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Privatization in Bangladesh

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1. Background and rationale

1.1 Switch from nationalization to privatization

Despite a significant degree of public ownership in health, education, communication, utilities and energy sectors in the pre-independence period, Bangladesh inherited basically a private sector dominated economy at the time of independence in 1971. However, the devastation caused by the War of Liberation left the economy in a paralysed 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. The government tried to get the economy moving by restarting abandoned enterprises and by providing entrepreneurial support in a period of chaos and uncertainity. 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. 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.[1] The nationalization programme 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 per cent in 1969-70 to over 90 per cent in 1972. According to a World Bank study (1994), around 305 state-owned enterprises (SOEs) comprising industries, banks and financial institutions came under public ownership and control by 1974-75. 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. While some people would try to justify the take-over of abandoned enterprises as a situational necessity, the wholesale

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[1] The genesis of a socialist transformation of the Bangladesh economy by pursuing the strategy of a state-sponsored industrial development is clearly reflected in the country's First Five Year Plan (1973-1978) document. (Cf. GOB, 1978).

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 programme, 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. 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.

Much discussion has taken place about the public sector performance, particularly about the losses suffered by the SOEs. One of the recent studies, which was done by Satter (1997), reports that the persistent losses by the SOEs was costing the national exchequer nearly one per cent of GDP by 1991. 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.

1.2 The current size and performance of the SOEs

The size of the SOEs sector has shrunk considerably after the shift in the Government's economic policy towards encouraging private sector participation in the economy, greater market orientation and liberalization, and successive divestments of the SOEs, Nevertheless, data presented in Appendix Table A-1 show that some 218 SOEs (grouped under 36 sector corporations) are still in operation. The largest number of SOEs (121) are in the manufacturing industries sector, which comprises jute and cotton textiles, chemicals, sugar and food, steel and forest industries in descending order of importance. While declining importance of the public enterprises is evident, (Figure 2.1 and 2.2 based on Appendix Table A-1), the losses incurred by these enterprises are reported to have been increasing (Figure 2.3). The Monitoring Cell of the Ministry of Finance (MOF), Government of Bangladesh, estimated the after-tax losses of the SOEs to have increased from Tk. 3.8 billion (or US $ 0.12 billion) in 1986 to Tk. 4.8 billion (or US $0.13 billion) in 1991,Tk. 7.5 billion (or US $0.19 billion) 1995 and Tk. 12.7 billion (or US $ 0.29 billion) in 1997. The comparable figure estimated by the World Bank (1999) for FY-97 stands at Tk. 14.1 billion (or US $0.33 billion).[1] Notwithstanding the variations affecting different estimates of the SOE losses, these have been rightly termed by Satter (1997) and Mondal (1997) as proverbial losses of SOEs which have significant economic implications. Needless to reiterate, a resource-poor country like Bangladesh can not afford to sustain losses of this magnitude year after year. While the Governments' resources are limited, there are more pressing demands for financing the social sectors such as health,

[1] The latest MOF estimates put the SOEs losses at a much higher figure, around Tk. 45.5 billion (or US $1.03 billion) for the year 1997-98.

education and housing for the poor and for environmental protection. Besides waste of scarce resources, colossal losses incurred by them pose negative externalities to the entire industrial sector, i.e. in terms of poor operating efficiency and depressed performance. While an analysis of the SOE performance is beyond the purview of the present study,[1] it can perhaps be suggested that healthy development of a competitive and private enterprise system is essential for paving the way for privatization.

Figure 2.1
Decline in the size of the SOEs sector in the economy between 1993 and 1997/98

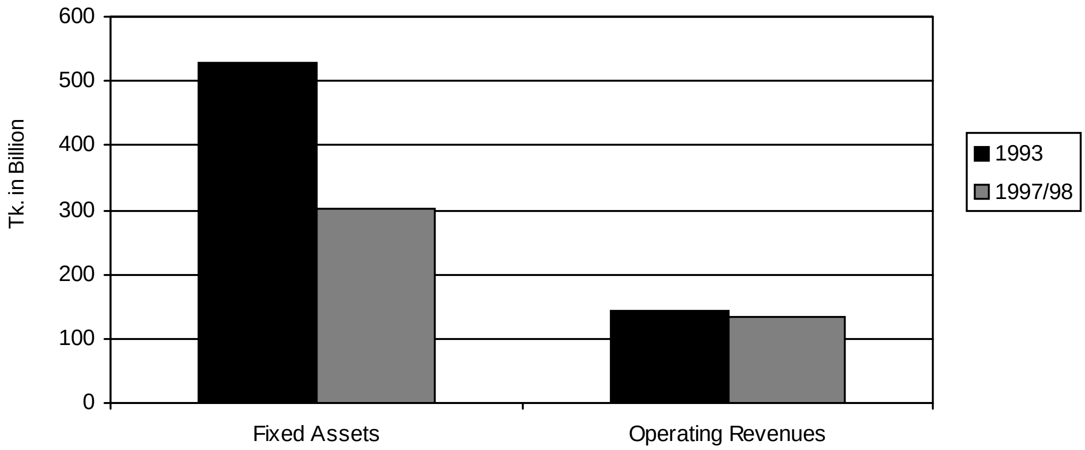
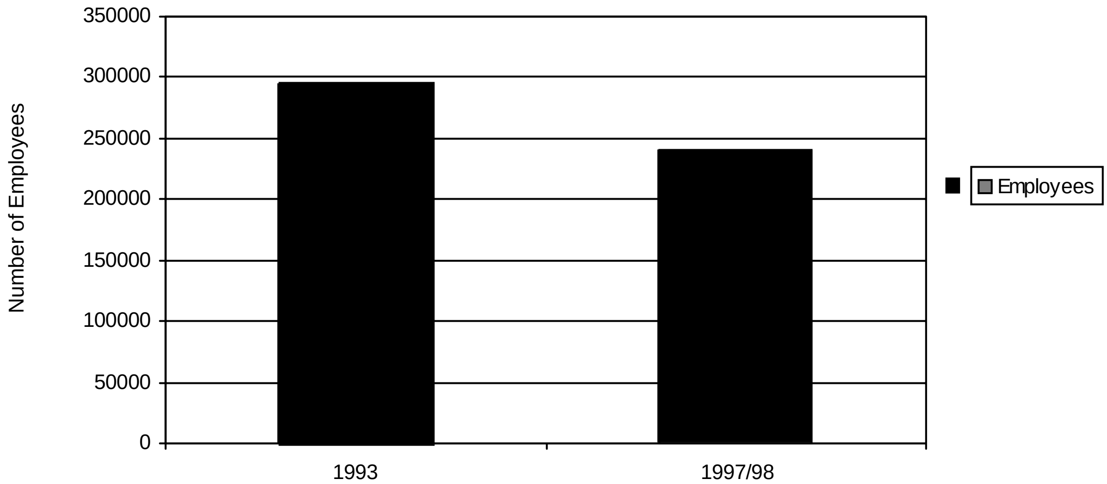


Figure 2.2
Decline in employment from 1993 and 1997-98



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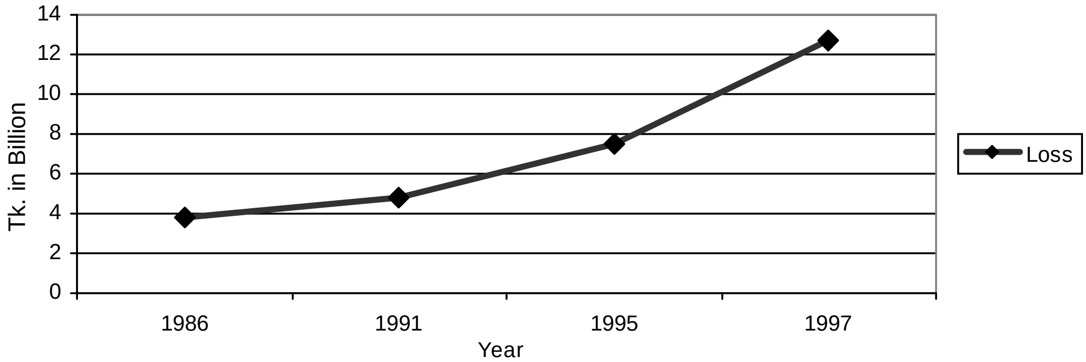
[1] The interested reader is referred to World Bank (1994) and Satter (1997) for details on the SOEs' performances and their socio-economic implications for Bangladesh

Figure 2.3
SOE Losses (after tax) overtime



1.3 Privatization: A necessity in Bangladesh

Any rational assessment of the SOE sectors' predicaments would suggest that the pertinent question is not whether to privatize; it is rather how fast and how best to do it. A set of three inter-related reasons are put forward as rationale for privatization in Bangladesh.[1] These are:

- improvement of the governments' fiscal situation;
- improvement in enterprise efficiency following privatization; and
- mobilization of greater domestic as well as foreign investments for higher growth in the medium-term.

Privatization in Bangladesh has also formed part of the Government's overall market-oriented adjustment strategy under which privatization and market-based economic reform measures have tended to reinforce one another.

1.3.1 Reducing the Government's fiscal deficit

By privatizing the SOEs, it is not only possible to eliminate revenue losses, but also to create an expanding revenue base through the development of a vibrant private sector. The accommodation of the persistent losses of the SOEs by unmitigated NCB (Nationalized Commercial Banks) lendings endorsed by the Ministry of Finance (MOF) through regular infusion of bonds and cash into the NCBs, limit the scope for commercial bank lending to the private sector and makes the latter suffer from "the crowding out" effect. The NCBs, in turn, suffer from capital inadequacy because of providing 'lead loans' to SOEs and the government's strategy of fiscal prudence is undermined by the existence of the 'soft budget

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[1] Summarizing myriades of privatization goals followed in different countries Lieberman (1993) classify them into three broad categories: (a) reduction of government's fiscal deficits and its external and internal debt, (b) generation of new sources of cash flow and financing for enterprises and (c) getting Government out of business.

constraints'. Improving the fiscal situation is thus one of the key arguments for privatization, as it promises to provide a lasting cure to financial malaise by eliminating indiscriminate financing of SOE losses.

1.3.2 Improving enterprise efficiency

Another overriding argument in favour of privatization is the improvement of enterprise efficiency under private ownership. Empirical evidence of better performance under private ownership across a wide range of efficiency indicators (i.e. profitability, productivity etc.) and industry groups are available internationally as well as in Bangladesh.[1] The limited evidence available from Bangladesh in this regard shows that a number of private sector jute and textile mills have been economically more efficient than their public sector counterparts (Satter, 1997). However, the results of other studies (discussed later) have been contradictory, leaving the overall post-privatization economic performance issue in Bangladesh rather inconclusive.

1.3.3 Generation of new sources of capital investments

One of the important achievements of privatization in the countries of Latin America, Asia and Eastern Europe have been the revitalization or development of capital markets, increase in domestic investment, return of flight capital and inflows of external resources. All these along with the availability of cash from the sales of the SOEs is expected to help mobilize greater resources for investments and enhance the prospects for higher medium-term economic growth. While these are potentially direct and immediate positive outcomes of privatization, other objectives, such as increasing allocative and productive efficiency; absorption of new technology and management skills; and creation of employment opportunities through higher growth etc., are long-term goals and depend on the extent which the private sector is capable of achieving them.

2. Privatization policies in Bangladesh

2.1 Evolution of privatization policies in Bangladesh

The privatization process in Bangladesh evolved gradually tbefore taking a concrete shape in 1993. The switch from state sponsored capitalist mode of industrial development to private sector-led industrial growth in Bangladesh began in the mid 1970s. With the famine in 1974, rising prices and a dwindling economy led to gradual shifts in the government's policies towards encouraging private sector participation in manufacturing and reducing the role of public sector through disinvestment (vide Investment Policy 1974). 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. Between 1975 and 1981, a number of important changes in the policies and institutions were introduced (i.e. declaration

[1] For a summary of evidence on the efficiency gains under private ownership at the international levels the reader may see, World Bank (1994) and Megginson (1998).

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. The major elements in the policy to bring about a decisive shift towards a private sector driven industrialization during this period included: (i) elimination of ceiling on private investment, (ii) reduction in the reserve list of industries under the public sector and creation of "free sectors", (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.[1]

The most significant move in the privatization process occurred in 1982 with the announcement of the New Industrial Policy (NIP). 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.[2] 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.

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 programme. The RIP provisions also encouraged foreign private investment, allowed liberalization of imports, export incentives, and liberalization of fiscal and monetary measures. The Government's strong commitment towards 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. 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. A brief discussion on the regulatory reforms to stimulate growth of the private sector and also privatization may be relevant here.

2.1.1 Regulatory reforms geared to encourage 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

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1 Between 1973-1980, a total of 199 industrial units were disinvested by the government at a total sales value of Tk. 115.8 million. The privatization Board sources quote a figure of 225 SOEs, which have been privatized during 1976-1981.

2 An elaborate treatment of the introduction of policy changes, domestic and foreign investment incentives and export promotion measures provided under the NIP is available in Bhuiyan et. al. (1993).

investment by domestic as well as foreign investors. 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. It is outside the scope of this study to discuss these issues in details.[1] 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.

Liberal policy measures and attractive incentive packages (i.e. tax exemptions, tax holidays, concessionary duty of imported machineries, facilities for repatriation of invested capital, profits and dividends etc.) have been designed to attract larger flow of foreign direct investment (FDI). 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. 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.

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.

2.1.2 Regulatory mechanism for controlling monopolies and ensuring competitive environment

Privatization programme 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. 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.

However, the present policy framework in Bangladesh does not contain any effective mechanism for controlling monopolies and protecting consumer interests in the event of

[1] Details on the deregulation and liberalization measures are available in Ahmed M. U. et. al. (1999).

transfer of public monopolies through privatization of utilities, telecommunications and transportation activities. In order to ensure gains from privatization of the non-competitive sectors, prudential industry regulations must be put in place and be rigorously implemented to protect consumer interests and social welfare goals. Thus, privatization and entry of the private sector operators in the public utility sectors should be accompanied by a strong, credible and transparent regulatory framework that limits the scope for abusing market power and controls rent-seeking behaviour.

2.2 Privatization policy: New thrust and clear direction

In order to streamline the lagging privatization process, the Board of Disinvestment created earlier was replaced by an Inter-Ministerial Committee on Privatization (ICOP) set up by the Government in 1991. ICOP's responsibilities included development of privatization policy and approval and monitoring of specific privatization proposals for the various administrative ministries which have Privatization Cells to identify SOEs for privatization. ICOP worked as a coordinating body between the line Ministry and the Executive Committee of the National Economic Council (ECNEC) to implement privatization. However, although ICOP was created to expedite the privatization process, the lengthy process involving several layers of approval still remained; and ICOP lacked necessary technical capacity and autonomy leaving the privatization process to remain slow and cumbersome. To overcome these limitations, a Privatization Board (PB) was set up in March 1993 to formulate the modalities for transferring SOEs to the private sector. In order to further strengthen the role of the private sector by accelerating the privatization process, the Government has adopted a comprehensive privatization policy in June 1993 and laid down detailed procedures to facilitate the process of privatization. The policy has aimed at relieving the financial and administrative burden of the Government, improving efficiency and productivity, facilitating economic growth, reducing the size of the public sector in the economy and help meeting the national economic goals.[1]

2.3 Institutional arrangements, methods and procedures of privatization

The privatization policy statement has outlined the detailed methods, procedures, legal formalities as well as the institutional framework to carry out the process. Theoretically, PB has the sole responsibility of privatizing the SOEs and this provides a basis for transparency in the sale of the SOEs.

2.3.1 Institutional framework

In order to strengthen the PB structurally, improve its performance and also make its operations more transparent, the Government appointed a renowned private sector entrepreneur as the Chairman of the Board with the rank and status of a State Minister to the Government. The Board now consists of two full-time members, four full-time Directors and twelve part-

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1 Details on the salient features and procedures of the Privatization Policy are available with the Privatization Board (1996).

time members including six members of the Parliament both from the party-in-power and from the opposition. The Board also has the authority to engage consultants and specialists as and when necessary to execute its programmes. 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. 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.

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. 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. Recently, the Ministry of Jute has floated a tender for 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 programme.

2.3.2 Methods of privatization

There is no unique formula for privatization. The dominant prevailing methods include divestiture of government economic activities, private sale of shares, public offering of shares, lease and management contract, management/employee buy-out etc. of which divestment is the most widely used method in both developed and developing countries.[1] Divestment of a public enterprise takes place in many ways which include floatation of shares, sale of equity, sale of public enterprise assets etc. However, the appropriate method of privatization will vary from country to country, much depending on the state of the economy in general and of the private sector in particular.

According to the Privatization Policy Statement, one or both of the following methods are at present being followed for privatization in Bangladesh:

(i) **Sale by International Tender:** Local and foreign buyers may participate in all such tenders. Association of workers, employees and officers of the tendered enterprise may also offer bids for purchasing the enterprise. The authorities have also declared that they would prefer to use Employee Stock Option Programme (ESOP) if the workers of the enterprise are willing to buy it.[2] Direct sale of SOEs has been the dominant method of privatization in Bangladesh. In fact, direct sales

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1 A succinct description of the various privatization methods used in different countries is available in R. Mondal (1998).

2 The potentials of ESOP planned to be tried in the textiles sector is discussed at length by Akram (1998).

have been much more common than other methods (i.e. public share offerings) all over the world; there were 831 privatization cases involving US $ 176 billion through direct sales of SOEs compared to 630 cases of privatization through share issue during 1980-1997 (Megginson, W.L., 1998).

(ii) **Sale by Public Offer of Shares:** Under this method, government-owned shares in different companies and shares of the SOEs converted into public limited companies may be sold to the general public either directly or through the Stock Exchange. An SOE running as public limited company may sell whole or part of the block holding to the public at a pre-determined price or may issue new public shares (primary). With approval of the Prime Minister, shares of nine SOEs are currently being sold to the public through the Investment Corporation of Bangladesh (ICB).

However, the successful off-loading of the shares of an SOE by either of the two methods involves many complex and sensitive procedures, particularly in the developing countries like Bangladesh which need careful attention.

2.4 Tendering and payment procedures

According to the stipulations of the privatization policy, a chartered accountant or a consulting chartered accountant firm is appointed by the PB to make valuations of the assets and liabilities of the SOEs identified for sale.[1] After careful review and examination of the chartered accountant firm's report, PB may hire another chartered accountant firm for re-valuation if considered necessary. The valuation report is then sent to the Finance Division of the Ministry of Finance for comments and approval. Tender is invited after finalisation of the valuation report quoting the "reserved price" (i.e. minimum price below which the unit will not be sold) calculated by the consultant and agreed by the Ministry of Finance. The prospective buyers are allowed access to the valuation report and other relevant papers, such as three year's performance report of the enterprise prior to submission of the tender. The buyers submit quotations according to terms and conditions of the tender which are considered to be stringent by many experts as well as by the concerned shareholders. For example, the bidder has to accept all long-term loans against fixed assets, will be liable to pursue all pending court cases, and will not be allowed to sell the land under the enterprise.

The short-term liabilities, such as the claims of the workers and income taxes, shall be borne and written-off by the Government. However, if the value of the assets exceed bank loans, the buyer has to pay the excess amount either in cash in a single installment or within one year of purchase along with a simple interest of 10 per cent. It is thus important that the long-term and the short-term liabilities should be clearly defined, demarcated and the distinction established and upheld. There should be no scope for reinterpreting the terms and conditions of privatization after sale, because scope for reinterpretation provides opportunities

[1] While the chartered accountant firm follows the existing accounting principles and practices for valuation of the SOEs, it also follows the guidelines provided in estimating the values of various assets.

for rent-seeking and provides unequal advantages to the privatized units over other units in the same sector. To avoid such complications, it is also necessary to undertake restructuring of capital of the SOEs usually by writing-off loans, scrapping of obsolete assets, laying off surplus workers and improving overall operational efficiency etc. for preparing the SOEs for speedy and effective sale. The counter argument put forward by the leaders of the business community against these conditions is that the entrepreneur buying the unit should be left free to decide the courses of action after the hand over of the enterprise, because as he takes up the liabilities, there should be no strings in the hands of the Government to pull any more.

While the payment procedures are also considered equally stringent, there exists no window for financing (by the banks) of the privatization process.[1] The potential buyers need to submit 2.5 per cent of the negotiated sale price within one moth. The balance 75 per cent has to be paid within five years in half-yearly installments along with a compound interest rate of 9 per cent per annum. The buyer will be entitled to a rebate of 15 per cent if he can pay the entire amount within 30 days of signing the agreement. When payment is not made in cash, the buyer needs to provide a bank guarantee which involves various complications. On top of all these, the buyer is in a state of constant fear until the final hand over even after receiving the letter of intent (LOI) as the CBAs may prohibit such hand over process. Further, although all formalities relating to handing over is to be completed within 90 days of the issuance of LOT, the successful bidder often has to run from the pillar to the post to get the various formalities completed. As a result, between floating the tender and the issue of LOT to the party winning the bid, it takes on average 6-7 months as the final offer is also subject to approval of the Cabinet Sub-Committee and by the Prime Minister which often involves undue delays.

Thus, the PB in practice does not have the real autonomy and authority to take final decision regarding divestment of an SOE. The real power lies in the hands of the Cabinet Committee which takes the final decision regarding the sale of an SOE. It is thus suggested that in order to allow privatization effort to make significant headway, the autonomy of the PB needs to be significantly enhanced by giving it statutory status. A draft Privatization Law prepared with assistance of the Department of International Development (DFID), U.K. and the Adam Smith Institute (London) for privatization to provide PB with greater autonomy and authority for trying different privatization options is under consideration of the Cabinet Committee. The considered view is, however, that the proposed Privatization Bill will not go a very long way unless the Constitution of the country is changed to provide PB with enough legal authority. In this context, the existing Transfer of Properties Act and Negotiable Instruments Act also need to be modified and changed to facilitate quicker change of ownership of assets. In addition to the right to sell, PB should also be granted the right to liquidate the SOEs, so that it can sell the assets of an SOE part by part, i.e. land, machinery and other assets as demanded by the prospective buyers.

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[1] The PB mentions however that the buyers are entitled to a rebate of 15 per cent if they can pay off the price in one single installment and may also obtain long-term loans from the banks.

Further, the PB officials must also change their attitude and start taking initiatives to expedite the privatization process. In particular, they must overcome the fear of public criticisms, harassment by anti-corruption officials, and most important of all, try to make their own decisions instead of depending upon the concerned Ministries in identifying and selling an SOEs. It is also suggested that like the BOI, the PB also should introduce “one-stop” service mechanism to make the privatization process more effective, transparent, well-coordinated and faster.

3. Current status of privatization of SOEs in Bangladesh

3.1 Extent and pace of privatization

While Bangladesh is considered a fore-runner in carrying out privatization, there seems to be a common belief that the overall achievement has not been all that impressive. Lack of enough political commitment and determination, absence of sufficient legal framework, limited institutional capacity, mistrust among the workers and above all, political discord between the party-in-power and the opposition political parties are generally identified as important factors limiting the progress of privatization in Bangladesh. Moreover, opposition to the privatization of the SOEs is not limited only to the above factors, it is also orchestrated further by the country’s left-leaning academics, political leaders and opinion moulders.

While privatization in Bangladesh began since mid-1970s and the process has evolved through many ups and downs till then, it is difficult to arrive at any conclusive judgement on the true magnitude of privatization of SOEs taking place because of lack of hard statistics on the one hand and the controversies sorrounding the mode and methods of privatization of the units involved on the other hand. For example, a study conducted by C.A.F. Dowlah (1997) for World Bank (referred to as World Bank Study, 1997, henceforth) points out that a total of 1089 enterprises consisting of industrial units, commercial businesses and banks etc. were privatized in Bangladesh between 1972 and 1996. The latest study conducted by ILO (1999) estimates a total 1083 SOEs being privatized during the same period of which 610 were industrial enterprises accounting for 56 per cent of the total denationalized units. The distribution of the 610 industrial enterprises by sectors of industry and over different periods of time between 1972 and 1996 are shown in Appendix Table A-2.

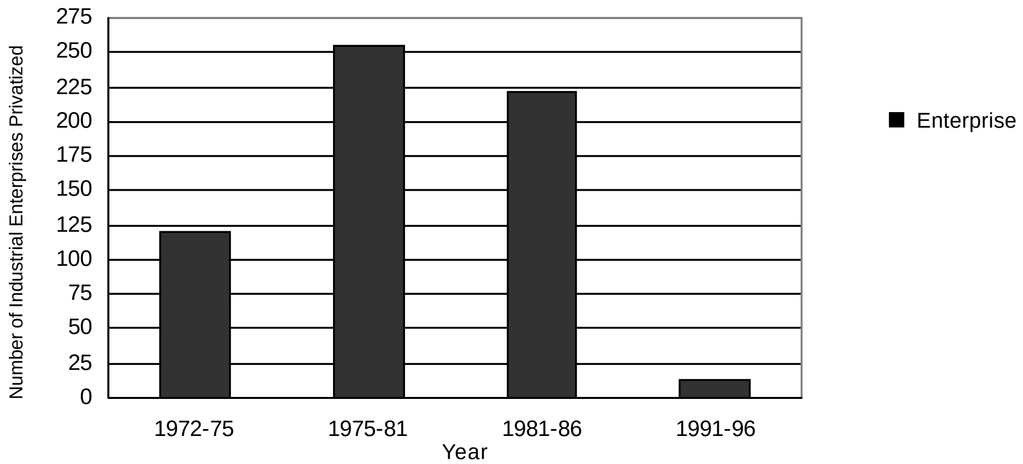
Of the total industrial enterprises privatized, cotton and jute textiles were the dominant sub-sectors, followed by metal works, engineering and steel enterprises and vegetable oils. What is, however, interesting that the overwhelming majority (over 70 per cent) of the units privatized between 1972 and 1981 were small-sale enterprises both in terms of investment and employment and were returned to their original owners.

Another feature emerged from the Table is the gradual tapering-off of the speed of privatization overtime as is evident from Figure 2.4. During 1975-81, a total of 255 enterprises (including the “abandoned” and the “vested” properties) were privatized, but the number declined to 222 during 1981-86 despite the fact that the 1982 Industrial Policy constituted historical landmark providing a significant policy shift towards privatization. More surprisingly, not a single SOE was privatized during the period 1986-1991 even though further greater impetus to privatization was provided through RIP-1986 by way of relaxing government controls and regulations and strengthening the denationalization programmes. Subsequently, a Privatization Board and a Privatization Policy Statement were put in place to streamline and expedite the lagging privatization process. The Government agreed with the donor agencies, i.e. ADB (under the Industrial Sector Programme Loan in 1992), and IDA (under the Jute Sector Adjustment Credit or JSAC) to a formidable programme of privatization of the SOEs. Accordingly the PB prepared a list of 105 SOEs for privatization during 1994-95, but the actual progress remained dismal with only 13 enterprises being privatized during 1992-1996.

The progress seems to have slowed down further as only four industrial enterprises have been privatized and transferred to private ownership between June 1996 and to-date. Additionally, LOI has been issued for eight enterprises after final approval of the Cabinet Sub-Committee for finance and economic affairs though their eventual transfer to the buyers is yet to take place. As noted before, the transfer process is often lengthy and subject to uncertainity due to legal complications, heavy loan liabilities, non-transparent bureaucratic procedures and opposition by the trade unions.[1]

Figure 2.4

Progress in the pace of privatization from 1972/75 to 1991/96



During 1998, PB identified 56 enterprises for sale, but could not sell any so far even after repeated tenders[2]. Lack of buyer interest arising from heavy debt liabilities, financial

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1 The problem seems intractable in view of the fact that the responsibility of the PB apparently ends with the issue of LOI. Final hand over of the unit and the execution of the sale deed remain the responsibility of the Ministry concerned causing inordinate delay and consequent frustration for the buyers.

2 The financial and economic viabililty of many of the SOEs identified for privatization are so doubtful that selling such enterprises as 'properties' may be the only option left to minimize losses and draining away of the tax payers' money. Obsolete machinery, acute overmanning, low productivity, heavy loan liabilities, inefficient public sector management, loss of customers and market shares, frequent work stoppages etc., have made such units totally non-economic entities.

and commercial non-viability, and inadequate information about the stocks, spares etc. are indicated to be (i.e. Daily Star, July 30, 1999) important reasons. The contradictory signals about sincere implementation of the privatization policy by the Government, deterioration of the law and order situation and dramatic increase in rent-seeking by the musclemen are also regarded as other important factors underlying recent slow down in the pace of privatization.

While the Government is also trying to attract the foreign investors, the efforts so far have met with limited success. Political uncertainty, slow implementation of the policies and support measures, bureaucratic procedures, and lack of adequate legal protection have been the main deterrents to FDI inflows. Further, foreign investors will continue to remain hesitant in buying SOEs unless the domestic investors exhibit enough interest and dynamism and improves the image problem.

3.1.1 Donors' concern

While the donors are strongly supportive of the privatization programme in Bangladesh, they have expressed deep concern at the present slow pace of progress of the privatization process. The author's discussion with the concerned World Bank and ADB officials revealed that they are strongly in favour of accelerating the process which is at the moment considered to be virtually stalled. Limited legal authority of PB and overall weak institutional framework, feeling of mistrust among the concerned parties, sale of financially and economically unviable SOEs, and bureaucratic procedures are identified as important inhibiting factors.[1] Thus they suggest a more powerful and effective PB having a proper legal status, setting a phased time table for achieving the privatization targets, careful revaluation of assets of the SOEs on the basis of market prices as opposed to unrealistic book value of assets and design of an appropriate and comprehensive safety net programme for the workers as plausible counter measures towards expediting the privatization process.

3.1.2 The need for a dialogue

As noted already, since privatization involves political decision, privatization policy needs clear political mandate, reflecting popular support of both the policy makers and the general people. In particular, support for such a mandate needs to be obtained from the ruling party and the main opposition party so that there is no uncertainty and vacillations in the privatization process. An opportunity in this regard remains to be availed through putting the forthcoming Privatization Bill to the National Parliament for parliamentary debate and public dialogue. Unfortunately, no serious attempt seems to have been made so far by any Government in

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[1] According to PB sources, 50 SOEs have been listed for sale during 1999 of which tenders have been floated for 11 enterprises after necessary valuation of assets and liabilities. Out of these 11, LOI has been issued for one, one has been earmarked for sale to the workers and one to the Bangladesh Rifles (BDR). For 12 others legal complications concerning transfer of ownership under preemptive rights is delaying the process of tendring.

Bangladesh to initiate such a dialogue, though it will provide an opportunity to clearly state the objectives of privatization and also set in motion a transparent institutional mechanism for transferring the SOEs from the public sector to the private sector.

However, the intended dialogue has to begin by putting the records right and providing the members of the public (and also the researchers and analysts) with all relevant facts and figures about the status and performance of the SOEs. In order to ensure transparency and credibility, the authorities must clearly define the goals of privatization, provide sound justification for valuation of assets of the SOEs to be sold and explain the mechanism for transfer of ownership. Other important issues, such as, criteria for selecting the SOEs for privatization, terms and conditions of sale, fate of the retrenched workers etc. may also be included in the agenda for public debates. In this way both Government and PB will be in a position to avoid criticisms, raise credibility and go ahead aggressively with the privatization programme. While this will pave the way for formulating a clear cut and strategic privatization policy, the authorities must also set a definite time frame for the completion of the privatization programme. An indicative time table for completion of the programme with the set goals and targets for different phases of privatization would send strong signals to the investors and create confidence in the authorities' commitment towards a goal-oriented privatization programme.

3.2 Effects of privatization

The most important aspect of the privatization programme which has been subject to very intense and recurrent public debates is the post-privatization performance of the privatized SOEs. Unfortunately, sometimes the debates are devoid of objectivity and thus lose much of its significance as the range of opinions swings like pendulum under the influence of push and pull by privatization's most ardent opponents and its proponents. Not surprisingly, therefore, each of these studies has its own policy biases.

Most frequent criticisms labelled at privatization in the recent periods are the following: (a) instead of augmenting new investments, higher industrial growth and generating additional employment opportunities, the privatized units are running at losses and/or are diverting resources into other use; (b) changing business or altogether closing down the operations; (c) the new owners are engaging in the speculative businesses and making commercial use of lands in the projects like housing and shopping complexes and (d) privatization is resulting retrenchment of surplus labour, causing unemployment and thereby contributing to the process of growing social unrest.

The research findings on these issues of economic performance of the privatized enterprises are at best mixed and hence inconclusive. This is primarily because of two reasons: one, privatization in Bangladesh has not proceeded under a coherent and consistent strategy and has not therefore been accompanied by desired improvements in the macro policy framework, institutional, legal and financial infrastructure and an overall conducive environment required for smooth functioning. Two, the process of privatization is not without some cost; on the contrary, it is fraught with political, social and economic problems which must be reckoned and the expectations must be kept within reasonable limits.

3.3 Current operational status and economic performance of the privatized units: An overview

One of the major objectives of privatization is to improve productive efficiency of the privatized firms. In Bangladesh context, this assumes crucial significance as the SOEs suffer from generally low levels of labour as well as capital productivity, huge revenue losses and hence lack of reinvestable surplus for further investments and long-term growth. However, it is by no means established that mere change of ownership from public to private sector will necessarily lead to improvements in productivity, especially when other policies and institutions remain unchanged.[1] Privatization to be gainful has to be accompanied by better management of the firm's capital and human resources under innovative entrepreneurs who are willing and able to transform the previously unprofitable enterprises into profitable ones by injecting additional investments, introducing new and improved technology and efficient corporate governance.

While sound management and improved corporate performance requires sound and disciplined financial institutions, favourable legal practices and standards etc., Bangladesh's overall production environment is characterized by volatile political situation, inadequate infrastructure, frequent power failures, labour unrest, rampant corruption, natural disasters etc. which seriously affect investors' confidence and industrial performance. This lack of a conducive investment and production environment does not guarantee improved economic performance of the privatized units, and this perhaps explains why privatization has not yet produced expected results in terms of higher investments and growth. Any assessment of the post-privatization performance has to be judged against this reality.

A World Bank (1993) Study of the performance of the privatized units divested during 1980s reports that nearly 50 per cent of the enterprises (e.g. 245 out of 497 small industrial enterprises excluding large jute and cotton textile mills) have been closed down. A depleted asset base, high debt liabilities and inefficient management are noted as important factors explaining poor performance of the divested units.

The privatized large-scale units within the jute and cotton textile mills have also been found (Sobhan 1985 and 1990) 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.

Analysing the current status of 205 industrial enterprises (divested between 1979 and 1994) in terms of either being in operation or being closed down after privatization, Sen (1997), on the basis of questionnaire-based information collected through Rapid Appraisal

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[1] Akash and Sobhan's (1999) analysis of the post-privatization performance of the 35 Jute Mlls confirm this point when they conclude that in the Jute Sector the problem lies not in the ownership but in the managerial inefficiency and unfavourable policy environment.

(RA) technique reports a high incidence (40 per cent) of post-divestiture closures with five per cent of the units not being traceable at all. Lack of availability of capital for modernization, high debt burden and low capacity utilization were reported by the owners as the important reasons for closing down their businesses. While this prompted the author to interprete the situation as an instance of the "lost case" of privatization, the conclusion may seem unwarranted when judged against certain realities. First, over 70 per cent of the divested sample units were small enterprises which are characterized by a high rate (60 per cent) of business failures in the developing countries. Second, in roughly 30 per cent of the cases of closures, switching to alternative production/commercial activities after divestiture could be noted.

Similarly, the above study could notice capacity utilization to be below 75 per cent in 40 of (roughly 36 per cent) 112 enterprises and commented that capacity utilization was way below 75 per cent This statement could perhaps be reworded and put in a positive tone by saying that in 64 per cent of the cases capacity utilization was over 75 per cent. Indeed, capacity utilization being less than 50 per cent in only 11 per cent of the cases, the divested enterprises exhibit a much better situation than the general situation prevailing in the overall industrial sector of Bangladesh in this regard. Further, given the changed context after divestiture and the constraints of capital, technology, marketing and so on, a rate of capacity utilization of 50 per cent may be regarded as rather commendable.

Turning to the issues of economic performance, at least two features of the divested enterprises should have convinced Sen (1997) to conclude the study with a positive note on the impacts of privatization. For example, out of the 112 enterprises currently in operation, 44 (nearly 40 per cent) diversified their businesses by introducing new products. Needless to emphasize, product diversification is a reflection of dynamic entrepreneurial behaviour and market-sensitive enterprise restructuring which should have favourable effects on the overall enterprises efficiency. Not surprisingly, therefore, as against only 38 per cent of 195 enterprises yielding profits before privatization, the proportion jumped to nearly 60 per cent after divestiture suggesting that privatization has created the basis for higher long-term industrial growth. The convincing evidence of better financial performance of selected (eight of the sample enterprises studied by Sen) privatized enterprises has been provided by a recent study (Haque, 1999) conducted for the World Bank which found that gross profit margins more than doubled in all the eight enterprises. Further, an improved financial performance by the majority of these enterprises was also confirmed by increase in their working capital flows, net worth ratios, current ratios and assets turnover ratios which attested to their improved efficiency in resource use.

Finally, a much publicised study on privatization experience in Bangladesh undertaken by Dowlah (1997) for the World Bank also identified mixed results relating to the performance of a sample of 10 divested enterprises. In four enterprises, there was an increase in capacity utilization after privatization, though five enterprises experienced slight fall in this regard. Similarly, five enterprises experienced decline in production by 23 per cent after privatization, while three could raise production by 91 per cent. Again, while four enterprises were able to raise their gross sales by over 100 per cent after privatization, another four suffered decline in their gross sales revenues by 41 per cent A similar mixed performance of the sample privatized enterprises judged by their operational efficiency measured in terms of sales per employee and ratio of sales to fixed assets was also noted by the same study.

The results of the studies reviewed here do not permit any conclusive generalization on the performance of the privatized enterprises across the board after divestiture. Moreover, the findings of the studies also need to be interpreted with caution in view of the fact that they have used different methodologies, conducted their investigations at different time periods and also perhaps had different objectives to be pursued. An important point to be noted in this connection is that the estimation of macro effects of privatization, though important are outside the purview of this study

3.3.1 The case for restructuring and reform

The absence of any robust evidence about a generally improved enterprise performance of the privatized units seems to indicate the need for restructuring and reform of the SOEs both during pre and post- privatization stages.

In so far as the pre-privatization reform of the SOEs is concerned, there may be a variety of options to improve their performance. As an important part of such reform policy agenda implemented during early 1990s, 22 SOEs were put under "performance contract" (PC) of which 12 belonged to the manufacturing sector. Of the 12 SOEs 10 were able to raise their labour productivity, and five improved their financial performance compared to the levels at the beginning.[1] However, for better performance, the SOEs need to be provided with greater autonomy, flexibility in operation, transparency, and accountability in order to enable them to be managed like profit-making commercial enterprises as opposed to state-controlled entities without commercial autonomy.

In fact, to expedite the privatization of the potential SOEs, necessary restructuring measures need to be undertaken to improve their current financial conditions and write-off their future liabilities to attract the potential buyers. It may also be necessary to adjust their price structures, redefine their activities and revise their employment policies along with injection of new equity and other rationalization measures. To expedite the privatization process, donors and some of the stakeholders are however in favour of privatizing first and then going for necessary restructuring and reform.

As for the post-privatized enterprises, there should be constant surveillance and monitoring by the relevant Government organizations to review and examine economic performance of the enterprises. Regrettably, GOB is reported (Akash et.al., 1999) to have made no serious effort in this regard to monitor and assess the performance of the privatized units except undertaking a snapshot survey in 1991 to see if the privatized units were in operation.

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[1] Besides contrary opinions, the overall results of the pre-privatization restructuring in the early 1990s have been mixed. In addition, it is reported to have created an unfavourable impression as regards Government's motivation and determination to implement the privatization policy.

Reviewing the impact of privatization on a global scale, including both developed and developing countries, Megginson (1998) concluded that total earnings of the privatized companies increased on an average by 25 per cent, profitability (rate of return on sales) more than doubled and efficiency (increase in sales per worker) increased by 16 per cent and 11 per cent respectively in the developing and the developed countries within three years following divestiture.

However, the experience in privatization of public enterprises is diverse at the international level as well. Enterprise performance, productivity and profitability may not improve everywhere after privatization. The experience in former Soviet Union and in some other East European countries shows little evidence of higher growth even after several years of liberalization, privatization and macroeconomic stabilization.

The Bangladesh Cycle Industries (BCI) Ltd. represents a remarkable exception among the 13 SOEs privatized during 1991-1996 which experienced robust growth in production capacity (three times larger from pre-privatization period), a 600 per cent increase in employment and turned into an export-oriented industry as a result of efficient management. These evidence, while speak of economic success of the privatization programmes, do not by themselves guarantee that the process of privatization has always been an unmixed blessing. The most difficult challenges are encountered by the privatization process when it comes to labour restructuring, retrenchment and redeployment, especially in the developing countries like Bangladesh where problems of unemployment and underemployment reign supreme. The problem becomes especially difficult when privatizations are carried out in the SOEs which are excessively over-staffed and involve large-scale lay-offs. We turn to discuss these issues next.

3.4 Labour concerns

The most delicate issue in privatization in Bangladesh relates to labour restructuring and retrenchment with minimum social costs. The labour issues are generally sensitive for several reasons. The SOEs privatized in Bangladesh are excessively over-staffed and may involve retrenchment. The problem is further aggravated by the fact that the track record of many privatized units relating to redundancy payments has been poor. This tends to deteriorate the already poor labour-management relations in Bangladesh. However, discussions with various stakeholder groups, i.e. the trade union leaders, government officials, employers and researchers tend to suggest that the majority of the union leaders and workers are not in principle, opposed to privatization provided their interests are adequately safeguarded. Nevertheless, the gradual softening of the labour resistance does not suggest that they are less concerned about the outcomes of the privatization process. Large-scale job losses resulting from lay-offs and retrenchment (designed to raise enterprise productivity and efficiency) and closure of the privatized units after divestiture, and uncertainity about payment of adequate compensations etc. are the major concerns of the workers. All these remain very real concerns in Bangladesh and tend to be aggravated by a relationship of mistrust persisting among labour, government and the private sector employers.

3.5 Loss of employment and retrenchment of workers due to privatization in Bantgladesh

In the earlier quoted Sen (1997) study, the aggregate downsizing of labour in 112 SOEs (out of a sample of 205) which were in operation after divestiture was found to be roughly 25 per cent (Table 2.1). This perhaps represented, as the author noted, a measure of cutting the "fat" away from the public sector enterprises which are often used as 'employment centres' rather than market-sensitive firms. Such restructuring would entail significant gains in labour productivity in the privatized enterprises. More importantly, it was noted that 60 per cent of the currently employed workers in the SOEs under operation after divestiture were also working during the pre-divestiture period. This is expected against a relative paucity of skilled labour in Bangladesh and also essential in an open economy to gain productivity increases and remain competitive under a dynamic private sector-led economic system.

Table 2.1: Labour restructuring after divestiture of the currently running enterprises

(Figures in parenthesis represent column percentages)

	Before divestiture	*After divestiture*	*Per cent difference*
No. of production workers	97048	73711	-24.0
	(89.3)	(89.5)	
No. of non-production employees	11597	8643	-25.5
	(10.7)	(10.5)	
Total number of workers and employees	108645 (100.0)	82354 (100.0)	-24.2

Note: The estimates are based on 112 privatized enterprises which are currently running out of the total sample of 205 studied by Sen (1997).

Source: Adapted from Sen (1997).

However, the impact of closure of the privatized enterprises was found to have serious consequences as the aggregate loss of jobs due to closure alone was estimated to be 39007 by the same study. The most recently conducted ILO (1999) study in this respect estimates a 25 per cent decrease in employment (Table 2.2) after divestiture in 11 of the currently operating SOEs out of a total of 13 privatized during 1991-1996. While there were variations across industries in the proportion of decline between 10 per cent to 48 per cent in the privatized units, the important fact is that the employment loss after divestiture was quite significant. As noted before, Bangladesh Cycle Industries (BCI) Ltd. was the only remarkable case which experienced post-privatization growth in all departments, including employment. The BCI Ltd. recorded almost a seven-fold increase in employment after privatization, reflecting entrepreneurial performance of very high standards by its new owners.

The total retrenchment of workers, including both production and non-production workers, resulting from privatization of the six "loss making" public sector corporations as of end of June 1997 is estimated (ILO, 1997) to be 89,971 employees (Table 2.3).

Table 2.2: Change in employment status of the currently operating enterprises after privatization during 1991-96

Name of the enterprise		Employment		
		At the time of privatization	*After privatization*	*Change (inper cent)*
1.	Dhaka Vegetable Oil Industries Ltd.	525	295	-43.8
2.	Chittagong Cement Clinker and Grinding Co. Ltd.	318	252	-20.8
3.	Kohinoor Chemicals Co.	889	798	-10.2
4.	Kohinoor Spinning Mills Ltd.	1030	530	-48.5
5.	Bangladesh Cycle Industries Ltd.	119	800	672.2
6.	Barisal Textile Mills (New: Name 5R Ltd.)	1172	832	-29
7.	Stile Fabrics & Embroidery Ltd. (Old Name: Zotime Fabrics)	61	50	-18
8.	Kishoreganj Textile	1275	758	-40.5
9.	Madaripur Textile Ltd.	1056	742	-29.7
10.	Eagle Box & Carton Mfg. Ltd.	268	172	-35.8
11.	Quontum Pharmaceutical Ltd.	283	n.a.	n.a.
12.	Hamida Metal Industries Ltd.		Closed	
13.	Sharmin Textile Mills	6996	5229	-25.3

Source: World Bank (WB): *Privatization Experience in Bangladesh*, 1991-96: A Study undertaken for the World Bank (Vol. 1); Sept. 1997.

Table 2.3: Retrenchment of manpower from state owned enterprises in manufacturing sectors since privatization started

Sector/Corporations	*Retrenchment*		
	Up to 30 June 1996 (Cumulative) %	*1 July 1996 to 30 June 1997 %*	*Up to 30 June 1997 (Cumulative) %*
Bangladesh Textile Mills Corporation (BJMC)	25.7	30.9	27.3
Bangladesh Steel & Engineering Corporation (BSEC)	4.0	0.7	3.0
Bangladesh Sugar and Food Industries Corporation (BSFIC)	4.2	2.0	3.5
Bangladesh Chemical Industries Corporation (BCIC)	1.9	-	1.3
Bangladesh Forest Industries Development Corporation (BFIDC)	1.6	-	1.1
Bangladesh Jute Mills Corporation (BJMC)	62.6	66.4	63.8
Total (%)	100	100	100
Total No.	61844	28127	89971

Source: ILO (1999).

Although privatization began since 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 being 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 per cent of the total. The rest 28,127 or 31.3 per cent of the employees were retrenched during July 1996 and June 1997. While reduction of previous over-staffing and closure of some of the units after divestiture might be the important reasons for employment loss, this has 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 (Table 2.4) from five sector corporations. While nearly 58 per cent of the workers are planned to be retrenched on an average from each sector corporation, more than 73 per cent of them will comprise production workers, 21 per cent non-production workers and about five per cent will be officers and managers. Needless to emphasize, the workers' interests and welfare need to be preserved and promoted both to minimize adverse social effects and ensure social justice.

4. Post-privatization measures adopted to minimize adverse social consequences

4.1 Preserving workers' interests

The workers' interests can be safeguarded in two ways: (i) by offering a reasonable "golden handshake" and leaving it upto the employee to find a new job or take to a new profession, and (ii) by taking positive steps (i.e. retraining facilities) to find new job opportunities. In addition, various redeployment policies (i.e. proactive employment generation policies especially geared towards assisting the retrenched workers, micro-credit programmes supported by entrepreneurship training etc. and social safety net measures (i.e. creation of Special Workers' Fund or SWF as proposed by ILO) may also be designed to help the retrench workers. A brief account of the compensation and redeployment measures adopted in Bangladesh to assist the retrenched workers is provided below.

4.2 Compensation measures for the retrenched workers

The most important measure of assistance provided by the Government to the retrenched workers in Bangladesh consists of a compensation package called, "Additional Benefits on Top of the Gratuity Payments", which is popularly known as the "Golden Handshake". To determine the actual benefits offered to the retrenched workers within the framework of a total compensation package, a number of committees consisting of concerned high officials/ experts were formed of which Mustafiz Committee and Mannan Committee are important. These Committees recommended additional benefits ranging between 10 per cent to

27 per cent of the gratuity to be paid to the retrenched workers depending on their length of services (Table 2.5). The gratuity benefit itself amounts to two months of basic pay (last drawn by the incumbent) for each year of service.

Table 2.4 Estimated number of workers who might lose jobs as a result of privatization in the near future

Corporation	*Planned retrenchment*		
	Number of total workers (1)	*Retrenched workers as % of workers (2)*	*% Distribution of retrenched workers by sector corporations (3)*
BTMC	7152	50.46	8.1
BSEC	3653	54.68	4.1
BSFIC	13335	64.76	1.5
BCIC	3029	14.30	3.4
BFIDC	-	-	-
BJMC	61443	71.35	69.3
Total :	88612	57.92	

Source: ILO (1999).

Table 2.5: Recommended benefits for retrenched workers by Mustafiz Committee and Mannan Committee

Length of services	*Additional benefits on top of gratuity payments*	
	Mustafiz Committee (%)	*Mannan Committee (%)*
25 years and above	10	13
20-25 years	14	18
15 – 20 years	17	22
10 – 15 years	22	27

Source: Report of the Sub-Committee, headed by the Minister for Labour and Manpower, April 1997.

The financial compensation paid by a number of jute mills belonging to BJMC on the basis of the recommendations of the above Committees are sown in Table 2.6. It may be noted from the Table that during 1993-94 and 1994-95, 2648 employees of the age group 35-40 years and 3230 employees of the age group 50 years and above voluntarily retired from eight jute mills. The former group recevied an average severance compensation of Tk. 44,000 which was upto Tk.60,000 with arrears. The latter group received compensation package of upto Tk. 80,000 with arrears. Thus, so far financial compensation for voluntary retirement is concerned, a retrenched worker may get a one-time lump sum payment and no other benefits. This does neither compensate for the tens of thousands of Taka which a young worker might earn for the rest of his working career nor enable him to secure a lifetime income at a reasonable level even when he leaves the job at an age close to the normal retiring.[1]

Table 2.6: Compensation paid to the retrenched jute mill workers

Jute mills	*No. of affected workers*		*Compensation (in Crore* Tk.)*	
	1993-94 (35-40 yrs-age)	*1994-95 (>50 yrs-age)*	*1993-94*	*1994-95*
Adamjee	1211	1294	3.02	16.45
U M C	283	305	1.57	1.99
Latif Bawany	236	466	1.89	1.71
Nishat	168	174	1.89	1.71
Nabarun	146	100	n.a.	n.a.
Munawar	356	n.a.	1.82	n.a.
BD Jute	174	295	1.14	n.a.
Total	2574	2634	11.33	21.86
Average Compensation	44,000	80,000		

Source: Report of the Sub-Committee, Headed by the Minister for Labour and Manpower, April 1997.
* 1 crore = 10 million.

Along with the 'golden handshake', another financial compensation scheme introduced initially in Railway, BJMC and BTMC was the "voluntary departure schemes" (VDS), under which the terms of payment appeared to be generous and workers' response was also favourable. According to the Jute Manufacturing Study (JMS,1989), the cash payment under the package would consist of two months salary for each year of service plus provident fund and accrued interest. On this basis, the workers would receive severance benefits varying between Tk. 100,000 to Tk. 500,000 per worker. An SOE employee, with 30 years of service would be entitled to five years' pay as gratuity alone and thus the workers' response to VDS has been quite positive during 1991-93, especially in the Railway, BJMC and BTMC. Thus the VDS was suggested by the World Bank Study (1994) to be continued along with other existing compensation packages.

The arrangement for a life time pension benefit might be thought of as another alternative, but the total benefits (estimated by ILO, 1999) actually available through an annuity-pension scheme from the approximate retirement age of 58 or 60 years at the rate of 40 per cent of the last basic pay, i.e. in the region of Tk. 5000 (which works out to be approximately Tk. 300,000) would be highly inadequate to support the workers surviving family members after his death.

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[1] During earlier rounds of divestiture, the out-going workers did not receive such cash benefits. Besides non-payment of the entire accumulated gratuity money, the general provident fund money accumulated through joint contributions by the workers and the government prior to privatization was also not paid (World Bank, 1994).

In addition to the limited cash benefits, the reduntant workers also lose the health and medical service facilities provided by the employers. In such cases, the Government may consider making such medical services available to the retrenched workers through the Labour Welfare Centres even after retrenchment.

Introduction of the scheme of "unemployment insurance" could be another option. But for a resource poor, less developed country like Bangladesh, such a proposition seems unviable for at least another few years. The viability of this option for Bangladesh can be determined only by conducting a detailed study into the present and future prospects of economic growth and employment expansion in the economy.

Besides resource constraints, the introduction and implementation of various alternative compensation schemes are subject to serious administrative bottlenecks and other complications. For example, the financial and social safety net issues relate to the workings of a number of line ministries (i. e. Ministry of Labour, Ministry of Industry, Ministry of Finance) and departments, which makes the tasks of coordination exceedingly difficult. Despite these difficulties, however, the following options concerning social protection of the retrenched workers need to be seriously studied and investigated in order to facilitate future progress in privatization process at a faster pace:

– desirability of introducing a scheme of old age pension scheme after retirement and benefits payable in pension rather than as a lump sum cash compensation;
– feasibility of introducing an insured system of unemployment benefits; and
– ways and means of strengthening the health and medical facilities.

To ensure greater coverage of the workforce, a system of providing protection to the informal sector workers who constitute over 80 per cent of the total workforce of Bangladesh also needs to be borne in mind. More importantly, revision and modernization of the relevant legal framework applicable to the workers' social protection issues should also be incorporated in the scope of the suggested studies.

4.3 Retraining of the retrenched workers for redeployment

Under the Jute Sector Adjustment Credit (JSAC, the World Bank agreed to provide US $ 247 million over a period of four years between 1991 and 1997 to help reform the Jute Industry) a project, "Retraining of Affected Workers of Jute Mills" was taken up by the Government of Bangladesh as a part of the safety-net package. The purpose was to assist the retrenched workers, through training, to find jobs elsewhere after leaving the jute mills. Since the inception of the training programme in November 1995, a total of 8793 workers were retrained in 35 different trades (see Annexure II) in three zonal centres, (i.e. Dhaka, Chittagong and Khulna) of the country with assistance from selected NGOs. The training programme was conducted jointly by six foreign consultants and 37 local consultants under a Consultancy Contract. The NGOs were recruited later by the Consulting Firms primarily to locate and recruit the retrenched jute mill workers from different localities of the countryside where they had dispersed after retrenchment. The NGOs worked as subcontractors of the main contractors and provided training to some of the retrenched workers in their own localities in selective trades where they had specialized training expertise. Depending on the trade and the nature of the training programme, the training courses were of different duration varying between one week and three and a half weeks.

The training provided in 35 different courses were developed into four broad areas:

(a) Agriculture;
(b) Engineering;
(c) Rural industry; and
(d) Entrepreneurship development.

In the absence of any serious study on the impact and effectiveness of the retraining programme it is difficult to provide any conclusive judgement on its achievements. It is, however, commonly agreed that it marks the first organized effort of its kind in Bangladesh and reflects in principle the recognition of the fact especially by the government that the interests of the retrenched workers should be adequately safeguarded while implementing the privatization programme.

The most important reason for lack of enough interest among the target beneficiaries to avail the programme was the long time gap involved between job loss and inception of the training programme. While nearly an estimated 20,000 workers lost their jobs by 1993, the training programme started in 1996. By then, many of the workers left the mills, dispersed to their villages and perhaps also lost hope and self-confidence and were not keen to seek retraining for redeployment. This suggests that it is critically important to initiate the process of counselling and retraining of the retrenched workers soon after their retirement.

Discussions with selected officials of the Ministry of Labour gave the impression that effectiveness of any such programme is critically dependent upon the motivation of the workers about importance and relevance of training provided, the duration of training, selection of appropriate courses, and monetary incentives provided in the form of allowances throughout the training period. None of these factors was properly and adequately handled as part of necessary preparation for the training programme.[1] In particular, provision for adequate income support during the period of training has been found to be critically important determinant of the success of the programme also in other countries such as in Eastern Europe and China.

Based on a follow-up study of a sample of roughly 100 retrained workers from the Comilla region in Bangladesh, it was found that roughly 10-20 per cent of the retrained workers took to self-employment using their training skills. Among those who set up their own enterprises, 31 per cent were in poultry, 13 per cent in horticulture and nursery, 11 per cent in flower gardening, seven per cent in jute handicrafts and 3-4 per cent each engaged themselves in pisciculture, cane and bamboo handicrafts, candle making and various types of other small trades. The average monthly incomes earned from these enterprises were reported

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[1] Details on these and other issues relevant to designing and implementing a successful, retraining programme is available in ILO (1999).

to vary between Tk. 500 to Tk. 2000 ($ 10 to 40) which were much less than their earnings in the Jute Mills.

To ensure proper utilization of the entrepreneural skills imparted through the retraining programme provision of micro-credit support has been commonly identified as an essential ingredient by most observers. A logical suggestion in this context has been to establish linkages with the MFIs for successful implementation of the proposed special credit programmes. Thus, the implication is that an institutional framework may be designed to conduct such retraining programme on a regular and continuous basis not only to support the privatization programme but also to cater to the human development needs of a dynamic economy.

4.4 The current training infrastructure and existing training capacities in Bangladesh

The existing public vocational training system in Bangladesh is run by two Government agencies: (i) Bureau of Manpower Employment and Training (BMET) under the Ministry of Labour and Employment and (ii) Directorate of Technical Education under the Ministry of Education. BMET operates 11 Technical Training Centres (TTCs) which are widely dispersed across the country, including all the major industrial locations and offer training facilities in 12 different engineering trades.

There are 54 Vocational Training Institutes (VTIs) located primarily in the district and upazila headquarters which offer training courses in 8 different trades of different duration. The total annual training capacity of the TTCs and VTIs is estimated by ILO (1999) to be roughly over 10600 workers. It is also learnt that the TTCs are willing to organize training programmes for the retrenched workers in the trades in which they specialize. While the TTCs may be used to offer short-term training courses, they need financial assistance to upgrade their facilities, meet additional costs and provide income support to the retrenched workers.

Among other publicly owned training facilities, Directorate of Youth Development (DYD) under the Ministry of Youth and Sports has training centres located in all upazila headquarters throughout Bangladesh. They are currently offering training courses in various trades of different duration primarily to the unemployed youth. The DYD also administers donor funded micro-credit programmes for poverty alleviation.

The Bangladesh Small and Cottage Industries Corporation (BSCIC), the key public sector agency responsible for promotion and development of small and cottage industries in Bangladesh provides entrepreneurship and skill development training to managers, artisans and craftsmen, skilled and unskilled workers, bank officials and potential entrepreneurs through its design centres and the Small and Cottage Industries Training Institute (SCITI). The SCITT offers skill development training in 8 different trades from 14 different locations outside Dhaka. Like the TTCs, the BSCIC which has an annual training capacity of roughly 5000 workers is also willing to participate in the retrenched workers' training programmes at a modest training fee of only Tk. 400 per month per worker.

The Directorate of Women's Affairs under the Ministry of Women's Affairs, the Textile Directorate under the Ministry of Textiles and the Bangladesh Institute of Management (BIM) under the Ministry of Industries are the other major public sector training institutes which offer different types of training from various locations in and outside Dhaka.

In addition, the private sector organizations and NGOs also play important roles in offering vocational training facilities. According to ILO (1999) estimates, there are 126 private, 133 NGOs and 8 trust institutions which currently offer vocational training courses in both engineering and non-engineering trades of wide varieties and of different durations. Thus, depending on the different types of training needs (i.e. training for re-employment, conversion training, and training for self and wage employment etc.), the existing training facilities and training capacities of both public and private sector/NGO training institutes can be profitably used for retraining of the retrenched workers.

4.5 Future social safety net programmes for the retrenched workers

The 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. The amount has been earmarked in the national budget 1998/1999 and is currently under consideration by the Ministry of Finance for final approval.

Based on data on the current cost of training in both public and private sectors (for upto a period of six months) the cost of training per person has been estimated to be Tk. 10,000 (or US $ 200). In addition, a cost of Tk. 5000 (or 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.), the total retraining and redeployment cost has been worked out to be Tk. 15,000 (or US $ 300) per worker. 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. Further, if it is assumed that all retrenched workers will require training of much less shorter 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. 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 counter balance 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 of the Government, trade unions and the employers' association. The involvement of a tripartite framework will also ensure linkage between the employers and the needs of the retrenched workers. While establishment of a separate organization may be desirable to undertake responsibility of implementation of the SWF, it may be expensive. Hence, given the limited availability of funds, a government department, i.e. the BMET, within the Ministry of Labour may be given the responsibility of administering it through a Board of Directors headed by the Minister (as Chairman) of the concerned line Ministry with members from other relevant government departments, trade unions, employers' associations, private sector and NGOs.

However, retraining and redeployment programme to be successful needs to be supported by pro-active labour market policies aimed at improving and facilitating employability of the retrenched workers and assisting them in finding new jobs. In this context, the ILO (1999) proposals for introduction of "Industrial Adjustment Services" (IAS) scheme and creation of a "Labour Pool" etc. appear quite interesting and useful as strategies for effective redeployment of the displaced workers.[1]

Finally, retraining is undoubtedly important but not sufficient as a social safety net measure to protect the interest of the displaced workers. At the same time, it is also important to look at the demand aspects of the labour market, e.g. its labour absorption capacity. Along with implementation of appropriate macroeconomic policies to achieve higher rate (at least in the range of 6 to 7 per cent per annum) of overall economic growth, the Government of Bangladesh has to encourage growth of certain dynamic and potentially dynamic industrial sectors in the export-led and domestic market-oriented small scale industries (i.e. ready-made garments, downstream production of jute articles, leather goods, food processing, software, electronics, light engineering goods, livestock rearing and dairy products, handicrafts etc.). Such initiative has to be taken by adopting appropriate policies and strategies on the basis of price and non-price incentive measures to ensure employment-augmenting as opposed to capital-deepening growth.[2]

5. Conclusions and recommendations

Under the current socio-economic, political and environmental realities, rapid privatization is an inescapable necessity for Bangladesh. Notwithstanding successive divestments, roughly

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1 The "IAS" provides financial incentives to businesses, organizations, committees and sector groups to help employers and workers jointly meet the challenges in adjustment to industrial change. Its focus is on the development of preventive measures through joint consultation between the management and the workers so that the situation may be dealt with before it becomes problematic. The concept of "Labour Pool"(LP) envisages the establishment of a separate institution which functions like an employment service office to help train and employ the redundant employees by providing essential services to the retrenched workers and arranging operational contract with the old companies to manage employment opportunities for all their retrenched workers.

2 For details on the relevant promotional policies and strategies required to encourage growth and expansion of the dynamic labour industries, see ILO (1999).

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.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 programme by establishing the Privatization Board (PB) and also declaring a Privatization Policy. 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 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.

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. 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. To make 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. 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 suggest that the economic performance of the privatized units after divestiture has at best been mixed, there being cases of both good and bad performances. However, privatization itself does not guarantee overnight improvements in the economic efficiency of the divested units, especially if they are loss-making enterprises and do not have an overal macroeconomic environment conducive to private enterprise growth. Further, the process of privatization is not without some cost, and hence the expectation must be kept within reasonable limits.

As to the labour issue, there has been an average rate of 20-25 per cent retrenchment of labour after divestiture primarily aimed at downsizing the pre-divestiture burden of overmanning to improve labour productivity. While closure of many privatized units after divestiture has added to the problem of employment loss with adverse effects on labour welfare, the Government of Bangladesh has attempted to safeguard workers' interests by offering "golden handshake" and arranging for retraining of the displaced workers. Reflecting the willingness to protect the interests of the workers, the Government of Bangladesh has also set up SWF to implement successful retrenchment and redeployment initiatives. The SWF is a step in the right direction and if implemented effectively, it will go a long way in safeguarding workers' interests and welfare and provide required support to the desired progress of the privatization process.

In addition to the safety net measures, the Government needs to launch a vigorous public awareness campaign before going for large-scale privatization. The key objective of such a campaign will be to get popular mandate from the opposition political parties and representatives of the workers, employers and civil society, and motivate the workers about the long-term beneficial effects of privatization and thereby dispel their basic concerns. They should be told that some job cuts and wage cuts would be necessary for saving and generating a large number of jobs in future. To gain support and confidence of the labourers, the gains to be expected and the safety net measures to be instituted should be clearly spelt out.

Annex 1

Table A-1: Size and importance of the SOEs in Bangladesh, end-1997/98 (Tk. in million)

Corporations	*No. of enterprises*	*Fixed assets*	*Sales*	*No. of employees*
Manufacturing / Industry	121	87114	19940	149724
Electricity, Gas and Water	13	145425	37665	39158
Transport and communication	8	25434	18580	26234
Trade / Commercial	10	3773	50394	3996
Agriculture and Fisheries	18	998	472	2705
Construction Sector	4	8220	277	1294
Services /Others	44	31871	7836	16720
Grand Total	218	302835	135164	239831

Source: Monitoring Cell, Ministry of Finance, GOB.

Table A-2: Types of industrial enterprises privatized during 1972-96

Type of enterprise	*No. of privatized industries in different periods*				
	1972-75	*1975-81*	*1981-86*	*1991-96*	*Total*
Rice and Flour Mills	20	21	8	-	49
Vegetable Oil	5	21	12	-	38
Food Products	-	5	3	-	8
Ice and Cold Storage	-	7	5	-	12
Sugar and Food	-	-	-	1	1
Textile	11	21	27	6	65
Jute Products	-	9	35	-	44
Wood Products	3	9	-	-	12
Rubber Products	-	16	1	-	17
Tanneries and Bones	-	25	5	-	30
Chemicals	4	-	-	4	8
Soaps and Chemicals	-	7	12	-	19
Glass and Optical	-	3	1	-	4
Paper and Printing	8	7	2	-	17
Engineering and Steel	12	8	10	2	32
Metal Works	7	25	5	-	37
Film	-	3	1	-	4
Hotels	-	2	1	-	3
Trading	-	3	6	-	9
Others	50	63	88	-	201
Total	120 (19.6)	255 (41.8)	222 (36.3)	13 (2.1)	610

Source: Adapted from ILO (1999).

Annex 2

List of stakeholders interviewed

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Ministry of Finance
Government of Bangladesh

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Haque, Dr. Shamsul
Professor
Institute of Business Administration IBA,
Dhaka University

Hossain, Mr. Md. Shawkat
Deputy Secretary, Ministry of Labour
Government of Bangladesh

Jafar, Mr. Shah Md. Abu
President, National Workers Federation

Khan, Mr. Md. Nazrul Islam
General Secretaqry, Jatioytabadi Sramik Dal
Rahman, Mr. M. KH.
President,
Dhaka Chamber of Commerceand Industry (DCCI)

Rahman, Mr. Gazi Mahbubur
In-Charge
Jute Sector Adjustment Credit
Ministry of Jute
Government of Bangladesh
Adamjee Court

Rabnbi, Mr. Reza-e
Joint Secretary
Ministry of Labour
Government of Bangladesh

Rao, Dr. Narahari
Senior Economist
Asian Development Bank

Quashem, A
President,
Bangladesh Employees Association (BEA),
Dhaka

Zafarullah, Kazi
Chairman (State Minister) Privatization Board
Government of Bangladesh

Zakaria, S. M.
Member, Privatization Board
Government of Bangladesh

Annex 3

List of trades in which retraining has been arranged

Sl. No.	*Name of Courses designed and offered*
1.	Integrated Horticulture Development
2.	Bamboo and Cane Handicrafts
3.	Integrated Pest Management
4.	Rickshaw Van Repair
5.	Dahi & Cheese
6.	Tailoring
7.	Village Mechanic
8.	Radio / TV Mechanic
9.	Carpentry
10.	Plumbing
11.	Basic Welding
12.	Integrated Seed Production
13.	Block Printing
14.	Screen Printing
15.	Masonry / Boat Making
16.	House Wiring
17.	Auto Mechanic
18.	Apicuture & Candle Making
19.	ED & Business Management
20.	Jute Handicrafts
21.	Ornamental Plant and Flower Gardening
22.	Pisciculture
23.	Poultry
24.	Horticulture & Nursery Development
25.	Farm Machine Operator
26.	GeneralMechanic
27.	Rural Masonry
28.	Irrigation &Pump Operator
29.	Rod Binding
30.	Cultivation of Mushroom
31.	Bamboo and Cane Cultivation
32.	Fish-cum Duc Farming
33.	Dairy Cattle
34.	Fattening of Cattle / Goat and Sheep Farming
35.	Driving

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