

## Privatization in Bangladesh: Challenges and Opportunities

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### ABSTRACT

*The aim of this paper is to critically examine the state of privatization in Bangladesh focused on the challenges and opportunities. Privatization is one of the slogans in the literature of NPM which emerged as a new approach in Public Administration. Despite the phenomenal expansion of privatization programs, the results differed from country to country. Privatization in Bangladesh has been facing a lot of challenges but it has ample opportunities for development through domestic and foreign direct investment. The paper is qualitative in nature and case study on Bangladesh. The study has been conducted by using secondary data, like daily newspapers, journal articles, research papers, magazines, and bulletins.*

**Keywords:** Privatization, Economic Development, Bangladesh.

### INTRODUCTION

Privatization is one of the discourses in the development of literature as the opportunity of the growth and development of countries all around the world. Despite the expansion of privatization programs, the results have been different from one country to another. Some could achieve the desired goals and some failed enormously. The reasons for their failure include structural constraints, inappropriate policy guidelines, imposed instruction, and ineffective implementation strategies (Amin and Khanam, 2018). However, the World Bank and the IMF have been gearing up the campaign of privatization for less developed countries (LDCs) to stimulate their growth and development (Amin and Khanam, 2018). The LDCs doing otherwise are sometimes debarred from crucial concessionary finance from these organizations and other northern aid donors. Some LDCs have adopted privatization programs of their own volition. Others have grudgingly done so owing to the pressure from the governments of industrialized countries through international donor agencies.

Privatization is, in reality, a component of structural programs based on notions of economic liberalization, free trade, competition and limited government intervention (Haque, 1999). World Bank claims that privatization brings more transparent accounting and improved economic performance and facilitates development goals such as increased

investment, GDP, productivity and employment (Amin and Khanam, 2018). This paper analyse the regime based status of privatization and its present challenges and future opportunities for economic development in Bangladesh.

### DEFINING PRIVATIZATION

Certain terms such as privatization, denationalization, and disinvestment are, on many occasions, used synonymously. Privatization is the transfer of ownership from the public sector (government) to the private sector (business). A transfer in the opposite direction could be referred to the nationalization or municipalization of some property or responsibility. Privatization includes state policies that shift from the public sector to the private sector the financing and supply of a good or service. The privatization process includes subcontracting of the supply and elimination of some of the operations carried out by this along with the implementation or the reform in the existing regulation (Páez and Silva, 2010). In a broad sense, privatization implies the transfer of a function, activity, or organization from the public to the private sector as described by Montes (2004).

The term privatization is also sometimes used to refer to government subcontracting a service or function to a private firm. It has also been used to describe an unrelated, nongovernmental interaction involving the buyout, by the majority owner, of all shares of a holding company's stock- privatizing a publicly traded stock.

### TYPES OF PRIVATIZATION

There are various types of privatization practice exist in the world. Some popular types are briefly mentioned here.

- **Contracting-Out:** The government contracts out with them for –profit as well as not- for profit organizations for the delivery of goods and services. Contracting-out is common especially in such services like public works and transportation, public safety services, health, and human services, parks and recreations services, etc.
- **Franchising:** The government gives a special monopoly privilege to a private firm to produce and supply some part of particular services.
- **Deregulation and Decontrol:** Public regulation” and “public control” are broad concepts in the sense that they define the various ways, in which the government may intervene directly to the economic agent. All type of “public controls” be abolished.
- **User Charges:** (Higher education, health services, cable TV, electric power, likes that) some types of goods and services can be either provided free of charge and financed by taxes or by the imposition of a fee or user charges to the individuals who receive benefits.
- **Grant System:** Grant and subsidies are financial or in-kind contributions to individuals or private firms by the government.
- **Voucher System:** It is designed to encourage the consumption of particular goods and services by a particular class of consumers. Types of voucher system are;
  - Tuition voucher
  - Medicare/Medicaid voucher
  - Childcare voucher
  - Housing voucher
  - Transportation voucher
  - Food voucher
  - Clothing voucher
- **Management Control:** Government may sometimes retain full ownership of public economic enterprises and/or other public facilities but transfer its management to a private firm.

- **Leasing:** Local government rents its trucks to a private firm for the solid waste collection in the city. In this case, management and operation are carried out by the private firm.
- **Joint Venture:** Privatization encompasses all practices aiming to reduce the role and scope of the public sector and to increase private sector activities in the national economy.
- **Built-Operate-Transfer (BOT) SYSTEM:** The system is quite simple and seeks to attract foreign capital. Direct foreign capital investment is encouraged to build infrastructure facilities, petroleum exploration station, etc within the developing, at the end of the contract, the facilities and establishment are transferred to the government.
- **Non-Profit Organization:** It, which are called “voluntary organization” or “philanthropic organization”, also provide some public goods and services.

### PRIVATIZATION IN BANGLADESH

After liberation in 1971, Bangladesh inherited an economy dominated by private sectors. The new government, led by Sheikh Mujibur Rahman was committed to socialism and nationalized the heavy industries that were previously run privately. It also faced an industrial ownership vacuum as fleeing West Pakistanis abandoned their industrial and commercial companies. The situation included all abandoned property within programs of state ownership of industry, agricultural self-sufficiency, import substitution, and industrialization based on state intervention and central planning. However, the inefficiency of running those firms adversely affected public investment and in effect, their losses consumed 30% of annual project aid.

Regime based Privatization:

#### The Era of Sheikh Mujib (1972-75)

Though Government intended to seize the abandoned enterprises and to over to the public, it 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 in a paralyzed state with much of the infrastructure destroyed and a large number of industrial enterprises and commercial establishments damaged and abandoned by their former non-local owners and managers (Amin and Khanam, 2018). The government tried to get the economy moving by

restarting abandoned enterprises and by providing entrepreneurial support in a period of uncertainty (Howlader, 2015). The government took over the management of all abandoned factories and commercial establishments. This was followed by large-scale nationalization schemes of the key large and medium industries banks and financial institutions. Private sector ownership in industries was allowed only to a limit of Tk. 1.5 million (Howlader, 2015). In addition to the pressing need for restarting the idle industrial enterprises, the nationalization move was also prompted by the ruling party's election pledge to pursue a socialist path of development in independent Bangladesh.

The nationalization program led not only to the transfer of ownership of the abandoned private enterprises of the Pakistani period but to significant enlargement of government ownership in the industrial sector, which shot up from 34 percent in 1969-70 to over 90 percent in 1972. According to a World Bank study (1994), around 305 state-owned enterprises (SOEs) including industries, banks, and financial institutions came under public ownership and control by 1974-75 (Amin and Khanam, 2018). Side by side, severe restrictions were imposed on both domestic and foreign private investments by officially disallowing large-scale industrial ownership and prohibiting foreign direct investments and international joint ventures within the private sector. But soon the government realized that nationalization was hasty and without adequate preparation for efficient management of the nationalized industries.

Nationalization of the Bengali-owned jute and cotton textile industries was an outcome of the ideological conviction of some members of the ruling party and of the handful of economists working at the Planning Commission during that time. The absence of a clear vision about the goals of the nationalization program, lack of trained and efficient management to run the SOEs, excessive over-staffing of the SOEs, rigid wage structures and controlled pricing policies, etc. turned the nationalized industries into loss-making concerns (Howlader, 2015). These concerns thrived on huge state subsidies which proved to be exceedingly costly to the national exchequer and caused the national economy to stagnate and suffer from corruption and operational inefficiencies (Amin and Khanam, 2018). Much discussion has taken place about the public sector performance, particularly about the losses suffered by the SOEs. One of the

studies, reports that the persistent losses by the SOEs were costing the national exchequer nearly one percent of GDP by 1991 (Howlader, 2015). This, among other things, provided the most emphatic argument for privatization in Bangladesh. A reversal of the policy of state ownership and control of industries began as early as 1974 and the size of the public sector declined significantly thereafter. What is ironical is that despite the gradual decline of the size of the public sector, losses suffered by the SOEs kept increasing every year, as noted below. Bangladesh's share in 1972 stood at 9.2% than in 1974 stood at 16.3% to say something about the share of public expenditure to GDP which by 1995/96 had risen to 18.3% (Amin and Khanam, 2018). State funds were also used in the provision of micro-credit under various state-supported initiatives, promoting integrated rural development, which also involved heavy public investments in rural infrastructure development (Sobhan, 1985).

It was apparent to the post-liberation GOB that, whatever ideological influence informed their approach to the role of the state, there was no way that they could continue to retain responsibility for the 725 enterprises inherited by them from the departed Pakistanis (Amin and Khanam, 2018). The original P.O. defining the scope of state investment in the manufacturing sector thus limited the take over of abandoned enterprises to those with fixed assets above Tk. 1.5 million. This involved 263 enterprises with total assets valued at Tk. 2630 million. This left 462 enterprises with an estimated asset value of Tk. 256 million to be divested to private ownership (Howlader, 2015).

The weakness in the performance of these ad hoc appointee managers was, as may be expected, mixed. Some performed quite well, given the extraordinary difficulties each enterprise faced at that time. Some performed badly either due to inexperience or malfeasance or both. The predatory tendencies of some of these managers were one of the compelling reasons of the then GOB to finally nationalize the most viable of these abandoned enterprises which could not be left to the mercies of such predators. The nationalized units were all units with fixed assets valued at more than Tk. 1.5 million. Many of these, such as the large jute and textile mills or the Karnaphuli Paper Mills owned by the Dawood group, made a major contribution to Bangladesh's economy (Amin and Khanam, 2018). It was thus imperative for the government to put such high production

potential within the institutional discipline of a public body that would be made accountable for the performance of the enterprises. 11 sector corporation was set up and the 263 now nationalized abandoned enterprises were distributed amongst these corporations along with 53 enterprises owned by EPIDC as well as 75 Bengali owned enterprises in the Jute and Textile sector and one Bengali owned sugar mill (Howlader, 2015).

The evolution of Bangladesh's privatization policy reflects both the outcome of regime changes in 1975 as well as the evolution in the thinking of the donor agencies on this subject. Under Pakistani rule, through the 1950s and 1960s state policy on the SOEs had remained pragmatic (Amin and Khanam, 2018). The pioneering effort by PIDC to found a jute industry in Pakistan led to the disinvestments of PIDC's stake to the leading Pakistani business houses of the period (Hexner). In later years, Karnaphuli Paper Mill, a large public enterprise was sold at a sub-market price to the Dawoods, Pakistan's leading business family. In the late '60s, some units in the textile and sugar sector were divested to Bengali entrepreneurs (Howlader, 2015). In the immediate post-liberation period policy for a brief period committed itself to establish the paramount of the state sector over the economy (Amin and Khanam, 2018). However, even during this period, we have observed that the paramount of the state in business activity was largely inspired by historical circumstance rather than ideology (Amin and Khanam, 2018).

The process of divestment of all these units not corporate in Presidential Order 27 thus began from 1973. Between 1972-75, 114 units, with a sale value of Tk. 41 million were divested. These were small units with an average unit value of Tk. 360,000 (Howlader, 2015). This process of divestment was stepped up in the second half of the 1970s with a decision to divest jute spinning mills and some specialized textile units on the grounds that they were not covered by the nationalization order of March 1972 which extended to only jute and textile mills (Amin and Khanam, 2018).

### The Era of Zia (1975-81)

After the political change in August 1975, the new Government declared a revised industrial policy, through which the public sector led industrialization strategy was abandoned (Amin and Khanam, 2018). Between 1975 and 1981, a number of important changes in the policies and

institutions were introduced (i.e. declaration of Industrial Investment Schedule 1976, withdrawal of the private investment ceiling in 1978, etc.) to broaden the scope for private sector participation in the industrialization process (Akram, 1999). The major elements in the policy to bring about a decisive shift towards a private sector driven industrialization during this period included (Momen, 2007): (i) elimination of ceiling on private investment, (ii) reduction in the reserve list of industries under the public sector and creation of "free sector", (iii) relaxation of investment sanctioning procedures, (iv) amendment of the constitution to allow disinvestment and denationalization of both abandoned and taken-over industries, (v) establishment of a Disinvestment Board in 1975, (vi) reopening of the stock market, (vii) shift to a floating exchange rate, and (viii) introduction of various export promotion measures.

The approach of the GOB in the second half of the 1970's during the tenure of the late President Ziaur Rahman, was to directly promote private entrepreneurship through an ambitious programme of term loans extended through the DFIs which had in turn been underwritten by loans from the World Bank, ADB and other donors (Amin and Khanam, 2018). This approach assumed the co-existence of an extended SOE sector with a proactive official policy to promote private enterprise. Total 255 enterprises were privatized under Zia era (Howlader, 2015).

### The Era of Ershad (1982-90)

When Ershad regime appears the Industrial Policy of 1986 were formulated during the military regime of Ershad which gave importance to the development of the private sector. These two policies were based on Western ideologies of privatization which were pursued by Margaret Thatcher and Ronald Reagan (Akram, 1999; IMF, 2002; Howlader, 2015). In the face of a political demonstration against its regime, Ershad government solicited western support by adopting its policy recommendations on restructuring of SOEs under the concept of 'structural adjustment' propounded by the World Bank and the IMF.

As donor agencies tended to make loan facilities conditional upon privatization, the government was left with no alternative option but to comply with the policy prescription of donors (IMF, 2002).

The World Bank in 1990 imposed conditionality to privatize jute mills under the BJMC (Akram,



1999). This was part of a wider set of conditions imposed by the government of Bangladesh. This involved closure of some publicly owned mills and privatization of the remainder (Amin and Khanam, 2018). After the Ershad regime, The most significant move in the privatization process occurred in 1982 with the announcement of the New Industrial Policy (NIP) (IMF, 2002). The Government introduced fundamental changes in the industrial policy environment and the adoption of various promotional measures, designed to accelerate the pace of private sector-led industrial growth. A number of large industries in the jute and cotton textiles sectors (33 jute mills and 27 textile mills) were returned to their owners under the auspices of the NIP (Momen, 2007).

In order to encourage foreign private investment, the Foreign Private Investment (Promotion and Protection) Act of 1980 was promulgated and a “One-Stop” service agency, i.e. Board of Investment (BOI), was set up, commencing its operations in January 1989 (Momen, 2007). The Government announced the Revised Industrial Policy (RIP) in 1986 with a view to further expanding, relaxing and strengthening the measures required to provide further impetus to the privatization process through a deliberate denationalization program. The RIP provisions also encouraged foreign private investment, allowed liberalization of imports, export incentives, and liberalization of fiscal and monetary measures (Howlader, 2015). The Government’s strong commitment towards the rapid expansion of the 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 (Amin and Khanam, 2018). Indeed, privatization of the loss-making SOEs was one of the major objectives of the 1991 policy in order to increase the efficiency and productivity of the industrial sector. Thus, the gradual but definite shift towards privatization policies continued throughout the 1990s (Howlader, 2015). A brief discussion on the regulatory reforms to stimulate the growth of the private sector and also privatization may be relevant here.

Regulatory reforms geared to encourage the development of the private sector In tandem with GOB’s overall policy shifts to a private sector-led growth regime, Bangladesh introduced a variety of economic reform measures to stimulate private industrial investment by

domestic as well as foreign investors (Howlader, 2015). Various economic reform measures introduced under the Structural Adjustment Programme led privatization of SOEs have included decentralization of industrial investments and loan sanctioning procedures; liberalization of import procedures; restructuring and relaxation of the tariff structure; reduction of quantitative restrictions, deregulation of exchange rates, various export promotion measures and an array of fiscal, monetary and other incentives aimed at attracting foreign private investment (Islam, 2015; Amin and Khanam, 2018).

Decentralization and deregulation of the industrial investment approval and sanctioning procedures; introduction of the “one-stop-services” at the BOI, simplification of the industrial term loan sanctioning procedures; and simplification and standardization of import procedures have greatly liberalized the overall regulatory framework and have contributed significantly towards creating a conducive environment for growth and expansion of private investment (Sobhan, 1990). Liberal policy measures and attractive incentive packages (i.e. tax exemptions, tax holidays, the concessionary duty of imported machinery, facilities for repatriation of invested capital, profits, and dividends, etc.) have been designed to attract a larger flow of foreign direct investment (FDI) (Sobhan, 2005). FDI-related administration as well as sanctioning and registration procedures and regulations have been simplified and strengthened. In order to implement the new liberalized policy measures, the reorganization and strengthening of the relevant institutions, such as BOI, BEPZA, NBR, EPB, BTC, etc. are on the agenda of the Government (Amin and Khanam, 2018). Such revamping and reorganization are being examined, studied and recommended by the Public Administration Reorganization Commission (PARC). A National Law Commission is also working towards reforming and modernizing the legal procedures required to simplify and quicken the law-enforcement practice and dispute-settlement procedures (Sobhan, 2005). In short, necessary administrative reforms, institutional restructuring, capacity building, and judicial reforms, etc. are part of the process to ensure speedy and effective implementation of the changed policies and a prudent adoption of the liberalization measures (Amin and Khanam, 2018).

Privatization program to be successful requires a set of prudential economic policies and establishment of institutions and institutional

practices that encourage enterprise formation and growth and support the smooth operation of markets and production processes (Sobhan, 2005). In general, privatization needs to be implemented as an integral component of an authentic liberal economic order that ensures enforcement of the rule of laws, stable fiscal and monetary discipline, fair competition, effective microeconomic regulations, sound exit policies and equality of opportunity (Amin and Khanam, 2018).

Study of the performance of the privatized units divested during 1980s reports that nearly 50 percent of the enterprises (e.g. 245 out of 497 small industrial enterprises excluding large jute and cotton textile mills) have been closed down (Islam, 2015). A depleted asset base, high debt liabilities, and inefficient management are noted as important factors explaining the poor performance of the divested units. The privatized large-scale units within the jute and cotton textile mills have also been found (Sobhan, 1990; Amin and Khanam, 2018) to exhibit mixed results in terms of investments, productivity, profitability and other measures of efficiency. The overall results were inconclusive as to the performance of the divested units since the analysis carried out was somewhat premature in terms of time allowed to the divested units to assess full impacts of their transfer from the public to the private sector (Amin and Khanam, 2018). Total of 222 enterprises was privatized during 1981-90 (Howlader, 2015).

### The Era of Khaleda Zia (1991-96)

The BNP government formulated the Industrial Policy 1991, encouraging private sector development. The government, advised and financed by the World Bank, paving the way for wholesale privatization by promoting an enabling environment which included liberalizing foreign trade, relaxing exchange controls, and restructuring import tariffs (Howlader, 2015). As part of the preparations for privatization, in 1991 the Asian Development Bank financed the Bangladesh Government's public sector redundancy programme, which was titled as 'Improvement of Labour Productivity in the Public Sector Enterprises' – or widely known as the 'Golden Handshake'. However, at the beginning of 1990s, a democratically elected government was formed under the leadership of Prime Minister Khaleda Zia (Howlader, 2015). To expedite the privatization effort of SOEs, the Industrial

Policy of 1991 was formulated during the rule of the democratically elected government of BNP in which only air travel, railways, production and distribution of power, and defense industries were reserved for the public sector (Amin and Khanam, 2018).

Moreover, in 1991, the government created an Inter-ministerial Committee on Privatization (ICOP) with the responsibility of developing privatization policy as well as considering, approving and monitoring specific privatization proposals for the various administrative ministries (Howlader, 2015). The above agency could not effectively attain its objectives largely because of the lengthy and complicated process involved in implementing policy, the insufficient staff of its own with the technical knowledge of the privatization procedures and because it was not given the mandate and sufficient autonomy to engage in privatization transactions. Its role was limited to monitoring and approval function (Howlader, 2015; Amin and Khanam, 2018).

This board consists of six members of the Parliament both from the party-in-power and from the opposition (Amin and Khanam, 2018). The Board also has the authority to engage consultants and specialists as and when necessary to execute its programs. In contrast to the members of the civil servants only, the Board members now include representatives of the common public, private sector participants and professional groups (Amin and Khanam, 2018). The Board, placed under the administrative jurisdiction of the Cabinet Division headed by the Prime Minister, reports directly to the Cabinet Sub-Committee for Finance and Committee on Economic Affairs chaired by the Finance Minister (Howlader, 2015). However, a few more steps need to be undertaken to put in place an effective institutional arrangement for privatization. For example, nothing has been mentioned in the privatization policy about the role and status of the sector corporations which manage the SOEs on behalf of their respective Ministries (Shobhan, 2005). While the sector corporations will lose their relevance after completion of the process of privatization of the SOEs, it may be useful to take a decision now as to when they will be abolished. Again, side by side with the PB, Bangladesh Railway, Biman Bangladesh Airlines, etc. are known to have their own privatization process (Amin and Khanam, 2018). Recently, the Ministry of Jute has floated a tender for the sale of some of its own mills

offering terms and conditions different from those of the PB. But expediency demands that there should be only one operational arm of the Government for executing its privatization program.

Although privatization began since the mid-1970s and 435 SOEs were divested between 1972-1986, there was no case of retrenchment as these were mostly abandoned and/or closed enterprises which were returned to their previous owners who took full responsibility to retain the previous employees. Thus actual retrenchment process began since 1991 (there is no instance of privatization between 1986-1990) and very large-scale retrenchment occurred during 1991 and June 1996 involving 61,844 workers or representing 68.7 percent of the total (Amin and Khanam, 2018). The rest 28,127 or 31.3 percent of the employees were retrenched during July 1996 and June 1997 (Howlader, 2015). While the reduction of previous over-staffing and closure of some of the units after divestiture might be the important reasons for employment loss, this has an adverse impact on the welfare of the workers. According to PB estimates based on future privatization of the SOEs in the next two to three years, the planned retrenchment of workers may reach a staggering figure of 88,612 employees from five sector corporations (Amin and Khanam, 2018). While nearly 58 percent of the workers are planned to be retrenched on an average from each sector corporation, more than 73 percent of them will comprise production workers, 21 percent non-production workers, and about five percent will be officers and managers (Howlader, 2015). Needless to emphasize, the workers' interests and welfare need to be preserved and promoted both to minimize adverse social effects and ensure social justice.

### The Era of Sheikh Hasina (1996-2001)

The Then Ministry of Labour, Government of Bangladesh, has set up a "Special Workers 'Fund'" (SWF) by allocating Tk., 150 million (or roughly US \$ 3.0 million) for retraining and redeployment of the retrenched workers in Bangladesh (Amin and Khanam, 2018). The amount has been earmarked in the national budget 1998/1999 and was under consideration by the Ministry of Finance for final approval (Howlader, 2015). Based on data on the current cost of training in both public and private sectors (for up to a period of six months. In addition, a cost of Tk. 5000 (or the US \$ 100)

per worker has been estimated for meeting the expenses of other support services (i.e. registration, career and vocational guidance, job placement, credit support, technical assistance, etc.), Thus the government allocation of Tk. 150 million should be adequate to defray the training expenses of an average number of 15,000 workers per annum for several years (Howlader, 2015). Further, if it is assumed that all retrenched workers will require training of much less short duration than 6 months and many will require simple counseling and no training, then it may be possible to serve the retaining and redeployment needs of between 10,000 to 20,000 workers. Given the rate of retrenchment of the past few years and also the future potential rates, an estimated yearly retraining provision of approximately 4000 workers per annum also seems reasonable (Howlader, 2015; Amin and Khanam, 2018). However, the provision of retraining may have to be expanded substantially if the pace of privatization increases substantially and hence the number of potential retrainees reaches an estimated 90,000 worker within the next two to three years. Even then, the total cost of retraining the dismissed workers would perhaps be much less and hence (cost-effective) compared to subsidies that need to be paid to the loss-making SOEs and also counterbalance the adverse consequences of loss of jobs. This, however, remains to be verified through careful and systematic research in the area. In order to avoid the rigid and bureaucratic public sector structure and ensure adequate operational flexibility, the SWF is proposed to have a tripartite structure including representatives' partners (Amin and Khanam, 2018).

Private enterprise has moved ahead to establish private schools, universities, and hospitals. Private and public enterprise thus co-exists in areas hitherto under the public domain. In the absence of clear policy guidance, academics from state universities and quasi-government research institutes, along with doctors attached to various government hospitals, moonlight quite openly in the service of these private institutions whilst drawing their salaries from the public purse (Amin and Khanam, 2018).

In recent years the area of public utilities has also been opened up to private enterprise. In the case of telecommunications, private firms have been given franchises for cellular phones, which are interlinked to the lines of the state-owned telecom system. The lead in this area has been taken by the world-renowned Grameen Bank,



which has entered into a business collaboration with Norway's state-owned telecom company to introduce cellular phone services to the rural areas (Amin and Khanam, 2018). Grameen Telecom is now negotiating to use the idle capacity of the fiber-optic telecommunications links of the Bangladesh Railways to reduce the costs of their services (Howlader, 2015).

Direct sale of SOEs has been the dominant method of privatization in Bangladesh. In fact, direct sales of 220 SOEs continue to exist and operate in the public sector causing excessive fiscal burden to the tune of US \$ 500 million worth of revenue losses annually in a resource-poor country and also posing negative externalities to the entire industrial sector in terms of a depressed economic performance (Howlader, 2015). The predicament of the economy and society is well understood by all quarters and in recognition, the political support for privatization in Bangladesh is at present much stronger than any time before. To expedite the privatization process the Government, at least in principle, seems to have put all its weight behind the privatization program by establishing the Privatization Board (PB) and also declaring a Privatization Policy (Amin and Khanam, 2018). But despite being a front-runner in carrying out the privatization process, the overall achievement in privatizing the SOEs has not been impressive. An inquiry into the current privatization experience reveals that the pace of privatization has not only slowed down it has remained practically stalled. Over the last three years, only 3 to 4 small factories (i.e. ice, cold storage, pulse mills) were privatized involving a sales revenue worth the US \$ 2.0 million, although the World Bank gave a target for divesting 18 SOEs. To expedite the privatization process, most experts opine that there should be grading of the identified SOEs into at least three categories: (i) those with heavy long-term debt liabilities and being currently economically unviable should be straight away liquidated to avoid incurring further losses; (ii) those which are making profits and growing and expanding should be tendered for sale and (iii) those which can be made profitable and viable should be restructured through enhancing the operational and managerial efficiency and then put on sale (Shobhan, 2005). A host of limitations and constraints, such as, absence of a clear cut and strategic privatization policy mandated by various social groups, lack of political determination, absence of an efficient institutional framework, adequate legal back-up, complicated bureaucratic procedures and interferences, inadequate transparency of the procedures, trade

union and workers' opposition, deteriorating law and order situation and lack of potential buyers' interest etc., are identified as the important bottlenecks inhibiting the progress of privatization in Bangladesh (Howlader, 2015). The implication is that to enable the privatization process to make serious headway important reforms and reorganizations at both policy and institutional levels have to be carried out including procedural simplification, strengthening of PB by giving it more power and autonomy and improvements in the legal framework. More importantly, it must be recognized without pretension that privatization is a political exercise and not only an economic one (Howlader, 2015). To make the desired progress, what is needed in Bangladesh is "political courage and initiative" in addition to "political willingness and commitment". Some of the stakeholders interviewed suggested that to dispel the disbelief and mistrust among the potential buyers, the right step would be to privatize first and think of restructuring of the SOEs later (Howlader, 2015). Yet another suggestion made was that the 1972 Presidential Order of Nationalization of Industries should be immediately amended to increase private sector buyers' confidence. Available evidence on the effects of privatization suggests that the economic performance of the privatized units after divestiture has at best been mixed, there were cases of both good and bad performances. However, privatization itself does not guarantee overnight improvement. As of May 1997, contracts, both for fixed and barge-mounted installations have been signed by particular foreign companies and the Power Development Board, who are committed to buying the output of these private producers at an agreed price (Howlader, 2015). Power distribution still remains in the public domain but in some areas, on an experimental basis, power distribution has been privatized into the hands of either some private agents or a collective of Power Board employees (Amin and Khanam, 2018). In other areas of service delivery, private security firms market services to private commercial establishments and the houses of the elite.

### **The Era of Khaleda Zia (2001-2006)**

After the passage of the Privatization Act 2000 and the formation of the Privatization Policy 2001, the BNP led four-party alliances government later introduced The Industrial Policy 2005.

The Industrial Policy 2005 renewed the pledges of the previous industrial policies particularly



the policy of 1999 with more clarity in the areas for private sector development it is stated in the policy that state investments in the industrial sector will be treated as residual investment in the future. SOEs would be complimenting to private sector industries and would be encouraged to compete (Howlader, 2015). The policy states that if the privatization commission cannot privatize state-owned enterprises as expected, then the concerned ministries will sell/transfer/lease those enterprises or take any other action in this regard. While framing the policy, the Ministry of Industries took the lead role with the assistance of other relevant ministries like the Ministry of Finance, Ministry of Planning.

The business community provided inputs and their viewpoints in different policy papers which were forwarded to the different ministries of the government regarding the framing of the privatization policy 2001(Amin and Khanam, 2018). Workers and employees have generally opposed the According to the report of privatization commission, since 2001 till 2006, 39 enterprises were given to the private sector. Statistics show that the density and frequency of privatization in BNP leading government era are much more than that of its counterpart (Howlader, 2015).

Achievement from the 20s to till 2007 is pretty sound. Most of the renowned public enterprises were given to private sectors. Even they entitled with Limited Company (Amin and Khanam, 2018). The remark worthy companies are, Barisal Textile Mills, Barisal, Bangladesh Cycle Industries, Dhaka, Purbachal Jute Industries, Jessore, Bangladesh Cold Storage, Munshiganj, Meghna Textile Mills, Tongi, Gazipur, Cabinet Manufacturing Plant, Daulatpur, Khulna, Fisheries Net Factory (Mongla), BSCIC I/A, Ashok told, Comilla (Only Machineries), Satrang Textile Mills, Tongi, Gazipur, Chittagong Cement Clinker Company, Chittagong, International Oil Mills Ltd., Chittagong, Berger Paints Bangladesh Ltd., Chittagong, Islami Bank Bangladesh Ltd., National Bank Ltd., Eastern Bank Ltd., Ujala Match Factory Ltd., Narayanganj, Eastern Industries Ltd., Tejgaon, Dhaka, Kohinoor Chemical Company, Dhaka (Howlader, 2015; Amin and Khanam, 2018).

### **The Era of Sheikh Hasina (2008 to date)**

A study report on privatised industries in Bangladesh conducted by the Privatisation Commission in 2010 found that only 59 percent of the privatised entities were in operation after

their privatisations and 20 percent of them were permanently closed down – implying lack of planning or business motivation of their private owners. In 2014, the government declared that SOEs would not be handed over to private owners by direct selling, a viable way for ensuring greater accountability of the management of the SOEs and minimising the government's exposure to commercial activities can be to ensure the offloading of shares of SOEs. The offloading of shares in an SOE, unless it involves more than 50 percent of its shares, does not divest the government of the control over the enterprise. But such offloading of shares in SOEs can help enterprises to be leaner, nimbler, more accountable, and more competitive. Currently, the Government is dealing with so many privatization programs. As Privatization program is a fast-moving process, preparations are now on track to dispose of off SOES to the private investors. Non-financial public enterprises in the country have been categorized into seven sectors, namely

(i)Industry 2) Power gas and water 3) Transport and communication 4) Trade 5) Agriculture 6) Constructions 7) Services Presently, 25 SOEs have been included in the Commission's current programs to get them disposed of (Howlader, 2015). Below is its list:-

Besides these types of initiatives the government also introduced some sort of semi-privatized projects (Amin and Khanam, 2018). For example, the initiation of Jatrabari-Gulistan flyover may be a sound example of government shifting to work along with private enterprises in terms of development activities those go to basically LGED, a government handled authority, in past (Amin and Khanam, 2018). The Privatization Commission and Investment Board seem to be sincere in making tender of now government-run enterprises. So by following the due process, the government is now stimulating and steering the privatization activities.

## **CHALLENGES AND OPPORTUNITIES OF PRIVATIZATION IN BANGLADESH**

### **Issues and Challenges**

There are now a number of growing literature on the subject that address several key questions:

- How have enterprises performed after privatization?
- Has efficiency increased?
- Has production grown up?

- What has happened to the workers?

The findings are mixed, that means while some enterprises are found to have done well, others have not. It is thus no surprise that different people have got different ideas in these areas. Some see the specter of de-nationalization, in fact, led some enterprises to the verge of collapse after privatization (Islam, 2015). However, others, noting that the closure of the intrinsically inefficient enterprises actually benefits society by stopping the wastage of valuable resources, see this as a success of privatization (Momen, 2007).

Some people raise the issue of the poor loan repayment performance of some privatized enterprises and conclude that privatization is premature (Uddin, 2005). Another group of observers notes that the banks whose loans are defaulted are largely state-owned, and thus they argue for more privatization, encompassing both the real and the financial sectors (Howlader, 2015). Some even look at the poor tax payment record of some privatized enterprises and question the rationale for privatization. Analysts also see a weak tax administration as the root problem and argue for greater privatization.

Evidence from middle and high-income market economies indicate that the results of privatization are generally positive; but such gains were immediately apparent in a number of countries, particularly in the erstwhile USSR republics and in a number of other low-income countries (Howlader, 2015). Problems faced by enterprises after privatization, and their spill-over effects on the rest of the economy appeared as a matter of severe concerns and so the debate has also been associated with the treatment of the post-privatization problems (Uddin, 2005).

Nevertheless, by now it is more or less common wisdom that the Privatisation Commission, the statutory body responsible for steering privatization in Bangladesh is sitting like a lame duck. During the 22 years of the combined existence of the Privatisation Board (the predecessor of the Privatisation Commission) and the Privatisation Commission, less than 80 state-owned enterprises (SOEs) have been privatized (Islam, 2015).

A study report on privatized industries in Bangladesh conducted by the Privatisation Commission in 2010 found that only 59 percent of the privatized entities were in operation after their privatizations and 20 percent of them were permanently closed down – implying lack of planning or business motivation of their private owners (Islam, 2015).

Now that in 2014 the government declared that SOEs would not be handed over to private owners by direct selling, a viable way for ensuring greater accountability of the management of the SOEs and minimising the government's exposure to commercial activities can be to ensure the offloading of shares of SOEs (Islam, 2015; Amin and Khanam, 2018). The offloading of shares in an SOE, unless it involves more than 50 percent of its shares, does not divest the government of the control over the enterprise. But such offloading of shares in SOEs can help enterprises to be leaner, nimbler, more accountable, and more competitive (Amin and Khanam, 2018). Generally, the interest of the management of an SOE is not aligned with the performance of the enterprise and this trouble can be reduced by including the private shareholders in the board of the enterprise after offloading of shares takes place (Islam, 2015).

In Bangladesh, we need to focus more attention on the post-privatization problems faced by enterprises. Indeed, as many problems are common to all privatized or non-privatized enterprises, it is important that we examine the issue to improve performances of the entire private sector (Haque, 2002). State-owned enterprises are usually slow at bringing about necessary changes in their operation; indeed this is a major argument for privatization (Uddin, 2005). As a result, they are often saddled with many problems mentioned above, such as excess workers, absolute products, improper financial structures and lethargic marketing departments (Haque, 2002). For such enterprises, mere ownership changes may not mean much if it doesn't lead to the required restructuring and overhauling.

Enterprises facing competition may survive without improving efficiency if someone is bailing them out (Howlader, 2015). In Bulgaria, for example, trade liberalization in the recent past has intensified the competition.

Empirical studies do not document any significant impact of competition on the performance of privatized enterprises. Because while the Bulgarian government liberalized trade, it continued to provide subsidy to privatized firms and tolerated tax arrears and defaults on loan repayments to state-owned banks (Amin and Khanam, 2018). Sometimes the problems are cultural, arising from deeply-ingrained attitudes and practices. This has been a pervasive problem in the ex-socialist economies.

Unpredictable and poorly administered government policies also create problems. High taxes, frequently changing tax rates, arbitrary interpretations of tax rules and other harassment by tax authorities usually raise the cost of doing business and discourage restructuring (Howlader, 2015). The lack of legal and economic information, including market studies and company diagnostics could also be a problem. It has been found that in spite of making promises, no regime in Bangladesh has come out with a clearly stated privatization policy which would both spell out its underlying logic and provide a coherent set of guidelines to define its direction. Raihan's study suggests that the program of disinvestment of SOEs in Bangladesh has not been driven by any pragmatic policy (Haque, 2002). A large number of profitable SOEs have been disinvested during last years which clearly challenge the 'inefficiency' argument for disinvestment of SOEs (Uddin, 2005). Some empirical studies have already indicated that a larger proportion of SOEs, following disinvestment, closed down or became inoperative under their private owners so that many profitable SOEs lost their profitability status after disinvestment.

There are some recommendations to ride the privatization to the right path. Such as,

- A high-level task force, chaired by a respected person from the private sector, should be established as soon as possible. This task force should be asked to submit a report within two months providing a detailed Strategy on Privatization, including if necessary, the complete overhauling of the Privatization Commission;
- Ensuring an effective legal and regulatory framework;
- The state acting as an owner establishing a clear and consistent ownership policy;
- Relationship with stakeholders and equitable treatment of shareholders;
- Responsibilities of the Boards of the entities before and after privatization;
- The government should immediately seek the assistance of the World Bank and ADB in creating a pool of experts on Privatization;
- A monitoring and evaluation of cell manned by international experts should be established to review the work on privatization on a sustained basis;
- The Boards of all SOEs should be restructured immediately. The Boards should be chaired by either experienced persons

from the private sector or a retired civil servant who has the relevant experience and expertise;

- SOEs that are privatized should be encouraged to do a share issue within two years of being privatized. During this two year period, the performance of the privatized company should be closely monitored.

### Prospective Sectors for Privatization

Despite the above problems, there are a number of potential sectors for privatization in Bangladesh some of which are mentioned below:

#### Power Sector

In view of the gradual widening of the demand-supply gap, the government opened up investment in power generation, transmission, and distribution to the private sector. Significant private foreign investment was envisaged for power generation. It needs to be mentioned that the Power Development Board (PDB) signed initial agreements for setting up Barge-Mounted Power Plants with the following international companies<sup>7</sup>.

- Smith Co-generation International- 100W
- New England Power Company-100W
- Wartsila Power Development Ltd-100W
- Westmont Offshore – 100 MW

#### Natural Gas and Oil Exploration

National Petroleum Policy which came into force from July 1993 had already attracted foreign investment in oil and gas exploration and development. Five international oil companies signed production sharing contracts for exploration and development of hydrocarbon. The five companies are:

- Occidental Exploration of Bangladesh Ltd.
- Cairn Energy PLC and Holland Sea Search Bangladesh
- Redwood Oakland
- United Meridian International Corporation (UMIC)

#### Tele Communication

Telecom services used to be provided exclusively by Bangladesh Telephone and Telegraph Board (BTTB)-a government functionary. The recent revolution in information technology has opened up a new era for private investment in the telecom sector. In

## Privatization in Bangladesh: Challenges and Opportunities

the meantime, the following two private companies are operating in the rural telecom sector:

- Bangladesh Rural Tele Communication Authority
- Sheba
- For a mobile telephone, the following private companies have been allowed to operate:
- Pacific Bangladesh Telephone Ltd
- Grameen Telephone
- Sheba
- Telecom Malaysia International Ltd.
- Warid Telecom
- Aktel/Robi

### Transport Sector

Some studies conducted in the recent past on sectoral reform identified suitable privatization prospects in both the Road and Highways and in Inland Water Transport sectors. Contracting out the present operations and maintenance functions of these organizations is an immediate possibility. Besides private shipping liners and vessel services are in full operation in the country, with no restrictions whatsoever.

### Port and Container Handling

There are quite bright prospects of private sector participation in improving port services in Mongla and Chittagong and in handling container services in the ports and other areas. Reforms are made continuously and may move to effective performances once the appropriate strategies are adopted.

### Aviation and Tourism

Serious reforms have taken place in the civil aviation sector by allowing operation of private sector airlines in the domestic services. The tourism sector is fully open for the private sector to operate. Aviation services that were domestically offered have now crossed the boundary of the country. For example, GMG airlines are now providing overseas services also.

### Banking and Insurance

The government undertook financial sector reform programs in the nineties. Private Banks and insurance companies with a few exceptions were functioning creditably. The Uttara, Pubali and Rupali Banks which were formally owned by the Government was later on proposed to be privatized. 49% shares of Shadaran Bima

Corporation (General Insurance) were contemplated to be offloaded in the local stock markets.

## CONCLUSION

Privatization in Bangladesh is rooted before the independence of Bangladesh. Since independence, successive governments have tried to attract private investment into the economy and have been progressively restricting the growth of a large public sector. Instead of creating purely publicly owned enterprises in the industrial sector, the emphasis has been either on private sector development or on joint ventures with the private sector. Even foreign participation has been encouraged. The desire of the country to industrialize is quite understandable. Indeed, the government undertook many promotional activities. In spite of all these efforts and for various obvious reasons, the public sector is still quite big.

Both merits and demerits are linked with privatization. Therefore, we need to avoid debating whether privatized enterprises have done well or not. In the current climate, even profit yielding SOEs are being threatened with privatization. There is a little incentive for those units that are still under public ownership to improve their performance. Since the privatization process may be more protracted than was once contemplated, a policy of indiscriminate privatization could thus not only lead to mounting claims on the exchequer but would accentuate the disincentives for any prospective buyers.

In order to make the privatization efforts a success, an indigenously designed pragmatic policy needs to be undertaken. Any policy towards privatization should be based on the intention of improving our economic sectors rather than implementing the ideologically-driven agenda. Moreover, the policy prescriptions of external sources including donor agencies, pressure groups, and political lobbyists should be handled with great care and caution. The prospective sectors for privatization identified on the basis of reality must be given appropriate attention. In this context, the cooperation between the government and non-government organizations is of utmost importance.

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