

Privatization in Bangladesh

by Qazi Kholiuzzaman Ahmad

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BANGLADESH has been an active participant in the currently ruling paradigm of economic management that places integration of the world economy at the centre stage. The basic tenets of the paradigm are globalization, privatization and deregulation, which are intricately entwined. Globalization is the driving force behind the economic change now taking place around the world. Privatization and deregulation are essential concomitants. The key to the process is that a country must dismantle barriers to international trade and facilitate and promote competition within its economy and without. In such a competitive regime, the private sector has the crucial role; and for the private sector to perform that role effectively, an essential prerequisite is deregulation to improve supply responses.

None of these concepts and practices is new. The new elements that make the paradigm unique in a historical perspective are: its scope and the passion that it engenders, in the wake of the collapse of Communism; its pattern arising out of the need to dismantle planning regimes, state-owned enterprises, and trade regulations and controls; and its pace facilitated by the unprecedented communications revolution.

Countries around the world have been responding, in varying degrees, to the requirements of the ruling paradigm outlined above. The purpose of this paper is not, however, to review what has, in consequence, been happening globally or indeed even in Bangladesh regarding all the different aspects. The purpose is rather limited, which is to review privatization in Bangladesh, being pursued as part of the reform process.

From Nationalization to Privatization: Historical Background

The War of Liberation left a devastated economy and a shattered population. The first priority of the new government was, therefore, to help the people find their feet again and to get the economy moving. A particular problem faced in economic management was posed by the large number of abandoned businesses and industrial enterprises. The government

quickly decided to take over the abandoned enterprises for management. This was followed by the nationalization of jute, textile and sugar industries, banks and financial institutions. It may be noted that there was a significant degree of public ownership and management in these sectors before Liberation. In addition, the railway, road transport under Bangladesh Road Transport Corporation (BRTC), Biman Bangladesh Airlines, electricity, and urban water supply remained under public ownership, as before. So was the distribution of imported agricultural inputs such as fertilizer, irrigation equipment and improved seeds. On the other hand, agriculture and micro and petty businesses and trading remained, as before, in the private sector.

A reversal of the policy of nationalized economic management began as early as mid-'74, with ceilings on private investment in the industrial enterprises raised somewhat, control on foreign trade and foreign investment relaxed to an extent, and many of the abandoned businesses disinvested by the private sector.

The process of allowing the private sector to expand continued ever since. A strengthened government commitment to the process was made when the structural adjustment programme was launched in the late '80s. In December 1993, the then government, which had already expressed an intent to implement the avowed policy more vigorously, replaced the Disinvestment Board, established in 1975, by the Privatization Board. The latter was supposed to make a fresh start and follow a fast track, breaking out of the inertia into which the former had fallen. But the pronounced commitment and the creation of this new organization notwithstanding, the pace of privatization has not so far picked up. Very recently, a privatization policy has been adopted and some actions initiated, which will be discussed later.

Privatization vs SOEs

The arguments in favour of privatization are well rehearsed and there is no need to go into them in detail here, although it should be useful to

enumerate the important ones. One argument is that privatization has a positive fiscal impact — subsidies will no longer have to be paid to loss-making SOEs, and the national exchequer will benefit from the sale proceeds of the SOEs. Another argument is that efficiency improves under private ownership. A third argument is that privatization attracts greater investment, both domestic and foreign, as well as new and improved technologies and management techniques. The overall impact, it is argued, would be an acceleration of growth.

But these arguments in favour of privatization are not conclusively supported by the post-privatization experience in Bangladesh. On the question of efficiency, it is generally agreed that there are no significant differences in performance between SOEs and privatized enterprises. This is true in the case of both jute and textile mills. Also, privatized banks have failed to improve service, efficiency and productivity. Privatization has also generally failed to attract investments and new and improved technologies.

It is argued that uncertain investment climate, government's failure to restrain labour unrest and the private sector managerial style are, in the main, responsible for the failure of the privatized enterprises to improve performance and make expected contributions to economic growth. On the other hand, it is contended that there is a lack of commitment and honesty among the ranks of the private sector operators. A survey conducted by the Board of Investment showed that, as of 1 July 1992, 29 per cent of the disinvested units could not be traced and another 27 per cent were closed. Only 44 per cent were in production. The Bangladesh private sector is also bedeviled by loan defaulting on a wide scale, involving huge sums of money. The recent

share market scam is a further blow to the sector's image. The enquiry committee set up to investigate the matter identified a number of front ranking industrialists and businessmen as being responsible for the scam.

On the other hand, SOEs also suffer from wide ranging problems, adversely affecting their performance. The losses incurred by SOEs are a drain on the national exchequer; and the inadequate performance of service and utility SOEs gets transmitted to all the economic activities that are dependent on those services and utilities. Indeed, the SOEs were conceived to function on commercial lines. But the necessary environment has never been created for them to function as such. The SOEs have been suffering from bureaucratic management and a lack of autonomy on the one hand, and by over-staffing and low labour productivity, on the other. They are also often beset by corrupt practices in purchase and sale operations as well as in the use of facilities and distribution of benefits.

Side by side with the need for privatization, it has been recognized that there must be appropriate SOE reforms to enable the remaining SOEs to function on commercial lines (autonomy, flexibility, improved management, shedding of excess labour etc., being the key reform directions). But previous little has been done in this regard. The conditions and style of management that the SOEs still face are virtually the same as they always have in the past.

The Way Forward

It has been noted above that both public and private sectors have important limitations. But they have important roles also. A healthy environment for successful corporate private sector development can be generated only by assigning those roles to government or private sector that it is best placed and

equipped to perform efficiently — and not by an either or approach. The government will not run the industry, nor will the private sector dictate shape government policies and actions. What is needed is a true partnership between the government and the private sector on the basis of their pre-eminent respective roles.

In fostering this partnership, a pragmatic approach based on the prevailing realities in the country needs to be adopted, as opposed to a dogma, — be it state-centred or market-centred. Generally, production and distribution should be the responsibility of the private sector. However, if the prevailing situation demands, the government may intervene to help direct resources to certain potential industries, or promote sales of certain products in certain international markets using economic diplomacy. But, the state will, as a rule, be facilitating — and not corporate or commanding. That is, the main role of the government will be to enact and implement laws and rules and establish and run relevant institutions to ensure that the private sector players play fair and square.

In fact, as the private sector

expands this refereeing role of the government will also increase. Deregulation must not therefore be carried to such an extent as to create total reliance on the private sector to the exclusion of the government. In fact, a healthy development of the market economy depends crucially on the government's firm handling of any breaches of laws and rules. In so far as it has the responsibility to help promote a healthy private sector, the government should act and follow through, in a transparent manner, to logical/legal conclusions, any action that may be required within legal provisions; and should act at the earliest possible stage of an emerging problem to prevent it from blowing up and making the situation more difficult and complicated. In the past, even major announcements such as action to be taken against loan defaulters were not made good. Such posturing by the government tarnishes its own image on the one hand, and on the other, not only lets the wrongdoers off the hook but also encourages unscrupulous and illegal acts. A praiseworthy action in this context has been the swift move by the government (late March — early April) against those identified by the enquiry committee to be responsible for the recent share market scam. Carried to logical/legal conclusion, it should be a landmark event in the evolution of private sector in Bangladesh. One hopes, appropriate action will also be taken against loan defaulters. A genuine partnership can be forged in the national interest only between a healthy private sector and a committed and forthright government. In this regard, both the parties have responsibility to establish transparency and accountability in their own spheres.

Present Status of Privatization

Although the Privatization Board was created in 1993, it has so far failed to achieve much. In recent months, the Board has become somewhat more active, reflecting the intent of the present government to pursue a vigorous privatization programme. A privatiza-

tion policy was adopted in September 1996. The status of the Board has been upgraded, with its chairman given a State Minister's rank and status. An private sector individual has been appointed to that post. This break with the tradition of appointing members of the bureaucracy to this post is refreshing in that the responsibility of presiding over privatization falls on one who belongs to that sector rather than on a bureaucrat who is often seen as the embodiment of control and procrastination, and should also be helpful towards building a true partnership between the government and the private sector.

The privatization policy statement has outlined the institutional framework, method of privatization, preparation of SOEs for privatization, guidelines for valuation of SOEs, tendering procedure for sale as well as for analyzing the tenders received, procedure of receiving payments, procedure of making payments, and public offering of shares. This certainly provides a basis for transparency in the sale of SOEs. Aspects of the policy can be modified, if the evolving situation so demands.

In one respect, the policy statement does not appear to have gone far enough. In the institutional arrangement, it has been proposed that 'ministries having SOEs under their control will set up Privatization Cells for assisting the Privatization Board in identifying, preparing, processing, implementing and monitoring SOEs for privatization'. Nothing is mentioned about sector corporations, which are now responsible for managing SOEs. Obviously,

same time, proper environment for a healthy private sector should be established forging a genuine government-private sector partnership and ensuring that laws and rules are observed by all concerned. Otherwise, the expected benefit from privatization will remain as elusive as ever, leaving privatization subject to question.

Increased Investment

Indeed, only when the private sector develops within the framework of a genuine government-private sector partnership, as outlined earlier, will it be attractive enough for increased domestic and foreign investment. However, for the investment, particularly foreign direct investment, to accelerate, there are also other conditions to fulfil, which would include: existence of opportunities, which are sought to be determined with reference to costs and returns; macro-economic stability, particularly controlled inflation and realistic interest and exchange rates; good labour relations; well organized financial market; availability of infrastructural facilities; conducive legal framework, and socio-political stability. Since most industrial investments are irreversible and cannot be disposed as desired, without loss, or at all, an investor, particularly a foreign investor, would like to evaluate the socio-political environment to determine if a particular investment is reasonably safe and the enterprise set up can run without undesirable interferences.

A conducive socio-political environment can be ensured only by a properly functioning democracy, prerequisites of which include the establishment of rule of law, transparency in the decision-making process, accountability at all levels of government, and people's participation in the governance process which requires the establishment of democratic local government. As countries around the world march forward taking in their stride new knowledge and technologies, we must not remain behind. But we shall, unless we can, as a nation, put our political act together. It is the historical responsibility of our political leaders at this juncture of the world economic evolution to establish a socio-political environment that is conducive for increased investment and growth.

Concluding Remarks

In concluding, it may be observed that privatization of SOEs, by itself, is not going to put the economy on an accelerated growth path on an environmentally and socially sustainable basis. Moreover, the SOEs account for only 6 per cent or less of the GDP. It is crucially important that the needs and priorities of the people at large are built into the overall reform process. Thus, due emphasis needs to be given to agriculture and small and medium enterprises, which are all already in the private sector. Poverty alleviation and sustainable productive employment generation should remain overarching policy goals. Education, training and technology policies and programmes should be so geared as to support a process of sustained growth in various sectors (agriculture, industry, services) and at various scales of operation.

The writer is Chairman, Bangladesh Unnayan Parishad (BUP), Dhaka.

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No EXCUSE...

There's no excuse for agricultural activities that degrade the productive potential of land and water resources. Simple approaches can augment food production: maintaining a diversity of crops and varieties, crop rotation, recycling nutrients and inter-cropping plants.



DEPTHnews

Metropolitan



A seminar on 'Spirit of SAARC and sub-regional grouping' organised by Sato Nagorik Committee was held at the Jatiya Press Club yesterday. — Star photo

Special train for BMA parade

CHITTAGONG, June 9: A special train will run between Chittagong and Bhatiary on June 11 for the convenience of the guests invited at the President's Parade of Bangladesh Military Academy, reports BSS.

The train will leave the Chittagong Railway Station at 6 am and Bhatiary Railway station at 12 noon the same day, an ISPR press release said yesterday.

The invited guests will be able to travel by the special train on prevailing rates of fare.

Centre for burn, acid victims

By Staff Correspondent

A centre has been opened in the city for the treatment of the victims of burn injuries, acid throwings, and other accidents.

The centre named as 'BAN-POSAC's rehabilitation Centre for Burn, Accident and Acid' was opened at the Mohammadia Super Market at Sobhannagh and already 45 victims of burns were treated there, said a press release.

The invited guests will be able to travel by the special train on prevailing rates of fare.

Construction work of Dhopaghata bridge inaugurated

By Staff Correspondent

RAJSHAHI, June 9: Deputy Minister for Primary and Mass Education Zinatun Nesa Talukder inaugurated the construction works of a bridge and a road in the district yesterday, reports UNB.

The centre has been opened in the city for the treatment of the victims of burn injuries, acid throwings, and other accidents.

The invited guests will be able to travel by the special train on prevailing rates of fare.

BIBA demands road link with Makkah, Madina

Bangladesh Islami Biplobi Andolan (BIBA) has demanded to establish road-link with Makkah and Madina so that the country's poor Muslims can perform Hajj and Omrah at low cost, reports UNB.

The demand came from a press conference in the city yesterday.

BIBA secretary general Hafez Moulana Ziaul Hasan read out a written statement at the press conference.

He also announced a series of programmes, including rallies throughout the country, to mobilise public opinion in favour of its demand.

Terming the Jamat-Shibir axis as the permanent foe of Bengali nation, he criticised the heinous role of Jamat during the liberation war.

Repeal of all black laws demanded

By Staff Correspondent

Bangladesh Hindu Boudhia Christian Okyaya Parishad held a rally in the city yesterday demanding repeal of all black laws including 5th and 8th amendments to the Constitution and Enemy (vested) Property Act.

The rally was organised at the Jatiya Press Club premises in observance of the anniversary of demonstration staged back in 1988 protesting the passing of 8th Amendment to the Constitution.

Local Government Engineering Department is implementing the project of 90-meter Dhopaghata Bridge in Mohanpur thana at a cost of Tk 62 lakh and Dhadas-Mahenda road involving Tk 13 lakh.

The invited guests will be able to travel by the special train on prevailing rates of fare.

Govt to give Nat'l Cooperative Award every yr

The government will give National Cooperative Award every year to 15 best cooperative societies and 15 best cooperators of the country, reports UNB.

Each of the societies will get a gold medal weighing 12 gram and a certificate while every best cooperator get a gold medal weighing 12 gram and prize bonds worth Tk 2000 along with a citation.

An official announcement said the National Cooperative Award Giving Committee took the decision in a meeting yesterday. LGRD and Cooperatives Minister Zillur Rahman presided.

The award aims at encouraging and involving the cooperative societies and cooperators in socio-economic activities in a greater dimension.

JU training course in GIS

The Department of Geography, Jahangirnagar University, is inviting applications for admission into a four week long training course in Geography Information Systems (GIS) during this summer. GIS is an emerging branch of computer applications and information technology which provides great future prospects for those, who intend to build career or are already working in environment, planning and development related fields, says a press release.

This course will start on July 1, 1997. University graduates having computer literacy are eligible to apply for the course.