

Public Enterprise Reform (through Privatization) in Bangladesh and Some Suitable Strategies

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***Abstract:** Inefficiency, poor productivity and perennial losses of public enterprises have induced most of the countries of the world to reform their public enterprises. As a remedy to accommodate the colossal losses of public enterprises reducing the enormous liabilities imposed on the government's revenue, privatization programme emerged throughout the world between the 1950s and 1970s. In Bangladesh, internal political and economic factors as well as some external factors contributed to the emergence of privatization programme in mid seventies. Unfortunately the outcome of privatization programme in Bangladesh has not been pleasant everywhere. One of the reasons, according to some developmentalists behind such contention is that privatization has been driven by political logic more than rational economic imperatives in the sense that it was used to serve the political requirements of the successive regimes. On the basis of previous performance and the politics of public enterprises reform, the present government has taken conservative attitude towards wholesale privatization of state-owned enterprises. The main focus of this article is to identify the factors, which have influenced public enterprises reform in Bangladesh analyzing the rationality and impact of privatization programme and the strategy applied so far in this connection. An attempt is also made to suggest some alternative strategies to carry on the public enterprises reform successfully in the days to come.*

Introduction:

Public enterprises reform, as in most developing countries, is a much-debated subject in Bangladesh. Inefficiency and inexorable losses of public enterprises have induced most of the countries of the world to privatized their public enterprises. The poor performance, inefficiency and financial losses of public enterprises of Bangladesh places a fiscal burden, diverts limited resources from growth-enhancing public spending to unproductive subsidies, weaken the financial system and reduces country's industrial competitiveness. Keeping pace with other developing countries of the world, Bangladesh launched the privatization programme in mid seventies as a remedy to the inexorable losses of the public enterprises.

In spite of relentless and sincere efforts of the successive governments to lead the privatization programme, the programme has achieved very

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limited success. Around 1022 public enterprises (small, medium and large scale) have been privatized between 1976 - 2008.

Unfortunately the performances of a sizable portion of privatized enterprises in our country have not been pleasant. Some of the privatized enterprises have to face closure immediately after transfer to the private sector. The political analysts and economists focus much on the unscrupulous and hasty execution of privatization process, as the cause of such negative outcome.

Most importantly, it must be recognized without pretention that public enterprises reform through privatization is a political exercise and not only an economic one. To make desired progress, what is needed in Bangladesh is "political courage and initiative" in addition to "political willingness and commitment". This article explores the factors, which have influenced public enterprises reform in Bangladesh examining the rationality of privatization program and analyses the suitability of strategies adopted on this point.

2. Evolution of Public Enterprise Reform and the Policy of Privatisation in Bangladesh

Bangladesh inherited basically a private sector dominated economy at the time of independence in 1971. However, the devastation caused by the War of Liberation left the economy of industrial enterprises and commercial establishments damaged and abandoned by their formal non-local owners and managers.

Immediately after independence, the government tried to get the economy moving by restarting abandoned enterprises and by providing entrepreneurial support in a period of chaos and uncertainty. The circumstantial compulsion to take over the management and the spirit of socialism induced the government to nationalize all abandoned factories, commercial enterprises and financial institutions having assets of worth more than 1.5 million along with the entire jute, textile and sugar industries irrespective of their ownership. This drive enhanced the government ownership of fixed assets from 34% to 92% of the modern industrial sector. A total of 725 industrial, commercial and financial units were nationalized under the Presidential Order 16, 26 and 27 and put under management of 10 public sector corporations. This nationalization virtually restricted the private sector only to the small-scale industries. But within a few years, the adverse results of massive nationalization

became evident. Corruption, indiscipline, inefficiency engulfed the public enterprises which suffers gigantic losses.

After a political changeover in 1975, new government came and took reversal policy. In 1976, the government had taken economic liberalization policy by which public enterprises had been denationalized. At that time substantial deregulation has been taken which ushered a new arena for the private sector to participate in the economic spheres. The privatization process got momentum between 1976-81, when more than 200 industrial enterprises were divested (Akram, 1999). In 1977, when 10 of the 18 industrial sectors exclusively reserved for the state were opened for the private sector, the privatization of the country gained a new vigour. The new military government strongly influenced by World Bank and IMF turned increasingly to market liberalization and privatization.

The most significant move in the privatization process occurred in 1982 with the announcement of New Industrial Policy (NIP). In fact, NIP of 1982 is considered as the landmark in the history of privatization in Bangladesh, which was designed to expand the private manufacturing sector offering liberal incentive and concession to the private investors and committed to reducing the size of public sector through divestment of public enterprises in a phased manner irrespective of their profitability. As an outcome of NIP, 1982, 650 enterprises were disinvested or denationalized. Thus Bangladesh's economy was further liberalized under another new military regime of General Ershad (Akram, 1999).

In order to encourage foreign private investment, the foreign private investment (Promotion and Protection) Act, 1980 was promulgated and a "one-stop" service agency, i.e. Board of Investment (BOI), was set up, commencing its operations in January 1989. The government announced the Revised Industrial Policy (RIP) in 1986 with a view to further expanding, relaxing and strengthening the measures required providing further impetus to the privatization process through a deliberate decentralization program. In 1986, however, the 1982 policy was reformulated, restricting the state's scope for intervention and many public sector enterprises were put into a holding company as joint stock companies. These subsidiary companies tried to sell shares as part of what the government called 'the 51-49 Plan', in which government retained 51 % of total shares in order to maintain overall control.

The government's strong commitment towards rapid expansion of private sector through progressive deregulation, liberalization, trade policy reforms and encouraging foreign private investment was reiterated through the declaration of yet another Industrial Policy in 1991. Indeed, the privatization of the loss making public enterprises was one of the major objectives of the IP of 1991 in order to increase the efficiency and productivity of industrial sector. During 1991-1996, only 13 public enterprises have been privatized.

Awami League government remained committed to the previous privatization policies, in the belief that public enterprises in Bangladesh were inefficient and under-utilized. World Bank reports (1993, 1995, 1996a, 1996b, 1996c) were influential in shaping political opinion. The government promised donor agencies an intensification of privatization (The Bangladesh Observer, January 1, 1997) but from 1996-2001, only nine small public enterprises were fully privatized, again falling short of expectations. Although the re-election of BNP in 2001 did not change government policies towards privatization, these policies have created intense political debate: public sector problems and the merits or otherwise of private ownership are widely discussed throughout Bangladeshi society.

The government, advised and financed by the World Bank, paved the way for wholesale privatization by promoting an 'enabling environment' which included liberalizing foreign trade, relaxing exchange controls and restructuring import tariffs. As part of the preparations of privatization, ADB, a sister organization of WB, financed the Bangladeshi government's public sector redundancy programme, which was called 'Improvement of Labour Productivity in the Public Sector Enterprises'-- or, in common parlance, the 'Golden Handshake Programme'. Under this programme, a huge number of workers were laid off from selected public sector enterprises to enable the enterprises to be sold privately with less worker resistance. More recently, in 2003, approximately 23,000 workers lost their jobs due to the closure of the Adamji Jute Mills, the largest in Bangladesh (Uddin, 2005).

In between December 2006 to December 2007, six public enterprises were transferred to the buyers. In 2007-2008, government designed comprehensive program to privatize 26 public enterprises and in the mean time tender has been floated for 10 enterprises and the remaining are now lying at different procedural stages.

The present government after coming into power has hinted at their conservative attitude towards wholesale privatization of public enterprises because of the disappointing performances in the privatized industry sector rather it has vowed to encourage the private sector set to set up new industries in future. The new Industrial Policy-2010 has been announced keeping the Vision 2021 of the present grand alliance government insight envisaging for 10% annual growth by 2017. The new Industrial Policy has evoked mixed reactions from economists and business leaders. Some hails the policy, which replaces the 2005 one after it got a go ahead from the Cabinet, while some grills the government for its stand on continuing with state owned enterprises (SOEs). In the new Industrial Policy 17 sectors has been identified as controlled industries and four sectors as preserved such as arms and other military equipments, atomic power, security printing and technology adoption for forest and protect forestlands whereas new investment will require special approval. To provide bank loans, some sectors are identified on priority basis. The economists, however view that the policy will give leeway to non-profitable state firms to reach profitability while discouraging privatization of "profitable" state enterprises (The Financial Express, September 6, 2010). Special importance is given on public-private-partnership (PPP) to encourage foreign investment and to accumulate capital for rapid economic growth (The New Nation, September 7, 2010).

3. Rationale and Basic Features for Public Enterprise Reform in Bangladesh

3.1 Rationale for Public Enterprise Reform in Bangladesh

The question of privatization arises because of the evident failure of public enterprises. Those in favor of privatization cite both the following reasons for privatizing public enterprises in Bangladesh.

- Economic Reasons

The economic reasons are that it brings about efficiency gains and it reduces the state's fiscal deficits by asset sales.

- Political Motives

The political motives are to reduce the role of the state in the economy, appease the international donor community which is calling for market oriented economic development, curb the excessive demands of public sector employees and get rid of the

nomenclature associated with operating and managing public enterprises.

3.2. Basic Features of Public Enterprise Reform in Bangladesh

- Highly politicized and bureaucratic i.e. more process and rule oriented rather than result oriented.
- Bureaucratic rule bound controls are maintained and stakeholders opinions are largely ignored because internal decisions are often politicized.
- The lack of financial accountability and transparency and immunity from the financial discipline of markets and the scrutiny of legal institutions in public sector enterprises are considered major blocks to performance.
- Public enterprise activity is around 6 percent of the Gross Domestic Product (GDP) and their fixed assets represent 25% of Gross Fixed Capital Formation.
- In 2003-2004, the annual losses of the public sector approach US\$ 250 million, which is equivalent to 30% of the country's annual project disbursement aid and nearly 1% of its Gross Domestic Product.
- 90% of the public enterprises have borrowed highly from the nationalized commercial banks. There are nearly 300 public enterprises.
- These firms are organized into 39 corporations that are umbrella entities; four nationalized banks; three insurance corporations; two agricultural bodies and three development financial institutions (Akram, 1999).
- According to the governor of the Bangladesh Bank, Tk. 5000 crore of default loans was lying with 156 business houses. 75% of the total bank loans of over Tk. 13,000 crore were held by 1800 persons, and just 10 defaulters were holding back nearly 300 crore taka. The number of willing defaulters was higher than the people in real trouble (BSS 2002).
- Taking full advantages of successive governments privatization and liberal economic policy, a total of Tk. 1100 crore-bank loan

has been pocketed by a group of 20 business houses between 1975 and 2001 (Monem, 2007). Between 1991 and 2001, a total interest of 5000 crore Tk. Had been written off in the same of encouraging privatization and public sector investment (Bangladesh Bank 2002).

4. Dominating Factors of Public Enterprise Reform through Privatization

4.1 Domestic Factors

4.1.1 Dissatisfaction of citizens regarding diminishing performance of Public Enterprises

The dissatisfaction among citizens about the diminishing performances of Public Enterprises especially public utilities has been increased gradually. The loss of public utilities in Bangladesh arises not because public utilities are forced by regulation to produce a level of output, which can not cover its long run average cost. The public utilities incur losses due to system loss, corruption, excess employment and inefficient management. Once upon a time DESA, WASA, T&T, PDB were the name of harassment to the citizen. The inclusion of private sector in utility sector creates competitions among utility service providers, which reduces the production cost and increases customer welfare. And by doing so, private enterprises have already earned citizen's appraisal because of their commitment, transparency and effective management system.

4.1.2 Inefficiency in Public Enterprises

In Bangladesh, private enterprises are more efficient than public enterprises in running industrial enterprises. It is evident from Table-1, which shows that the number of profitable units under private ownership is significantly higher than those of the public enterprise. This gives an indication that private enterprises are more efficient than public enterprises.

Table-1: Profitability of Private Enterprises compared to Public Enterprises, 1989-93

Sectors	Private Enterprises			Public Enterprises		
	Total Units	Profitable Units		Total Units	Profitable Units	
		Number	Percentage		Number	Percentage
Textiles	19	10	53	42	9	20
Engineering	16	22	75	20	9	43
Food & Allied	22	13	59	21	10	48
Pharmaceuticals	16	13	81	23	14	61
Miscellaneous	48	41	85	53	26	49
Total	121	89	74	159	68	43

Source: Privatization and Adjustment, Report no. 12318-BD, World Bank, 1994.

4.1.3 Continuous Bleeding of Economy

Public enterprises are sources of continuous bleeding of the economy of our country. A sizable portion of our GDP is being utilized each year to subsidize the loss incurring enterprises. The total losses of loss incurring enterprises have increased over the year. At the beginning of 1980's, these losses constituted only 0.25% of GDP, which has increased steadily over the years and reached nearly 2% of GDP at the beginning of 1990s. And if estimates include T&T, Railways and Postal department, the inclusion of these sectors may raise the estimate well above 3% of GDP.

Public enterprises receive direct state subsidies to keep them alive. According to Bangladesh Economic Review, from the financial year of 1990-91 to 1997-98 for keeping 11 public corporations such as BCIC, Bangladesh Sugar & Engineering Corporation, BIWTC, BJMC, Rajshahi Development Authority, Bangladesh Freedom Fighter Welfare Trust, Bangladesh Inland Water Transport Authority, BSCIC, REB, Bangladesh Handloom Board and Bangladesh Sericulture Board, the government has to pay 14,994.5 million taka. The nation can no longer afford such abuse of taxpayer's money. If the subsidized money were used in development work, the socio-economic scenario of the country would have been different.

4.1.4 Revival of Banking System from enormous Liquidity Crisis

Our banking system has reached on the verge of ruin repeatedly financing these losses making public enterprises, which remains largely unpaid.

Some 90% of public enterprises financing has been borrowed from the nationalized banking system. Total loan outstanding up to December 1997 to public enterprise stands at Taka 4298.70 crore with the default loan for Taka 1505.73 crore. This huge amount of outstanding and default loan of public enterprises created enormous liquidity crisis in our banking system. So in order to revive our banking system, which has been badly ravaged by the rampant borrowing of the public enterprises, there is no alternative to avoid the responsibility of the public enterprises, at least of loss incurring the public enterprises, from the shoulder of the government.

4.1.5 Technological Backwardness in Public Enterprises

Public Enterprises have been suffering from serious technological backwardness. In order to make a technological breakthrough in manufacturing sector in Bangladesh, leaving these enterprises to the private sector is a good potion. Perennial huge losses of public enterprises have discouraged the government or donor agencies to allocate funds for acquiring modern technology in these enterprises.

4.1.6 Reducing Budgetary Deficit

In order to subsidize loss-incurring public enterprises, government has to face huge budgetary deficit each year, which fuels inflation in the economy and becomes obstacle to growth. Adoption of the strategy of privatization can help the economy get rid of such budgetary pressure and attain macroeconomic stability consecutively.

4.1.7 Generation of new sources of Capital Investments

The revitalization or development of capital markets, increase in domestic investment, return of flight capital and inflows of external resources have been one of the important achievements of privatization. All these along with the availability of cash from the sales of public enterprises are expected to help mobilize to greater resources for investments and enhance the prospect for higher medium term economic growth.

4.1.8 Poor Management

Inefficiency and poor management are the common allegations against public enterprises. In public enterprises, decisions are mostly taken on political ground or personal ego rather than economic rationality, which

are frequently practiced in bureaucratic management. Such decision serves as the basis of poor performances of public enterprises. Privatization can ensure decision making from purely economic rationality rather than political consideration. In the private enterprises, the managers are supposed to have quick decision making ability under uncertainty and risk as well as commercial prudence as opposed to their counterparts working in the public enterprises. These distinctive privileges of private enterprises facilitate their earning more success and efficiency than which is possible in public enterprises. Moreover, in private enterprises initiative, creativity and sincerity of performances are financially rewarded which leads to economic efficiency. But absence of such provision in public enterprises leads to inefficiency in this sector. So for improvement of service delivery as well as management system, privatization is a viable option.

4.1.9 Political Parties

In Bangladesh, the policy of nationalization and the policy alternative of privatization provide the same kind of political advantages for the ruling politicians that are perceived to be endemic in public enterprises. In the name of public enterprises development, public enterprises are deliberately under-priced to reward groups, which extended support to the ruling politicians. Public enterprises reform through privatization in Bangladesh has created more avenues for the ruling politicians to distribute patronage among their friends and supporters. So the political parties' particularly ruling party's intention as well as interest in Bangladesh plays the most influential role in public enterprise reform.

4.1.10 Bureaucratic Role

A section of bureaucrats opposes public enterprises reform mainly because their interest is directly affected or they fear potential retrenchment to their long established position following privatization. For instance, government faced sporadic bureaucratic resistance in the form of non-cooperation while implementing its 49-51 plan of turning the public industrial enterprises into holding companies. This was an alternative strategy of privatization replacing mostly resisted outright sale strategy. The move was termed as an important step towards privatization in practice. It was an effective strategy to get over labor and bureaucratic opposition. However, the bureaucratic inaptness and obstructionism was there at the implementation phase. A group of corporation bureaucrats stated that they knew this 49-51 plan would create more chaos and

confusions because of the involvement of the too many parties. Politicians often manipulated the privatization process for political advantages and forged a 'coalition of convenience' with the supportive senior bureaucrats having collusive interests to tackle bureaucratic opposition to privatization.

4.1.11 Labour Elite

Wages of public enterprises are unrelated to productivity and there is little doubt that public enterprises are highly overstaffed. Such excessive employment in the public enterprises is based on a comparison of public enterprises' output-employment ratio prior and after nationalization. Public sector hiring is rarely based on competition, ability, education or merit rather workers are hired on the basis of rationalism, family relationships and personal ties. Public enterprises are beset with problem of virtual workers: payrolls of public enterprises list workers who do not exist. Someone else collects their wages. Therefore, from the viewpoint of efficiency gains, there is justification for cutbacks. To protect such undue advantages, labor elites opposes privatization attempts of public enterprises, which are considered as great challenges for public enterprises drives.

4.1.12 Trade Union

Labour resistance is an obvious and common phenomenon, which caused frequent slow-downs or retreats from declared privatization programmes under successive regimes. Trade unions of Bangladesh are quite militant. Public sector employees are highly organized and arguably the most politicized faction of the working class. Public sector wage increases, as a result of apex trade union bargaining with the state and the employers' organizations act as a trendsetter for the private sector. Generally trade unions are strong and they can turn violent for trivial reasons. Work stoppages, strikes, lockouts and sabotage of production, violence and terrorism characterize industrial relations in Bangladesh. The apparent militancy of trade unions is not necessarily in the interest of the working class rather than they preserve and protect the union elites and their political patron. Successive regimes used various political devises to ease the political discomfort arising out of trade unions' resistance to privatization. In order to make privatization of public enterprises easier, labor laws must be reformed.

4.2 External Factors

4.2.1 The Policy of WB, IMF and ADB

In the third world countries, the market oriented policies such as deregulation, privatization, and liberalization were imposed by the powerful international agencies like WB, IMF and ADB, usually as a part of larger structural adjustment packages favoring private business interests. In Bangladesh, privatization has been imposed by the external factors, particularly by WB and IMF, even though the conditions for privatization were not necessarily appropriate. Basically privatization occurs in the countries characteristics by 1) higher fiscal pressure on government, 2) higher dependency on loans from WB and IMF, 3) a large share of public enterprises in total investment and 4) lower long-term growth. Bangladesh is largely dependent on loans from WB and IMF, so it is obliged to implement development partners' agenda of privatization.

4.2.2 Global Economic Trend

As globalization of the world economy is taking place, to keep pace with other countries of the world, the economy should be made more market oriented. Privatization is right move to this end.

4.2.3 The rise of Neo-liberal critique of State Intervention

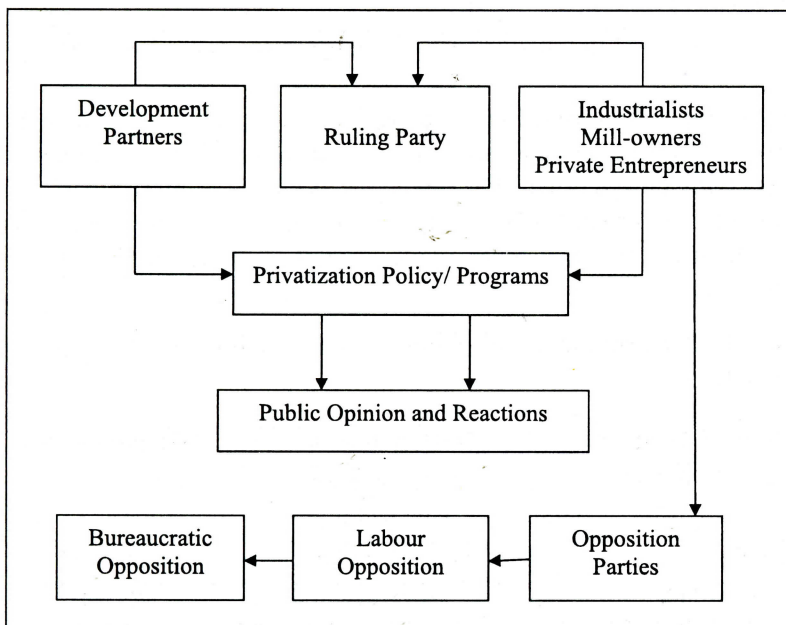
In advanced capitalist nations, the emergence of a state-centered economic approach which was introduced and nurtured by them during the 1950s and 1970s reflected the problem of market failure and the growing demands for citizen's right whereas in developing countries, this approach became the pivotal policy option to ensure national development, wealth distribution, employment generation and economic self-reliance. But the capitalist block by contrast started propagating liberalization, less government intervention and privatization that were considered to be panaceas by the proponents of neo-liberalism. They particular emphasis to privatization as a means to achieve improved performance of the erstwhile public enterprise in terms of profits, efficiency, employment generation and good governance. The crucial goal of privatization policy was, therefore, to liberate economic factors from politics and to improve the deficiencies of the public enterprises caused by politics and political maneuvering (Monem, 2006:23). In Bangladesh at the outset, the privatization drive was and still is intensely a political process.

5. Assessment and Effect of Public Enterprise Reform in Bangladesh

In many developing countries, privatization process is incomplete. Complete privatization is difficult to attain; however, while many developing countries have moved fast, Bangladesh has already been relatively slow in privatizing public enterprises.

Privatization is expected to stimulate national economy. But in Bangladesh, it is being used as a means to distribute patronage. The privatization program has been deliberately designed and executed to reward and promote the interest of key groups which developed into the main support base of three successive regimes. In fact, within any given country, privatization always evolves and operates within its distinctive political logic and environment. In Bangladesh, this environment is dominated by five important sets of actors: politicians, business interests, bureaucrats, organized workers and development partners.

Table: 2 Privatisation and its Dominating Factors



Source: Monem, Mobasser (2006): The Politics of Privatization in Bangladesh

In Bangladesh successive efforts of privatization has been taken by the politicians to turn the process of privatization to their own partisan advantages. The public enterprises are sold to well-connected persons

who funded their purchases with money borrowed from state-owned banks. In most of the cases, they declined to repay those loans and got away with these because they had close ties with politicians. In the name of privatization and private sector development, public enterprises are deliberately under-priced to reward groups, which extended support to the ruling politicians. Table -3 shows how textile mills are under-priced during the regime of democratic government in the name of privatization.

Table: 3 Under-valued Privatization of Textile Mills during 1991-96

Name of Textile Mills Privatised	Estimated Value (in Million Taka)	Sale Prize (In Million Taka)	Difference (In Percentages)
Kishoregong Textile Mill	326.9	95.3	-70.8
5 R Textile Mill	271.1	50.0	-81.6
Sinha Textile Mill	85.9	117.6	36.9
Madaripur Textile Mill	213.3	80.7	-62.1
Kohinoor Textile Mill	256.0	180.5	-29.5
Style Fabrics Textile Mill	19.4	12.5	-35.6

Source: Privatization Experience in Bangladesh, 1991-96, World Bank, Dhaka, 1997.

Due to imprudent and hasty privatization process, the privatized enterprises suffer huge losses and even a number of those have unexpectedly closed down. The mixed performance is observed in case of privatized enterprises, which was privatized during 1991-96. Table-4 shows the pre- privatization and post- privatization performances of that textile mills.

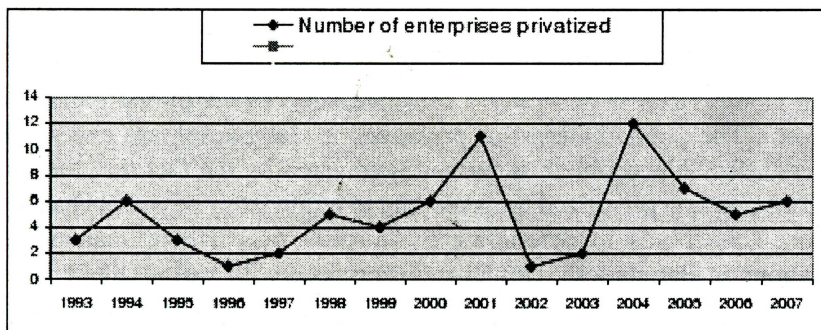
Table: 4 Performances of Some Textile Mills before and after Privatisation

Name of Enterprises	Pre- Privatisation	Post- Privatisation
Kohinoor Textile Mill	Losing just before Privatization	Now Profitable (Profit=Tk. 79 lac.)
5 R Textile Mill	Losing (Tk. 5.64 cr.)	Losing (Tk. 47 lac)
Sinha Textile Mill	Operational	Closed
Madaripur Textile Mill	Operational	Closed
Kishoregong Textile Mill	Losing (Tk. 64 lac)	Losing (Tk. 2.16 lac)
Style Fabrics Textile Mill	Losing (Tk. 13 lac)	Losing (Tk. 30 lac)

Source: C.A.E. Dowlah (1997)

Thus privatization in Bangladesh, like many other countries of the world, created more scope for the ruling politicians to distribute patronage among their friends and supporters. A World Bank study (1994) reveals that, around 305 public enterprises comprising industrial, commercial and financial institutions were put under public ownership by 1971-75. However, the size of the public enterprises has reduced considerably after the paradigm shift in the government's economic policy towards privatization. Since 1975 until 2008, 1022 small, medium and large scale industries of various categories have been privatized. Of those, 1002 have been sold to the private entrepreneurs and 20 through offloading shares.

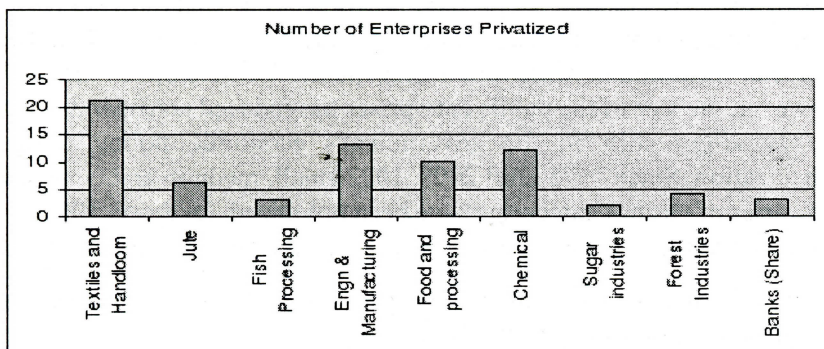
Table: 5 Year-wise status of Privatisation under Privatisation Board and Privatisation Commission (1993-2007)



Source: Brochure of Privatisation Commission, July 2007 Government of the People's Republic of Bangladesh.

Since the establishment of the Privatization Board in 1993 and thereafter the Privatization Commission in 2000, 74 public enterprises were privatized of which 54 were privatized through outright sale and 20 through offloading of shares. Privatization activities are gaining momentum. This reflects the increased participation of the private sector in privatization. While considering the sector-wise distribution of privatized enterprises, the privatized enterprises belong to textiles, jute, manufacturing, chemical, food leather and banking sector.

Table: 6 Sector-wise status of Privatisation under Privatisation Board and Privatisation Commission (1993-2007)



Source: Brochure of Privatization Commission, July 2007 Government of the People's Republic of Bangladesh.

The labour issue is generally a sensitive concern for public enterprises reform. The public enterprises privatized in Bangladesh are excessively overstaffed. The problem is further aggravated by the fact that the track record of many privatized units relating to redundancy payments has been poor. This trends to deteriorate the already poor labour management relations in Bangladesh. However, discussions with various stake holder groups, i.e. the trade union leaders, government officials, employers and researchers tend to suggest that the majority of the union leaders and workers are not in principle, opposed to privatization provided their interests are adequately safeguarded. Nevertheless, the gradual softening of the labour resistance does not suggest that they are less concerned about the outcome of the privatization process. Large-scale job losses resulting from lay-offs and retrenchment and closure of privatized units after divestiture and uncertainty about payment of adequate compensations etc. are the major concerns of the workers. All these remain very real concerns in Bangladesh and tend to be aggravated by a relationship of mistrust persisting among labour, government and private sector employers.

The success of privatization usually depends on the extent to which the mechanism for social dialogue effectively operates between workers and employers. Bangladesh needs to promote and strengthen social dialogue as well as to set up dispute settling machinery so that labour management issues can be settled through negotiation before the privatization process started.

6. Suitable Strategies for succeeding in Privatization in Bangladesh

The strategy of privatization tends to vary from country to country. To the economists in general a particular selection of a privatisation strategy depends on the condition of the economy and the strength of the private sector. In developing country, the strategy of privatization depends on the political imperatives of the ruling politicians. Ramandham identifies three types of privatisation strategies. The first concerns the ownership and includes total denationalization, joint venture and liquidation. The second relates to organizational changes to holding company structures and changes with the monolithic structures such as leasing competition and restructuring. The third and final group of measures is operational and comprises contracting out, incentive rewards, investment criteria, pricing principle, restoring to capital market and rationalization of government control (Monem, 2006:280).

In both developed and developing countries, the most commonly used strategy of privatisation are 1) sale of assets, 2) denationalization, 3) deregulation, 4) contracting out, 5) management contract, 6) lease, 7) Greenfield projects, 8) out sourcing.

According to the privatization Commission one or both of the following strategy are at present being followed for privatization in Bangladesh:

1. Direct Sale through International Tender: Local and foreign buyers may participate in much tenders. Association of workers, employees and officers of the tendered enterprises may offer bids for purchasing the enterprise. Direct sale of public enterprises has been the dominant method of privatization in Bangladesh. Successive governments preferred the strategy of direct sale of public enterprises to distribute patronage among the friends and supporters of the ruling party.
2. Sale by Public Offer of Shares: Under this method, governments owned shares in different companies and share of the public enterprises converted into public limited companies may be sold to the general public either directly or through the stock Exchange. A public enterprise running as public limited company may sell whole or part of the block holding to the public at a pre-determined price or may issue new public shares. The successful off-loading of the shares of a public enterprise involves many complex and sensitive procedures, particularly in Bangladesh, which need

careful attention. The 49-51 plan was envisaged in industrial policies of 1986 and 1991. But no attempt has been made to bring the plan into reality. Since the establishment of Privatisation Board and Privatisation Commission in 1993 and 2000 respectively the strategy of off-loading of shares has come into existence.

Table 7: Privatisation Strategy Ever-applied in Bangladesh (1975-2008)

No. of Public Enterprises Privatized (1975-2008)	By Outright Sale	By Off-loading Shares
1022	1002	20

Source: Brochure of Privatisation Commission, July, 2008 Government of the Peoples' Republic of Bangladesh

In Bangladesh, in case of privatization basically the political party in power applies the strategy of denationalization and divesture and through which public enterprises are handed over to the party supporters at a giveaway prize. On the other hand, the ruling politicians were reluctant in using the strategy of off-loading of share because raising operational efficiency through transforming public enterprises into public limited company might certainly attract more buyers and made the atmosphere more congenial for carrying out the privatization programme which might ultimately vitiated their intended purposes. Consequently, some privatized enterprises have failed to achieve expected outcome. So in case of stimulating the national economy, privatization is being used as a means to distribute patronage. To avoid such state patronized malpractice and to collect the fruit of privatisation, alternative strategy of public enterprise reform can be applied.

A recent World Bank report finds that the eastern and western regions of Bangladesh are facing unequal growth due to imbalance in infrastructure provision is instructive. So the development of infrastructure should be taken into consideration and equity and efficiency issues across socio-economic groups and should adopt appropriate pricing policies to encourage partnership. Infrastructure fund can invest in single or multiple sectors, Greenfield projects can operate existing infrastructure assets such as toll roads and bridges through long term concession agreements with public agencies. Traditionally, most investment in infrastructure has been publicly funded with about 70% of the total spending and the private sector has contributed roughly 20% to 25%, while official development assistances have financed only around 5% to

10% (The Daily Star, November 27, 2008). So the government should attract private financing in infrastructure through efficient financial markets which can provide funding at suitable terms and tenors, reliable and transparent investment and regulatory frameworks and project revenues that are predictable and ensure the payment of debt services and a reasonable rate of return on equity.

Donor agencies and government promoted privatization and provided subsidies to private entrepreneurs in the name of public-private-partnership (PPP). In order to fulfil the criterion of a partnership, there must be some ongoing set of interactions, an agreement on objectives and methods as well as a division of labour to achieve the goals.

For public enterprise reform through privatisation in Bangladesh, the successive governments have applied decentralization, divestiture or sale by public offer of shares. Besides these strategies, the government can take the following strategies into consideration as alternative strategy in the days to come.

1. Concession

Concession would be a strategy for private sectors inclusion in some of the public enterprises through which the operation, maintenance and investment can be delegated to private sector. For instance, a road concession is an arrangement under which, the owner of the road, delegates to a private entity (concessionaire) the responsibility for providing and maintaining a specified level of service to road users in exchange for the right to collect revenues from those users. Besides these issues inherent in a concession agreement, an operation and maintenance concession is similar in scope and approach to what is required and negotiated in atypical operation and maintenance agreement between private parties under a BOT (Build- Operate-Transfer) type arrangement.

2. Contracting Out

In this opinion, private sector is involved in the provision of certain goods and services but overall service management remains within the public sector. This type of contracts has been implemented in many countries like USA, Malaysia, Kenya, Indonesia, Chile etc with good records of success and it is often seen as a first step towards PPP. Contracting out create jobs in private sectors. The disadvantage is that government officials and ruling politicians often tend to give the contracts to their

business associations, friends and relatives. If such malpractice has been rightly handled, contracting out would be a viable option for public enterprise reforms in Bangladesh. Bangladesh Railway has already applied this strategy to a limited extent in Dhaka-Chittagong route and is enjoying significant success.

Case Study

Bangladesh Railway (BR) has introduced partnership for providing services to passengers and the outcome of this partnership is very positive. After service contract with a private sector organization, the quality of service of Dhaka-Chittagong route improves significantly. Subarno Express is an intercity service of Dhaka-Chittagong route, is the first experience of Bangladesh Railway, and is the better than other trains in Dhaka-Chittagong route. Under the contract, private sector partner provides all the services during travel time. As a result, customers are satisfied and there is no delay in travel time and the passengers enjoy travelling by this train than that's of others. For better service, passengers are to pay more, which is very insignificant.

Figure: 1
Comparison with Travel Time and Fare (Dhaka-Chittagong Route)

Criteria	Subarno Express	Godhuli Express
Fare (Chair Coach)	165/-	150/-
Travel Time	5.35 hrs. (7am-12.35am)	8 hrs. (2.40pm-10.40pm)

To reach Dhaka to Chittagong, Subarno Express needs only 5.35 hrs. While other intercity trains take more than 8 hrs. There is no halting way to Chittagong and vice-versa. This success story has inspired Bangladesh Railway to introduce another train named Subarno Express-2 in the same route. Not only that Bangladesh Railway starts operating this model in some other inter district routes.

3. Greenfield Projects

There are new projects usually built and operated by the private sector that takes on the commercial risk, political and exchange rate risk can sometimes be shared with the public sector. Such projects can take many forms, but the most common is build-operate-transfer (BOT). In this opinion, very usual in public works, the private sector develops finances and operates bulk facilities. Under a BOT, the responsibility of the concessionaire is not limited to the operation and maintenance of the infrastructure but it also includes a component of initial construction, upgrading or major road rehabilitation. Massive investment and consequent mobilization of private funding sources are therefore required from this company, which is to be repaid from the revenue collected from

service users. The BOT arrangement stresses the responsibility of the private entity during construction and operation of infrastructure and the transfer of the assets to the public entity at the end of operation period. The high initial investment required from the private sector and the consequent long concession period turn the distribution of risk between the parties into a key element of success in such schemes. Others forms of Greenfield projects include Build-Own-Operate- Transfer (BOOT), Design-Build-Operate (DBO), Design-Build-Finance-Operate (DBFO), and Build- Lease-Transfer (BLT).

Bangladesh can experience this Build-Operate-Transfer (BOT) strategy. To improve communication and to ease the nagging traffic congestion in the capital city, government can start construction of a subway. The underground railway system can be built on Build-Operate-Transfer (BOT) basis under the supervision of Bangladesh Railway.

4. Management Contract

Since the experience of transferring public sector enterprises directly to the buyers is dismal, practicing more management contracts system can carry out privatisation programme more rigorously. If the entrepreneurs, who have proven track of running the same or similar business, are given the management contracts, the public enterprises are likely to be turned into profit making state. Once these are in profit making state, privatisation programme can be launched more rigorously. Practising management contracts, one of the major impediments of the privatisation viz., opposition from organized labour can be handled more easily since such form of the privatisation does not alter the spirit of ownership. Moreover, the impact of management contracts system of public enterprises has been found very impressive especially in transport sector in Bangladesh.

5. Lease

In this form, a private company leases the assets of a utility, maintains and operate them, in return for the right of revenue. This leasing system can be a viable option for service improvement of public sector transport in Bangladesh. The advantages and disadvantages of the above-mentioned strategies of privatisation are shown in Table -8:

Table 8: Pros and Cons of different Private Investment Options

Options	Pros	Cons	Typical Duration
Management Contract	Gains in managerial efficiency	Gains can be difficult to enforce; public entity remains responsible for investment	3-5 years
Greenfield Projects (BOT, BOOT, DBO, DBFO, BLT, BOO)	Good way of getting efficient service delivery of bulk service, with private investment	Not a good solution if supporting distribution systems are in bad shape, or traffic levels are uncertain	15-30 years
Concession	Potential for high efficiency in operation and investment	Requires considerable commitment and regulatory capacity	25-30 years
Contracting Out	Can inject good technical expertise	Unlikely to greatly improve performance where overall management is weak	2-5 years
Lease	Commercial risk borne by the private sector, giving strong performance incentives	Administratively demanding; public entity remains responsible for investments	7-15 years

According to the report of Privatisation Commission, 76 Public Enterprises have been privatised so far since 1994 of which 56 are privatised through outright sale and 20 through offloading of shares. Surprisingly, most of the divested entities are being used for the purposes other than the promised one. Even in some cases, land is sold off after privatisation and being used in real estate purposes. Privatisation however, has opened up an avenue for interested corner an opportunity for mishandling and looting. In this context, Public-Private Partnership (PPP) may be a viable option for successful operation of loss making public enterprises. Table -9 shows some suitable strategies, which can be the alternative for outright sale and offloading of shares as ever-applied in Bangladesh in case of succeeding in Public Enterprise Reform.

Table 9: Suitable Strategies for Succeeding in Privatisation/Private Investment Options in Bangladesh

Strategy Options	Already in Operation	Probable Applicable Sectors
Management Contract	-----	*BRTA Licensing System *City Corporation/ Municipality Drainage and Sewerage System
Out Sourcing	*Bangladesh Bank (Class-IV employee) * Public/Private Enterprises (Driver,/Security Guard) *City Corporation (Cleaning and Beautification)	*In Public enterprises/ Government Offices in Class-IV employee (Peon, Cleaner and Driver, Security Guard)
Contracting Out	* Railway Ticketing System *Jamuna Multi-purpose/ Meghna Bridge Toll Collection System *Suborno Express (Dhaka-CTG Route) *Titas Commuter (Dhaka-B'baria Route)	*Private Railway Service *Ticketing System of BIWTC *Airport Terminal
Concession/Lease	*Sirajgong-Natore Road	*Dhaka-North Bengal Highway *Dhaka-Chittagong Highway
Greenfield Projects (BOT/ BOOT/ BOO)	*Subways in Capital City (Under Construction Process) *Metro Railway (In feasibility Test)	*Flyovers, Elevated Expressways, Monorail, Metro-Railway *Power plant *Exploration of Gas-field *Water Purification Plants *Container Depots *Deep Sea-ports

To meet the Millennium Development Goals (MDGs), the uses of innovative schemes like Public-Private-Partnership (PPP) is very essential for countries like Bangladesh. It is a matter of hope that the present government has brought the public-private-partnership (PPP) issue to the fore to augment and facilitate infrastructure investments. There are discussions about the government keeping a provision of take 50-70 billion under public-private-partnerships as infrastructure development fund in the ensuring budget. If handled with care and brought to action, this should catalyze total investment of \$4-5 billion in the infrastructure sector with very good upside on the GDP growth rate. However, there remain critical success factors such as identification and specification of the right as well as appropriate projects and partners in progress; participation or engagement of the private entities; appropriate legal backing; timely allocation of funds from both the entities and most importantly timely execution.

Like the infrastructure sector development, the present government has already declared a policy of allowing private sector power generation companies to set up, produce and sell power to the government. National gas and oil exploration business, shipping and vessel service, developing new ports and handling container service, airline operation in domestic route, tourism sector has been offered to private sector investment. Recent studies on sectoral reforms identified suitable privatization prospects in both roads and inland water transport system for contracting out the existing operations and maintenance functions to the private sector and these appear to be a mid-term possibility. All these public enterprise reform initiatives are taken not only to reduce the extra burden from the government but also to provide satisfactory service to the people.

7. Conclusion

The success and failure of public enterprise reform through privatization programme is largely dependent on any country's socio-economic condition and political commitment. In Bangladesh, economic and social policies are based on patron-client ties or vertical class relation. In order to benefit the small segments of the upper class and the middle class, the market mechanism is widely distorted by the state. In this context, to achieve a higher level of economic growth and fixed capital formation, develop its infrastructure and improve the quality of life of its people, the government must adopt and execute proper policies to privatize its loss mongered public enterprises challenging the existing status quo.

Proper design and implementation of privatization policy is needed to ensure that enterprises function efficiently after they are privatized. The change in the nature of corporate governance is more crucial to achieve better performance than the change of ownership of enterprises from the public sector to the private sector. In general, privatization programme should be implemented as integrated part of an authentic liberal economic order that incorporates fair law and their enforcement, fiscal and monetary discipline, competition and prudential macro-economic regulations and rewards productive endeavors. Before taking the final decision for privatizing any public enterprises, the Privatization Commission should take the alternatives strategies of privatization into consideration. Privatization of public enterprises in Bangladesh would have to be accompanied by a set of policies that ensure that entrepreneurs profit from productive endeavors, not at the expense of the public.

Privatization is not an end in itself but merely a means towards increasing efficiency and fostering economic growth and development.

The present government has taken conservative attitude towards wholesale privatization of the state-owned industries because of the disappointing performances in the privatized industry sector. But at the same time government vows to continue encourage the private sector industries. Public-Private Partnership (PPP) in this context is now a much talked about issue for both policy makers and the business concerned. So now it is the time to take the alternatives strategies of privatization into consideration for successful operation of loss making public enterprises as well as to turn the loss mongering public enterprises into profitable enterprises.

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