

PN-ABZ-126.

PIAG NOTE # 5
USAID PROJECT NO. 388-0076
USAID CONTRACT NO. 388-0076-C-00-2035-00

PRIVATIZATION ISSUES IN BANGLADESH AND THE IMPACT OF LABOR UNIONS ON THE PROCESS

AHMED ALI
JULY, 1995

POLICY IMPLEMENTATION AND ANALYSIS GROUP (PIAG)
ADAMJEE COURT, (4TH FLOOR), DHAKA

A PROJECT OF THE

MINISTRY OF INDUSTRIES, GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MANAGED BY

INTERNATIONAL MANAGEMENT AND COMMUNICATIONS CORPORATION (IMCC), WASHINGTON

BEST AVAILABLE COPY

PRIVATIZATION ISSUES IN BANGLADESH AND THE IMPACT OF LABOR UNIONS ON THE PROCESS

Agreeing on the definitions

Available literature and discussions on privatization in the past couple of years in Bangladesh has increasingly focused on the divestment of state owned enterprises (SOEs). According to the World Bank's 1995 Country Memorandum, SOE losses averaged close to \$500 million (over one per cent of GDP) in FY 92 and FY 93. Furthermore, costs of their inefficiency became transferred -- either to industries that used their inputs, or to the public through increased public borrowing or taxation. While divestment efforts have been continuing in fits and starts for the last 20 years or so, efforts during the 1990s have had only modest success. Some hold the view that opposition from organized labor has been one of the principal impediments to divestment of SOEs.

The author of this paper, while trying to examine briefly the extent to which organized labor has influenced the pace of privatization, found that some basic questions needed to be answered first. These are:

- Divestment of SOEs and privatization are obviously not the same thing. How important is divestment for privatization?
- How justifiable is the claim that progress in divestment of SOEs has been unsatisfactory?
- How significant is the organized-labor-factor in terms of divestment (or privatization) in Bangladesh?

In trying to find answers to these questions, and a multitude of others, the author relied heavily on four publications:

- i. *Privatization in Bangladesh: Economic Transition in a Poor Country* by Claire E. Humphrey. Mr Humphrey carried out field research during 1986-87 on privatization in Bangladesh for a USAID project and updated this research with observations through mid-1992.
- ii. Report No 12318-BD of the World Bank: *Bangladesh Privatization and Adjustment*. This report was published in March 1994.
- iii. *Privatization in Pakistan*, a paper presented by Senator Saeed Quadir, Ex-Chairman, Privatization Commission of Pakistan, in the Workshop on Privatization organized jointly by the Privatization Board, Bangladesh and the World Bank Resident Mission in Bangladesh, in Dhaka during April-May 1994.

- iv. *Labor issues in Privatization of SOEs in Bangladesh*, a paper presented by Dr. M. Shamsul Haque, Professor and Director, Institute of Business Administration, Dhaka University in the above Workshop.

Since a good number of passages have been quoted in this paper from these publications, it was found more convenient to adopt the following convention in giving credits:

Quoted passages will appear in a Sans Serif font, like the one just shown, with the letters [WB], [CH], [SQ] or [SH] appearing in brackets at the end of the quote to indicate, where necessary, that the source is the World Bank, Claire Humphrey, Senator Saeed Quadir, or Dr. Shamsul Haque respectively.

Divestment and privatization

Both the World Bank and Claire Humphrey hold that privatization is a multi-faceted process where the state encourages and supports the private sector to play an increasingly significant role in the economy, and that divestment of SOEs is one possible component of this process. The WB report says:

. . . privatization encompasses two types of activity: transfer of existing publicly-owned assets to the private sector; and the introduction of private sector competition / partnerships into sectors hitherto reserved for the public sector.

The WB report points out that while divestment constitutes one part of the privatization process, the other important part consists of increase in the number of private sector enterprises, private sector participation in additional subsectors of the economy, and an increased contribution of private enterprises to the GDP. This also leads to the conclusion that two important indicators of privatization would be its numeric success and its economic success. It is desirable that the number of SOEs divested, and the proliferation of competing private sector enterprises, both be maximized. However, if these do not result in an increased output of goods and services, at a level of efficiency which raises the quality of life of the general citizen, then the whole exercise would be futile. It does not do anyone any good to replace inefficient government-run enterprises with inefficient privately-managed ones. It is worth remembering that divestment is only one of the means of privatization; the important thing is the goals of privatization.

As a means to privatization, CH believes that divestment of SOEs is a less used route. He notes:

For one thing, Bangladesh is somewhat atypical in that the majority of its many privatization transactions have been divestitures. In contrast to the popular conception, divestiture is not the most often used method of privatization. It is, on the contrary, one of the least often used, mainly because of the financial and political complexities and pitfalls involved in implementing it. [CH]

Elsewhere, CH elaborates:

Privatization and divestiture are not synonymous. Divestiture is only one type of privatization, and is perhaps one of the least attractive and least utilized methods. There are "many roads to privatization," just as there are to its counterpart, socialism.

Privatization is too often associated primarily with questions of equity, particularly in developed countries; but privatization of a *function* or *service* can, at times, be just as important. A good illustration of this has been the privatization of fertilizer distribution in Bangladesh.

One should approach this subject from the standpoint of privatization of an economy, not merely the unloading of inefficient, money-losing state enterprises. Privatization should be undertaken to develop viable enterprises and a more vibrant economy, not simply to cut state-owned enterprise (SOE) losses or reduce government deficits.

A government's privatization policy will be ineffective unless it is preceded by a well thought-out plan with clearly defined long-range objectives, backed up with will and commitment, and implemented through an effort that is comprehensive, coordinated, and consistent.

Privatization of state enterprises will accomplish little without parallel government-sponsored policies and programs to encourage, assist, and cooperate with the private sector. The private sector must be viewed by the government as an economic partner, not as a competitor. Establishing conditions that generally promote the benefits of competitive market forces is crucial to the success of privatization.

Privatization should be approached as a policy-oriented subject, not as bookkeeping problem. Zeroing in initially on the individual state enterprise often obscures this basic fact. It also places the cart before the horse. Analyzing the policy framework and regulatory environment within which privatization and the private sector must operate is infinitely more productive than "calling in the investment bankers" or "looking into the books" of public enterprises that are likely candidates for unloading. [CH]

The WB lends support to a number of the views expressed above:

Adjustment of the enabling and regulatory environments is required if the full benefits from the privatization program are to be achieved. The current enabling environment can be described as weak, and the regulatory environment is ineffective. Whilst this environment will not prevent privatization, it will severely limit the fiscal returns, constrain private sector development and impede economic efficiency. It is precisely this scenario that has occurred in past privatizations and has been a principal contributor to the claims of failure of past privatizations. [WB]

Thus, the case is made that privatization takes place when conditions are created for the private sector to flourish and thrive. It is also quite clear that researchers have identified a multitude of factors which influence the fate of the privatization process. Organized labor is either proclaimed or acknowledged as one of those factors. What remains to be seen is whether it has been conducive or inimical to the process, and whether it is a significant or a trivial factor.

The progress of divestment

This is what the numbers say: according to WB, there were 350 SOEs by 1975. After successive divestments between 1976 and 1994, some 235 enterprises remained under public ownership. The

net reduction in the number of SOEs were 33% in 18 years, which is clearly disappointing.

There is however a second set of numbers available from another authoritative source; and let us take a look at those numbers:

... more public enterprises have been divested there [in Bangladesh] than in any other country -- a total of 1,076. The 609 of these that were in the industrial sector will be the focal point of our investigations. This stupendous statistical record prompted such a recognized authority as Elliot Berg to rhapsodically refer to Bangladesh as one of the two [the other was Chile] "champion performers in the world of privatization or divestiture. [CH]

It appears that we are faced with irreconcilable statistics depending on which data source or which researcher is presenting those. WB says that only 115 enterprises (350 - 235) were divested; CH says that almost 9 times (1076 / 115) that many were. This throws a lot of our presumptions about privatization in Bangladesh into uncertainty. The only certain conclusion that can be drawn is that the available information is unreliable.

CH appears to have the numbers right. This is what another authority has to say:

Dr Rehman Sobhan, who was an advisor of the caretaker government of Justice Shahabuddin, said that during his brief stay he observed that in ten years 700 industrial units had been privatized by the then government. "But I could not trace out even a single paper in any government agency about the fate of these disinvested enterprises", he said. However, after taking statistics it was unearthed that about 50 per cent of those mills and factories had been closed down, he said. [The Daily Star, December 20, 1993].

We are once more reminded, by the above, that the post-privatization success of enterprises is what really counts, not the numerical progress of divestment. However, we also learn that data on this real measure of the success of privatization is conspicuously absent.

Another fact, which almost never gets into the statistics, is that a vast number of trading enterprises -- much greater than that of the nationalized manufacturing concerns -- were nationalized. These obviously are no longer under government ownership.

The commercial and trading entities presented a vastly different problem. There is no aspect of the study of privatization in Bangladesh more shrouded in mystery, obfuscation, and general lack of information. It has been almost impossible to find out even such basic information as how many commercial firms were nationalized and how many were privatized. Estimates of privatized commercial enterprises have varied from 2,000 to 8,000. Comprehensive official figures are nonexistent, or at least not available. Even in scholarly studies, the question of what happened to the commercial enterprises is only vaguely alluded to, often in a footnote. [CH]

While the discrepancies are not specifically the concern of this particular paper, they raise the possibility that it may be incorrect to state that the numeric progress of divestment in Bangladesh has been slow. The only things that can be stated with certainty are:

- The official records for both nationalization and privatization may not be available to a normal level of diligence on the part of a researcher.
- Information about the performance of SOEs transferred to the private sector may not be available at all.

The oft-expressed concern for the failure of, or less-than-satisfactory progress in, privatization in Bangladesh is thus reduced to mere opinion, and therefore very hard to support or disprove. However, the scope of this paper does not extend into that line of enquiry. On the other hand, the issue of how far organized labor has contributed to or hindered privatization as a process, appears worth examining in trying to enhance the success of that process. One will however have to always bear in mind, at the risk of repeating oneself, that dependable information -- on how the enterprises themselves, their erstwhile work force, and their new owners fared after privatization -- which is so essential to assess the economic and social success of privatization, is very hard to come by in Bangladesh.

The factors which influence

Privatization, as with any other process, is influenced by the action of those who directly stand to gain or lose from that process. WB identifies five groups which have this relationship, and provides its observations on how each of these groups may influence privatization:

Some observations on the climate for privatization can be developed for each of the concerned groups: (a) politicians; (b) bureaucrats; (c) intellectual community; (d) business community; (e) organized labor. The observations are based on mission interviews, and published public comment. The politicians tend to be supportive of the need for privatization, but they could not be described as enthusiastic. Within their ranks there is no strong advocate, a "Mr. or Mrs. Privatization". Privatization is something they have come to reluctantly. The bureaucrats on balance are neutral to privatization, they do however harbor a suspicion of the private sector, and would not be happy with a privatization program that leads to increasing concentration of wealth. A very senior official noted that privatization as practiced in Bangladesh must be redefined. The intellectual community who are important leaders of public opinion have a wider range of views. Skepticism about privatization is based in part on a perception that past privatizations have not been effective and have led to increasing concentrations of wealth. The business community are almost totally pro-privatization. They point to the almost universal poor performance of SOEs and believe government should not be involved in business. Organized labor representatives often equate privatization with job loss at their cost. [WB]

CH describes the interested parties and their reactions as follows:

But privatization, as such, had very few passionate advocates. The leftist-leaning academics and intellectuals were almost universally opposed, as is so often the case in former colonial societies. Like their counterparts elsewhere, the Bangladesh academics decried the influence of foreign ways, but loathed even more the traits and backwardness of their own traditional society. In some ways, they have been more foreign than the foreigners. They speak in grand humanitarian terms, while building elaborate state control systems within which they can play olympian guru roles.

The Awami League, now the opposition party, was a dedicated foe of privatization of the mills, holding to the tenets of its socialistic manifesto. [That was in 1987, and the author of this paper urges its readers to recognize the support which the party announced in 1994 in favor of a market oriented economy. Of course, the historical perspective and effects of that previous opposition remain valid.] There was a certain irony in this, in that quite a few of the mill owners, who had originally been set up in the business by the EPIDC, were early and important supporters of the Awami League. They had obviously split from the party on this issue.

The workers were loosely aligned with the Awami League, [later developments include realignment of the workers with other major political parties also] although their opposition to privatization was based on practical issues, not ideology. They feared that divestiture of the vastly overstaffed public enterprises would result in loss of jobs in the name of efficiency and profitability. Unemployment in a subsistence economy of an overpopulated country like Bangladesh is a very serious matter. The labor force has the traditional fear of the powerless at times of dramatic change. As bad as their current lot is, the turmoil and doubts associated with the unknown is worse.

Unemployment in Bangladesh has consistently hovered around 37-38 percent, and underemployment is even higher. The workers had been given false hopes by the nationalization of 1972. In 1975, they had been worried, but went along with the government's tentative moves toward privatization in the hope of better times. Their attitude had hardened by 1978-79. By 1982, they viewed privatization as a threat, particularly since the principal denationalization was to take place in jute and textiles, the two industries employing the most people.

Cynical after centuries of exploitation, the workers saw a dynamic private enterprise economy as a way for the rich to get richer, rather than as a way to create more jobs or generate increased income. Self-serving leaders of the violent labor union movement, fearful of losing power, made certain those fears and forebodings were constantly reinforced.

Meanwhile, the rural and agricultural population, which comprised more than 80 percent of Bangladesh's people, played their usual passive role, unconsulted and apparently unconcerned about privatization of the "modern" industrial sector. The farmers, the country's most influential private sector, felt little kinship with urban businessmen. Whatever contact they had experienced had been characterized by exploitation.

Many in the bureaucracy viewed privatization as a threat to their jobs, their power, and their access to graft. More than a few, particularly at higher, policy levels, did realize the weaknesses of the current system, and had come to the conclusion that the government was a poor businessman anyway. They would be relieved to unload the burden of the stumbling state enterprise system.

The biggest support of privatization came, of course, from the business community and the traditional elite who had influence with the political leadership. But even in the business community, there were some who looked upon privatization with unease. A few shared the view of the academics and bureaucrats that Bangladesh's private sector was not sophisticated or public spirited enough to take the primary leadership role.

A few of the business elite saw the rise of the private sector, the broadening of its base, and increased competition as a potential threat to their own business empires; and they quietly colluded with sympathetic circles in the bureaucracy to keep privatization policies and programs within palatable limits that served, not endangered, their interests. [CH]

It appears that when one deals with privatization, one is on uncertain grounds, not knowing who the friends and who the foes really are. Some illuminating observations are available in Senator Saeed Quadir's paper:

Thus the massive changes [disinvestment, denationalization, deregulation] announced by the government to free the society with a single stroke of pen was not only resisted by the Opposition but also within the Coalition Government [of Prime Minister Nawaz Sharif]. This was further compounded by the vested interest -- the principal losers being the 'bureaucracy' who had built an iron curtain around its empire i.e. the public sector. Thus resistance was encouraged by one and all against economic reforms in general and privatization in particular merely because the government had announced that the program will be implemented with utmost speed and determination. [SQ]

SQ also offers case-related examples of which groups could be hindering privatization:

The PC [Privatization Commission of Pakistan] faced legal problems from the very inception. These may be summarized as under:

- a. Owners of the nationalized units challenged the privatization process.
- b. Bidders who lost due to technical flaws in the process of bidding challenged the particular sale.
- c. Labor unions challenged the privatization process.
- d. Management Association of Executives challenged the process of privatization. [SQ]

SQ did not elaborate whether the membership of the Management Association of Executives lay exclusively in SOEs. However, we learn quite unambiguously that both "labor" and "executives" challenged the process of privatization in Pakistan. Available literature for Bangladesh conspicuously avoids discussion of the disposition and the impact of "executives" -- at both the management level and at the decision making level -- on privatization. Nevertheless, SQ offers a last word which is full of hope. It indicates that pure intentions and sincere efforts have a simple way of succeeding (irrespective of which group is opposing privatization):

In all forty cases were filed in the courts of Pakistan on account of various causes listed above. The PC had won 30 cases by early 1993. In all these cases the PC actions and procedures were duly upheld. [SQ]

Labor's attitude to and influence on privatization

The available literature does lend support to the popular view which indicts labor, and particularly organized labor, as a prime impediment to the divestment process. In spite of the visibility and vociferousness of labor's aversion to privatization, there is no evidence that such opposition had actually prevented divestment of an SOE where the political and administrative will to divest existed. This is what CH had to say:

However, the noisiest and most effective public opposition has come from organized labor. Strikes are almost automatically called whenever a public enterprise is even rumored as a potential candidate of privatization. Several union-sponsored Disinvestment Resistance Committees sprang up over the proposed privatization of the Rupali Bank in early 1987 [yet it was privatized, along with two other public sector banks]. Small demonstrations are almost a daily occurrence in the central commercial district of Dhaka. Citywide and countrywide strikes are in vogue. Not infrequently, striking workers actually kidnap factory managers and their principals, holding them hostage until labor demands are met. [CH]

The recent decision of the government not to convert the Bangladesh Shilpa Rin Shangstha into a private financial institution was totally devoid of any visible influence from its blue collar workers. The WB, though it considers labor opposition to divestments a significant factor, does not find it intractable:

In the past labor has been one of the most vocal opponents to privatization. Its opposition is based on several standpoints:

- there is a feeling among organized labor groups that labor has not been well treated in past privatizations, with benefit and gratuity entitlement often not being paid out;
- the benefits of SOE employment in terms of pay, allowances, overtime and other income can be considerable; and
- with the wider family dependent on the wages of the SOE workers, job loss could have far-reaching implications in a slow growing economy where alternative job opportunities are not easily found.

Whilst labor is still vocal in its opposition, its position on privatization has moved significantly in a relatively short period of time. From a position of implacable opposition there is now a degree of acceptance by the unions of the inevitability of privatization although there are some significant reservations. The reason for the change is the continued loss-making of SOEs and the realization that the alternative to privatization may be closure / liquidation of the SOEs concerned.

Labor concerns are thus not intractable and a sensible privatization program can overcome many of their concerns. The core elements of the program should include: adequate and alternative jobs in the private sector; and in some cases, employee share participation schemes. All these programs must be properly communicated. To this end a well conceived and vigorous public relations program is essential to deal with the workers' main concerns. Such public relations program should deal with all sectors of the community. [WB]

Senator Saeed Quadir, in his considerable practical experience, also found labor attitude inimical to divestment, yet not intractable. He showed that it is possible to gain at least acquiescence, if not support, from organized labor in the privatization process.

... Considerable difficulties were experienced by the consultants in preparing detailed and accurate reports in a number of units due to the attitude of labor. As negotiations with labor leaders had just begun in early 1991, it was their demand that the entire process of privatization be frozen till an agreement with the labor unions was arrived at. The government's contention was to maintain pressure on the labor leaders by actively pushing forward all the ground work that was necessary to complete the process successfully.

Thus some units were advertised for sale as early as March 1991. The response for the sale of these units was extremely limited. However the government's firm intention to proceed with the program of privatization was getting across to the labor leaders.

Negotiations by the Inter-Ministerial Committee on Labor were initiated with "All Pakistan State Enterprises Workers Action Committee" (APSEWAC) [a parallel in Bangladesh were the Disinvestment Resistance Committees] in earnest. The labor leaders also responded. It took seven long months to hammer out a negotiated settlement with the labor leaders. This agreement was signed on 15 October 1991 ... [SQ]

Characteristics of industrial and organized labor in Bangladesh

The WB report contains a number of useful statistics and information about labor in Bangladesh.

The Bangladesh labor market exhibits three important features: (a) it is dominated by a very large informal sector; (b) formal sector wage rates are becoming internationally uncompetitive compared with other low cost countries; and (c) the unionized part of the formal sector is highly militant.

.....

The formal sector of the Bangladesh labor force in FY90 amounted to 4.8 million workers (9.58%) of which about 30% (1.4 million) was in the public sector. . .

.....

The labor unions which represent approximately 1.5 million members or 3% of the work force are influential because of their concentration in large urban based industries and the linkages they have to political parties. The unions have a history of militancy, with very visible strikes, demonstrations and other forms of unrest. . .[WB]

The study carried out by Dr Shamsul Haque offers a comprehensive and lucid picture of industrial and organized labor in Bangladesh.

Industrial labor is of relatively recent phenomenon in Bangladesh. Over 80% of industrial labor still maintain their rural bases and employment income is used to supplement income from their marginal farming. And only 10% - 15% of the married workers live with their spouses. Insufficiency of income, housing and schooling of children in urban areas forced most of the workers to maintain their village connections and, investment on land is still preferred. Hence redundancies arising out of privatization with compensation may not be as traumatic as it would appear in industrialized countries.

Available data suggests that the degree of unionization amongst the workers in SOEs is quite significant, although opinions differ regarding the effective number of workers who regularly participate in union activities. Due to the tradition of forming of trade unions by political parties, unionization transcends industry and sectoral boundaries. Hence labor-related decisions taken in SOEs are quickly transmitted to the organized private sector.

Politicization of the trade unions could be discerned from an analysis of the causes of industrial disputes. Of the 796 cases of unrest recorded by DOL during 1977-91, 350 cases (44%) were found to have been caused by political factors of extra industrial origin. Inherent weakness of the genuine trade union movement could also be observed from the fact that conventional methods of settling industrial disputes had occupied a marginal place in the process of conflict resolution as can be seen in the following table. Arbitration by independent tribunals established by law virtually ceased to function and existing rules and procedures of strikes and lockouts were rarely observed by the two parties.

SETTLEMENT OF INDUSTRIAL DISPUTES BY DIFFERENT METHODS

	Direct negotiation	Mediation by government conciliatory office	Arbitration by independent tribunal	Unconditional return to work	Other methods	TOTAL
No	164	161	1	344	117	787
%	20.84	20.46	0.13	43.71	14.87	100.00

- As a result of the prevailing chaotic conditions various malpractices were developed to obtain / provide excess employment in SOEs. On the other hand, despite the low basic wages, workers in SOEs were paid well given their low level of productivity and relatively lower wages elsewhere in Bangladesh. Politicization of unions and resistance to changes, therefore, were natural consequences under the centralized wage determination system along with blue collar workers in government where productivity was still lower. [SH]

How to overcome labor opposition to divestment

All the studies cited in this paper contain pointers for removing the causes of labor opposition to divestment. There is also the underlying or expressed premise that support of the industrial labor force is indispensable for making any headway in the divestment process. Senator Saced Quadir offered a comprehensive list of general conditions relevant and conducive to divestiture of SOEs.

Privatization is a political process. It needs a definite political commitment if it wants to succeed.

The political and cultural environment play a dominant role in the process of privatization. The psyche of the people have to be taken into account.

Only a committed and devoted staff in the Commission can successfully implement the process. The smaller the size of the Commission the better the performance.

Transparency is vital in any successful program. However there is no way to avoid criticism on this count.

Accommodation and settlement of issues with labor are vital for successful implementation of the program. Without their cooperation, it is not possible to implement any privatization.

Legal aspects have to be carefully studied and steps adopted to ensure successful transfer of units. Despite this any Commission has to be prepared to face legal challenges.

A monitoring system of the privatized units is the only basis to find out the comparative performance of these units in pre and post privatized period.

Broad basing of ownership can only be done through government laws. A Commission can only encourage new investors by actively advertizing and propogating the advantages of investment. [SQ]

Dr Shamsul Haque summarized remedial mcasures in the following terms:

Experience from other countries suggests that a number of reactive and proactive options are available for managing the problem of labor opposition to privatization. Broadly they may be grouped under two classes: one, designing suitable compensation packages; two, future employment related opportunities such as skill improvement training for reemployment and self-employment credits, etc. An attempt to assess the attitude of trade union leaders on privatization revealed that they were not opposed to privatization provided genuine workers concerns were addressed. Pitfalls in managing labor and other issues in earlier privatization programs appear to be the main source of current resistance. [SH]

The highly successful divestment attempt in Pakistan included, among other pragmatic steps, three alternative packages of comprehensive benefits, measures, and safeguards for both labor and the government, which were formally agreed to between organized labor and the government. Historical, cultural, and political reasons indicate that these packages may be highly adaptable and useful in the divestiture process in Bangladesh. These are therefore being quoted here:

Package 'A'

Employees would be accorded all protection available to them under the Labor Laws. As a special measure no retrenchment of the employees would be allowed.

10% of the shares of the privatized units would be offered to the employees at a mutually agreed rate.

Employees rendered surplus after the initial period of 12 months, would be entitled to the following benefits:

- a) Priority would be given to the employees in matters relating to the employment abroad.
- b) They would be provided easy credit for facilitating their self-employment.
- c) A surplus pool of laid off employees would be maintained by an agency appointed for the purpose and the Privatization Commission would endeavor to find jobs for such employees. Till such time these employees are placed in employment, they would be entitled to unemployment benefit at the rate of Rs. 1000/- per month for a maximum period of two years. This benefit would be available to only those employees unemployed involuntarily.
- d) Suitable arrangements shall be made, where considered necessary, to provide training to surplus employees in new trades and occupations.
- e) Grants would be given for the marriage of their daughters.
- f) Scholarships would be provided for education of their children.

Package 'B'

Employees opting for golden hand-shake of units and corporations may do so on the following terms:

- a) One month's gratuity for each complete year of service will be payable. Whenever this gratuity is non-existent or less than of one month, the gratuity will be assumed to be of one month. This will be paid by the employees' unit.
- b) Four month's last drawn basic salary for each year of service will be paid in addition under arrangements of the Privatization Commission.
- c) All dues will be paid only after the sale of units. However, all possible measures will be adopted to settle the dues before handing over the units.
- d) List of employees opting for golden hand shake shall be provided by the respective CBAs.
- e) All those including seasonal regular employees, who wish to avail the facility will give their option before the sale agreement is signed.

All entitlements under the existing laws and regulations will continue to be applicable at the time of termination of service. However, after exercising this option, the packages offered under 'A' & 'C' will not be applicable. In the case of members of the Supreme Council of APSEWAC para (d) will not be applicable. They may exercise their option before finalization of the process of privatization. . .

Package 'C'

In case of employees buy-out, negotiations will be facilitated in consultation with the Supreme Council of All Pakistan State Enterprises Workers' Action Committee.

Employees will be provided all opportunities to purchase a unit if they make a bid. They will also have right of negotiations on the highest bid.

All bids made by the employees will have to be competitive and in accordance with the bid documents.

Employees will be given concessions through negotiations if they are declared successful bidders.

Whenever gratuity fund is maintained as a trust, the funds may be used for investments as per rules.

The savings in the Provident Funds may be utilized for bidding purposes subject to Government Rules and Regulations.

A management plan (which would include a financial plan) will be submitted by the employees for any bid they make for a unit.

Any unit owned by the Federal Government in Fata will avail the same facilities as available in the to the remaining units of SOEs.

The facility of group insurance for workers who opt for golden hand shake will be available for continuation provided he subscribes to the same from his own resources.

Any legal requirements for the implementation of this agreement will be fulfilled by the Government.

Difference if any will be resolved by mutual understanding between the Inter-Ministerial Committee and APSEWAC. [SQ]

Conclusions

Privatization is first and foremost a political process which creates an economic condition where the private sector flourishes. Equating it with divestiture of SOEs is too narrow in perspective.

The SOEs account for 6% of GDP, 1% of total labor force, and for losses equivalent to 1% of GDP which must be paid ultimately by the consumers. One must remember that these ratios relate only to the formal sector of the economy. Estimates of the size of the informal sector vary widely and are guesses. Yet the averages tend to converge to where the size of the informal sector is seen as roughly equal to that of the formal sector of the economy. The significance of the SOEs, and the influence they have on the economy of Bangladesh, thus appear to be overstated -- as are possibly the labor issues connected with them.

To a student of labor militancy in the industrial, shipping, and mining cities elsewhere in the world, the contentions of labor militancy in Bangladesh would conceivably appear exaggerated. It is freely stated that organized labor in Bangladesh is fragmented. Its financial base has never been shown to be strong enough to be able to support a sustained campaign of militancy. Even the temperament that will make the workers capable of browbeating the "establishment" does not seem to be there. An expatriate consultant, who has had extensive business and practical exposure to the USA, Europe, and Asia, and who has been working for a number of years in a large and prominent state owned enterprise in Bangladesh, recently stated that the workers in Bangladesh are the most docile that he has encountered so far. "You tell them to do something and they just do it," he said emphatically. The statistics provided by Dr Shamsul Haque and the World Bank are startling: in all the industrial disputes settled between 1977 and 1991, almost 44% of the workers had returned to work unconditionally; and only 0.13% cases had to be referred to an independent tribunal. Even where the intransigence of organized, formal sector, urban industrial labor is condemned, it is acknowledged that their apparent influence derives from the politicization of their labor organizations, rather than from any intrinsic quality of the workers themselves. When one considers that the labor unions represent only 3% of the labor force, and that only a fraction of that takes part in any single act of militancy, one is compelled to draw a parallel with the general strikes or *hartals* called in the country. Even a small group can successfully execute a *hartal* irrespective of its representation or support among the general public. The problem is cultural and all-pervasive, not peculiar to organized labor.

"Politicization," however, is a two-way thoroughfare. Incidences of the political or administrative leadership backing out of its effort to divest a particular SOE because of vehement labor opposition aided by their political sponsors are well-publicized. But what is the *quid-pro-quo* of political parties' support for labor unions? What motivates political parties to be associated with labor unions? The possibility that the political or administrative leadership, unwilling to divest an SOE because of their own reasons, may incite the largely unenlightened workforce into violence and thus shift the public responsibility away from themselves, is not too remote. The industrial and commercial world of Bangladesh, both in the public and the private sector, is full of management-sponsored labor unions.

Even when one concentrates on the narrow issue of divestment of SOEs, one finds many powerful enemies to it among the politicians, bureaucrats, enterprise managers, intellectuals, and even the business community. An exclusive focus on organized labor in overcoming resistance to divestiture may thus draw attention away from other, directly relevant issues which, if adequately addressed, would actually augment the privatization process.

As far as sheer numbers are concerned, privatization in Bangladesh may already have been quite successful, as indicated by Claire Humphrey and Rehman Sobhan. The real failure of privatization in Bangladesh has been that the expected private-sector-led takeoff of the economy is yet to take place -- this is what the excerpt from the World Bank report quoted later appears to support. The private sector has not been able to generate enough wealth so that the relative standard of living of the people in general could start to improve; or the incidence of hard-core and borderline poverty in Bangladesh could start to exhibit a perceptible downward trend. This view appears to be

supported in a very recent World Bank report:

Underemployment in Bangladesh may rise and exceed the equivalent of 30 per cent unemployment by 2000 if the real GDP growth rate fails to accelerate and continues to grow at the historical rate of around four per cent a year, cautions a World Bank report.

.....

According to the report, real agricultural wages declined by about 1.5 per cent a year while manufacturing wages fell by three per cent during the 1971-90 period.

The trend, however, appears to be changing and data from the 1990s indicate some increase in real wages. But if the GDP growth rate does not pick up the wages would continue to fall, it warns.

.....

The report, a supplementary of the "World Bank Development Report 1995: Workers in an Integrating World," was released worldwide yesterday. The report looks into the possible impact on the workers of the global changes towards an increasingly market-driven economy.

.....

The regional perspective report on "Jobs, poverty, and working conditions in South Asia" paints a grim picture of the region consisting of Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka, which together have 430 million workers or about a fifth (17.5 per cent) of the world's labor force.

In terms of per capita consumption, South Asia is the poorest region in the world. The report notes that in 1990, almost 59 per cent of the region's population consumed less than 30 US dollars a month in terms of purchasing power parity, while this share was 53 per cent in Sub-Saharan Africa, 28 per cent in Latin America and 15 per cent in East Asia.

Growth, at 4.1 per cent, in South Asia between 1960-90, has been slower than in any other developing region except Africa, it said.

In the early 1990s, investments ranged from about 12 per cent in Bangladesh to 23 per cent in Sri Lanka and India, compared to 34 per cent in Malaysia and 40 per cent in Thailand. The average South Asian worker uses only 2,513 dollars of capital, compared with a developing country average of 13,000 dollars and an industrial country average of 150,000 dollars, the report points out.

.....

The report also points out some 'serious' misgivings about labor unions in South Asia. They represent the interests of a very small proportion of relatively better-off workers and they are also over-politicized and fragmented, it says.

"Industrial relations in South Asia's public enterprises need to be restructured and depoliticized," the report says. It also suggests that the region's governments need to improve their performance as employers of civil servants who provide public goods, such as health and education. [The Daily Star, June 30, 1995]

The principal culprit is thus the absence of an enabling environment which, according to *The East Asian Miracle* published by the World Bank, is a common precursor to such a take off. Let us recap what the World Bank report on privatization said about this:

Adjustment of the enabling and regulatory environments is required if the full benefits from the privatization program are to be achieved. The current enabling environment can be described as weak, and the regulatory environment is ineffective. Whilst this environment will not prevent privatization, it will severely limit the fiscal returns, constrain private sector development and impede economic efficiency. It is precisely this scenario that has occurred in past privatizations and has been a principal contributor to the claims of failure of past privatizations.

The negative elements of the enabling environment are: (a) investment regulatory functions are burdensome; (b) with formal sector wage rates rising in real terms over the past decade without any corresponding increase in productivity, wage rates are becoming uncompetitive compared to other low income countries; (c) high real interest rates, bureaucratic problems in state banks and extreme risk aversion in private banks, make credit very difficult to secure; (d) the legal environment is ineffective; (e) despite generous depreciation allowances, high corporate tax rates and widespread tax evasion could discourage and disadvantage listed companies and foreign investors, two important potential sources of capital for the privatization program; and (f) the general infrastructure in terms of energy, communications, transportation, water and waste disposal ranges from barely adequate to very poor. For instance, losses due to power outages were as high as 29% of the value of production of some firms in the first six months of 1993. There are over 10,000 applications waiting for telephone connections, notwithstanding a high deposit fee. [WB]