Economic Policy Paper on Privatisation Policies

Contents

1. Background of Privatisation

Bangladesh emerged as an independent and sovereign country on the 16th of December, 1971 through a war of liberation. This young and independent country provides in its constitution four basic principles, namely Nationalism, Democracy, Socialism and Secularism.

The principal responsibility of the government was to undertake the huge reconstruction, rehabilitation and rebuilding of her economy because during the war of liberation there was massive destruction of infrastructure and industries, including roads, railways, bridges, culverts, ports, schools, colleges, universities, etc. The government had therefore to concentrate its efforts on bringing everything back to normalcy so that socio-economic activities could be resumed.

One of the worst hit areas was its trade, industry and commerce, left by the then West Pakistani owners in a completely shattered condition. The business establishments, which were owned by the Bengalis, were small enterprises. The value of those enterprises made up only 18% of the total value of the entire industrial sector and commercial enterprises (see Table 1).

Table 1

Structure of ownership of industrial enterprises in 1971

Ownership	Number	Value (Mio TK)	Share (%)
EPIDC Ownership	53	2,097	34%
Private Ownership (Non-Bengali) Private Ownership (Bengali)	725 2,253	2,885.7 1.118.8	47% 18%
Private Ownership (Foreign)	20	36.0	1%
Total	3,051	6,137.5	100%

Source: Privatisation in Bangladesh, A Study submitted to the Centre for Privatisation for the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, P. 41.

The government took over all EPIDC-owned and abandoned commercial and industrial enterprises. A part of the nationalised enterprises was, however, privatised by the government before the political change in 1975. Not all the nationalised enterprises were administered by the government – a considerable part was managed by the appointed managers (see Table 2).

Table 2

Category of ownership of the nationalised industries

Category of former Ownership	Number	Category of Nationalisation
State Owned	53	State Owned
Privately Owned (big)	392	State Owned
Privately Owned	172	Govt. appointed Management

Privately Owned	161	At the beginning nationalised, later returned to the owner
Total	778	

Source: Privatisation in Bangladesh, A Study submitted to the Centre for Privatisation for the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, P. 45.

The structure of the ownership of the big nationalised industries shows that not a single big industry was owned by the Bengalis (see Table 3). So it is quite understandable why the industrial sector in Bangladesh was from the beginning so dominated by ethnically different people.

Table 3
Ownership structure of large industries

Category of Ownership	Number
Abandoned Private Industries (Non-Bengali)	263
EPIDC Owned	53
Foreign Ownership	1
Private Industries (Bengali)	75
Total	392

Source: Privatisation in Bangladesh, A Study submitted to the Centre for the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, P. 45.

2. Objectives and Purposes of Privatisation

During the mid-1970s the government of Bangladesh realised and then gradually accepted the fact that the management of industrial and commercial activities by the state did not work. It thus embarked upon a process of divestment to extricate itself from this quagmire. Three inter-related classes of reasons are considered as the basis for privatisation in Bangladesh. They are:

(a) To reduce the drain on public resources due to mounting losses of SOEs as well as supplement internal resources from the sales proceeds;
(b) Improvement in the efficiency of enterprises following privatisation; and
(c) To give signals to investors to invest more and consequently attain higher economic growth.

State-owned enterprises (SOEs) existed in Bangladesh before its independence in 1971. This sector burgeoned immensely from 1972 with the takeover of the ownership and management of those private sector business units — covering the whole spectrum of trade, industry and service — which were abandoned by the owners who did not attempt to claim citizenship of the newly-emerged sovereign state of Bangladesh. This nationalisation process gradually expanded, driven by the fact that socialism was one of the four major state principles enshrined in the constitution. During the early seventies, at the high point of the socialist economy in Bangladesh, 80% of industrial capital and 100% of foreign trade were vested with the public sector.

3. Rationale of Privatisation

3.1 Privatisation in Bangladesh

The reasons underlined for nationalisation were the belief at that time that the interests of the people as a whole could be best served if the economy were placed in the hands of the government, not only for planning and overseeing, but operationally as well. Government enterprises and companies control systems were seen as the most effective way to:

a) generate revenue for the Treasury;
b) implement policy – economic, political and social;
c) protect national security through direct intervention in strategic areas;
d) expand the economy and control the directions it takes and the way it functions;
e) encourage foreign investment in cooperation with large, stable government institutions;
f) ensure equitable distribution of products, services and benefits to all segments of the society.

Furthermore it was argued that nationalisation, especially for developing economies, was necessary because of vital development political reasons in order to:

(a) balance or replace weak private sectors,
(b) produce higher investment ratios and extract a capital surplus for investment in the economy,
(c) transfer technology to strategic sectors,
(d) generate employment, and
(e) make goods available at lower cost.

For Bangladesh there was also a political reason for creating SOEs. The government of the newly independent country was committed to democratic socialism. So nationalisation was the then government's avowed policy. Therefore it considered the abandoned enterprises of the Pakistanis to be an unexpected opportunity for accumulation of capital and planned national economic development. Hence, including others, as many as 392 large and medium enterprises (SOEs), comprising various sectors of the economy including manufacturing, utilities, banks and financial institutions, were nationalised (see Table 3).

3.2 Experience of other Countries with Privatised Economies and the Bangladesh Scenario

Virtually in all the developing countries and in most of the developed ones, a large number of SOEs ultimately became financially inefficient and incurred heavy losses. They had also disproportionate shares of domestic credit. These loss-making SOEs were putting enormous pressure on the public budgets of the governments in those countries. In 1990 the losses of the SOEs in Argentina and Poland reached 9% of the GDP. During the same period in Tanzania and China, half of the SOEs were incurring losses. The situation of the SOEs in Ghana and Mexico was even worse.

Bangladesh's case in this respect was (and is) possibly the worst. Since their very inception the SOEs in Bangladesh were plagued by inefficiency, mismanagement, heavy losses and similar other shortcomings. In 1993, they incurred losses to the tune of Tk. 25 billion. This amount represents about 50% of the annual project aid disbursement and nearly 2% of the GDP. The SOEs' losses are in fact nothing but straight drainage of the government exchequer, due to the money which is given to these SOEs either in the form of capital infusions or as subsidies and/or write-off of bad debts. High production cost and low productivity in addition to low performance in terms of quality and availability of the services and products are the main reasons for the SOEs being incompetitive in domestic as well as in international markets.

The miserable performance of the big SOEs hampered the development of the private sector and growth of the national economy. Valuable resources, which could have otherwise been used for poverty alleviation, or to provide clean water, sewerage, hospitals for the people and for building educational facilities and infrastructural projects, were being wasted through continuous haemorrhage of the national exchequer.

Persistent inefficiency, pervasive corruption and sheer indifference towards the national interest are some other obvious reasons that militate against public sector ownership and management of the economy. However, policy distortions are also to blame for this, because economies with more policy distortions grow more slowly than those with fewer distortions.

Nearly all the developing countries including Bangladesh, from the later half of the 1970s and during the whole of the 1980s, adopted reforms to activate and strengthen the role of the private sector in the economy. Since 1976 Bangladesh has been following a programme that has been paving the way for expansion of the private sector and transforming the economy into an open and competitive market-oriented one. Privatisation of SOEs has been pursued by all the governments since then, sending a positive signal to the private enterprises home and abroad for greater participation in the development activities to achieve a positive fiscal situation and to effect improvement in the management of the economic sector in the longer perspective. But the privatisation policy was followed by the subsequent governments only half-heartedly because there was considerable political pressure from interest groups. So the privatisation process made little progress till end of the 1980s.

4. Evaluation and Analysis

4.1 The Range and State of the State-Owned Enterprises in Bangladesh

Bangladesh has experienced, because of the above-mentioned grounds, rapid growth of the public sector immediately after the war of liberation -- to be precise, between 1971 and 1975. The regime in power had firm economic and political commitments to socialism. Although subsequent regimes demonstrated less inclination towards the public sector, Bangladesh still has a large number of public enterprises (grouped under 38 corporations) in operation. The SOEs dominate many important sectors. They accounted for 71% of the value added in the utilities (power, gas and water), nearly 100% in railway and communications and 83% in banking and insurance (World Bank 1994), including four large commercial banks, three insurance corporations, two agricultural banks and three development financing institutions (DFIs) in the public sector.

The performance of the public sector in Bangladesh has unquestionably been unsatisfactory, to say the very least. With a net worth of about 15% of the country's GDP, it contributes only 6% to it. Most SOEs have long been incurring heavy losses and thereby exerting a nearly unbearable pressure on the exchequer, public finance, the banking sector, the private sector and on the overall growth prospects of the nation. Although originally intended to operate on the basis of commercial principles, the SOEs are incurring a loss of about TK 625 million (as estimated in 1997) per year, which is covered by subsidies from the public exchequer. The SOEs in the sector of industries and public utilities are the worst loss-makers. The subsequent governments thus embarked upon a process of denationalisation that progressed, for want of a better word, through the next 18 years in fits and starts.

4.2 Privatisation Efforts

4.2.1 Privatisation from 1971 to 1975

The Government, which took power after the liberation of the country, had to acknowledge in a short time that the management of the industrial and commercial units by the government does not work, and thus reluctantly began the process of privatisation. It started with the small enterprises, but even then the process of privatisation was slow. The investment in economically important and strategic sectors remained reserved for the State (Table 5). This was probably due to the fact that there was not enough capital in private hands and the entrepreneurial class had no experience in taking over and running the big enterprises (see Table 2 and 4).

Table 4

Privatisation from 1971 to 1990

Privatised	From 1971 to 1975	From 1975 to 1981	From 1982 to 1984	From 1984 to 1990
Number	160	255	153	222

Source: Privatisation in Bangladesh, A Study submitted to the Centre for the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, P. 45, 65, 98 and 125.

Table 5

Sectors reserved for public investment

SL.	From 1971 to 1975	From 1976 to 1981	From 1982 to 1990
1	Arms and Ammunition	Arms and Ammunition	Arms and Ammunition
2	Atomic Energy	Atomic Energy	Atomic Energy
3	Jute Industries	Jute Industries	Jute Industries
4	Textiles	Textiles	Opened

5 6	Sugar Paper and Newsprint	Sugar Paper and Newsprint	Opened Paper and Newsprint
7	Iron and Steel (Excluding re-rolling mills)	Iron and Steel (Excluding re-rolling mills)	Iron and Steel (Excluding re-rolling mills)
8 9	Shipbuilding and Heavy Engineering Mineral Oil and Gas	Opened Opened	Opened Opened
10	Heavy Electrical Industry	Opened	Opened
11	Cement	Opened	Opened
12	Petrochemicals	Opened	Opened
13	Heavy and basic Chemicals and Pharmaceuticals	Opened	Opened
14	Air Transport	Air Transport	Air Transport
15	Shipping	Opened	Opened
16	Telephone, Telegraph and Telephone Cables	Telephone, Telegraph and Telephone Cables	Telephone, Telegraph and Telephone Cables
17	Generation and Distribution of Energy	Generation and Distribution of Energy	Generation and Distribution of Energy
18	Forest Extract (Mechanised)	Forest Extract (Mechanised)	Forest Extract (Mechanised)

Source: Privatisation in Bangladesh, A Study submitted to the Centre for Privatisation for forwarding to the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, p. 58, 63, 84 and 85.

Development Policy From 1971 to 1975

The post liberation constitution of the country sanctified socialism as both goal and vehicle for economic development. The development policy considered the public sector to be the motor for economic development. The role of the private sector was also acknowledged and provided room for development. The policy was called mix-economic to achieve democratic socialism. The policy of the government could be easily predicted from the development of the investment from this time (see Table 6), which shows that the government attached considerable importance to private investment.

Table 6

Development of Investment (in TK. Million)

Year	Private Investment	Public Investment
1973	N/A	N/A
1974	5,091	5,102
1975	6,102	5,056

1976	5,664	4,935
1977	7,454	9,049
1978	9,004	9,808
1979	11,424	17,786
1980	13,941	19,784
1981	15,215	14,959

Source: Privatisation in Bangladesh, A Study submitted to the Centre for Privatisation for the US Agency for International Development, Vol. 1, (Main Report), Dhaka, 1988, p. 76.

4.2.2 Privatisation from 1976 to 1981

With the political change in 1975 there was also a change in the development policy of the country. In December, 1975 the new Government announced that "it was ready to extend all possible support to the private sector to utilise its full potential for economic development of the country." In 1977 the word socialism was removed from the constitution and replaced by the term "economic and social justice", which indicated that the government emphasised the role of the private sector for national economic development. The government was also cautious, because it did not feel strong enough to take the final plunge. Because of this trepidation, there was hardly any significant change in the ratio of investment between the private and public sector (see Table 6) during the tenure of that government, and as before, most of the important sectors of the economy remained reserved for public investment (see Table 5). The privatisation process, therefore, made no considerable headway (see Table 4).

4.2.3 Privatisation from 1982 to 1990

Encouraged by successful international experiences, the new government, which took power in 1982, decided to denationalise in a big way. The approach of the new government seemed pragmatic -- the vision was that the role of the public sector was to supplement the private sector and not supplant it. Furthermore, it was decided that the private sector had to be expanded, the reserved sectors had to be decreased and the productivity of the public sector had to be increased. The development of investments in the public and private sectors, the number of the denationalised enterprises and the opening of the reserved sectors for private investment showed that the government was firmly committed to privatisation and was therefore relatively more successful than all its predecessors.

Employment issue is the most crucial question, which is asked always with regard to privatisation measures. But the experiences in Bangladesh, which are documented in several scattered studies, show that in most cases there was no negative impact of privatisation on employment. On the contrary the employment increased in some cases in the privatised enterprises (see Humphrey, p. 172-185)

4.2.4. Privatisation after Rehabilitation of Democracy (Since 1991)

Even after the restoration of democracy in the 1990s the political situation was not fully favourable towards privatisation because the opposition parties by turn supported the organised labour groups. On the other hand the growing liberalisation because of the pressure of globalisation made privatisation difficult. In the global liberal economic environment, privatisation involves an initial increase in the unemployment rate. Furthermore there are nationalised enterprises which, if privatised with their existing technology, could hardly be made profitable.

There are also some management problems of the privatisation programme; for example, in the last two years the privatisation process has been suffering due to non-cooperation from different ministries. This is an indication that the successive governments lacked sincerity to face and deal with the organised labour force. Lack of capital in private hands, lack of proper policies and directions, too much control by the bureaucracy in all spheres of life, etc. are the some other reasons. Some conditions attached to the privatisation process are also creating misgivings about the sincerity of the government's commitment to privatisation.

However, some 32 industrial units have been privatised by the present government compared to 12 by the previous regime, according to the Privatisation Board. Another 14 enterprises are in the final stage of privatisation. To sum up, against 3,051 industrial units nationalised in 1972, only 790 units have been privatised so far. To speed up privatisation, all current liabilities have been written off and the Privatisation Board recently proposed to the government that the prospective buyers be relieved of long-term and hidden liabilities of the SOEs. Some incentives, including 20 per cent incentive, are also being given by the government to accelerate privatisation. Meanwhile the privatisation law, seeking more authority to decide solely the sale of SOEs worth up to Tk. 250 million, is awaiting the Parliament's endorsement. The law will enable the Board to opt for joint ventures, BOO-BOT and management contracts.

5. Major Sectorial Candidates for Privatisation

However, global experience shows that meaningful and rapid economic development is possible when the infrastructural sectors have the potential of attracting massive foreign direct investment, which in turn will spur a chain of economic activities in the country. In a country like Bangladesh one of the biggest hindrances for rapid economic growth is the weakness in infrastructure, so the privatisation of parts of the infrastructural sector, which has been done successfully in many other countries, should be looked at pro-actively. It is worthwhile to mention in this relation that theses sectors have been making the biggest losses. The authorities need to shake off their fear of pressure groups and take bold, urgent and effective steps towards a meaningful privatisation of both state-owned industrial enterprises and the equally important infrastructural sectors.

Although privatisation of SOEs remained at the top of the national agenda for the last two decades, the progress still remains unsatisfactory for a plethora of reasons. Given the poor track records of most of the SOEs in Bangladesh, it seems that the SOEs in the infrastructural sectors are prime candidates for immediate privatisation. These sectors are important for a number of reasons. Firstly, as in most developing countries including Bangladesh, the prices of infrastructural services do not reflect the cost and the growth, or the development of these sectors do not depend on consumer demand. Secondly, these sectors have powerful spill-over effects on the growth and development of other sectors including the private sector. Thirdly, privatisation of the infrastructural facilities — such as water, energy, telephone, railways — promises tremendous gains in terms of reduced pressure on the state exchequer, improved quantity and quality of services to consumers and, above all, adaptation to new technology and scientific developments. The conditions of the major infrastructural sectors that need immediate privatisation for accelerating the pace of the nation's economic development have been discussed below:

5.1 The Energy Sector

About 55 per cent of the overall energy supply in Bangladesh is based on traditional fuels such as crop residues, animal dung and fuel wood. Of the remaining supply of energy, 24 per cent comes from relatively low-cost natural gas, 19 per cent from imported oil and coal, and 2 per cent from hydroelectric power. Power generation and fertilizer production account for about 46 per cent and 35 per cent respectively of the total gas consumption, with the remaining 19 per cent used by industrial, commercial and residential consumers. Natural gas accounts for almost 60 per cent of the country's commercial energy supply. Most of the commercial energy is supplied by five state-owned energy sector entities that produce, transport and deliver the goods.

Frequent power failures – due to state monopoly of power production and generation -- compels firms to use standby generators, damages equipment, and causes production wastage in terms of wasted labour time and damaged inputs. Per capita electricity consumption in Bangladesh is amongst the lowest in the world — only 80 kw. System losses in the power sector still range from 35 to 40 per cent, among the highest in the world. Bangladesh has currently installed electricity-generating capacity of 2608 mw, out of which 26 per cent (nearly 700 mw) is out of service and awaiting major maintenance or rehabilitation. Two of the entities of the power sector — the Power Development Board and the Dhaka Electric Supply Authority — are amongst the topmost loss-making enterprises in Bangladesh. Available evidences strongly suggest that inefficiencies, inadequacies, and corruption of the power sector personnel have been substantially responsible for increasing effective costs for the industrial users, retarding economic development and adversely affecting the future growth potential of the nation.

Moreover, by the end of the decade, the demand for electricity will increase to nearly 4000 mw and the power sector investment requirements over the period are estimated to be about Tk. 100 billion (in 1990 prices). The estimates suggest that the requirement will increase to Tk. 1.51 billion by 2005 and to Tk. 2.0 billion by the year 2010. A huge amount of capital is also required to competently explore and develop Bangladesh's hydrocarbon (oil) endowment. Similarly, exploration and development of coal deposits will require substantial foreign investment. Obviously the nation can neither afford the monumental losses by the public sector nor can it muster the funds necessary for meeting the increased demand by the year 2000 from its own resources. Lately the Bangladesh government, encouraged by the visible success of other countries in attracting international private participation to their petroleum/gas sectors, has announced a new petroleum policy to seek participation of international oil companies in hydrocarbon exploration and production through production sharing contracts. Initiatives are also being taken for opening up electricity generation and production to the private sector. A few electricity generation companies in the private sector have already installed capacities, which are in the grid.

5.2 The Telecommunications Sector

The inadequacy of the telecommunication infrastructure has been a major constraint for the development of the country. With less than 250,000 telephone lines in service, Bangladesh is one of the least well served of all developing countries. Bangladesh's telephone penetration rate of two main lines per 1000 persons is one of the lowest in the world. Bangladesh has a successful call completion rate of around 30 per cent, well below the acceptable rate of 65 per cent. Currently the Bangladesh Telegraph and Telephone Board (BTTB) is the monopoly provider of domestic and international telecommunications services in urban areas in the country. Rural services are provided by both BTTB and the Bangladesh Telecommunications Authority , a private company.

During 1988 to 1991 the main telephone lines in service increased by a compound annual rate of 6 per cent whereas the waiting list for telephone services grew at about 9 per cent per annum. By the year 2002, the demand for telephone lines may increase to 800,000. The large unsatisfied demand can be met only with a tremendous increase in the supply, which calls for huge investment. Telecom services remain less than satisfactory because of long waiting period, rent-seeking character of the BTTB staff, inaccurate billing and extremely low rate of call completion. Removing these obstacles, introducing measures to improve the quality of telecommunication services, offering choices to consumers and achieving greater efficiency in the sector will call for massive investment. As demand is on the rise, this sector promises high returns, which could be attractive to both domestic and foreign investors. This sector has also made little progress in terms of privatisation.

5.3 Transport Sector

All the corporations involved in this sector are losing concerns, thanks to the fleet of outdated vehicles, high frequency of marine vessel disasters, fare pilferage and irregularities in collection systems. The Inland Water Transport Corporation (IWTC) lost TK 37 million, 59 million and 47 million respectively in fiscal years 1991, 1992 and 1993.

Ticket-less travel, fare pilferage by crew and staff, operation on uneconomic routes, etc. have been responsible for the Bangladesh Road Transport Corporation's loss of Tk. 246 million, 238 million, 298 million in fiscal years 1991, 1992 and 1993 respectively. The Shipping Corporation lost Tk. 52 million in 1999 but showed profits of Tk. 542 million and Tk. 38 million in fiscal years 1992 and 1993 respectively. These losses are due to inefficient operation of the ships, stiff competition from domestic and foreign shipping lines, large amounts of accounts receivable and heavy debt servicing obligations. The government should actively consider complete privatisation of the transport sector to stop this unacceptable drain on the economy.

6. Present and future Impact of Privatisation Processes

The privatisation target is, no doubt, achievable provided a strategy is firmed up. Firming up a strategy based on consensus, however, is not an easy task. The reaction of the political parties to privatisation is based on what they think will be its likely impact on the political situation and on their supporters. The trade unions, being the vested interest, resist privatisation for fear of losing their employment. The bureaucracy creates snags in the fear of losing their little empire and there are some academicians for whom privatisation will mean defeat of an ideology. According to one study, the total jobs lost so far due to privatisation is 98,111. There has been some partial compensation by provision of reemployment of 32,813 workers, implying a net loss of employment of 44 per cent in the privatised units. However, privatisation in a sense is a political process. Its success or failure depends on political consensus.

7. Examining and Critically Analysing the Methods and Approaches needed for Privatisation

Privatisation is still a misunderstood concept in the country. Many still do not realise that privatisation does not have to be complete sale of an SOE. A broad definition of privatisation refers to transferring to the private sector the activities and functions which have traditionally been with the public sector. Also, privatisation may take many forms, such as public ownership with operation contracted to the private sector, private ownership and operation under government regulations; and community and user provisions (World Bank 1994, 8-10). Another problem with the privatisation efforts in Bangladesh is that privatisation did not start in the country with clear policy guidelines, and the institutions responsible for privatisation were, and are, more often than not dominated by bureaucrats who have vested interest in the SOEs.

Therefore, besides firm political commitment and public education, making progress in the privatisation sector in Bangladesh will require a clear-cut policy, perhaps a privatisation master plan which will recommend appropriate strategies and prepare transparent action plans by identifying sector-wise SOEs for a time-bound privatisation programme. There should be a public education programme that will educate the people about how privatisation can reduce the financial and administrative burdens of the government, how it can contribute to enhancing efficiency and economic growth, how it can help the nation in achieving its development goals and reducing the size and presence of the public sector in the country. Such education programmes had been successful in many nations. Once a master plan, backed by an effective mass education programme, is in place, the next thing the policy-makers should do is to identify those SOEs that should remain under public ownership and operation for a considerable time-frame. But the operation of those SOEs must be brought under commercial principles. The remaining SOEs should be subjected to a rapid and progressive privatisation programme. Once the policy decisions are in place, privatisation can be carried out through several methods, which are set out below:

7.1 Sale of Equity

This method of privatisation applies to SOEs and may result in transfer of the enterprise's management responsibility, assets and personnel. Sale of equity may be partial or complete. Among others, the Malaysian government used this method for privatising its power, telecommunication, airlines and shipping corporations. The country's stock markets can be utilised as vehicles for such equity sales. According to some estimates, the DSE alone will be able to absorb about US$ 40 to US$50 million per annum.

7.2 Sale of Assets

This method can be applied to any SOE — it may or may not involve transfer of management responsibility, assets and personnel. Many SOEs in Bangladesh, especially jute and textile mills, have huge land assets that could be easily disposed of without hampering the normal functioning of these enterprises. Similarly, the sale of unused motor vehicles, spare parts, machinery and inventories can be a good source of revenue for the exchequer.

7.3 Management Contracts

Under this method, a government pays a private company a fee for managing the enterprise. Such contracts could be highly useful for the power sector, and the bidders could be encouraged to introduce additional efficiency and operational enhancement techniques and equipment in return for a share of profits gained from improved operations. Management contracts can also be extended to management of highways, railways, waterways, airports, parks, forests, museums and garbage and sewerage.

7.4 Lease of Assets

This method of privatisation involves the transfer of rights to use assets for a specified period in return for specified payments. The private party assumes the commercial risk of operation and maintenance of the assets. Lease rentals are based on future business prospects and not on the current value of the assets or payments. This method also could be useful for operation and maintenance of highways, parks, ports, museums and airports.

7.5 Concessions

When granted concessions, the private sector takes up the responsibility for capital expenditures and investments, and thus assumes the bulk of the risk. This method has been used for privatisation of telecommunications and railways in Argentina. Some countries applied this method for privatisation of ports and water supply. Bangladesh might apply this method for utility infrastructures, such as power, telecommunications and transport sectors. This method may encourage international investors to participate.

7.6 Build-Operate-Own and Build-Operate-Transfer

These methods — Build-Operate-Own and Build-Operate-Transfer — are applicable for privatising new projects such as roads, water supply, ports, airports, bridges, power projects, telephone systems and trunk highways. Under the BOO-BOT approaches, the private sector project company, usually a foreign or join-venture consortium of engineering, construction and supply firms, will raise the bulk of the financing from commercial lenders, often supported by bilateral and multilateral institutions. In the BOO contract, the private company operates and owns the facility indefinitely, and in BOT a transfer is made to the government or a local company. Several Asian countries have successfully implemented the privatisation process through these methods.

8. Analysis of both supportive and non-supportive Policies and other Incentive packages for Privatisation

Economic reforms give rise to social costs in the form of losers and gainers. Careful management of these transitional costs will, therefore, be an important part of the government policy for years to come. Concerns about job losers and other adjustment costs still deter many countries from undertaking privatisation and liberalisation. The available evidence, however, suggests that adjustment costs tend to be smaller than sometimes is feared. Nevertheless, there is much that governments can do to minimise such costs by fostering more private investment and facilitating a smoother movement of workers from declining to expanding sectors. By contributing to economic growth in the longer term, trade liberalisation is likely to make a significant contribution to poverty reduction. Nevertheless, policy-makers may also wish to put in place a social safety net to assist adjustment for vulnerable groups who may be adversely affected by the reforms.

Rudimentary physical infrastructure, absence of enabling environment for business and impediments at the firm level are the constraints negatively affecting the supply capacity of the economy of developing countries like Bangladesh. These constraints restricted the ability to identify, generate and respond to export opportunities and thus limited the expansion of trade which would have contributed more to the economy. Constraints of natural endowment and deficiency in physical infrastructure like telecommunications and energy are our major handicaps. Transportation-related impediments and limited communication links are the other bottlenecks.

Critics of privatisation in Bangladesh often refer to drawbacks of the earlier privatisation programmes. Information on the performance of the 500-odd small- and medium-scale industries divested since Independence remains limited. A survey by the Ministry of Industries in 1990 revealed that 49 per cent of the divested units have been closed down since divestiture. This is proof of poorly implemented past privatisation programmes. The evidence that does exist on performance of the private and public sector clearly demonstrates superior private sector performance.

Raising the confidence of the private sector by demonstrating the government's commitment to increasing the private sector's role in the economy is necessary for an increase in private manufacturing investment in Bangladesh. Privatisation can also mobilise local as well as foreign funds for investment and develop the capability of the Bangladesh stock market by increasing the number of equities listed. Privatisation will help attract new technology and management techniques along with foreign investment and joint ventures. Finally, privatisation of the infrastructure sector will improve the efficiency of services so that they become reliably available on a timely market-priced basis.

The Parliament on January 24, 2000 sent the Privatisation Bill 2000 to the House Committee for further scrutiny. The proposed law seeks to set up a Privatisation Commission to expedite the denationalisation process of state-owned enterprises as the existing rules have failed to make headway in offloading them.

- According to the Bill, the government will take immediate steps to set up the Commission, which will independently perform its assigned tasks.
- The present Privatisation Board will be abolished with the setting up of the new Privatisation Commission and the board's chairman and members will automatically become the chairman and members of the new body.
- It is stated in the objective of the new legislation that the Privatisation Board "does not have adequate power to quickly sell out the state-owned enterprises as it was established by an executive order of the government."
- The new law empowers the Commission to adopt any alternative means to sell out the state enterprises "if tender and re-tender fail to get a successful bidder". The

Commission will need government approval in selling out an enterprise only f its estimated tender value stands at Tk. 250 million or above.

- "If necessary, it will take steps for the commercialisation of an enterprise."
- In case of any obstacle to the denationalisation process, the high-powered new privatisation body can take any necessary legal and administrative actions to remove the hurdles.
- Armed with its sweeping powers, the Commission can take over any of the denationalised enterprises if the conditions of agreement are not followed.
- It will even be able to take punitive actions against those not fulfilling the conditions agreed upon in transfer of the public property.

9. International Experiences in Respect of Privatisation

Privatisation and private sector development is a difficult job both in the developed and in the developing world. Countries that are fully committed to implement the privatisation process have not yet fully succeeded even with best of intentions. Globally, conversion or sale of SOEs to the private sector is occurring on a scale that few could have predicted ten years ago. After all, it is the only way to gain competitive advantages locally and internationally in the present open market regime. Over 10,000 SOEs in more than 100 countries have been sold to private interest in recent years. Between 1965 and 1992, the number of jobs in the manufacturing and service sectors doubled from 660 million to almost 1.3 billion. Most of the new jobs were created in the private sectors of the developing world. Such a favourable economic environment could allow developing countries to grow by 5-6 per cent per yea, raising their share of world output from around one sixth to a third by 2020. A stable international economic environment is increasing flows of private capital to developing countries, and it is expected that world trade will grow at 6-7 per cent a year.

Studies have pointed out that because of the weak economy and the continuous large stress of SOE losses on its economy, time has become critical and Bangladesh can no longer afford to delay the privatisation process. A master plan and a rolling action plan for privatisation must be prepared. Bangladesh may follow the Malaysian model in preparing the plan.

Some techniques of privatisation are followed in Malaysia. These are sale of shares or partial privatisation, selective privatisation, management privatisation, contract privatisation, leasing privatisation.

The public education and public awareness may be structured along the lines of the Sri Lankan model. Three types of techniques were adopted in Sri Lanka. They are:

i. complete or partial transfer of ownership,
ii. joint ventures and
iii. management contracts.

Broadbasing of the enterprises and sectors for privatisation, as well as the modalities for it, may be done according to the Pakistani model. Winning over the support of the labour unions (and, to some extent, the bureaucracy) may be accomplished by using the Pakistani model. The methodologies for implementation of the privatisation programme in Pakistan are:

i. Widespread ownership, special treatment for management,

ii. total transparency in the process of sale and transfer or giving autonomy,
iii. public awareness and support, and
iv. thoroughness in preparation, and utilisation of the services of outside consultants.

We can take lessons from post-1979 and post-1991 East Germany and UK (where like Bangladesh almost all enterprises were nationalised). The policies that these two countries followed are given below in brief:

a. Proper evaluation was made of the whole spectrum of services and other sectors, which were required and could be sustained in a technological and competitive world.
b. Unsustainable industries were simply closed down.
c. All bad and fictitious loans (like that of some of our NCBs and SOEs) were written off.
d. Management was totally restructured -- surplus, out-of-date and inefficient staff were sacked or pensioned off. Experienced CEOs and other key staff members were hired even from abroad whenever it was felt necessary.
e. All assets and liabilities were realistically re-valued. The balance sheet of the enterprises was made TRUE or FAIR in real terms. The phrase that was used at that period was "make it LEANER or FITTER".
f. The restructured LEAN and FIT companies were made profitable in no time and they were sold to the public as profitable 'going concerns' through stock exchanges at a premium. Almost all of them were OVERSUBSCRIBED. This saved both the company and the country.
g. Well known success stories of privatisation in UK were the BT, British Steel, BA, British Coal, Electricity, Water, British Rail.

The privatisation process will benefit in a number of ways if formal academic training in higher management is imparted to the officers in the SOEs. The expected improvement in management and operation should make the enterprises more attractive by the time they are offered to the prospective buyers. The absorption of a modern management philosophy should also substantially lower the resistance among these officers to privatisation. Since there is an agreement that some of the infrastructure-related enterprises may have to continue under state ownership, better management of them can help reduce their losses and perhaps make them ultimately profitable.

The policy-making, management and administrative acumen needed in the CEO of an enterprise is inadequately served by the present practice of inducting joint secretaries and additional secretaries as chairmen, managing directors, directors general, etc. in the SOEs. The Indian and Pakistani models of appointing former secretaries to those positions may be worth emulating.

Many large infrastructure services across the world have not always been public. In a few countries, infrastructure companies have always been and still remain in private hands. This is the case in the United States. With a few exceptions such as water supply and sanitation services and some railways taken over by the government following their bankruptcy, most infrastructure companies have always been private. More and more companies are opting for the private sector for new infrastructure as well as handing over existing ones. Postal services and municipal services can also be effectively transferred to the private sector.

Even India has decided to fully deregulate and decontrol her petroleum and natural gas sector by the end of the century. The aim is to meet the ballooning demand for energy. India's overall investment in the hydrocarbon sector during the next 15 years is projected at US$120-150 billion. So the government is moving to open up the whole sector.

One of the threats in the development of international business during the 1990s has been the globalisation of the utility industries providing the essential services of power, light, gas, water, telecom and communications. These industries have found a global role in the 1990s. The need for capital both in the developed and the developing world is so great that governments content themselves with what has been seen to be their more natural role, namely the rational, economic regulation of utilities and services.

Opening up of utility markets to private ownership and competition seems to have gathered pace. This is a great spur to the change in ownership and control of utilities both in the developed and the developing countries. As this decade ends it is increasingly clear that whatever the reservations some countries might have about privatisation and foreign controls, continued state ownership of these industries is no longer an option. The changes underway appear to be irreversible.

10. Pragmatic and Implementable Recommendations with Justifications on both short- and long-term Basis

Privatisation does not mean only transferring the liability of the state to private shoulders -- it means privatisation of over-all economic activities having a positive impact on growth and development in order to achieve competitive efficiency. The proposed Privatisation Bill 2000 that is awaiting parliamentary clearance is a step in the right direction to ensure sound growth of the economy (see chapter 8). However, for speedy and successful privatisation, an appropriate and facilitative political environment must be ensured; the necessary strategic, institutional, organisational, administrative and legal measures should also be taken. There should also be appropriate research facilities to evaluate national and international privatisation experiences and ensure the necessary flow of relevant information.

Measures to ensure appropriate political environment for privatisation

- Negotiation and transaction with fairness and honesty,
- consistent support for privatisation,
- strengthening cooperation between the bureaucracy and the business community,
- defusing tension between the bureaucracy and the business community,
- curtailment of corruption in the privatisation process, and
- introduction of programmes to promote productivity of the economy (public and private sectors).

Administrative measures

- Establishment of a privatisation unit within the Government administration and providing it with sufficient authority to accelerate the privatisation process and make it successful. This has been proposed by Parliamentary Commission for Privatisation,
- Privatisation Board/Privatisation Commission must be made a one-stop service organisation with the authority to take over the SOEs ear-marked for privatisation,

- Simplifying the privatisation procedure, and drastically reducing bureaucratic interference and red-tapism.
- The Privatisation Board needs to evolve some new mechanisms to develop backward linkage industries to help the readymade garments sector survive the post-2004 competition.

Strategic measures

- Co-ordinating the privatisation policy with other economic and social policies.
- Effective utilisation of foreign aid to strengthen the private sector's performance.
- Expanding and improving the stock market.
- The privatisation process should be accelerated with a work plan and phased time-table for accomplishing the set targets. Privatisation of highly loss-making SOEs related to the industries and the utility sectors should be undertaken on a priority basis.
- There can be a limit determining the extent to which the private sector can take on the responsibilities of the public sector. There should be a mixture -- a joint private/public sector.

Institutional measures to ensure scientific information about national and international experiences

- Evaluation of the privatisation policies.
- Studying and learning lessons from other Asian countries.
- Researching the labour/employee aspects of privatisation.
- Research on general performance of the industrial sector.

Organisational measures

- Steps should be taken to encourage more buyers and better bids.
- While accepting bids, the highest quoted price should not be a consideration.
- Specific and adequate safety net programmes including attractive packages may be undertaken to allay fear of retrenchment of workers.
- The proposed Privatisation Bill should be widely discussed outside and inside the Parliament.

Legal framework

- Introduction and enforcement of modern corporate laws, share bidders' rights, transparent free market policies, etc. should be ensured to pave the way for privatisation.

Conclusion

The SOE's – whether they are in the jurisdiction of least developed, developing or even developed countries – have, without a microscopic exception here and there, proved to be disastrous failures because of managerial inefficiencies, lack of accountability, wrong calculations in demand and supply, improper control of cost effectiveness and, above all, interference by politicians and trade union leaders.

As a result by the end of the century -- especially against the backdrop of the innumerable economic failures of communism – entrepreneurs, operators and decision-makers of almost all the countries agreed, *en masse*, to get rid of these colossal losses by privatising the SOEs. The *modus operandi* of this gradual process has taken different shapes in different countries, which have been elaborated in our paper. Our paper has also shown ways and means as to how, without disrespecting and without harming the involved interests, privatisation can be successfully implemented in our country.

The only thing that we consider important is: the total commitment of decision-makers and politicians. If we really want to privatise our loss-incurring, or even profit-making, SOEs, we must get sincere political commitment and assurance of continuity of the same from the government that takes over the helm of the country. Once this is obtained, minor obstructions like the procedural details and objections from the vested interest quarters like the trade unions and bureaucrats can easily be overcome.

If there is success on this front, there are more than enough grounds to believe that the contribution of the private sector to our national GDP, human resources and productivity will show an upward trend.

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END/TA/ (8,120 words)