since 1996.

What we have achieved is very important. There is a general awareness among the people that discipline in the banking sector is a must. The most important factor is public perception. Public perception today is that loans must be repaid. Public perception in the past was that once you got the money in your hand, one was not to think about when to pay back or how to repay. So now this has sent a warning signal and that has worked much more than any law. People know that the situation has changed. Loans must be repaid.

So what have we achieved? Those who are taking loans now are more careful. They are taking loans for projects which are financially viable. People are not coming with any kind of project, saying just give me money and something will happen. That kind of attitude is gone.

**DS:** How about punishing the bankers who are responsible?

**SAMS K:** I think the bankers should be punished. One thing that seems to be ignored by the media is that a large number of bankers have actually been caught and punished. Hundreds of bankers have been dismissed. Some of them have been sent to jail.

We have to keep in mind certain basic things. The private banks in the beginning did not behave properly. Bangladesh Bank was partly responsible because if Bangladesh Bank dealt with these directors with a strong hand, perhaps they would not have had the opportunity to abuse their privileges.

**DS:** Can you cite examples where bank directors have been punished?

**SAMS K:** The number of notices issued for loans to bank directors is 75 and Tk. 65 crore has been adjusted. We have done a lot in this area. Many settled their problems by paying up

money. That is one thing. Some of them went to court. There have been delays but the courts are at last recognising the gravity of the situation, and in the recent months we have received clear indication from the courts that the seriousness of these difficulties is being appreciated and we can see an end to this kind of abuse by bank directors.

**DS:** But reforms in judiciary still remain an unfinished task.

**SAMS K:** We have to thank the donors. The World Bank has taken up a very large project on judicial sector reforms, training of the lawyers and investing in infrastructure of the judiciary.

The progress is slow in these areas. You cannot expect dramatic change, but I am now very optimistic. This reform project will have an impact.

**DS:** We hear that there is some element of corruption in the judiciary. Should we talk about it?

**SAMS K:** It is better that we don't go too deep into it. The government is committed to rid the administration of corruption. Naturally, it has to be free from corruption and has to function according to the norms.

**DS:** Don't you think that an independent judiciary would have done a lot better?

**SAMS K:** The judiciary through the Supreme Court enjoys full independence. The civil court enjoys almost full independence. There is no dependence.

There has to be some accountability. The government is accountable to the people. It does not enjoy that freedom. If there is corruption, someone has to look into it, make an inquiry and then give punishment. This government had very boldly taken a decision that all postings even in the lower judiciary would be done in consultation with the Supreme Court. This government has moved far more than any government in the past. The issue of an independent judiciary has to be seen in the total context of Bangladesh.

**DS:** Not much reform has been done in bureaucracy.

**SAMS K:** The process has been slow in starting, but it is now gathering momentum. The (Public Administration Reform) Commission is very active now. Recently there was a seminar which came up with 15 or 16 recommendations. The Prime Minister has sort of approved this generally and we are in the process of implementing them. So the reforms are proceeding. The pace cannot be same in every sector. Some people think it is a very simple thing, that two and two is four and you do it like that. But a reform programme that destabilises the economy will set us back rather than take us forward.

In the financial sector, we have taken public opinion first. We have prepared the public for the change. Now a respectable person is declared bankrupt with his whole family. And the public accepted it. There was no

shock. Rather the public welcomed this. So the public to take the people with you in a democratic country. You cannot act like a dictator.

**DS:** Some of the reforms and changes are going to be politically sensitive and unpopular. Now that you are about to enter the fourth year in government, don't you think that you'll be facing problems and that the reforms will be politically costlier?

**SAMS K:** If the reforms are good for the country and properly explained and carried out with prudence, they will be acceptable. It depends on how you do it, how you implement your reforms. That is very important. Sometimes people's perceptions are based on reforms carried out in a revolutionary situation. In a democracy, you don't do it like that. You do it gradually, in stages. That type of reform is more enduring, more durable, more sustainable. If you do something quickly, it may not last.

We have seen three military dictatorships. The Pakistan military dictatorship. Then in Bangladesh in 1975-76 and then again in 1982. The first thing the dictator did was to order rickshaws not to be seen on the streets. Under the first martial law in this country (1958), there was an order that no farmer could hoard rice. They thought they would fix the farmers a ration because they were hoarding food grains. What happened? I had gone home on vacation and I heard from the farmers that these military fellows were going around and the farmers were afraid that if they found rice in the warehouse, they would be beaten up and taken to jail. So they just didn't know what to do. They threw the rice into the pond. This happened in my village. So all kinds of irrational decisions are taken and people act out of fear.

Reforms should be based on a proper understanding of what is being done. Of course the results of the reformer must be understood by the people. As long as they understand that the authorities are determined to do this, the people will respect it. That kind of determination is needed.

**DS:** In all democracies, politicians try to be responsive to the election needs. So this was probably your last year, the third year as Finance Minister, for you to take unpopular decisions. Could you take advantage of that?

**SAMS K:** I think in my own area I have done practically everything that could be done in terms of reforming the financial sector. For example, in this very difficult area of the capital market, the stock exchange which had suffered a very unfortunate development ...

**DS:** Why hasn't it got back to normal?

**SAMS K:** I think the lack of confidence is the main factor.

**DS:** Then, what about the confidence-building measures?

**SAMS K:** That is another aspect of the matter. The people must have the confidence that those who will manipulate, will be punished. That determination of the government must be seen by the people. Selling pressure is still strong from all those who lost their stakes. There is a flicker of interest. It will take some time. Everywhere, where there has been a crash, the market has taken three to four years to fully regain its normal level. In New York, it took four years to come back to the normal level. The selling pressure will gradually ease and more people will sell their losing shares. The market will regain its strength. We are introducing the depositary system which will introduce, to a very great extent, transparency. So whatever lingering lack of trust is there, should go.

I am hopeful that as a result of all the measures we have taken, particularly the result of the depositary, which will be set up soon, the market will probably gain strength.

**DS:** When do you expect the depositary to come into being?

**SAMS K:** I have asked the concerned authorities to get it going without any further delay. Right now they are working on it, but the system is a complex one. It will take six months to set up.

**DS:** There is a feeling that some of those sitting in top positions at the Securities and Exchange Commission are not really efficient enough to run the show?

**SAMS K:** Where are the efficient people? Where are they hiding themselves? Bangladesh does not have dozens of people with the requisite skill and knowledge for the market. Moreover those who have the knowledge and skill lack the interest. We have to find someone who knows this business well. There are brokers. University professors themselves are in business. So you have to find people who are not going to use their position to gain personally. It is not very easy. There are not too many people who will meet all these requirements. We need more expertise at the Commission. We have increased the number of members of the Commission to four and we are looking for two new members, one with a legal background and the other with an accounting background.

**DS:** Are you happy with the pace of privatisation?

**SAMS K:** It is not a question of being happy or unhappy. It's a question how much we have been able to accomplish. We have prepared the ground for privatisation and the pace will increase now.

One basic problem was that those who got the industries cheated the government. They never paid the full price. They paid only 20 or 25 per cent of

the price and then on one plea or the other refrained from paying the government the balance. So the government had the option to accept the situation or go to court. In some cases, the government went to court and got the industry back. But getting the industry back is no solution. We found the people (who bought them) had cleared the industries of all its assets.

**DS:** What about social development? After 33 months, how do you look at the issues at stake?

**SAMS K:** The government has attached importance to poverty alleviation. Poverty alleviation, in our view, can be achieved by two means. One, the growth rate has to be raised. If it is stagnant or going at a slow pace, we will not make much headway. We may reduce poverty, but we will not be able to eradicate poverty. In the first year we had a growth rate of 5.9 per cent, in the second year we had a growth rate of 6.7 and this year we don't know the outcome. I hope it will not be less than four per cent.

Secondly, there must be attention to the lowest segment of the society. Changes must take place in favour of the lowest segment. How? The massive credit programme that we adopted was a reflection of the government's national economic policy. We thought about the poor first.

When you talk about micro-credit, you think about NGOs. But the government gives as much as the NGOs and this programme is not given much publicity, but the record is so good. Then we have this old age allowance. In all honesty, has any government in this country thought of the poorest, the most miserable, the elderly people in the country? This government has. We have under this scheme nearly half a million people.

Next we had always a programme for house-building for the upper class, but had any thought been ever given to the housing needs of the poor people? They don't need 20 to 25 lakhs. They need 20 to 25 thousand. I have started a programme of housing for the poor. We have already given a loan of Tk 20 crore to the NGOs. We are doing it through the NGOs.

Then the Prime Minister has a project which she is personally supervising called the Asrayan Project. Again she is building shelters for the shelterless. I would say these are direct moves for the poor, in addition to the health programme, the education programme, and other programmes. This government has gone furthest in addressing social issues than any other government in the past.

**DS:** As you prepare for the Aid-400, do you think that readers would be interested to know your mind. We hear that this year there will be no aid pledged by donors.

**SAMS K:** People who know about these things know that aid is pledged and committed by the donors throughout the year. It is a continual process like the financial institutions like the World Bank and ADB. Every board meeting of theirs, one or the other project comes up and it's a continuing process. Many of the donor countries have their own budget cycle and at the time of their annual budget exercise, there is a kind of calculation of the expected aid flow. That kind of calculation will definitely be there and you will see the figures that people are waiting to see. I don't like to talk about this at this stage because somehow the belief is that the aid will be pledged up with any figures. Let us see what happens.

**DS:** There was a time when the quantum of aid pledged used to be considered as the yardstick of the government's credibility and successes. Do you think we have been able to move away from that?

**SAMS K:** People want to see how much is being disbursed, how much is being utilised. What is important is aid utilisation. If we can increase the rate of utilisation, the donors will definitely give more money.

They provide a substantial part of the development budget. This 55 per cent or so represents the foreign exchange component of the budget. If we don't get this money, there would be corresponding pressure on our foreign exchange. Supposing a project had an expenditure of Tk 100 crore and Tk 50 crore is foreign assistance, this 50 crore becomes crucial. The point is that we still need foreign assistance. Some of the publicity and propaganda on this is not welcome.

**DS:** Do you see a minister of Bangladesh will not have to travel to Paris for aid? In how many years?

**SAMS K:** I don't want to speculate on this. I am not a seer. I think in about 10 to 15 years' time this will become a minor matter.

UNDP used to give technical assistance and also financial assistance. As the chief of ES-governments have seen that in some countries the importance of UNDP programmes was limited. In Malaysia, Korea, Singapore, UNDP was not that important. But in Bangladesh, India, Nepal, UNDP programmes were important. So as countries move up in scale, these assistance programmes, multi-lateral programmes become less and less important. Foreign aid too becomes smaller part of the outlay of development.

During the time of the autocratic regime in Bangladesh, I mean during Ershad's time, the entire foreign budget was foreign funded. When this man goes around the country talking big about democracy and good governance, he has seen that ask where he had taken the country.

**DS:** Thank you for your time.