

# ISAS Brief

No. 43 – Date: 15 January 2008

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## **One Year in Office: An Assessment of Bangladesh's Caretaker Government**

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In the face of a political crisis, a caretaker government took over control in Bangladesh on 12 January 2007, giving the people the hope of a new dawn. After one year, however, instead of celebrations, Dr Fakhruddin Ahmed-led interim cabinet has found itself in the midst of a series of problems, if not crises. Just before the first anniversary of the government, half of its advisers had to leave office due to poor performance and public dissatisfaction. The skyrocketing of prices of essentials has also affected the popularity of the government. The common people in Bangladesh now think that the country's economic outlook and political prospects are no better, if not worse, than those during the so-called democratic governments.

This paper evaluates the performance of the current army-backed caretaker government in the last one year.

According to the Bangladesh Constitution, the caretaker government's prime objective is to arrange parliamentary elections within 90 days of its taking over office. The current interim government, however, had other ideas. Instead of holding free and fair elections, the government announced a long list of reform agenda immediately after assuming power. To carry forward the reforms, it needed to extend its control beyond the 90 days. The Bangladeshi people, Bangladesh's development partners and donor agencies concurred with the authorities as the country badly needed reforms in some crucial areas. These would not be possible under the so-called democratic regimes, due to political considerations.

The apolitical caretaker government inherited a legacy which can be characterised by, *inter alia*, an inefficient bureaucracy, weak and highly politicised institutions, a corrupt political system, and distorted market mechanisms. To clean up the country's corrupt-political culture, the army-backed government arrested more than 200 top-level politicians, including two ex-prime ministers, Sheikh Hasina and Khaleda Zia, on allegations of corruption. Some political bigwigs have already been punished through trials in so-called "kangaroo" courts. The authorities have banned all kinds of political activities and gatherings, both indoors and outdoors. They have insisted on internal reforms of the political parties so as to create a transparent and accountable party system. To break the political monopoly of the Bangladesh

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Nationalist Party and the Awami League, attempts have been made to initiate a third wave in politics.

The interim government reconstituted the Election Commission and the anti-corruption commission, framed new laws to tackle corruption and ratified the United Nations Convention against corruption. The judiciary has been separated from the executive body of the government. The authorities have taken some stern actions against unscrupulous businessmen who are believed to be controlling the markets through syndication (oligopoly-type market).

However, these highly ambitious reforms have not delivered the desirable outcomes, at least in the short-run. The anti-corruption campaign has slowed down economic activities. The growth in the industrial and agriculture sectors is either negative or very low. The government's borrowing from the state-owned banks has been increasing at an alarming rate. The rate of inflation has crossed the double-digit mark and the level of unemployment has soared, resulting in a state of stagflation in the Bangladesh economy. More importantly, business confidence in the economy has decreased and this is a big worry for the country.

According to the Bangladesh Bureau of Statistics, the overall inflation in Bangladesh was 8.25 percent on a twelve-month annual average and 10.06 percent on a point-to-point basis in October 2007 whereas the food-inflation hit 11.73 percent in the same period. The value of local and foreign investment proposals submitted to the Bangladesh Board of Investment reportedly plunged by 68 percent and 98 percent respectively in the first quarter of the present fiscal year. As a result, the growth rate in Bangladesh is predicted to be lower than the fiscal years of 2005-06 and 2006-07. The World Bank projected a 5.5 percent growth rate for the fiscal year of 2007-08, though the Bangladesh Bank believes that the economy will enjoy a six percent-plus gross domestic product growth in the same period.

The present government's reform measures in the last one year were supposed to improve the socio-political and economic systems of the country. It offered so much promise. So what went wrong? There are several reasons for the failure of the government to deliver.

Firstly, the authorities, in many cases, dealt with corruption too heavy-handedly. It was a huge mistake tackling political and business corruption simultaneously. The arrest of alleged corrupt political leaders did not directly harm the economy. However, the actions against dishonest businessmen and their business practices created panic in the business community. Consequently, local traders and entrepreneurs limited their business operations and foreign investors were not confident in investing in new projects. Moreover, the government shut down some state-owned production units which had been incurring losses. As a result, hundreds of workers lost their jobs and there was limited employment generation. In short, the economy could not absorb the sudden shocks that resulted from the reforms.

Secondly, the interim government, which consists of 10 advisers, has been overseeing 42 ministries. This is humanely impossible, given the magnitude of the challenges facing the country. Moreover, the government initiated reforms beyond the number of areas that it could possibly manage. As such, the government has been stretched and distracted from the key tasks at hand.

Thirdly, the interim government's assumption of power coincided with mounting fears of a food price spiral on global markets and high energy prices. Moreover, in the last six months,

Bangladesh faced two major natural disasters (summer floods and Cyclone Sidr) which damaged standing crops, among others, and escalated food prices. While no fault of the government, these rises and events have placed additional burden on the government, with the Bangladeshi people looking to it for assistance and directions.

It is perhaps too soon to expect results from the government. The reforms put in place may not necessarily bring about immediate benefits. There is a trade-off between short-term losses versus long-run gains in any reform, regardless of the extent of the political and economic shake-up. Quite simply put, there is no gain without pain.

Nevertheless, in the short-run, the reforms have reaped dividends in some areas. For instance, the Chittagong port, known for its administrative bottlenecks, has raised port efficiency by 30 percent and the cost of doing business in the port is now 40 percent less, according to a World Bank assessment. Many tax evaders have been brought back to the tax network. More importantly, the ongoing reforms have created a social awareness which could help reduce corrupt activities in the long run.

Despite the caretaker government delivering mixed results in the past 12 months, Bangladesh cannot afford to let it fail. There is no real alternative until a new democratic government is installed through parliamentary elections. On its part, the interim government should learn from its mistakes in the first year and should prioritise the tasks at hand. Economic management should be the immediate priority; with the state of some macro economic variables being very shaky. At the same time, the caretaker government should take necessary measures to increase food supply in the market.

The caretaker government cannot also afford to be distracted from its main objective of holding general election before the end of this year. To do so, it should expedite the electoral reforms, including lifting the ban on political activities as soon as possible, if not, immediately. There is also an urgent need to start constructive dialogue with the major political parties. The general election and, consequently, the installment of a democratically-elected government is the only way to bring the country back on track.

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