

IMPLEMENTATION OF STRUCTURAL REFORMS

Privatization in Bangladesh : Some Reflections



THE World Bank's Country Economic Memo of March '93 entitled "Implementing Structural Reform" has dealt with the need for privatization, the experience with earlier privatizations in Bangladesh and the on-going privatization programmes, particularly in the Ministries of Industries, Textiles and Jute. I intend here to focus my comments instead of some of the more recent issues that have risen in the pursuit of privatization in this country.

First, there is concern about the slow progress of privatization. In October 1991, the Government of Bangladesh identified 40 industrial enterprises as well as 10 textile mills for the first phase of privatization. Of these, sale of 6

units was completed by sale to a state-owned insurance company and only three other units have so far been privatized. To some extent the lack of progress could be attributed to delays linked with the changes in the institutional arrangements for privatization from an Inter-Ministerial Committee on Privatization to a Privatization Board. The discussion today will no doubt throw some light on some of the other reasons for the slow progress. But let me here refer to two related aspects.

One is the perception that the sales process is not adequately open and competitive. This perception has given rise to complaints and these have often slowed down the progress of privatization. To

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address this issue the whole process of privatization should be made completely transparent. A related issue is the need for competent professional advice in the preparation for sale and valuation process. Where it can be firmly established that a state enterprise has negative net worth, some "financial engineering" will be inevitable (mainly through the Government absorbing some proportion of the outstanding liabilities) if the enterprise is to be made attractive to buyers. However, this assumes that the industry in which the enterprise operates is basically sound. If the industry is not viable, the enterprise should be liquidated, not privatized.

The privatization programme I have mentioned so

far refer to the divestment aspect. A second aspect of privatization is the introduction of private sector competition/collaboration in areas such as power, petroleum, gas, telecommunication and transport where the State has hitherto been dominant. Private sector participation could take various forms such as management contracts, lease, build-own-operate and build-own-transfer arrangements. Progress with this aspect of privatization will depend crucially on foreign capital and know-how. In some of these sectors there have been encouraging developments. Foreign participation in telecommunications may either take the form of a joint venture or a new privately-owned company which would compete directly with BTTC. Telecommunications could then become one of the most attractive candidates for private investment in infrastructure.

Similarly, some progress is being recorded in the restructuring of the gas sector. In June 1993, the Government decided to permit the negotiation of agreements with international oil companies, with tax exemptions and with the linking of gas producer prices to international fuel prices. Exploration blocks previously reserved for Petrobangla have also been opened up for private bidding, and agreement reached to establish a separate, commercially oriented Gas Transmission Company.

In the power sector again GOB is moving in the direction of a larger role for the private sector. The privatization components of the Government's programme include the restructuring and corporatization of the Bangladesh Power Development Board and Dhaka Electricity Supply Authority.

Generation, transmission and distribution are to be separated into autonomous commercial entities. Together with this policy framework is to be defined for encouragement of private participation in power development. In carrying through with these reforms the Government has the opportunity to demonstrate its commitment to transform the present government-dominated inefficient arrangements to a competitive system which could deliver more reliable and less costly power to users.

Privatization is a costly process. The cost includes separation benefits for state enterprise employees, financial restructuring of state enterprises, before sale and expenses of managing the programme. Fortunately, Bangladesh has a good measure of donor support — over Tk. 1,500 crore is potentially available — to supplement the Government of Bangladesh's own resources. Offsetting these costs to the Government will be the elimination of losses being incurred by state enterprises as well as the expanding revenue base from a growing vibrant private sector.

Privatization in a sense is a political process, and successful privatization depends above all on a political consensus. It rests with the Government to work towards such a consensus. A lesson we learn from the ongoing jute restructuring project is how a national consensus could evolve from a full debate of the underlying issues. At the same time there ought to be the realization that privatization is not a problem-free process. There will be reversals, but the goal is worth pursuing. Purchase offers from state enterprises may look disappointing, but these still may be better than the status quo — mounting losses and/or poor to indifferent service to the public.

Towards a More Competitive and Efficient Labour Market in Bangladesh : Some Notes

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THREE aspects of the labour market have been identified in two World Bank Reports (Country Economic Memorandum '92 and '93) as having crucial bearing on industrial growth and external competitiveness of Bangladesh. The first concerns the rapid expansion of labour force and the decline in the modern sector employment in the 1980s. The second is the centralized process of wage determination (especially in the public sector) which is argued to have led to increases in labour costs unmatched by productivity improvements. The third issue relates to the antagonistic relationship that exists between management, trade unions and the Government which are directly and indirectly impeding industrial growth, discouraging private investment and hampering public enterprise reforms. The World Bank, therefore, suggests the need for introducing labour market reforms in Bangladesh for providing support to other economic reforms to have their full potential impact.

The first component of the proposed medium-term reform agenda relates to the development of a reliable labour market information (LMI) system. The purpose of the reform measure is to generate short and medium-term information on labour market developments and disseminate it to the key players in the market — employers, labour unions, and Government for adoption of appropriate mea-

asures in response to the changing market conditions.

The second set of reform measures proposed includes a review of existing labour laws and regulations (i.e. minimum wages, non-wage benefits and regulations affecting hiring and firing of workers) and strengthening of the institutions responsible for enforcement of the labour laws and regulations. In order to ensure proper implementation of the labour laws in the face of stiff opposition from the highly politicised and volatile labour unions and complaints of abuse of such regulations by some employers, the existing administrative and legal institutions need to be strengthened. Thus the proposed medium-term reform programme includes a review of labour laws and a strengthening of the labour department and courts for maintaining industrial peace and expanding formal sector employment.

The third important area of reform proposed by World Bank relates to the development of a new, less centralized, system of wage and non-wage benefit determination. Wages in the public sector enterprises are at present determined centrally by wage commission through minimum wage regulations. Minimum wage legislations offering high minimum wages and non-wage benefits that are not linked to labour productivity tend to push wages above competitive levels and have a negative impact on enterprise efficiency and employment generation.

This underscores the need to reform the present system of wage determination in the public sector.

A complex of factors is responsible for low labour productivity. Besides unstable labour market and a politicised union structure, low capacity utilization and a stagnant demand are responsible for declining productivity in many large-scale industries of Bangladesh.

Low production or raising production also owes to the quality of the machinery and equipment. Thus an employer's decision and capacity to install modern machinery influences labour productivity.

The quality of management remains the most important variable influencing labour productivity and hence an industry's market competitiveness. Good management, at the first place, chooses the right product in relation to its market prospects, the right package of technology and equipment, buys its raw materials to ensure good quality and competitive costs, establishes a system of wages and salaries which gives incentives to hard, efficient, and creative work, maintains good relations with bank managers to ensure easy access to credit and develops a dynamic marketing network to access all available market opportunities and to create new market possibilities.

Finally, a trained and skilled work force remains an important determinant of labour productivity. Thus, though skill training should be a critically important component of good management, the present labour hiring practices in most industries are oriented more towards hiring unskilled workers to keep the wages low.

Any reform in the present system of wage fixation must take into the following realities of the Bangladesh economy — Low productivity in our manufacturing sector has created many problems inflation, adverse balance of trade, poor rate of growth, unemployment etc can be traced partly to poor productivity in our manufacturing sector.

There is a co-relationship between wages and employment creation. Fixation of unrealistic minimum wage cuts

across opportunities for new employment and causes impediment to industrial growth.

The present wage levels in Bangladesh manufacturing sector is one of the lowest in the Asian countries. In 1989, the wage level in the manufacturing sector of Bangladesh was about 10-15 times lower than that in the NICs.

Nearly 70% of the non-agricultural workers still remain outside the purview of trade unions and do not enjoy the benefits of wage commission recommendations.

Both the unorganized workers and the private sector workers find it difficult to recover from their employers compensation for loss of service, accident and death.

Except the wage employees in the formal sector, the vast majority of the workers in the unorganized sector are at the mercy of the employers who tend to violate the provisions of the labour laws.

Finally, the highly confrontational labour-management relationship which is seriously impeding industrial growth and employment expansion in Bangladesh needs to be urgently improved. Two important issues deserve attention in this regard.

Despite adequate legal support provided through numerous laws and regulations, the labour relations system in Bangladesh has proved inadequate to develop a spirit of co-operation among the management, the workers and the Government.

There exists a credibility gap and a sense of mutual trust between the parties concerned which tends to vitiate the environment required for initiating an effective dialogue, let alone agreeing to reach settlement in case of disputes.

Development of a conducive trade union structure in Bangladesh is critically dependent upon development of a conducive character and structure of the political parties in Bangladesh.

The foregoing suggests the need for a serious dialogue involving government, opposition, business, labour, and professionals to develop a meaningful and non-confrontational pattern of employer-employee relations which can stimulate development.



Shamsul Islam, Commerce Minister: In developing countries and perhaps also in developed countries, policies and their implementation are a major development hazard. It becomes worse when development policies are perceived to be external conditionalities. Added to these issues are conceptual and designing inadequacies in what are known to be structural reforms. Anything which seems to be sound in



Industries Secretary Hasnat Abdul Hye: It is difficult to accept the sweeping generalisation that the old industrial and trade regime policies were against private sector industries and export. Failure to do something does not mean opposing it. I would not say that the old system was a failure, but it had outlived its utility.

The overnight drastic reduction of tariff rate and quantitative restriction is very disturbing. The import-competing industries should be given some sort of protection. We should not throw away the baby along

with the bath-water. Export does not depend on our sweet will. All that the World Bank is interested in is opening up the market of Bangladesh, but it does not talk about how Western markets are going to open up for us. The World Bank is very sarcastic when it criticises the government for urging the banks to help the sick industries and on the other hand is asking the government to write-off the bad debt of the public sector units to be privatised. What are we trying to achieve through these reform measures?

Social Safety Net

In Bangladesh, as in almost all other developing and developed countries, labour policies have been influenced to varying degrees by social considerations, essentially the desire to protect jobs at all cost. In the past, job protection policies have included subsidies, creation of trade barriers, and imposition of contractual agreements against lay-offs etc. These policies have proved unsustainable and counterproductive in that they have contributed to industrial uncompetitiveness, and related job losses. It is important to recognize that labour retrenchment, redeployment, and fresh hiring are all essential parts of the process of economic restructuring.

Former MCCI president Salman F Rahman: The ultimate objective of the economic reform programme is poverty alleviation. The debate should be on how to get out of this poverty trap. Creating employment opportunities through industrialisation is the only way. But who is going to do the industrialisation — the private sector, or the public sector, or both?

And not only are economic reforms needed, the non-economic reasons also need to be tackled; like the law and order situation, labour-management relations and perception of political instability. How far have we succeeded in achieving political stability?

The lack of investors' confidence is yet to be built up and if it is not done soon there would

Privatisation Process

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Current Issues

The publicly owned entities, DFI's, NCB's, ICB — are in a comatose state. What are the symptoms leading to this diagnosis?

1) Cumbersome procedure — either there is a very slow response to proposals or no response at all. Files are expected to move not because of the quality of the proposal but for other factors. Nobody in the management chain wants to take any positive decision (a negative one is always the easy way out) i.e the "buck" stops nowhere. There is no appreciation of the value of time.

2) A demoralized and underpaid workforce. The DFI's are shattered, while the NCB's are bearing the brunt of widespread criticism and scrutiny. The senior management is handling crises while attempting to live on peanuts. Performance related promotion is not clearly established. The net result is that these organizations are basically all set for doing nothing.

3) Huge losses and non-performing loans. Poor financial evaluation, directed credit, political interference, bad overall management and sometimes willful default have resulted in serious financial crisis, which in turn is raising the lending rates required by the banks to maintain their margins.

4) Excess liquidity. Because of their inability to lend their substantial deposits (built up as a result of good real rates of return to depositors and the security of a Government bank), NCB's have accumulated cash which is costing them.

5) A lack of good financial analysis capability. There are hardly any chartered accountants or qualified financial analysts who can evaluate proposals, especially medium and long term credit facilities. This is further compounding the problems of lack of investment and excess liquidity.

The cure in two-words is performance accountability, from the top downwards. While this is usually achieved by privatization, a viable first step towards ultimate privatization would be to break up these NCB's into smaller units.

December. Two out of the ten BTMC mills for which tenders were floated, will be handed over to the private buyers by the year-end.

The privatisation programme of the BTMC hit snags because of huge financial involvements.

Deputy Leader of the Opposition, Abdus Samad Azad: The Awami League government took on the nationalised approach because it was consolidating the war ravaged nation and there was no private sector to take over the industries left by the Pakistani owners. So, we had no options left other than nationalising the units.

However, privatisation is now the need of the hour and the society should move towards that goal. It is high time we stopped debating over the need for privatisation and reach a consensus for the process to start.

A serious dialogue is needed between the treasury bench and



the opposition, both inside and outside Parliament, on the issue

Accountability on Economic Issues

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Jatiya Sangsad have major roles in this regard. Resource persons from trade bodies, research organisations, bar council, accountants, trade unions should, in our view be utilised by the House Committees to enforce accountability. We often lament about our colonial administrative legacy yet the British civil service has itself undergone reforms of far reaching nature, by requiring the autonomous agencies to financially fend for themselves, enforcing accountability to the public through citizen charters and requiring the administration to support entrepreneurial spirit within and outside the Government.

Finally, efficient reforms are not politics — neutral. A democratically elected Government and the major opposition party between them carry the will of the people. Any consensus, stated or unstated, between them can give favourable economic signals and help achieve a quantum leap in economic growth. Self-sufficiency in food, increasing Policy de-regulations, continuous fiscal reforms, fall in the rate of inflation, rise in foreign exchange reserves, convertible Taka and rising exports have all been working to improve the base for accelerating the implementation of structural reforms. I would like to end, by posing the question — should politics come in the way, and economic development be the casualty of political churning?

Towards More Competitive and Efficient Labour Markets

by Mr Owaise Saadat

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It is now commonly recognized that inefficient wages policies and contentions labour — management relations are important causes of high private sector costs which discourage private investment and employment creation.

I would like to offer the following four items as the priority areas of labour market reform: (i) improving labour market information; (ii) accelerating regulatory reform and institutional strengthening and; (iii) developing manpower skills; and (iv) establishing a social safety net.

Improving labour market information

The need for effectively monitoring labour market development can hardly be overemphasized in a country like Bangladesh where manpower is the most abundant resource. Besides, since labour market development has an important

Former Deputy Prime Minister and Industries Minister Jamaluddin Ahmed: Reforms have been going on for a while, only the structural part is the new angle added to the reforms. The World Bank not too long ago was a propagator for public sector investment — there were four massive investments in the public sector during the 1976-81 period when I was the industries minister and four fertilizer factories were built. We tried to create a vibrant mixed economy. Too much of reforms too

impact on the level of private investment, it is critical that as a priority a reliable labour market information system should be developed. The objective should be to generate short and medium-term information on labour market developments, and moreover, make it available to the key players in the market — employers, labour unions and Government — so that a consensus could be built and appropriate measures taken in response to sometime fast changing market conditions.

Regulatory reform

The basic characteristic of Bangladesh's system of industrial relations is the predominant role played by the Government. The excessive government involvement in labour issues has not been

soon is going to do more harm than good and is going to destroy us. Is there a vibrant private sector in the country? Is there a private sector which can buy the Khulna Newsprint Mills? Too much is being expected of the private sector. By all means we should deregulate and liberalise, but we have to take all internal factors into account. We are talking too much about the macro-economy but unless something dynamic doesn't happen soon in the micro sector, the macro sector would collapse.

conduct to the development of mature bilateral relations between employers and trade unions. In fact, through SKOP, trade unions are often tempted to bypass the formal bargaining machinery and to deal directly with the dominant player, the Government, by threatening nationwide agitations.

Therefore, as a first and important step, there is a need to eliminate the government's direct role in labour management issues. At the same time, steps are needed to strengthen consultation services, and the process of collective bargaining, and reduce the multiplicity of trade unions.

Developing Manpower Skills

As mentioned earlier a key ingredient in determining labour's productivity is the level of the skills. It has to offer. In this regard the German experience illustrates the advantages of developing a public and private partnership in ensuring high worker productivity, through skill training. Although Bangladesh has a fairly extensive public sector supported system of providing vocational training, through its network of 12 Technical Training Centres (TTC), the quality of training leaves much to be desired. There is, for instance, an urgent need to improve both the basic vocational training policies, to