

# **Need for Reforms in Governance for Economic Growth**

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# NEED FOR REFORMS IN GOVERNANCE FOR ECONOMIC GROWTH

Abstract: This paper attempts to examine a basic question that Bangladesh is currently faced with: **how do we develop more effective, accountable systems of governance that will facilitate and accelerate economic growth and social development?** Given the failures in implementing large scale, mega reforms in the past, what would be the most pragmatic approach in this regard? It also attempts to establish clear priorities for both short and medium term reform measures. Immediate thrust is on introducing demand driven reforms, both regulatory and institutional, which would be sector or agency specific. Emphasis is on reforms which can produce maximum impact, treating the reform process as a continuum, not a one shot intervention. It is proposed in the short run to give priority to urban governance reforms, comprising new urban development policies, appropriate regulations for land use, land development, environmental protection, housing as well as industrial construction. Measures are urgently needed so that the rapid urban growth the country is experiencing, does not turn Bangladesh into an urban mega slum. In the short run, emphasis is also on specific improvements in delivering 'over the counter public services', which are desperately sought by millions, each day. Models are available from other regional countries, for outsourcing essential municipal services like providing sanitation. In the medium term, the priority has to be on strengthening and professionalization of law enforcement system, putting an end to extra judicial executions by law enforcement agencies and establishing the rule of law as well as expeditious administration of justice. Another medium term objective is to take measures for promotion and development of the SME sector, improving the investment environment especially for the mini and small entrepreneurs. A third area of institutional reforms which need focused attention as well as a strong political commitment, is to boldly proceed with the long awaited decentralization and devolution of government powers to local levels. Measures are needed to revitalize and strengthen the existing local government institutions especially the *union Parishad*, the *Upazilla Parishad* and the *Zilla Parishad*.

## I. Institutional Checks and Balance Required for Good Governance

1. Bangladesh over the years, has developed a large framework of public service institutions, many of which had started functioning during the colonial era. The best government and private secondary schools as well as colleges, date from early 19<sup>th</sup> century. Dhaka University which has been at the forefront of the country's democratic movement, was established in 1921. Local government institutions, albeit with a limited franchise, have been functioning in Bengal since 1885. Many politicians of earlier generations, began their political career with local government bodies like union boards, local boards, and district boards. Following independence of the country, a number of constitutional bodies were established with full statutory powers, the most important of these being the Election Commission, Anti-corruption Commission, Human Rights Commission and the Public Service Commission. The Comptroller and Auditor General was also given constitutional powers to ensure necessary financial controls and transparency in respect of all public expenditures. More recently, Parliamentary committees have begun to exercise some oversight and supervision on the executive branch. The ninth Parliament had set up as many as 51 committees to oversee government functions. This includes a 'public accounts

committee' supported by the Comptroller and Auditor General, which can become a powerful instrument to fight corruption.. Another significant development has been the emergence of numerous NGOs, which now constitute a vibrant, civic group, engaged in delivering development services at the grassroots. These have received due recognition from the government and currently more than 2300 organizations have been registered by the Government's NGO Affairs Bureau. Some of the intelligentsia and professional groups, which are non-political in nature, objective in their outlook, have become better organized and more assertive. A number of non-government policy research institutions like the 'Centre for Policy Dialogue' are involved with rigorous policy related studies and they make regular recommendations to the government for its consideration. These also include the human rights activist groups like *ain o shalish kendra* , the Transparency International, Bangladesh Environmental Lawyers Association, *Shujon* etc. Numerous public interest litigations were initiated to ensure civic rights, promote rights of labour, better protect the environment, and preserve the country's river basins and the fertile watershed areas. In recent years, a vocal independent media, both the print and the electronic, has emerged, that is playing increasingly a significant role in social and political development of the country.

2. These institutions have the potential to restrain arbitrary exercise of powers by executive authorities, misuse and wastage of public resources, curtail political patronage, corruption and criminalization of politics. We have inherited and highly valued, the tradition of an independent judiciary and professional civil services, recruited on the basis of competitive merit. Our challenge is to make these institutions work more effectively, reforming them, reinforcing them, and professionalizing them, according to the felt needs of a growing economy. Unfortunately, the civil administration, along with various professional bodies today are relatively weak, because of a deep political divide within them along party lines. But manifesto of Awami League, back in 2008, very boldly called for an administration free from politicization. It had asserted that efficiency, seniority and merit would be the basis for appointment and promotion in public service. In our country, the bureaucracy has been frequently condemned as a colonial legacy. Civil services have also been a favourite escape goat, a popular whipping horse, an institution that could be conveniently blamed for all misdeeds and failures of the political leadership. If we look at neighbouring countries like India, Malaysia, Singapore, Thailand --- countries which have registered high rates of economic growth --- we'll find that the public administration of these countries have gradually been reformed, but civil service institutions have been strengthened with greater emphasis on professional development and evaluation of their performance on the job . In our case we have over the years destroyed or weakened the public services and institutions, instead of reforming them. We have in the process also damaged the very foundations of public institutions which could have worked as checks and balance within a democratic society. The constitution has already clearly defined the relationships amongst the legislature, the executive and the judiciary. To improve the quality of governance in the coming years, checks and balance amongst various branches of the government, will have to be established. Relationship between the state and the government, between the government and the political party, will have to be more precisely differentiated.

## **II. Current Issues in Governance**

3. As Bangladesh economy grows to attain a middle income country status, it becomes increasingly important to identify the constraints in governance and determine what measures are urgently needed by way of reforms. Future growth and its sustainability will be contingent upon a peaceful and productive society which has to be based on effective, but at the same time a generally accountable system of public governance. There exists in Bangladesh a broad social mandate for public governance that is incorporated in Part II of our constitution laying down the 'Fundamental Principles of State Policy'. Then there are

more specific provisions which outline numerous functions of the various organs of the government, the parliament, the executive and the judiciary. In the context of current debate, a distinction should be made between guarantees of basic services to be provided by the state and the question of how and by whom will these services be provided. Would it be provided directly by the government? For example in case of law and order and administration of justice, government has certainly a direct responsibility. Increasingly, in the context of criminalization of politics, extrajudicial killings, violence against religious and ethnic minorities, enforcement of law and order and establishment of rule of law, have become central issues in governance. But there are many other functions of the government, like provision of health, education, municipal services, supply of agricultural inputs, public utilities, building infrastructure, providing public transportation, which definitely can be contracted out, or provided more efficiently by private and the non-government sector. The government currently is encouraging active public-private participation in infrastructure investments, which could pursue different modalities. Nevertheless, even while services are provided by the private or the non-government sectors either independently, or in collaboration with the government, these would still have to be supervised and regulated by government agencies to ensure quality of service, enforcement of standards and economic use of resources.

4. Unfortunately, development of professional skills, resources, organizational competencies within the bureaucracy, have been woefully inadequate to meet the growing demand for public services. The concern for urgent system wide reforms has been increasingly voiced by the civil society, the media, and donor agencies and even by political parties themselves. Following a transition to a democratic regime in 1990, the country has witnessed until 2014, rotation of power by turn between the two major parties every five years. Both the parties tend to agree on basic economic and social development policies. Ingredients of the making of a two party system are evident, although they tend to revolve around personalities of the two leaders. Government's decision making powers remain very much concentrated in the hands of the Prime Minister. Over all, the political culture still remains characterized by violence, confrontation, a culture that does not tolerate much opposition. The country has witnessed acrimonious and extremely turbulent politics preceding each general election. In 2013-14, violence on the streets, prolonged shutdowns during general strikes, "winner takes all" approach to politics, have already taken a heavy toll on the economy.

5. In spite of this adverse socio-political milieu, some regulatory and policy reforms have taken place by bits and pieces, due to domestic business and donor pressures (i.e. privatization of fertilizer distribution, which was previously a monopoly of BADC). Deregulation in the 90s, to a large degree, have induced a burgeoning private sector and NGOs, to provide public services in such vital sectors as agriculture, health care, public utilities, non-formal primary and tertiary education, banking services and of course, microfinance. In respect of the latter, Bangladesh has been hailed globally as a pioneer in establishing a viable, scalable and replicable microfinance system, following the model established by Grameen Bank and Professor Yunus. Generally, however, malfunctioning of government institutions, inefficient delivery systems and bureaucratic red tape, have constrained, instead of facilitating economic growth and social development. Corruption, as perceived by citizenry, at all tiers of the government is one of the central issues of governance. Bangladesh enjoys the unique distinction of staying near the bottom of the Transparency International corruption index for successive years in a row. As we attempt to accelerate the macro-economic growth, we need to strategize, how we can improve the quality of our governance, both in public and private sectors. For the purpose of this paper, it is the public sector governance which will be the subject of our discussion.

6. In order to facilitate and sustain the desired economic growth and social development in the next decade, a workable, pragmatic strategy for regulatory and

institutional reforms would be required. Of necessity, it has to differ from the traditional approach of broad spectrum, all embracing reforms which accomplished very little in the past. Such reforms in the future would have to be a continuous process; more sector specific, bringing about reforms which directly facilitate growth and development. The objective of this paper is to evaluate the requirements for more effective governance in terms of : (a) formulation of a pragmatic reform strategy in a dynamic and growing economy (b) the immediate, short term priorities to meet customer demand and citizens' needs for delivery of public services; focusing on urban development management will be a high on our priority list, given the momentum in urbanizations as well as administrative failures in metropolitan cities and emerging urban conglomerations (c) medium term tasks for continuing regulatory reforms, with a particular emphasis on effective enforcement of law and order, and a more efficient judiciary (d) requirements of priority growth sectors i.e. promotion of SMEs, infrastructure development (e) measures for further participation by people in governance through devolution and decentralization at local levels.

### **III. Strategizing Need Based, Demand Driven Regulatory Reforms!**

7. The challenge is an enormous one! How do we change the character of a lethargic bureaucracy that has been caught in a quagmire of outdated procedures, notorious for bureaucratic red tape and in its enormous capacity to harass its own citizens? It is an administrative system that appears to have become, over the years, dangerously politicized and polarized along party lines. How do we professionalize the personnel in public management and at the same time ensure their accountability? How does one take the initiative to democratize the organization and processes within the political parties themselves, which have now become highly centralized, authoritarian in terms of command and control structures? Numerous recent surveys have shown that an overwhelming number of citizens thought that the "government agencies were too corrupt --- you can't get anything done without paying bribes to officials"; "government is oppressive"; "government is too remote, difficult to reach"; " a poor person cannot access services from government officials, because they serve only moneyed people"; and so on. What sort of systemic reforms are needed to turn this into a government that works, a government that will care for its citizens? More important for this discourse, how do we develop systems of governance that will facilitate and accelerate economic growth and social development that will propel the country into a middle income economy, on a sustained growth path? How can these reforms be planned and implemented?

8. The primary lesson from the past is that large scale, all embracing institutional reforms are extremely difficult to implement. Just look at the number of administrative reforms commissions which were set up in this country in the past and the precious little that they have achieved. Mega reforms that aim to bring about big system wide changes at one go, are invariably complex. They involve many institutions, with strong bureaucratic hierarchies which are loathe to accept any change in status quo. Reforms mean new work processes that require fundamental changes in people's behavior. Mostly, it is the bureaucracy itself which has resisted introduction of these reforms in the past, as it tends to be the principal beneficiary of the existing inefficient system.

9. Therefore, simply setting up another stereotyped reforms commission as in the past, with very comprehensive terms of reference to bring about big changes, will not be a very practical thing to do at this stage. We have attempted mega reforms within the government from time to time --- unfortunately; they make up a history littered with failures. For example previous regimes had set up the Enam Committee, the Nurunnabi Committee, the Shamsul Haque Committee and the Public Administration Reform Committee (PARC) under the aegis

of the World Bank. Their recommendations have not been implemented so far the commission usually takes years to carry out investigations, elicit public opinion and come up with their recommendations for massive reforms across the board. Administrative reforms must not be conceived as a one shot, once for all affair. Reforms have to be carried out on a continuing basis, regularly. To be meaningful, these should be focused on the specific ways in which government agencies work, functions they perform, methods and tools that are employed in discharging those functions. A more practical approach would be for the government, in consultation with the civic and political leaders, to identify the immediate demand and need for systemic changes in sectors or agencies as well as within the regulatory regime. Then we can consider what would be the most cost effective and quick time solutions to the administrative problems that will have maximum impact in terms of citizens' welfare and development. Instead of a big 'administrative reforms commission' that delivers late and very little, one can consider the option of setting up a high powered regulatory and governance reforms committee. Reforms need to be planned, implemented and monitored on a continuing basis, within a particular sector, an agency or a specific industry. They are likely to require organizational changes, modification of regulations as well as existing administrative procedures, integration & co-ordination amongst numerous agencies, contracting out public services and introduction of new technologies for speedy disposal. It will certainly mean facilitating private enterprise, elimination of existing red tape and doing away with numerous government controls which invariably are causes for delay for taking decisions. Initiatives were taken by the 'care taker government' in 2007-08 to set up a Regulatory Reforms Commission, which for political reasons became redundant in the next regime. Nevertheless, regulatory reforms must be part of an ongoing, continuous process, with the government. Redundant regulations need to be scrapped. The task is to identify specific regulations and bureaucratic processes which hinder private investments, constrain business operations and slow down economic growth. There are two options available : either, (a) constitute a single standing high powered regulatory review and reforms commission: or, (b) a more pragmatic option, will be to set up a number of strong inter-ministerial regulatory reforms committees, with necessary sanctions of the Prime Minister and the cabinet. Committees, whose composition will vary according to task assigned, should include legislators, professionals, civic and business representatives. They must also be given necessary powers so that they become responsible to oversee implementation of the proposed regulatory reforms.

#### **IV. Short Term Challenges: Focus Squarely On Urban Development Management**

10. Bangladesh is getting rapidly urbanized. Planned urban development and not 'integrated rural development' in the near future, will be a prime mover of our economic growth. According to a UNICEF study, contribution of the urban sector to the national GDP has increased from 26 % in 1972 to more than 50 % in 2005. Ours is a homogenous society, with a very large, densely packed population within a small territory. The ethnic, linguistic and caste divisions which characterize other countries of south Asia, are not major hindrances to growth and development in our country. Already girls' enrolment in primary and secondary schools as well as women's participation in productive labour force have soared ahead in comparison to other countries in the region. While workers safety and exploitation of cheap labour, particularly that of women in the garments industry, are perceived to be very big problems, ready made garments sector is projected to grow very rapidly in coming years, with annual exports hitting \$40 billion from this sector alone, by 2020. These are the factors which have led to rapid urban growth in the country. Efflux of surplus and underemployed labour from rural to urban areas in the country has begun in a big way. People living in the urban areas barely made up 5 % of the total population in 1974.

Since independence, Bangladesh has probably witnessed the most rapid growth of urban population in Asia Pacific region, growing at 6 % every year, almost thrice the rate of demographic growth. According to the revised census of 2011, the estimated level of urbanization was 28 percent and the total urban population would be approximately 42 million. In the coming two decades, it will still continue to grow rapidly at more than 3 % annually, with people living in urban conglomeration exceeding more than 50 % of the country's population within 2030. According to UN Population Fund projections, more than 90 million people will be living in urban areas as defined presently i.e. conglomeration of 10,000 people or more. Dhaka has become one of the ten largest mega cities of the world. It also has become a city of vast slums, being one of the least livable cities with a totally inadequate infrastructure and a fast deteriorating environment. Similarly Chittagong, Khulna, Bogra, Sylhet, Narayanganj, Tongi-Gazipur, Comilla, Mymensingh, Barisal, Cox's Bazar cities, as well as many other smaller district and sub-district towns are growing quite rapidly. One major adverse consequence is the rapid encroachment on farm and forest lands and quite unplanned, haphazard growth of building construction, without supporting infrastructure. Industrial effluents are polluting our rivers and water bodies; indiscriminate use of pesticides and other chemicals have become serious health hazards that need to be checked urgently. Wetlands and river basins, which constitute the life lines of this vast delta region, are being systematically grabbed by powerful people, invariably under political patronage. Given these adverse trends, will Bangladesh become a country of mega slums or can she become a string of mini-Singapore, with well planned, environment friendly urban development that will accelerate growth?

11. The economy is poised for growth especially along the new highway corridors with sprouting roadside market places and small urban conglomerations. Massive construction of high and low rise buildings are already under way, around the country, although more prominent in Dhaka, Chittagong and Sylhet metropolitan areas. They represent a jungle of constructions, currently unplanned, unregulated urban development. In many cases they do not follow any building code or regional planning requirements. A major earthquake could spell a human disaster of epic proportions. Many bazaars and municipalities are already encroaching on the highways. At present the country has no comprehensive policy on urbanization or urban poverty reduction. With the growth of urban slums and rising inequality of income, access to social services, infrastructure, sanitation, are matters that have to be addressed. We need to urgently rethink and redesign our urban development management policies. Existing Urban Development Directorate (UDD) established as far back as in 1965, under the Ministry of Housing and Works or for that matter RAJUK as well as other urban development authorities set up in the metropolitan regions, have become ineffective and non-functional in many instances. They will be in no position to meet the challenge of the next decade. We need in this sector new urban development policies, appropriate regulations for land use, land development, housing as well as industrial construction. Equally important, technically competent agencies are urgently needed, capable of not only formulating, but also effectively enforcing the regulations, municipal policies and area development plans. We need to develop our cities in a planned way and at the same time protect precious farm, forest lands, including the river banks and their watershed areas. Building urban management capacity, with a professionally trained corps of specialists and empowered local government institutions where people's representatives can participate in planning and implementing decisions, will be a matter of immediate priority. A very strong 'urban and regional development authority' under the top political leadership as well as a decentralized municipal governance system, providing resources and giving responsibility for enforcement, would be a priority. We need to follow examples of other land scarce countries like Japan and South Korea, which have successfully urbanized, leaving the essential agricultural land and forest areas intact.

## **V. Meeting Short Term Challenges: Provide Public Services More Efficiently from Government Office Counters**

12. In the short run, there is an urgent need to focus on reforms in respect of all those government functions and agencies where people line up daily to receive essential services. As the economy grows, demand is bound to increase for various services that are provided from public counters or offices. Ordinary people come face to face with a government functionary at these counters, expecting more efficient, timely, as well as better quality services. These are offices where people congregate daily and are constantly subjected to harassments; they suffer undue delays due to red tape; they have to pay bribes or are altogether denied the services that they urgently need. It could be the outdoor units of hospitals, the police Thana, the civil and criminal courts, regional passport offices, banks where electricity as well as other utility bills are paid, sub-registrar's offices, income tax offices, local government for obtaining birth and death certificates, fertilizer factories from where fertilizers are supplied to dealers, polli biddut shomity offices and so on. To obtain these services, people usually would have to travel to the designated office some miles away from home, crowd at a counter, fill out forms, make payments, sometimes through middlemen and then wait anxiously for the desired service to be provided. In vast many cases they will go away after a long wait, frustrated, confused, angry and often humiliated by the arrogance of the service provider. This is the situation that needs to be reversed in the short run through urgent reforms in administration. New information and communication technologies can be profitably used to improve the quality of services and the time taken to provide them. It has been recently demonstrated, for example, by the Registrar of Joint Stock Companies that the time required for formal registration of new companies can be reduced drastically. We need more such targeted regulatory reforms across the board to be carried out by government agencies and other public bodies.

## **VI. Example of Innovative Reforms --- Contracting Out Municipal Services**

13. In the short run, many urban services, for example could be more effectively provided by private or non-government bodies. One vital area where reforms could be introduced would be in respect of municipal services, which even in a large metropolitan city like Dhaka have been woefully inadequate. Successive governments have beautified Dhaka by spending billions of taka, building water fountains, decorating road islands and illuminating the roads. But they have not provided basic sanitation services like clean public sanitation facilities --- as a consequence the floating population as well as the general public often use segments of the foot paths as public toilets. A recent report by World Bank and Proshika showed that less than 17 percent of the metropolitan households were satisfied with sanitation services provided by the municipalities. The problem can be addressed by the city corporation in collaboration with the NGOs or communities themselves, provided necessary reforms are initiated by the concerned municipal authorities.

14. That urban sanitation problem can be efficiently solved has been dramatically demonstrated through the dedicated work of Dr. Bindeshwar Pathak in our neighbouring country, India. He has spearheaded a quiet revolution in public sanitation in collaboration with the municipal government. He initiated the 'Sulabh Shauchalaya' movement in 1974 which became a landmark in the history of sanitation. He introduced a system for operating and maintaining community toilets with bathing, laundry (popularly known as Sulabh Shauchalaya Complex) with attendants providing service round the clock on pay-and-use basis first in Patna city and then elsewhere. Dr. Pathak convinced administrators, planners

and engineers about the successful two-pit pour-flush toilet in urban areas which would provide an affordable, safe and hygienic system for disposal of human waste in the absence of sewers and septic tanks. Before his arrival on the scene, nobody including the engineers, was ready to believe that this technology could work in big cities. Now Sulabh is operating and maintaining more than 5,500 community complexes in 1075 towns and metropolitan areas across India. These complexes have electricity and 24-hour water supply with separate enclosures for men and women. The users are charged nominal sums for using toilets and bath facilities. Some of the complexes are also provided with bath and shower facility, cloak-rooms, telephones and even primary healthcare. These complexes have been widely welcomed both by people and the authorities due to their cleanliness and good management. Pay-and-use system ensures self-sustainability without any burden on public exchequer or local bodies.. It is a major reform in municipal services that can be quickly introduced by the local government authorities in our country as well--- they can either visit the country next door or better still, invite Dr. Pathak to visit Bangladesh.

## **VII. Medium Term Tasks: Ensure Rule of Law and More Effective Enforcement**

15. Enforcement of existing laws or regulations, or the lack of it, is at the heart of the problem of governance in Bangladesh. According to a quick survey by local daily Jugantor, as many as fifty laws passed by the Parliament, are mere 'paper tigers', not being enforced at all. Actual list will be much larger. Short term measures are needed to increase effectiveness of the law enforcement agencies, institutional and procedural reforms, including measures for checks and balance. Regulatory reforms and legislative changes have to be based on a broad based political consensus. Criminalisation of politics as well as patronage of criminals, sometime with support of law enforcement agencies, as highlighted by the recent multiple murders in Narayanganj, have added horrifying dimensions to the law and order problems. Reforms in law enforcement mechanisms, will in fact be contingent upon reforms within the political parties themselves, which currently fail to make a distinction between the interest of the party that is in power and that of the government itself. To formulate these reform measures meaningfully and effectively, will be a major medium term task, that requires engagement of numerous major stakeholders including an enlightened political leadership, the law enforcement agencies, the judiciary, a conscious civil society, local communities and the public media. Maintenance of law and order, implementation of existing regulations and administration of justice based on the concept of 'rule of law' --- which has been invariably stressed by major political parties in their manifestos at the time of elections --- have been the bane of successive regimes. We have witnessed in desperate situations, the spectacle of the chief executive of the government issuing personal directives to arrest criminals. Under normal circumstances, these are directives issued by the officer in charge of a police station or at best the district superintendent of police. Increasing incidence of extra judicial executions by law enforcement agencies have drawn universal condemnations. Very recently, following the spate of abductions and murders in Narayanganj, the High Court itself has issued directives for reforms in police procedures.

16. We need to strengthen and professionalize the law enforcement system in almost all the sectors, which will be a gigantic task. Given scarce resources, we obviously need to prioritize reform measures and should aim to accomplish these objectives in the medium term. We need a peaceful environment where a small entrepreneur as well as a large investor, will feel sufficiently secure and encouraged to take his or her investment risks. We need to develop legal processes that will allow ordinary citizens to ventilate their grievances and seek speedy adjudication according to established and clearly understood laws, without having to take recourse to appeals personally to higher authorities for their intervention. Private investors, both local and foreign, must be assured that their investments will be

protected and they will not only have a quick start up, but will be allowed the 'ease of business' (acquisition of land, access to public utilities, protection against extortions, quick but equitable disposal of financial disputes, a transparent taxation system etc.) while the business is in operation. To accomplish this task, reforms within the judiciary and the police as well as the other law enforcement agencies will be a pre-requisite. These two agencies of the government must work together, in a coordinated manner. It has to start with open merit based recruitment, professional training with focus on new technological applications as well as attractive compensation policies. Bangladesh is probably the most under policed country not only in Asia, but even within the region. The ideal ratio of police to people, according to the "International Statistics on Crime and Criminal Justice", is to have one police man for a population 500. The ratio currently is 1:205 in Singapore; 1:339 in Tokyo; Bangladesh had only 1:1205. India had 1:769; even Nepal had a better ratio of 1:444. At this stage a substantive problem is being highlighted. Obviously, just increasing numbers of police personnel will not have any impact, unless the police personnel are professionally trained, equipped logistically, sufficiently motivated to perform their tasks and supported with new technologies for detection of crimes, including the new white collar and cyber crimes. They need to have a strong morale, a motivation to perform under stress and at the same time a sense of strong professional ethics. More important, they have to work in full co-ordination with the judiciary, on the premise that the rule of law must reign supreme --- no one irrespective of political or social position should be above the law.

17. Structural as well as procedural reforms are simultaneously required in the judiciary, which is now burdened by a mountain of backlog cases. Although the lower judiciary has been separated from the executive branch of administration, it is burdened with 7 lakh civil and 3.74 lakh criminal cases, with backlog numbers growing at an accelerated rate. According to a UNDP study, civil cases on the average required 5.3 years for disposal and 79 percent of the litigants were not satisfied with the current judicial process. Corruption, undue delays in proceedings, repeated adjournment of hearings, harassment by lawyers and court staff, excessive costs, were cited as causes of dissatisfaction. Cases continue to pile up, even though after separation of the judiciary from the executive, judges nowadays are able to devote more time in doing court cases. This is primarily because of acute shortage of judges, judicial magistrates, courtroom space, inability to use even simple information technology applications (i.e. timely public notification of dates and locations of courts for hearing cases). Some statistics cited by Syed Emran Hossain are revealing. In neighbouring India which has inherited a judicial system similar to ours, there are 13000 judges to deal with 30 million pending court cases. In contrast in China, there were approximately 130,000 courts (and presumably two or three times the number of judges) to deal with 11 million cases. In Bangladesh we have only about 1200 judges in the lower judiciary and another 100 senior judges in the High Court and Appellate Division. The Supreme Court received a meager budget allocation of tk 920 million to meet its administrative expenses in 2013-14; while no provision was made for a development budget.

18. Two sets of recommendations emerge from the above discussion. First, it would be important to quickly set up an independent commission that will identify the need for reforms in law enforcement agencies. It will be mandated to recommend measures as quickly as practicable for: (a) independent, merit based recruitment, professional training and better discipline of the law enforcement personnel (b) drawing up plans for enhancing their strength over the years, based on projected demand for expansion of services, rate of urbanization, industrial growth etc. (c) greater professionalization of the forces, in order to modernize the investigative procedures, utilizing new technologies. Bangladesh has already entered the digital age and the police requires new skills, know how, equipment, hardware and software, to cope with violent crimes in urban areas as well as growing incidence of white collar and cyber crimes (d) planning development of required logistical capacity, infrastructure (i.e. we have a highway patrol, but hardly any enforcement of highway regulations; for that matter the expensive and sophisticated traffic light system introduced in the capital, is not enforced

even by the metropolitan police itself ) (e) improving co-ordination with the judiciary for speedy disposal of criminal cases, where required through necessary legislation --- recognize that judiciary and the police are two essential arms of the law enforcement mechanism of the government (f) introduction of adequate checks and balances to prevent abuse of power i.e. specially by personnel equipped with lethal weapons (g) further empowering an independent agency like the ' human rights commission' to redress public grievances against excesses committed by law enforcing agencies and violation of human rights. As the police force gets more professionalized, it must develop a human face that it lacks at present. Focus has to be on a citizen friendly police force, with a special emphasis on providing adequate services to women, children, the ethnic as well as religious minorities and the poor, who are more frequently the victims of crime. They also find it more difficult to secure the services from law enforcing agencies.

19. Reforms in the Judiciary and the judicial process would be more difficult, more time consuming, to accomplish. Only a beginning has been made with the Judicial Strengthening Project. A Judicial Reform Committee was set up in July, 2013, comprising the Chief Justice and five Justices of the Appellate Division. While the committee can formulate a reform agenda and determine immediate priorities, it will not be humanly possible for senior justices to spare their valuable time for the detailed work, which has to be undertaken in collaboration with representatives of the bar, law enforcement agencies, and other professional and civic bodies. As already pointed out, Bangladesh faces the most acute shortage of judges in the region. We would recommend accordingly a full time "Judicial Reforms Task Force" to work out specific recommendations based on the reform agenda formulated by the committee of justices. Retired Chief Justices, senior members of the Bar, representatives of the civic society, for example can join this task force. To begin with the Supreme Court needs to have a strong secretariat of its own to enhance administrative as well as implementation capacity of the reforms committee. The immediate priority would be to : (a) set up an independent Judicial Services Commission to recruit competent judges in lower as well as the higher courts, on merit and open, competitive basis (b) determine the need for additional judges, new courts and benches and infrastructure back up support, including training facilities to make them functional; an urgent task would be to introduce information based technologies to reduce and eliminate the procedural hassle to which litigants are subjected in a routine fashion (c) review the functioning of special tribunals and formulate a speedy trial procedure capable of ensuring quick disposal of arrear cases. Proposals for charging mandatory costs to reduce delays should be considered (d) ensure easy access to judicial redress, especially by the vulnerable groups which have increasingly been victimized i.e. women, children, the ethnic minorities, and domestic help, both in rural and urban areas. Separate courts may be needed to adjudicate such cases with new regulations to ensure rights of domestic workers, labour in the garments sector. (e) Review and enhance powers of village courts and other means of alternate dispute resolution in both civil and criminal cases.

## **VIII. Promoting the Real Private Sector in Bangladesh: The MSMEs**

20. Within the private sector, it is increasing investments by mini, small and medium enterprises (MSME) which will become in the coming years, a powerful propeller of economic growth in Bangladesh. What has not been captured so far is the recent emergence of hundreds of thousands of mini enterprises, some of which have grown out of micro ventures, especially in small towns, cities, market places that cluster along the rural roads and highways. They will include large numbers of mini and small enterprises in agro processing, food processing and packaging, designer products, electrical and electronic goods, catering to the emerging urban market. Although statistical information may vary,

there seems to be a convergence of views that MSME sector contributes 80-85 per cent of industrial employment and its contribution would be 40-45 per cent of the total manufacturing value added. It is growing steadily at 7 to 8 percent per annum, and is highly labour intensive. The MSMEs will be a triple edged sword, firstly, generating quick employment in the manufacturing and services sectors for large numbers of surplus labour released from the rural areas; secondly, contributing in terms of net value addition to increased industrial production and the GDP; thirdly, creating new economic and social opportunities for large numbers of women entrepreneurs to enter the market.

21. There is also another dimension to the private sector development in Bangladesh. Successive governments have tried to privatize public enterprises with the help of privatization commissions, but with limited success. There is a need to move away from the traditional connotation of privatization a la Margaret Thatcher and adopt instead, a broader definition which could provide a more cost effective and politically more doable approach in Bangladesh. Essentially, there could be two components in the alternative approach. Firstly, as in the past, privatization would mean a process which reduces the involvement of the public sector or the government in various economic activities, where it is currently engaged. It will encompass the range of meaning associated with the more conventional approach. It proceeds from the recognition that government is not a very efficient agency in operating business type of activities; in the current context there are other immediate priorities for the government i.e. maintenance of law and order, administration of justice, development of infrastructure, where it is important for the government to concentrate. Government, for example, should be responsible for providing public goods and services i.e. promotion of agricultural research, providing better quality primary and secondary education, rapid development of infrastructure like the construction of cyclone shelters, rural roads & bridges, where private sector may not respond quickly. Nevertheless, government will be increasingly playing the role of a regulator and facilitator, rather than that of a direct producer or provider of services for business type activities in the market. Privatization and divestment of state owned enterprises, therefore, has to continue in the traditional context, but it is constrained by the reality of politics, as both organized labour and political leadership will be opposed to it. Secondly, privatization in a more dynamic context would require the government to implement planned and coordinated measures to vigorously expand the scope for private entrepreneurial activities, specially enhancing market opportunities for small investors, those at the bottom of the pyramid of the MSME sector. The explicit aim will be to broaden the ownership of productive capital and technology, for large numbers of small scale entrepreneurs, who have at present little or no access to them. It would involve urgent adjustment of existing macro level fiscal policies, credit policies, infrastructure development, industrial and trade promotion policies, provision of technical support, which can directly stimulate the growth of a sector of the economy that generates jobs for millions of people. The first and second components of this approach to privatization need to be synchronized, so that new job opportunities are created rapidly to absorb the huge surplus manpower that enters the market every year or is rendered jobless, through sale and closure of state owned enterprises. The two components will be like the two blades --- the second being a larger blade with a much sharper cutting edge --- of a pair of scissors, reducing drastically government expenses on account of loss making state enterprises and simultaneously, promoting rapid growth of hundreds of thousands of small scale enterprises at the base of the pyramid.

22. An appropriate approach would be to treat the MSMEs as the most dynamic component of the private sector in Bangladesh today. It would require the government to establish a proactive, more supportive and extensive policy framework, to promote the small enterprise development. Can this be done practically? There is prima facie evidence from countries in South East Asia, that this can also happen in Bangladesh, if we can provide the right kind of market incentives and create the requisite policy regime that will enable the 'real' private sector or what could be termed as the 'People's Economy Sector' to grow. The

economic situation is ripe today for such development on account of three specific reasons. Firstly, the agriculture sector being the biggest employer, is releasing at an accelerating rate, surplus labour, which is available for employment in the industrial and service sectors of the economy, at relatively low wage. This has been traditionally the precondition for rapid industrial expansion in other developed as well as newly industrializing countries. Secondly, according to the 2003 National Private Sector Survey of Enterprises in Bangladesh, the MSMEs (mini, small and medium scale enterprises) numbering 6 million units, employed more than 31 million people and contributed up to 20% to the Gross Domestic Product. This segment is already as large as the farm sector in terms of contribution to the GDP. More important, it has the potential to grow much faster than the 3 percent average growth registered by the agriculture sector in recent years. The Household Income and Expenditure Survey 2000 data indicated that nearly 8 million people were employed by household based enterprises alone. More than 1.7 million people worked for mini-enterprises with assets of less than Taka 100,000. These figures, likely to be gross underestimates, considering that Bangladesh has the highest rate of urban population growth in Asia. Third, Bangladesh has led the world in establishing new microfinance models that can directly address poverty and social development problems. Approximately 15 million from the poorest households have been involved through microfinance in myriad entrepreneurial activities. Many of the subsistence level micro borrowers have graduated from the poverty trap, with their children now going to primary and secondary schools. They would be now ready to take additional risks and make larger investments for small scale production and trade related activities. What they require immediately are ready and easy access to finance and support in terms of infrastructure, marketing, standardization, technology upgrade etc.

## **IX. The Way Forward: Stimulate MSME Growth**

23. As the previous experience has shown there will be two primary drivers of growth of the MSMEs in the short run. First, direct support of the government as well as the non-government organizations and financial institutions, will be absolutely essential for large scale financing of this sector. Fortunately, Bangladesh bank is already playing a proactive role in promoting development of the SMEs and has issued numerous guidelines. This sector certainly, will require rapid access to credit, marketing, training, technical support facilities for the mini and the small sector, meaning enterprises that require funding for investments starting as low as Taka 30,000 and above i.e. starting off where a microcredit institution leaves behind its customers. These are the new, young and many women entrepreneurs, who are ready to graduate out of micro finance world. The current Bangladesh Bank guidelines have a prescribed refinancing policy for SMEs that range from Taka 50,000 to Taka 5000,000. It will not be unreasonable to assume, based on entrenched banking traditions, that financial institutions will be inclined more towards the larger enterprises, rather than the very small ones. Altogether new banking regulations, different modus operandi, financing mechanisms and management practices, have to be devised if funding needs of this special sector are to be met. Banks have to set up separate windows, or subsidiaries, with specially trained staff willing to identify and service this large, widely spread out category of clientele, from whom they had shied away in the past. The second critical driver is the availability of basic infrastructure like rural roads, rural electrification, telecommunications and internet access, appropriate production technologies, allowing more efficient production and marketing of goods and services produced by this sector. The studies undertaken have clearly shown for example that, where electricity is available commercially, the area is more than four times as likely to report small & cottage industry as main economic activities. While NGOs, commercial banks, non-banking financial institutions, would be playing a vital role in providing business loans to small enterprises, government's role will be critical to develop the infrastructure in the rural area. Training, transfer of new

technologies, better packaging, quality control measures, standardization etc would be necessary in order to get into the export market.

24. The latent demand for financing by this sector will be enormous, provided we have the right institutions, the right instruments, the right products and appropriate financial delivery systems for this special clientele. Chambers of commerce, for example, have already identified significant regulatory barriers to the growth of mini enterprises in engineering and electronic industry. They relate to discriminatory tax and tariff policies which tend to favor trade, rather than indigenous manufacture. No priority is given to them in providing utility services and they face harassment in the hands of law enforcing agencies at the grassroots. While the SME Foundation set up by the government can try to provide more effective technical support, it is the Bangladesh Bank and the Ministry of Industries, which will have to formulate policies to stimulate the growth of MSMEs and co-ordinate initiatives of various agencies concerned with the development of this burgeoning sector.

25. Towards Democratization and Greater Accountability --- strong local governments are prerequisites.

26. The closer, the government services and functionaries come to the door steps of people and are accountable to them, greater is the probability that concerned citizens will be able directly to participate in taking decisions that affect their welfare. It is also universally recognized that government must decentralize its operations. Decentralization of governmental powers at union, upazilla and zilla levels of the local governments, has been attempted by successive regimes since the colonial period. Numerous studies, surveys by commissions and committees, expert bodies and researchers, have categorically established the need for empowering local government institutions. The two major political parties in their manifestos prior to general elections, have invariably expressed strong commitments to further decentralize, devolve government powers in order to strengthen the union Parishad, the Upazilla Parishad (or the Thana in case of BNP) and the Zilla Parishad. A Local Government Commission was set up by Awami League in 1996, while BNP claims to have set up a committee to review the functioning of the local institutions during their first tenure. None of these have yielded any positive results. It is indeed one of the ironies of our history that whatever measures have been taken to further decentralize the government, have only resulted in still greater centralization and concentration of powers in the ministries and ultimately, the Prime Minister's Office. This is in spite of the fact that the constitution has clearly stipulated , " Local government in every administrative unit of the republic shall be entrusted to bodies, composed of persons elected in accordance with law ". The constitution also defined an administrative unit being a district or any "other area" designated by law.

27. The present government has taken positive steps by holding elections at the union Parishad and Upazilla levels, even though last elections have been marred at many places by political violence and alleged irregularities. Another innovative measure was a declaration by the finance minister following general elections in 2008 that each district will have its own development budget. A pilot district level budget was finally formulated for Tangail district in 2013. It does not, however, empower the local government institutions to receive funds from the district budget; rather it reflects a disaggregation of the central budgetary allocations at the district level. The local bodies have been historically constrained by (a) lack of clear jurisdiction and powers to implement their respective mandates (b) lack of financial resources at their disposal to initiate development. At the same time appointment of administrators of zilla parishad by the present government has been a retrogressive step. Traditionally, opposition to empowerment of local government institutions had come from parliament members themselves as well as the bureaucracy, both being apprehensive that their position, power and privilege will be substantially eroded once local bodies become fully autonomous.

28. If democratization is to strike roots, that will allow people, in particular women who make up half of the population, to effectively participate in decision making, existing local

government institutions need to be revived. There is no other way to break the current logjam, but to generate necessary political will and create a broad consensus to achieve this goal. With accelerated urbanization, construction of new highway corridors, special economic zones and development of physical infrastructure, self governing local bodies and metropolitan areas have the potential to further boost economic growth. At the same time new sources of revenues can be generated and local government can become financially more viable. Regular free elections at union, sub-district and district levels, will nurture a democratic culture and local government institutions have the potential to become training grounds for a new generation of more mature and enlightened political leaders. They would be motivated to resolve problems of their locality with professionalism and earnestness. There is no way for Bangladesh with a projected population of 180 million at the end of the current decade, to attain the desired economic growth and social development, if all governmental decisions have to be finally taken from a single secretariat located in the capital.

29. Theoretically, a case can be made out even to introduce a provincial system in Bangladesh, turning existing 7 divisions into 7 provinces, for better governance --- leading to decentralization that will relieve the heavy pressure that is placed on the Prime Minister's office, currently the penultimate point for all decision making. Even countries with unitary governments in South and South East Asia, have opted for devolution of government powers, by setting up strong, autonomous provincial governments. To cite a few examples: Cambodia, with a much smaller population and territory slightly larger than that of Bangladesh, has as many as 24 provinces. Thailand, although a unitary government, has 76 provinces, with Bangkok as a special administrative region. Indonesia, once again with a unitary constitution, has 34 semi autonomous provinces. Each province has its own governor and legislature. The Philippines is categorized as a 'presidential unitary' government, has currently 81 provinces and 28 independent cities. Srilanka, once again a country smaller both in area and population compared to Bangladesh, upgraded its districts to 9 autonomous provinces, with elected provincial councils. These are examples of unitary systems within the region, where efforts towards decentralization and devolution have led to setting up autonomous regional units of governance with varying degrees of autonomy. These are now the new focal points of self government, allocation of budgetary resources, and formulation of policies, development planning, monitoring and evaluation. Under unitary systems most are subject to central government's strong oversight, inspection and audit. Municipalities, metropolitan cities, districts, upazillas and even unions, can through a democratic political process generate a more mature, young and educated leadership. This will create a keen competition amongst the local bodies, demonstrating before the public, who can accomplish the given budgetary objectives within a fixed tenure, to develop their respective areas. The developmental impact in education, health, local infrastructure, employment generation through small enterprises, would be quick and far reaching. People will have an easier access to government's services and the local government is likely to pay more heed to their needs and grievances.

30. There are numerous recommendations regarding measures to improve effectiveness of local councils and further enhance their capacity for self government, with participation of people, particularly women. A number of non government organizations like BRAC and the Democracy Watch have also made specific recommendations to widen the scope of operations of Union Parishad, based on pilot projects of their own. We have no dearth of recommendations. What we currently lack is the political will to implement them. The first task accordingly is to create the necessary political will to activate the local government institutions. It would be pragmatic to focus first on the Union Parishad and the Upazilla Parishad, where elections have been held recently. These are the two tiers of self government with which people, politicians and the central government had experience of dealing with, in the past. But in the medium term, it is the Zilla Parishad which will be able to operate on a sufficiently large scale in order to raise its own revenues, receive funds from

the government, draw up district budgets, formulate district development plans, maintain accounts and financial controls and also monitor progress in implementation. For that reason the district councils will have to be strengthened in terms of professional staff capable of formulating plans, management of funds, organization and management. But the big question is how do we generate the political will in the first instance? Obviously, it depends on political sagacity of our leaders, and a broad consensus amongst the political parties --- something that hopefully can be brought about through debates and discourse with local people, civic leaders, the intelligentsia, the NGOs concerned with the issue of empowerment.

## X. Conclusions

31. The challenges of governance in the world's most densely populated country --- 150 million people packed in an area of 55000 square miles --- are indeed stupendous! In spite of the adversities faced by Bangladesh, there have been remarkable accomplishments in terms of both economic growth and social development, since independence. The initial priority after the liberation war was in terms of restoration of government administration, providing relief to people displaced by war, rehabilitation of damaged infrastructure, establishment of law and order, generation of employment opportunities for the rural poor, raising productivity of the agriculture sector to ensure food security. New corporate entities were set up to run abandoned enterprises which were nationalized overnight. In the absence of any major private sector investments, the government had to assume responsibilities to deliver services and ensure supply of essential commodities. Population has more than doubled within four decades and demand for government services has surged with increased urbanization.

32. Some public sector development initiatives have led to outstanding success. Government efforts have resulted in a dramatic expansion of primary education, higher enrolment ratios for girls in schools, universal primary immunization of children, rapid growth of fertilizer application, an extensive rural road network in a riverine country, and rural electrification programmes lighting up even the remotest countryside. In terms of social indicators and the millennium development targets, government's achievements have been recognized globally. Mortality as well as fertility rates have dramatically declined, and Bangladesh has begun to reap demographic dividends from a fast growing working age population, mechanization of agriculture and urbanization. New governance practices have also emerged as Bangladesh has demonstrated its capacity to co-ordinate government programme efforts with those of one of the most vibrant NGO communities in the world. These now number more than 13000, of which 2400 are registered by the NGO Bureau, funded by external donors; the rest are locally funded, as people of Bangladesh have had a long tradition of philanthropic work. Government financial dependence on donor assistance has dramatically declined, with increase in domestic resource mobilization, even though the tax GDP ratio of Bangladesh is still the lowest in the region. Significantly, private enterprise has surged ahead in recent years. Export proceeds, while 80 percent of it is based on ready made garments, have risen dramatically and today exceeds that of Pakistan. Similarly remittance earnings of unskilled Bangladeshi labour overseas per capita also would exceed that of both Pakistan and India. Bangladesh, where people traditionally were considered to be non-entrepreneurial, after independence, has created a new generation of entrepreneurs --- successfully operating millions of large, medium and small enterprises.

33. Bangladesh economy is now at a critical crossroads. In order to further accelerate and sustain economic growth in the coming years, major impediments that exist in public governance systems need to be identified and quickly removed. The immediate need is to generate sufficient jobs and improve simultaneously the productivity of labour. Measures will have to be prioritized and reforms, restructuring both in the short run and medium term, must be made to address the issues of governance. The problem, which is more of a paradox for Bangladesh, can be summed by the following statement:

34. "we have inherited and subsequent to our independence, further made additions to a cumbersome, lethargic regulatory regime, a substantial part of which has now become redundant. They tend to inhibit or otherwise constrain growth and development. This becomes apparent when we see: (1) regulations which have become unnecessary or are restrictive in nature i.e. impediments in the operation of large, small & medium enterprises. Bangladesh according to the World Bank, ranked 129th among 185 countries in 2014, in terms of "ease of doing business". (2) existing regulations which provide a framework for governance based on rule of law and public accountability, are not enforced. Law and order administration is not able to play a deterrent or pro-active role; a huge backlog of civil and

criminal cases are awaiting adjudication, a cause of immense suffering for hundreds of thousands of aggrieved people, including the small business people. (3) There are no regulations, where new regulations have become essential for future growth and development. Bangladesh is the largest delta in the world and is a riverine country. The priority, in the context of global warming, is to protect and develop its special eco-system. New regulations and enforcement mechanisms are urgently required or need to be formulated i.e. land use regulations, building codes, regulations for food safety, protection of rivers and conservation of farm land, etc.”

35. There is a clear need for initiating regulatory reforms, more effective enforcement of law and order based on a ‘rule of law’, further democratization within political parties, decentralization of government, substantive devolution of powers at the level of local self-government, professionalization of bureaucracy, depoliticisation of professional bodies etc. The big question is, what would be the most pragmatic way to bring about these changes. At this critical stage of country’s development, we need strong political will regarding reforms in governance that will accelerate our economic growth. Our conclusions based on foregoing discussions are summed up below:

1. The overall strategy is to consider these reforms as a continuing process, and not aim at setting up another administrative commission that will attempt to bring about wide ranging, comprehensive, systemic reforms. A standing high powered regulatory review committee or a number of standing committees to meet specific reform needs of priority sectors, could be a feasible option.
2. There is a need to prioritize the short term regulatory changes that are required, especially to ease and facilitate business operations. This is where the country has lagged behind in the past. The reasons are well researched and clearly established. Inter-ministerial regulatory review committees empowered by the chief executive could be mandated with specific tasks for example, in sectors concerned with urban management, enterprise development, building infrastructure, trade and investments, SME development.
3. In the short run there is need to focus on two issues :
  - (a) Urban development management, as the country is undergoing rapid urbanization and more than half of the country’s populations will be living in towns and cities by 2030. It is also a principal driver of future economic growth. Urbanization process as evident from current experience, is also filled with many hazards, because of increasing pressure on our scarcest resource, which is land i.e. illegal land grabbing, unregulated construction, destruction of river watershed areas, environmental degradation, erosion of farm land, deterioration of law and order, eviction of minorities from their homestead, etc etc.
  - (b) Improve efficiency of public services which are provided from counters and offices of government agencies responsible for delivering services. This is where large numbers of people come face to face, on a daily basis, with different government agencies and experience harassments, extortions, negligence, corrupt practices. Examples are the public hospitals, education department, land records and registration, district courts, police stations, public utilities --- but the list is a long one. New technologies and simplification of office procedures as well as their transparency can help relieve the distress.
4. Time has now come for coordinated, concentrated medium term efforts for extensive reforms, leading to more effective enforcement of law and order as well as establishment of rule of law. Two traditional institutions involved in this area are the law enforcement agencies and the judiciary. While the judiciary could act to check

and remedy any excess that may be committed by the police, it is also responsible for expeditious disposal of criminal and civil cases. Nevertheless, the two organs of the government also must work together to ensure speedy dispensation of justice. An independent commission is suggested to identify reform needs of law enforcement agencies, ensure independent recruitment of personnel, professional training, providing incentives for improved morale and motivation. Application of new technologies in investigation and crime detection. A Judicial Reforms Committee has already been set up recently with the Chief Justice and judges of the Appellate Division. However, they will not be in a position to spare their valuable time for any in depth research and investigative work that will be needed. Immediate priority will be to provide a permanent secretariat for the appellate division to cope with this work and set up judicial reforms task force.

5. Bangladesh Bank has already taken a significant initiative to promote development of SMEs. It needs to reinforce its role as a facilitator as well as a regulator, an agency for oversight, co-ordination and supervision. Not sufficient attention has been paid to millions of mini enterprises, which have graduated out of micro enterprises, with investments as small as Taka 30,000. They make up the bottom of the pyramid, capable of quickly generating new jobs and economic growth. As yet very little is known about such small businesses or manufacturing units. Banks would find it difficult to reach out to this group dispersed widely over the country side, bazaars and small towns, now clustering along the national highways. Banks would have a propensity to provide bigger loans to bigger entrepreneurs who can provide sufficient security. In addition MSMEs will also require technical and infrastructure support which have been stressed in various reports. Commercial banks as well as non banking financial institutions need to develop separate affiliates, experiment and devise new *modus operandi* to address their financial needs. Bangladesh Bank which has already taken significant initiatives in promoting SMEs, can play a catalytical role in setting up new delivery and support systems.
6. Decentralization, devolution of powers to local government, empowering existing *union Parishad*, *Upazilla Parishad* and *Zilla Parishad*, must be in the medium term agenda for reforms. Such devolution of powers has been recommended in the past by every committee set up by the government, supported by manifestos of each and every political party and received the strongest endorsements from top leadership at various fora. The urgent need at this moment is to generate a strong political will, based on consensus amongst political parties, local government advocates, to move forward with practical measures to implement this agenda. With projected economic growth and urbanization in the coming decade, it will be all the more essential to build new focal points for decision making and exercise of political power. There is *prima facie* sufficient justification for Bangladesh with a population of 150 million, to even introduce a provincial system. Countries smaller in area and in population, under a unitary system, have set up provincial governments, which alone can divert the *Himalayan* pressure on the lone Prime Minister's office, in the capital city. While this will be politically a sensitive issue and can hold up decentralization to the lower units of government, a more pragmatic option will be to immediately activate *Zilla Parishad*, which will have a sufficiently large scale to become operationally viable. The Finance Ministry has made a commendable move by piloting a district level budget. It should move on with a pilot for allocating budgetary resources to *Zilla Parishad*, experimenting with substantive, meaningful devolution of powers to district level government.

