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Privatization in Bangladesh

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The emergence of Bangladesh as a sovereign country in 1971 is the culmination of the ninemonth long heroic struggle of its people against the Pakistani occupation forces. The entire freedom loving people of the world including those of the USA and Western Europe extended ample succour and support for the cause of liberation of the country. India and the East European countries led by the USSR took a firm stand against the Pakistan occupation, that eventually paved the way for close socio-political affinity. Despite an andent believer in the democratic values as well as the free market economy the then political party in power, the Awami League nationalized almost all the Industries under the Bangladesh Industrial Enterprises (Nationalization) Order, 1972, popularly known as PO 27. Prior to independence of Bangladesh EPIDC, a subsidiary organization of PIDC, had been working to promote new industrial enterprises to hand them over to the private entrepreneurs at sector where private initiative was either absent or meagre. After liberation of the country the then EPIDC was divided into 10 sector corporations and was entrusted with the task to run more than 700 industrial units, the state owned Enterprises (SOEs). The number of corporate bodies created for running govt. owned service and financial organizations, etc. was also increased. The bipolar economic order was at the peak in that time. The socialistic politico-economic pattern in Eastern Europe and China was an attractive model which was adopted indiscriminately by some least developed countries. But the benefits of such wholesale nationalization in the developing countries were

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not so encouraging. The disintegration of the former USSR and the end of one party rule the politico-economic order in East European socialist countries witnessed a tremendous setback because of its inherent flaws. The events in 1990s mark the existence of a new world where global trend was in favor of the democratic, multy-party and market-friendly private sector trade, commerce and industry. The USA became the sole arbiter of the destiny of the post cold-war era. Bangladesh is very much within the orbit.

2. The socialization of the means of production in a bid to stop exploitation of the people was a popular slogan particularly till the mid-seventies. But the earlier assumption that the social gains from the public sector profits will be greater than the social gains from the private sector profits proved futile by the early eighties. The short-comings of state-ownership got clearly manifested by enomorous losses of the SOEs. The negative financial rate of return in the public sector in the form of large cumulative losses caused heavy pressure on government exchequer. The reason was under utilization and inefficient management of SOEs by so called most efficient bigwigs. So the objective of extended role of the govt. in the economy miserably failed to increase economic growth by worse management of resources. Therefore, change of frame-work accompanied by a set of policies was an imperative that ensures entrepreneurs profits from productive endeavors and rise of rate of economic growth.

The mechanism once thought to be appropriate and effective i. e. indiscriminate nationalization eventually took a reverse trend towards gradual privatization of the SOEs in order to get rid of recurrent loss. The policy should not regard privatization as an end in itself but as means towards increasing efficiency and facilitating economic growth. "Throughout the world, increased emphasis was given on privatization and more than 8500 SOEs were privatized in 80 countries during the last 12 years."

3. The overall performance of SOEs in Bangladesh was very much disappointing. Average annual losses incurred was ৳2500 crores and the total losses at the end of FY 1998 stood to the tune of ৳45000 crores according to the Privatization Board announced in some national dailies a few months back. These valuable resources could be utilized in a better way for poverty alleviation program for greater benefit of the poor people. Bangladesh had to suffer much since its independence because of the extreme incompetence and recurrent losses of the SOEs. We could ascertain the situation much earlier and turn to privatization to revitalise the economy just at mid-seventies, though the term privatization was not used in those days. Privatization, although literally meant to "make private", (from public to private control or ownership), has by the time, already acquired a broader meaning so as to encompass the public-private mix, changes in finance via changes of management, contracting out, etc. Bangladesh has already undertaken large scale privatization primarily through such modes as denationalization and isinvestment of govt. assets and properties. It has also been making attempts over time and again towards devolution, decentralization deregulation and delegation of authorities or management. The policy of the government now is to remove bureaucratic control over business and industry in order to facilitate strengthening and stimulation of the private sector. This fact has been amply reflected in the Industrial Policies (IP) of 1982, 1986 and 1991 and is expected to be widened further in the next Industrial policy that will be declared shortly. It is worth mentioning here that amongst the seven sectors that have been kept reserved for public investment in the IP 1991, private investment has already been allowed and started in three areas, namely, (i) Power generation and distribution; (ii) Telecommunications; (iii) Air transportation and Railways.

4. Under P. O. 27 of 1972 and the then existing socialistic pattern of economy made restriction on private individuals to own enterprises in almost all of key sector industries like jute, textiles, sugar, etc. Moreover, the maximum ceiling on investment was fixed at ৳1.5 million for private entrepreneur in any single industrial enterprise. The industrial policy 1973, 1974 and 1975 raised the investment ceiling to ৳ 2.5 ৳ 30 and ৳ 100 million respectively. The Industrial policy 1978 made the ceiling unlimited. At the same time Dhaka Stock Exchange (DSE) was reactivated to mobilize private savings and investment, the Investment Corporation of Bangladesh

(ICB) was revived for underwriting public issues of shares and for bridge financing industrial units, identified free sectors required no formal sanction provided the foreign exchange necessary to import machinery were arranged by entrepreneurs using own resources like suppliers credit and the pay-as-you-earn (PAYE) scheme.

In New Industrial Policy (NIP) 1982 industry was arrayed under three groups : (i) a small reserve list for public sector investment only, (ii) a concurrent list of large industries for both public and private investment and (iii) all other industries opened to private investments. The Revised Industrial Policy (RIP), 1986 further liberalized sanctioning procedures- & increased incentives for local and foreign investors; rationalizes fiscal and monetary measures like import-export incentives, tariff rates, etc. It kept only seven sectors reserved for public investment, e. g., (a) Arms, ammunitions and other defiance equipment's & machinery's; (b) Power generation (except through private generator), transmission and distribution; (c) Forest plantation and mechanized extraction within the bounds of reserved forests; (d) Telecommunications (excluding distribution and services); (e) Air transportation (excluding cargo) and Railways; (f) Nuclear energy; and (g) Security printing (currency note) and minting. The latest published industrial policy, 1991 raised investment ceiling in the small-scale industries from ৳1.5 crore to ৳3 crore (4.5 crore with BMRE) along with a number of incentives to attract the flow of local and foreign direct investment. For foreigners and non-resident Bangladeshis, investment facilities made available are :

a) 100% foreign equity holding; (b) repatriation of all post tax dividends, capital, and capital gains; (c) employment of expatriate technical and professional personnel; (d) remittances of 50% salary of foreign nationals employed in local companies; (e) remittances of savings from earnings, retirement benefits, personal assets of individuals employed on retirement/termination of service; (f) exemption from income taxes for first 3 years of employment; (g) multiple entry visas, (h) relief from double taxation; (i) re-investment of reportable dividends (is treated new investment); (j) unhindered access to local banks and financial institutions for long-term loans and working capital; (k) ownership in the form of private limited companies and optional public offering of shares in case of public limited companies; (l) to invest in shares and securities through stock exchange; etc. The Foreign Investment (Promotion and protection) Act, 1980 provides legal coverage to all foreign companies operating in Bangladesh against nationalization and for equal treatment as well. Bangladesh is also a signatory to Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, Overseas Private Investment Corporation (OPIC) and International Centre for Settlement of Investment Disputes (ICSID) to cover all sorts of risks. Besides, BOI and a host of other govt. agencies like BSICIC, BEPZA, BSB, EPB, BHB, Sericulture Board, NPO and BITAC. are there either to promote or regulate industries. The govt. has shifted its role from regulatory to promotional as a prove to which earlier Department of industries has been replaced by BOI headed by the Prime Minister of the country for speedy decision, quick implementation of decisions and also to provide all operational support services in a package from the same authority. All these functions that were done or at present are being done constitutes a process of continued and consorted efforts to the end toward speedy privatization.

5. Bangladesh envisaged four potentially large benefits of privatization : first, stemming the increasing losses of the SOEs; secondly, improving the quality of products or of services; thirdly, increasing the efficiency, and finally, confirming the donors and to the private sector, the Govt's commitment to the irreversibility of the pro-market reforms. If we look back for a while in this juncture of SOEs what we shall see is that within two years of nationalization, the govt. came under heavy criticism for rampant corruption and raffish inefficiencies in the SOEs. As a result, from 1975 onwards the grip on public control of industrial activities began to be slowly loosened, by returning nationalized industries to its Bangladeshi owners (denationalization) and also divesting small enterprises through sales of assets or shares. In the mid-1970s two seuccessive big rounds of divestitures were held. During 1976-92 about 500 SOEs were sold out or returned to the former owners. Even after that, "some 225 non-finance SOEs (grouped under 39 corporate bodies), four large commercial banks, three insurance corporations, two agri-banks, and three DFIs still remained in operation in the public sector. Those SOEs accounts over 25% of total fixed capital formations, 6% of GDP and 23% value added in the manufacturing sectors. Starting from a profit of ৳1.3 billion in FY83, the SOEs sector's overall returns fell to a net loss of ৳16.3 billion in FY93 even after selling out a large number of SOEs incurring heavy lose. The amount of loss stood 27% of ADP and 1.7% of GDP including the loss from the railway sector. As many as 39 corporate bodies registered a negative return of 3.7% of capital employed. Had those losing concerns maintained just break even, the direct burden on public finances would have been some ৳18.2 billion less in FY93. The factors responsible for this huge loss were Poor management, over-staffing and misuse of overtime facilities, low level of productivity, rapid real wage growth, revenue pilferage, low prices and rapid build-up of debt service obligations. The two pay increases in 1990s added not less than another 60 billion taka to the net loss of the SOEs. The growth rate plummeted to 6% per annum in FY93 from 19% in FY92. The real rate of growth of investment during that period was virtually zero. Depreciation allowances varied from one-quarter to one-half of new investment. SOEs as a whole had negative net working capital because of the huge losses incurred year after year. Equity as percent of total capital employed was 24%, 26% and 22% in FY91, 92 and 93 respectively. The debt-equity ratio stood at about 75:25. Very high levels of debt thus characterize the SOEs financial structure, about 90% of which was funded by borrowing from the NCBs, which again had grown to 47 billion by the end of 93. These loans in turn, threatened the financial viability of the NCBs due to the non-payment of interest and the principal amount". The question to Bangladesh, is not therefore, whether to privatize or not, but the question will be on the modality of privatization and its quick implementation. To expedite divestiture Privatization Board (PB) was created in March'93 which had divested only 35 SOEs and sold out shares of another 9 through ICB till date.

6. Modality of Privatization : The following methods are being followed for privatization : (a) Sale of enterprise (company) as a whole by international tenders:- local or foreign buyers and association of workers/staff/officers of the tendered enterprise can offer bid and purchase the enterprise; (ii) Sale by public offer of shares:- shares of SOEs may be sold to the public directly or through the stock exchange converting the SOEs into public limited companies and (iii) Sale of assets and properties in liquidation process. First of all the list of saleable SOEs are sent to PB by the controlling Ministry of such SOEs. Then Chartered Accountant (CA) firms or consultants are engaged by PB for evaluation of assets and liabilities. Evaluation reports are examined and reviewed by PB (generally by a committee) and if need be reevaluation are made by another CA firm. International Tender are invited after finalization of valuation. All tender bids are examined by PB and findings are submitted to the Council Committee of Economic Affairs for decision. Important terms of tenders are : (i) the buyer shall have to accept all long-term loans against the fixed assets; (ii) the short-term liabilities like claims of workers, income tax, etc. shall be taken by the state. If the value of the assets (stock & store, sundry debtors, advances, etc.) exceed bank loans, the buyer will have to pay the excess amount either in cash or within one year along with 10% simple interest; (iii) In case of running enterprise, the buyer and the corporate body will jointly determine the fate of redundant employees. Retained employees will be offered new terms of employment by the buyer; (iv) Buyers will be liable to pursue all pending court cases; (v) Land will normally be used for establishment and expansion of industries. However, use for other productive activities are also allowed; (vi) 2.5% bid price is to be submitted along with the tender, 22.5% is to be paid within one month of issuing letter of intent and the balance 75% is to be paid within 5 years at half yearly installments along with 9% compound interest. However, 10% discount/rebate is allowed in case entire payment is made within 30 days. Quasi-equity loans and dues of the govt. and corporation to be repaid within 10 years in 6-monthly installments with 10% simple interest. An irrevocable bank guarantee without recourse to be given in all cases of non-cash payments; (vii) In case of sale to employee's associations all claims/liabilities may be adjusted with the bid amount. (b) In case of sale of shares, quotation for total number of shares has to be offered and (c) in case of sale in liquidation process liquidator appointed by the govt. or the court will determine the terms.

7. Difficulty to Privates : The Criteria for successful privatization criteria like efficient use of capital and labour in production, rise in the rate of growth by increased level of activities in private sector and better macro-economic performance; etc. will draw dynamic gains of additional investment from domestic and overseas private sector. Achievement of our privatization on those standards are yet far below our expectation. Because, the overall performance of our SOEs during the recent years was so discouraging that the nation was in favour of relieving the financial and administrative burden of the public sector and thus help achieving the financial and administrative burden of the public sector and thus help achieving the national economic goals by hastened privatization. But the pace of the program after mid-1980s has been very much slow. A rapid but well planned privatization is the best policy no doubt. But the nation will even prefer to accept a rapid ill conceived privatization to an well-planned slow one. Privatization Board was created and put under Cabinet Division by abolishing the privatization cells of concerned ministries to fulfill above desire of the nation. But the Board lags far behind to reach the set goal. The Privatization Board or no other single authority or agency could be held responsible for this slow speed. Lot of reasons are there for hindering the speedy privatization, some of which are given below:

(i) Negative political environment : All major political parties of the country are in favour of privatization. Even the left-wing political parties having socialistic out look are now not antagonistic to privatization although they are critical of hasty privatization and the unethical activities of private entrepreneurs. But most fantastic to see that even a political party that staunchly supports privatization vehemently opposes govt. steps towards privatization when it takes the role of opposition. Such negative attitude of opposition parties compels the partly-in-power to adopt go-slow principle.

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(ii) Absence of Time-framework : The parameters and scope of privatization seems not yet been agreed upon at the highest level of policy makers. The policy does not provide a well contemplated time framework for the completion of the privatization Programme. An indicative time table for privatization with set goals for each stage would send strong signals to investors and create confidence.

(iii) Poor Response to Tender : The response of the prospective buyers to the international tenders were poor. None of the established local entrepreneurs had participated in these bids. For the lack of valid bids, tender notices were served quite a number of times. Even if valid bids were available, quotations for the highest bids were mostly below the net worth.

(iv) Non-Cooperation or Resistance : Job opportunities are less than the job seekers. The workers, staff and even officers of the SOEs have a natural apprehension that they might be out of job. Consequently CA firms, consultants and probable buyers had to face resistance and or non-cooperation from the workers, trade unions and mill management in collecting required data. Hence, the valuation and other tender processes got delayed and often lacked credibility.

(v) Faulty selection of SOE : Selection of SOEs for sale are not always keep correlation with time-frame-Programme. The bureaucratic consideration is to select the most worn out or loosing enterprise first of all. Entrepreneurs, on the contrary would like to go for profitable or at least better off one at the first chance. Political consideration some time frustrate both of that ideas. So the influential politicians for their political benefits want to delay sale of the enterprise which is located within or close to his constituency or gray area of politics, without considering the economic viability.

(vi) Unethical Practices : Unethical and corrupt practices of a few entrepreneurs have had a negative impact on the privatization process. Textile sector has none of the best successful history of privatization in this country since out of 86 mills of Bangladesh Textile Mills Corporation (BTMC) 52 have so far been privatized. But unfortunately above 30% divested mills remained shut down. A pertinent number of buyers did not pay govt. and bank dues even in 16 years after the divestiture. Not only that, a few buyers took further loan against such mills which again was still outstanding to them, sold out fixed assets of mills by violating the term of purchase and even in some cases, provident-fund-money of the workers was misappropriated by the buyers. These sorts of affairs are strong instruments in the hands of workers, management and politician, specially labour leaders who do not want privatization for some reasons or other.

(vii) Court Cases : Saleable SOEs are generally worn out, enterprises inurring loss and having different kinds of obligation to different persons/bodies could not be met by them immediately for obvious reasons. So there are ample scope for the aggrieved persons to go to the court of law for justice. On the contrary, much of such obligations could be met if they were sold out at a reasonable price. But it has been observed that some persons/bodies are inclined to sue the enterprise on the eve of finalization of sale. Sometimes govt. decides to liquidate assets of some SOE or divest enterprise for nonpayment of govt. money wheraein the verdict of court is required. Whatever might be the cause for getting verdict of a case, specially on be half of the govt., is terribly difficult. This hinders the privatization process and help to meet evil design of some unscrupulous persons/bodies.

(viii) Unworthy Networth : Some times long term loan, added with interest accrued on it, largely supersede the assets as a whole. How those enterprises will be sold so long all liabilities including long-term loans are not borne by the govt.? Change of policy is very much essential here.

8. * Bangladesh : From Stabilization to Growth, A World Bank country study, 1995 said "-At this level, the government could afford to finance a new infrastructure project of the size of the Jamuna Multi-purpose Bridge every one and a half years entirely from domestic resources if the SOE losses could be eliminated." This is not at all an exaggeration. For the sake of the best possible use of scarce resources to the greater interest of the nation, to get rid of loosing SOEs have become absolutely an imperative. And sooner the better.

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* Source-Bangladesh : From Stabilization to Growth/A World Bank Country Study, 1995.