

EXCLUSIVE INTERVIEW

'ICT related SMEs should have received more support'

There has been mixed reactions to the proposed national budget of 2011-12. After the budget was read out in the parliament by the Finance Minister, there was, naturally, reaction for and against it. Most of the experts termed it ambitious and expressed doubts over its implementation. Opposition politicians termed the budget anti-people and investment hostile. There was the much discussed issue of 'whitening' of black money. Many raised serious doubts about its funding sources. Prof. Mustafizur Rahman, the Executive Director of Center for Policy Dialogue, a reputed think-tank of the country, spoke to the Daily Star on these and other issues related to the budget. Mohammad Ali Sattar, Assistant Editor of the Daily Star met him in his office at Dhanmondi for the talk.

The Daily Star: Regarding whitening of black money, is it justified? **Mustafizur Rahman:** One can appreciate the intention of policymakers to bring the black money into mainstream economy by offering an opportunity to whiten the black money (which, according to the finance minister, is equivalent to about 48 to 82% of the GDP).

This also provides the government with an opportunity to mobilise additional revenue and redirect investable resources towards desired activities and areas. However, there ought to be a distinction between money earned through legal economic activities, which were not disclosed to the tax authorities, and the money earned through illegal means such as corruption, bribery, and human trafficking etc.

The provision ought to refer to only legally earned undisclosed money. Since FY2007-08, such a facility was allowed in successive budgets, including the recently announced one for FY2011-12. However, when this type of amnesty is given in a predictable manner, it creates an incentive for some taxpayers not to pay tax in due time, particularly when the eligible tax rate is higher than the amnesty rate.

In the budget 2010-11, this opportunity was allowed with 10% tax on the declared amount for purchasing bonds to be issued by Bangladesh Infrastructure Finance Fund Company Ltd (BIFFCL). However, no bond could be issued. The budget for FY2011-12 has continued with the opportunity. However, the finance minister has stated in his budget speech that the bonds will be issued

within next three months.

The provision also loses teeth if offered frequently. In FY2007-08 more than Tk.803 crore was collected as tax on a disclosure of almost Tk.9,000 crore taka. In FY2008-09 this amount was about Tk.100 crore; in FY2009-10 it was rather negligible (about Tk.5 crore).

Such a provision is likely to discourage regular tax-payers unless there are additional incentives for them, or unless there is a penalty rate for whitening the black money as was the case in FY2007-8.

DS: Profit gain tax should have been imposed on investors in the share market. Do you support such a step?

MR: The issue of a capital-gains tax in the share market can be looked at from various perspectives. There was a need to discourage speculative behaviour in the secondary market of the type which led to the recent boom and bust.

In many countries, including India and Pakistan, capital-gains taxes, in some form or other, are in place. This type of tax could be in the form of annual settlements (on net capital gains), or on the basis of transactions.

Whilst one can perceive this to be a "disincentive" for market players, it can actually act as a positive factor in the medium to long-term, by inducing investors to play with more caution and care.

However, imposition of this type of gains-tax will require appropriate preparation and technological upgradation in the stock market. Given the state of the stock market at

the moment, the finance minister decided not to go for capital-gains tax for individual shareholders this year which perhaps was the right thing to do.

DS: To meet deficit, government borrowings from banks will increase; if so the private sector will feel the credit crunch. What are the likely ill effects?

MR: Deficit management will be a major challenge in FY2011-12. The total budget deficit for the year has been estimated to be Tk.40,266 crore (sans grant) to be met from domestic sources (Tk.27,208 crore) and foreign loan (Tk.18,685 crore).

For financing the deficit from domestic resources, Tk.18,957 crore is envisaged to come from bank borrowings. Public sector borrowing could have a crowding-out impact vis-à-vis private sector borrowing opportunities; particularly in view of the present "tight" credit situation and could put pressure on the interest rate.

In FY2010-11, because of shortfall in the use of foreign (project) aid, dependence on domestic resources in the form of bank borrowings had overshoot the target. To recall, in FY2011-12, foreign aid component is planned to be 79% higher than last year. As is known, the government has not been able to use the available foreign aid fully in FY2010-11 -- instead of the envisaged 60:40 ratio between domestic and foreign aid, in FY2010-11, it would be approximately 70:30 according to the revised budget.

If this is repeated in FY2011-12, the domestic resource component will go



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up creating more pressure on bank borrowing by the government.

In view of this, greater effort will need to be put on the use the foreign aid this year. The government should also explore avenues of raising resources from non-bank financing, particularly from the sale of NSD certificates, which is also non-inflationary. The government may need to offer higher (market-parity) interest rates to encourage private savers to buy more NSD certificates.

DS: Do you think the government has given due importance to the local government in the budget?

MR: Strengthening of local government bodies has been one of the major election pledges of the ruling party. In his budget speech, the finance minister alluded to a number of initiatives towards strengthening the local government and Zilla Parishads.

However, actual progress has been rather limited till now, with the power of the local government bodies remaining subject to interpretative ambiguities. The budget has significant allocations for public service, LGRD, Rural development etc.

In view of the emergent situation, there should have been more transparent articulation in the budget as regards the state of implementation of the reforms concerning the local government, and also about additional initiatives the government intends to take to strengthen local bodies. Real empowerment of local government has continued to remain a major unfinished agenda of

the present government.

DS: A booster has been given to SMEs. Is the budget generally entrepreneur and business friendly?

MR: Small and Medium Enterprises (SMEs) have important roles to play in the Bangladesh economy, in view of their contribution in terms of catering to the domestic demand, absorption of the more than two million additional people joining the labour force each year, servicing the needs of the export market and industrialisation, among others.

Fiscal support measures in the budget in support of SMEs are likely to raise effective rate of protection of several sectors where SMEs traditionally dominate in Bangladesh. Tax holiday, reduction of turnover tax for SMEs, expansion of the coverage of entrepreneurs' equity fund (EEF) and reduction of duties on many raw materials will have positive impact on the development of the SMEs.

Anomalies concerning taxes on some imported industrial inputs and those on final products were likely to reduce the effective rate of protection of a number of sectors that are primarily SME-dominated. SMEs, particularly in ICT related sectors, should have received more support in line with the provisions of the ICT policy of 2009. Some of the fiscal measures may also put a number of SMEs under more competitive pressure vis-à-vis imported products, e.g. production of poultry feeds.

DS: Do you foresee any problems in implementing the budget?

MR: The budget has several com-

ponents. Implementation of the revenue budget generally tends to be less problematic since the major constituent elements of this particular budget have an in-built incentive and momentum favouring expenditure. Seventy percent of the revenue expenditure is on account of interest payment, pay and allowances, subsidies and current transfers. Understandably, these are spent easily.

The quality of the public expenditure, however, has come under focus in recent years. In this connection, implementation of public expenditure reform initiatives should be seen as an important and urgent task by the policymakers.

The ADP in FY2011-12 includes 1,039 projects. A large number of these projects are carry-over projects (about 20% of the total project allocation) which should have been implemented by June 2011. A third of the total number of projects (325 projects with 29% allocation) is scheduled to be completed in FY2011-12.

Delay in project implementation not only deprives potential beneficiaries and stakeholders of the expected benefits, but also leads to cost escalation. One of the major challenges in the next fiscal year will be to ensure on-time completion of projects (e-tendering, reforms of procurement laws etc.) through timely release of funds and by ensuring quality implementation. Synchronisation of project works, which are funded by both foreign aid and domestic resources, will be important.

Separate PPP focal points in each of the line ministries have now been set up; all Ministries have also been vested with a significant degree of autonomy and authority as part of the MTBF (medium term budgetary framework) initiative.

However, a major unfinished task is to strengthen the focal points in the ministries with appropriate human resources and logistics so that they can exercise their duties. This will be even more important now that a number of large projects in power, energy, infrastructure and transport sectors, commanding national attention, are expected to be implemented in the course of FY2011-12 budget.

DS: Thank you for your time.

BITTER TRUTH

Drug abuse peaking alarmingly



MD. ASADULLAH KHAN

WHILE different organisations in Bangladesh observed the International Day against

Drug Addiction and illicit Drug Trafficking on June 26 last, with this year's theme "Global action for healthy communities without drugs," the spread of the vice has reached a menacing proportion.

Most alarming, the number of women given to drug habit has peaked up. Even if the law enforcement agencies is clueless about the actual number of female population afflicted with drug habit, according to National Mental Health Institute, the number of women addicts within the age range 16-17 has reached almost 17 percent, a very significant proportion for a country with strong religious bias.

Precisely speaking, drug addiction poses a similar threat to the country as much as HIV and AIDS do to the African countries.

The crackdown on drug barons in 2007 in the most posh area of the city with huge seizure of about 1,30,000 yaba tablets and arrest of four kids belonging to some very affluent families, exposed the ugly side of wealth and power acquired in the past days of the political government.

Drug abuse continues unabated because the existing laws leave

enough loopholes to deal with the terrible situation. There are allegations that the law enforcing agencies had some of these notorious drug-dealers in their grasp dozens of times in the past but they let them slip away due to political connection.

Drug lords who operate from a sanctuary remain always safe believably because of an unholy alliance with the law enforcers. Newspapers carried a report that one Gule Nur Begum, a notorious drug dealer in the city carrying 1700 yaba tablets from Chittagong, was arrested from Jatrabari bus stand in the city on June 26 last for the second time by the narcotic department officials but as usual the drug lord behind the scene in this case too remained unhurt and unnoticed.

Till before the clampdown by the Rab (Rapid Action Battalion) in 2007, law enforcers took little notice and the citizenry seemed oblivious of the insidious trade looming up the society. Shamsun Nahar, another veteran woman drug dealer was arrested from the old part of the city in December last year with huge quantity of drugs but came out on bail because of weak case framing.

Yaba, as it appears has replaced other drugs as the most favoured social lubricant among affluent urban Bangladeshis. Yaba, unlike cocaine or heroin is available in the form of tablet and easy to carry or transport from one place to another.

Unhappily, such drugs that till mid-

90s were restricted to few in the society have now found entry even into impoverished houses in the country. Most alarming, in line with the posh areas of the capital city, other cities, towns and villages in the country have witnessed a spurt in drug use.

Some places in Rajshahi, Rangpur and Sylhet located close to the porous Indian border have made headlines in drug addiction and drug dealing. With the law enforcement agencies trying to control the smuggling of phensidyl

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from factories across the border, the country has been gripped by another scourge inside.

People are alarmed to learn that an illegal energy drink produced inside the country loaded with codeine phosphate is being sold at Tk 50-Tk 100 per bottle in many places. Most worrisome, school and college going children are the main customers of this harmful drink.

In most cases, burka-clad women as well as those carrying babies in their arms, belonging to impoverished families are being engaged to carry drugs by novel methods that

defy conventional tactics. Much to our consternation, rich young kids dominate the scene. As the country's urban affluence spreads (mostly through corrupt means), so does the number of drug users.

Sources close to law enforcement agencies and drug users reveal that there are about several thousand drug dealers in the country and drugs are sold at about 1500 spots in the capital city and these sources also reveal that there are about several lakh high

society people and young kids hooked up to drug abuse.

More revealing, law enforcement agency sources say that there are about 43,000 drug-related cases awaiting trial in the courts but legal experts opine that most of the cases might end in acquittal because of shoddy investigations, poor case framing and weak witness build-up.

Many youngsters start using drugs under peer pressure and this is what these kids confessed to law enforcers after they were arrested by the Rab. Teachers of schools and colleges, where these kids belonging to affluent

families are admitted, point to a fair degree of drug use in their institutions and admit their helplessness in arresting the trend because of the wealth and power the abusers wield.

Most tragically, while most of these youngsters derailed by abusive habit are apparently vicious, many of them have first rate intellect that in a better environment could have been put to healthier use.

They have no hope. They are lost cases and liability for the family and the nation. Sure enough, it is not these youngsters who are at fault, it is their environment that needs corrective measures.

Much to our shock, the report released recently by NGOs and UNDP indicated that the number of users in the country has shot up to 50 lakh at present from 10 lakh in 1996. The cost of addiction, according to this report, amounts to 5.5 thousand crore taka per year.

With no employment available to the unskilled and illiterate teenagers, mostly working as errand boys or helpers in various jobs that fetch wages barely enough to keep them alive, they turn to the most lucrative option they can find. Taking advantage of such vulnerable situation, drug dealers are bewitching susceptible kids and threatening society's sense of order and security.

In rapidly growing numbers, they are becoming the new criminal recruits of the booming drug trade. Newspapers have carried reports of Phensidyl syrup, Yaba tablets and other

varieties of drugs being smuggled into the country by almost 30 routes, pointing to a rising trend in drug addiction and drug-related crimes.

In such a situation, it is hardly surprising that much of the violence and crime in the country is drug-fuelled. Reports are available that teenagers are now dominating in the drug business both as carriers and users. They have also access to firearms. Gang shootout causing deaths in different areas of the country are reported quite frequently in the dailies. In fact, drugs, guns and youths have become an extremely lethal mixture.

There have been many instances of young people being killed by their peers. The public is outraged as all indications are there that drug abuse has surpassed economic woes and the crackdown on drugs has become the latest imperative.

The government must not only promise but also implement a massive drug education campaign and nation-wide drive for drug-free parks, market places, restaurants, hotels and last of all schools. The link between drugs and street crimes has been established in a study conducted by a research group. Undeniably true, drug addiction in the country is a time bomb that is ticking and will explode in our face unless addressed right now.

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