PRIVATIZATION IN BANGLADESH

by

Clare E. Humphrey

A study submitted to the
Center for Privatization
for forwarding to the
U.S. Agency of International Development

Washington, D.C.
May 1987

TABLE OF CONTENTS

PREFACE

While conducting this study of privatization in Bangladesh, the author served as a Senior Advisor to Analysis Group, Inc. and its Center for Privatization in Washington, D.C. The project was funded by the U.S. Agency for International Development. Funding came specifically from AID's Bureau for Private Enterprise, the Bureau for Asia and the Near East, the USAID Mission in Dhaka, Bangladesh, and the worldwide AID contract on privatization administered by a consortium headed by Analysis Group, Inc. The Task Assignment Number for the project is 86-BAN-AGI.

The original contract covered two weeks of preliminary research in Washington, D.C., in August and September of 1986, followed by twelve weeks in Bangladesh.

During the course of the work in-country, it became clear that the project was bigger than anticipated and could not be finished within the original time frame. Consequently, the author came back to the United States in mid-December 1986, but returned to Bangladesh in early February 1987 for four weeks to complete the field research. The study was written in Washington, D.C. over a two-month period in April and May 1987.

After review by the USAID Mission in Dhaka, final revisions are anticipated in early Summer 1987.

This draft is being submitted without attachments. The appendices that will be attached to the final study are listed at the end of the study.

In the course of the research, the author met with more than one hundred government and business leaders. Particular appreciation is expressed to His Excellency Moudud Ahmed, Deputy Prime Minister and Minister of Industry, for a lengthy interview and his gracious assistance in helping with obtaining necessary data on privatization from his Ministry.

Special thanks are also due to Shamsul Haque Chishty, Secretary, Ministry of Establishment, to whom everyone studying privatization in Bangladesh is indebted for the landmark papaer he wrote on the subject for an ABD conference in early 1985. The author also wishes to express his thanks to Dr. Tawfique Chowdhury, Joint Secretary, Ministry of Finance, Mr. Azizul Haque, Additional Secretary, Ministry of Industries. He wishes to express his profound appreciation and respects to Mr. Shafiqur Rahman, recently retired Joint Secretary, Ministry of Industries. Shafiqur Rahman is Bangladesh's leading authority on privatization. He was most gracious in sharing his knowledge and insights through eight lengthy meetings with the author.

Innumerable business leaders were unsparing of their time and thoughts. I honor their request of anonymity, but acknowledge the value of their contributions. A special thanks

is due to Dr. Surrinder Malik, Chief Economist of the World Bank in Dhaka, who shared his remarkable knowledge of the Bangladesh economy.

The staff of USAID/Dhaka could not have been more cooperative and supportive. I want to particularly thank Director John Westley, Deputy Director Bonnie Pounds, and Chief of the Programs Office Howard "Bob" Kramer.

Most of all, the author wishes to express his appreciation for the dedication and competence of his chief collaborator on the project, Mr. Nizam Uddin Ahmed of the USAID staff. The study could not have been written without his unparalled contacts, and his insights into how the Bangladesh bureaucracy and society work. Therefore, it is my very great pleasure to dedicate this study to im, as "friend, colleague and trail guide along a treacherous path." The author, however, assumes sole responsibility for the material and views expressed in this study.

Clare E. Humphrey

Washington, D.C.
May 1987

Chapter I

EXECUTIVE SUMMARY

Bangladesh has privatized more public enterprises than any other country, a total of 1,076, of which 609 were in the industrial sector, which is the focus of attention in this study. The statistics are impressive, but the substantive accomplishments are more difficult to evaluate.

The privatization policy and related regulatory liberalization have had a beneficial effect on industrial growth and have encouraged private investment. On the other hand, inadequate policy planning, lack of consistent political will, and a failure to take into account the practical implications of bold development strategies have blunted, even thwarted, the impact of the extensive privatization effort. Above all, there has been an enormous gap between policy statements and implementation of policy.

The majority of privatization transactions in Bangladesh have been outright divestitures, i.e., the selling of state-owned enterprises (SOEs) through bids from private sector entrepreneurs or by negotiated return of enterprises to former owners after a period of nationalization. This is, in itself, unusual, because divestiture has been on of the least attractive and least used methods of privatization in other developing countries. In other settings, privatization programs have shown a preference for partial divestiture, spinning off selected parts of large SOEs, liquidation, or marginalizatin by freezing the budget or functions of an SOE and gradually replacing it with private sector activity. The inseparability of privatization and private sector development are recognized. In any case, outright divestiture fitted the particular set of historical and economic circumstances prevailing in Bangladesh.

Under British colonial rule, the backwater economy of East Bangal (as Bangladesh was then known) was geared to the needs and markets of the colonial power. After partition in 1947, East Bengal became East Pakistan; but its fate remained essentially the same - domination from outside, in this new phase by West Pakistan. Karachi replaced London and and Calcutta as the East Wing's principal market center. The East was treated unequally in comparison to the West in the development of industry and the allocation of financial resources. In both the British and Pakistan periods, the preponderance of economic activity in the eastern section was in the private sector. Government was essentially a regulator and monitor.

All this changed after Bangaldesh became a completely independent country in 1971, after a bloody war of liberation with Pakistan. Because of the flight of West Pakistani owners and managers, over half of the country's industrial assets were classified as "abandoned." The government had no recourse but to nationalize these properties. Because of ideological fervor within the socialist-leaning Planning Commission, the government also took over the large industrial enterprises owned by Bangladeshis as well. Government control of industrial assets jumped from 34% to 92% overnight.

Nationalization was a disaster for Bangladesh's troubled, subsistence economy. The government did not have enough qualified administrators to run the public service, much less the economy as well. The SOEs became bloated and inefficient bureaucracies. Most lost money in large amounts. Operating losses, subsidies and loans to SOEs became a serious drain on the budget and the treasury.

Realizing, but not publicy admitting its mistake, the government quietly started turning over some SOEs to the private sector. In the meantime, several thousand abandoned small commercial firms, obstensively nationalized, were systematically looted and illegally stripped of resources. Many ceased to exist as functioning economic units. Some disappeared without a trace.

With the overthrow of the first post-liberation government in 1975, the new government made a basic decision to dismantle the nationalized sector. In December 1975, a Revised Investment Policy included provisions for privatization of state enterprises. A cautious program of divestiture was launched. Most of the candidates selected for privatization were small state enterprises that had been consistently losing money.

A big leap in the privatization program occurred in 1982, under another new government. As part of the New Industrial Policy (NIP) of June 1, the decision was made to return 33 jute mills and 27 textile mills to the former Bangladeshi owners. Jute and textiles are the two major industries in the country. In addition to these and other divestitures, the NIP increased incentives for private investment, liberalized the regulatory environment somewhat, and opened new industrial areas for private sector activity that had been reserved for the public sector.

The Industrial Policy of 1986 (IP-'86) further broadened the private sector incentives of the NIP of 1982. IP-'86 also put into action a previously announced but moribund plan to sell up to 49% of the shares of most SOEs to private buyers. The selling of shares started in early 1987 with mixed initial reactions. Many of the SOEs are not attractive investments.

Opposition to privatization has been widespread. The bureaucracy has been obstructionist for several reasons, including a) privatization means loss of power through dismantling of bureaucratic empires, b) privatization lessens opportunities for in-house corruption, c) sheer bureaucratic red tape and ignorance, and d) distrust of the business community.

The labor force and the violent union movement have resisted privatization because of the concern that efficiency-conscious private owners and managers will engage in widespread staff reductions. Academics and opposition politicians have fought privatization on less pragmatic, more ideological-political lines.

The performance of the privatized firms has been spotty, though precise accounting figures are hard to come by. More money is being made than publicly available accounting records show. In almost every case, the privatized firms are performing more efficiently and profitably than when they were nationalized and they routinely outperform their counterparts in the public sector.

One of the biggest national economic problems is the tendency of the privatized firms (or SOEs for that matter) not to repay their loans and major obligations.

Privatized firms have tended to perform well or poorly more in relation to the fortunes of the industry they are in rather than as a result of their own managerial or marketing skills. External forces and factors dictate success or survival. The best way to evaluate privatization is to focus on the economic environment, not the enterprise.

The Bangladesh economy is still struggling, but there are some encouraging signs, almost all emanating from the private sector. Industrial growth in the private sector is now increasing at almost twice the rate of that in the public sector. Private investment doubled between 1981 and 1984. The economy is more varied and active now because of the presence of a new breed of entrepreneurs and industrialists, many moving up from the ranks of traditional commercial trading.

The greatest growth in recent years has been achieved in such industries as garment manufacturing, shrimp raising and processing, light engineering, and pharmaceuticals. All of these industries are labor intensive, and most are export oriented. MOre to the point, all of these industries have been dominated by the private sector, with little direct participation by the government. The private sector is hindered by bureaucratic red tape and an adverse regulatory environment.

The SOE system still controls almost half of industrial fixed assets, production and value-added. Consequently, recurrent government attempts to reform, reorganize, and rejuvenate the public sector will have a significant bearing on Bangladesh's future economic development.

Most state enterprises continue to lose money. One thing is very clear: the sustained economic growth the country so desperately needs cannot possibly be led by the public sector. Privatization has been a key element, perhaps <u>the</u> stimulus for private sector growth, which, in turn, is leading the economy. Further, the importance of privatization lies not in the unloading of a few (or many) state enterprises, but in the privatizing of the economy.

There have been no major divestitures since 1984. The government has vacillated in the face of political opposition. It appears that the major privatization vehicle for the next few years will be the selling of SOE shares, with an occasional divestiture or spinoff under certain circumstances. Freezing of a government enterprise's budget and functions and gradually replacing it with private sector activity may be another frequently seen privatization technique. This approach has been quite successful in the USAID-sponsored fertilizer distribution project.

The Bangladesh government never has developed a coherent, consistent plan for privatization. It has launched major initiatives on almost an ad hoc basis, with little attention to the practical implications of those policies. The government has never really figured out the nature of the role it should play in the nation's economic development, nor has it clearly defined a role for the private sector.

To assist in furthering the economic development process, this study a set of fifteen recommendations in areas of direct and indirect relevance to privatization and private enterprise development. The recommendations fall into four general groups.

The first cluster is concerned with measures USAID/Dhaka should undertake internally to better prepare itself for productive programming in the closely related fields of privatization and private enterprise development. These steps include appointing a Privatization/Private Enterprise Officer establishing a committee to design and monitor privatization projects, staff training, and expanding collaboration and sharing of information with the business and donor communities.

The second area of programming involves institution building. The most important recommendation in the study involves establishment of a high-powered Privatization Unit in the Planning Commission. Other suggestions include strengthening the Dhaka Stock Exchange and establishing an innovative national jute sales organization that involves close cooperation between public and private enterprises. The final institution-building cluster is aimed at strengthening the services of local chambers of commerce in ways that promote better ethical standards, improved management, increased support for small and medium-sized businesses, and improved liaison between the bureaucracy and the business community.

The third emphasis is on research to improve government knowledge and capabilities in privatization policy formulation and implementation, labor issues, employee stock option programs, regulatory liberalization, tax rationalization, legal aspects of privatization, etc.

The fourth category of recommendations is concerned with sectoral analsyses of industries suitable for privatization, exploitation of possibilities for privatizatioin in agri-business, and use of the International Executive Service Corps and other consulting groups to provide technical assistance in areas where privatization and private sector development are desirable and feasible.

Chapter II

PRIVATIZATION - AN OVERVIEW

The principal purpose of this study is to document and analyze Bangladesh's extraordinary experiment with privatization of the industrial sector of its "modern" economy and, to a lesser extent, of the commercial, financial, and agri-business institutions and activities, as well. The preoccupation of the study will, therefore, be with what has actually been taking place in Bangladesh. But if this exercise is to be useful to those both inside and outside of Bangladesh who are grappling with the complexities, potentialities, and pitfalls of privatization, we should first devote some attention to certain salient features and basic questions related to the privatization process, as such.

This chapter will present a brief overview of some distinctive aspects of privatization, which, while a relatively new phenomenon on the development scene, has attracted worldwide attention and heated debate in recent years. This overview is not intended to be an in-depth theoretical discourse on privatization, but rather a brief exposition of a few important, practical issues to bear in mind when approaching a study of any country's privatization situation. It can serve as a logical framework for my analysis of Bangladesh's privatization policies and programs, in particular. My intention for this section and, for that matter, for the entire study is that it not be approached as a document to be read, but rather as a tool to be used.

To start with, the reader will not be burdened with the usual pedantic, meticulous "definition of privatization." We will assume that the audience to which this study is addressed already has a relatively well-developed perception of what privatization amounts to and what it involves. Therefore, it will suffice to say that the term "privatization" will be used in this study in its widest possible sense, i.e., the replacement of government institutions or activities with those of the private sector.

At this point, I will interject a set of ten brief propositions and caveats to keep in mind when reading this study. These thoughts do not constitute a comprehensive conceptual framework for the subject, but they have influenced how this study was approached and structured. In a sense, they do represent the author's viewpoint or bias, but more as an approach or point of departure than a subjective, ideological argument.

I offer these interrelated points in rather straight line fashion, initially. They will be analyzed, clarified, and elaborated upon in various ways in subsequent sections of this chapter and throughout the rest of the study. The propositions and caveats I wish to stress are:

1. Privatization is often more influenced by political considerations than by strictly economic issues.
2. 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.
3. Privatization is too often associated primarily with questions of equity, particularly in developed countries; but privatization of a <u>function</u> can, at times, be just as important.
4. One should approach this subject from the standpoint of privatization of an <u>economy</u>, not just privatizing a few (or many) state enterprises.
5. 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.
6. 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 a competitor.

7. Privatization should be approached as a policy-oriented subject, not a bookkeeping problem. Zeroing in on the individual state enterprise at the beginning often obscures this basic fact. It also puts 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 about to be unloaded.
8. The primary motivations for privatization in most LDCs to date have been more pragmatic than ideological.
9. Privatization is no panacea for the economic ills of a sick economy; privatization is fraught with political, social, and economic problems and risks; its implementation is characterized by nagging uncertainties and few short-term victories; it is untidy business.
10. If all this is true, why would any government leader in his right mind opt to follow a course of privatization? They are doing so in increasing numbers for the same reason that people choose democracy or surgical operations - while not completely reassuring or satisfying, they (and privatization) are certainly better than the alternative.

Why Privatize?

Very few governments have embarked on a program of privatization because they wanted to. Most have done it because they felt they had to. It has largely been a negative, reluctant act taken because the existing method of building the economy and doing business through state-operated enterprises and state control systems was not working well. Because privatizing is usually tried because something else has failed, it is often approached without the same positive attitude or amount of planning accorded its predecessor system. The emphasis is on getting rid of something rather than building up something else. As a consequence, LDC governments frequently have not thought out the subject thoroughly, have not anticipated the implications of their actions, prepared measures or countermeasures, or even coped with situations that arose out of privatization policy moves.

Not infrequently, going the private sector route has been viewed as the lesser of two evils. At times, it has actually been regarded as the greater evil, but one that at least held out the hope (often a forlorn one) of greater "efficiency" and "profitability." But deep down in their hearts, most LDC governments still feel more comfortable with the economy largely concentrated in the public sector, the so-called "controlling the heights" syndrome, rather than in the hands of the unpredictable, less easily controlled "unscrupulous and selfish" private sector.

This is still so in many LDCs, despite the growing body of evidence that the countries with the most rapid and balanced economic development are those that have opted for a mixed economy led by a strong, vibrant private sector. Perhaps it is the fear of foraging into the unknown, plus the traditional distrust with which the business community has been held in most traditional societies that partially explains why the mythology of privatization has spread more widely than its actual application. Nevertheless, it does appear that "the era of wholesale expansion of public sector enterprises . . . is drawing to a close, replaced by encouragement for private development and, in many cases, a drive to privatize existing parastatals."[1]

One might ask what prompted the establishment and expansion of state enterprise systems that so characterized economic development in the fifties, sixties, and even into the mid-seventies. A representative sampling of the reasons might include:

1. At independence, most LDCs inherited economic systems that had been controlled by the interests of the former colonial power. Therefore, there was a tradition of direct government participation in and control of the economy.
2. The economies were generally quite elementary and fragile, heavily agricultural or oriented to production of raw, or at best, processed materials. The economy and such supporting infrastructure as existed were

designed to serve the interests of the former colonial system rather than the more comprehensive needs of an independent nation.

3. The few indigenous persons with a modicum of management experience were in the bureaucracy, not the business community. The civil service contained the educated elite.
4. The business sector was essentially commercial in nature; not industrial. The business community was largely composed of traders, retailers, and a few service people, with ethnic minorities or foreigners often controlling whatever distribution and financial systems that existed.
5. In almost all traditional societies, the business sector was regarded with distrust, even disdain and placed at the lower end of the social ladder. There was a rich tradition of exploitation by self-serving, clannish monopoly capital.
6. Under these and other circumstances, it is small wonder that LDC governments decided that the interests of the people as a whole would best be served if the economy was placed firmly in the hands of the government, not just for planning and oversight, but operationally, as well. Government enterprises and companion control systems were seen as the most effective way to:

   a) generate revenue for the treasury;

b) implement policy - economic, political, and social;

c) protect national security through direct intervention in strategic areas;

d) expand the economy and control the way it functions and the directions it takes;

e) encourage foreign investment in cooperation with large, stable government institutions;

f) ensure equitable distribution of products, services, and benefits to all segments of the society.

These various motives are often found mixed together, inseparably, in an ill-defined policy mish-mash.[2] They were often blunted or cancelled out by contradictory economic and social aims. "Unrecognized or unresolved conflicts within these aims and between them and prevailing market conditions have been an important underlying factor when parastatals have failed to discharge their (assigned) duties efficiently."[3]

The ability of state enterprises to perform productively are affected when they are manipulated for political reasons to weaken political opposition or pay off political cronies (after independence or after a coup) or for purposes of personal gain. A state enterprise offers enormous possibilities for in-house corruption, another reason for resisting moves to privatization. Many observors now wonder if the government's public sector is, after all, the champion of the general welfare.

In the first euphoric years after independence, overly ambitious plans were launched, impossible tasks undertaken, and extravagant promises made. Given the nature and magnitude of the challenges, and the thin human and financial resources available to meet them, it was inevitable that the under-achievement would result in disillusionment and cynicism.

It soon became obvious that state enterprise systems were inefficient, unimaginative, inertial, over-blown bureaucracies, unable to understand and respond to the economic forces of the national and international marketplace, and incapable of providing the dynamic leadership and operational performance required for the growth and progress the nation wanted. Though some government enterprises were well managed, and operated at a profit, most lost money (some heavily); and the entire state-controlled system created a tremendous and ever-increasing drain on already-tight national budget and strained resources.

The economic situation in many LDCs was not improving; it was deteriorating, both because of internal shortcomings and due to adverse conditions in the world economy over which struggling LDCs had little or no control.

In the search for solutions, the role of the private sector in developing a more varied, dynamic economy was given increased attention, at least in policy circles. The impetus for this stemmed from four sources.

First is the striking example of how some formerly less-developed countries had achieved remarkable economic growth, essentially through the medium of private sector development. Countries like Korea, Taiwan, Malaysia, and Singapore were seen as models.

Second, private sectors in many LDCs had, over the years, gradually attained greater capacities for handling a wider range of more sophisticated economic activities. Financial and human resources, while still in short supply, were at least more plentiful than before.

Third, dissatisfaction with the performance of enterprises directly operated by the state prompted officials to look at the advantages of a changed role for government, that of a planner, pump primer and watchdog, but no longer a factory manager.

Fourth, bilateral and multilateral donor agencies, who had formerly been just as eager as recipient governments to entrust new ventures to government operations (it was easier for both sides), started exerting subtle and not so subtle pressures to encourage private sector initiatives and to limit or reduce public enterprise activities. Although the matter of foreign donor pressure is often overstressed by critics of privatization, there is no doubt that donors bear appropriate responsibility for both the problem and the solution. Additionally, donor representations on the issue have at times been more ideological than the inclinations of LDC recipients, who have tended to wrestle with economic problems on more pragmatic terms.

Of course, there have been far more motivations or specific reasons for privatization than the four just listed. They have been as varied as the conditions that created the particular country situation. The issues, problems, and possible solutions vary with each country. There are no "formula" solutions or universal models; there are only broad principles and unifying threads for guidance. Conversely, while each country is in many ways unique, many have shared developmental problems and socio-cultural similarities.

One aspect that is all too frequently (and conveniently) overlooked is that much of the problem is deeply imbedded in the nature and contemporary problems of traditional societies undergoing rapid, traumatic transition with which it cannot comfortably cope. Most LDC societies are faction-ridden and basically inequitous, with strong antagonisms between rural and urban populations, between military and civilian factions, educated and illiterate, rich and poor, and family and "outsiders." They are further burdened with tribal rivalries, linguistic and religious banners with political overtones, and ethnic animosities and discrimination. Traditional values and institutions are being seriously questioned, but new satisfying value systems that would enable people to cope better with the challenges of late 20th century life have not been developed to replace them.

Viewed in this context, the public versus private sector debate takes on a different coloration, especially when one bears in mind that in most traditional societies, there was a special relationship between the rulers and the commercial sector. Despite the distance that was rigidly maintained between the two groups, the merchants depended on the rulers for patronage; and the elite needed the traders' money. Also, do the corrupt official and the avaricious businessman represent archetypes of two different segments of a society or are they to be viewed as typical representatives of that traumatized society and its value systems?

Critics of privatization abound. Intellectuals and academics are among the most vocal, usually along ideological lines related to distribution of income, protection of the poor, and service to society as a whole. The bureaucracy resists it as a threat to long-established entrenched prerogratives to job security, to power, and to long-established patterns of graft. Workers and unions fight privatization out of fear the increased "efficiency" will be achieved through laying off workers. Even some well-placed members of the economic oligarchy use their influence to curtail privatization and any broadening of the base of privatization or private sector activity for fear of losing their dominance over the economy.

All of these groups are able to influence the general public through their own constituencies and means of control over the media. About the only constituencies on the side of privatization are the rest of the business community (including the Chambers of Commerce and industry and trade associations) and a few economic planners and political leaders (who do have command over the media in most LDCs). The battle lines are drawn; and only a consistent, long-term effort with measurable, visible results will tip the scales, one way or the other.

Many of the motives underlying the drive for privatization are ironically, but predictably, similar to the reasons that prompted nationalization in the first place. They mainly reflect a vastly different approach to accomplish many of the same goals.

It is essential that governments contemplating a shift in the public/private mix develop a privatization strategy with clearly defined objectives and goals. This is a tool that keeps them aware of where they should be heading. Otherwise, they are merely trying to reduce deficits by unloading unsuccessful public enterprises on a private sector that doesn't want them.

After the goals and objectives are in mind, one of the first tasks is to select which state-owned enterprises (SOEs) are suitable for privatization. There are four types to consider. They are SOEs that are:

1. Sound and profitable
2. Basically sound but not presently profitable
3. Profitable but basically unsound
4. Neither profitable nor sound

Only the first two are good candidates for privatization. The first choice of most governments is usually number four. Unloading of such "dogs" is a mistake. The basic purpose of privatization is to strengthen an economy, not just to relieve the government budget. The third is not a good choice. Such SOEs have probably avoided losses, mainly because of subsidies or preferential treatment that would not be provided to a private company.

Even the second is a marginal choice, made only if it appears that through more efficient management, trimmed staff, improved marketing and the like, the firm can perform better in a competitive market. Most countries have not learned from Malaysia or Taiwan that greater long-range benefits for all concerned will result from transferring profitable properties that will contribute to the economy and breed confidence in the business community that the government is serious about promoting economic growth through privatization.

Proper handling of the privatization transaction is another key step in this complex process. The negotiations must be conducted with scrupulous attention to fairness, impartiality, and honesty. The valuation of assets and setting of a sales price that is mutually advantageous are most important. The tendency of government auditors is to set the price too high, in order to avoid accusations that the government is giving away the country's property to rich cronies. The buyer must not be burdened with obligations that put survival of the enterprise in doubt.

As we have pointed out, divestiture by selling the entire enterprise is not the only way to transfer government assets or functions to the private sector. Some of the other methods are:

1. Partial divestiture

   Partial divestiture can mean selling of a particular unit of a particular SOE, but this is usually accomplished through sale of a percentage of the SOE's shares. Selling of minority shares is sometimes criticized as merely being a way to raise money from the private sector. But if it is used to help build a capital market where none previously existed and is aimed at eventual majority private ownership, this method can be productive.

2. Break-up

This process usually involves selling or spinning off sections of large SOEs, i.e., units that can be viable on their own. Markekting arms are good candidates. Also, SOEs are often umbrella organizations for a variety of disparate units that have little relation to each other.

3. Liquidation or close-down

This is a difficult decision for a government, because it involves admitting a failure. Often, this tactic involves the establishment of a new private counterpart.

4. Marginalization

This is sometimes called "quiet liquidation." It involves freezing or gradual reduction of an SOE's budget or operations, but slowly building up a replacement in the private sector. This method is proving useful in some cases. It is politically less volatile than outright divestiture. The long-term returns are greater, though short-range costs can be higher; as two entities are involved during the process.

The proper method to use will vary from case to case and country to country. Much will depend on the sophistication of the local economy. The idea is to build up a broader, more varied, and more dynamic economic base, not to replace a public monopoly with a private monopoly. The government should make every effort to make it clear that it is trying to create new jobs and generate wider income distribution, not concentrating wealth under the guise of "privatization."

It is inevitable that interests opposed to privatization will recommend that the public sector should be given the "Three R's" treatment, that is Reform, Rehabilitation, and

Reorganization. This is an attractive alternative to insecure governments. It is an approach with which they are familiar and comfortable. It is usually an unproductive approach as well, perpetuating, even enhancing inherent weaknesses and vested interests. This approach is usually combined with recommendations for contract management, franchising, or leasing arrangements for SOE operations. Such mechanisms can improve SOE efficiency and profitability to a certain extent. But the results will be limited, because the basic bureaucratic environment within which public sector enterprises must exist will still be the prevailing and pervasive influence. Also, such methods do not address the question of the link between efficiency and survival in a competitive market.[4]

Maintenance and rejuvenation of the public sector will mesh with legitimate drives to further the social goals and programs of the government. Public enterprises, by their very nature are better suited to address such questions than are private companies. In a developing country with a subsistence economy, this is a matter which must be studied carefully and sympathetically.

These and many other complex pressures and problems bedevil beleaguered governments as they try to promote economic progress and well-being for their people. In the following chapters, we will investigate how the Government of Bangladesh has addressed these issues while carrying out its extensive program of privatization.[5]

Chapter III

THE PRELUDE - COLONIALISM, PARTITION, LIBERATION, AND NATIONALIZATION

Useful insights for unravelling the complexities of Bangladesh's extensive privatization effort, and for gaining some understanding of how and why events evolved in the ways they have, can be gleaned from studying the three periods that preceded the emergence of a comprehensive privatization policy in 1975 under the regime of President Ziaur Rahman. Those three periods cover British colonial rule (1757-1947), union with Pakistan (1947-1971), and the first post-liberation government of independent Bangladesh under Sheikh Mujibur Rahman (1971-1975).

Conditions, patterns, and attitudes shaped during those epochs have directly and profoundly affected not only policies and practices of subsequent Bangladesh governments, but also the way Bengali society itself functions. Some of this is, of course, predictable in the evolution of any country or society; but the way the process has manifested itself in Bangladesh is often surprising.

The persistence of problems related to both the design and implementation of economic development and privatization policies makes one ponder whether the question is less one of public versus private sector dominance than it is a matter of the traits of Bengali society itself, its values, standards, and behavior patterns, and its capacity to accept change and orderly modernization.

The continuity of problems and approaches to them is striking, even when conditions and successive regimes have been of different colorations. It reminds one of the French expression, "Everything changes, everything remains the same."

A look, albeit briefly, into the British, Pakistan, and Mujib periods sets the stage for our analysis of subsequent privatization. It provides historical setting and economic precedent. It also helps to elucidate the genesis, the roots, and the distinctive character of privatization in Bangladesh.

Brief notes of the British period (1757-1947)

What is now Bangladesh was known as East Bengal under the days of the British colonial rule over the Indian subcontinent, in contrast to West Bengal, which centered around Calcutta. The British treated Bangladesh as a backwater area whose main value was two-fold: a) to provide raw materials for British and Scottish factories, particularly in textiles and jute, and b) as a market into which to dump cheap British manufactured goods.

In the 18th century, muslin made in Dhaka (formerly called Dacca) was popular in Europe until cheaper, machine-made British cloth drove it off the market. Handwoven jute goods began to take up the slack, but the British built jute mills in Scotland in the early 19th century; and the same thing happened all over again. Within a few decades, the prosperous weaving industry developed in the Bangladesh area under the moghuls was destroyed; and the large artisan class (estimated at 1/3 of the workforce) lost its livelihood.

East Bengal's native industry and commerce collapsed.[1] After the opening of the Suez Canal in 1869, a flood of British goods finished the job. The East Bengal economy effectively became a colonial agricultural arm of British industry.[2]

A parallel, but in some ways even more disastrous British policy was the Permanent Settlement Act of 1793, which destroyed the traditional landholding system and created a new landlord class, called "zamindars." Most of these zamindars were Hindus, and most of the dispossessed tenants were Muslims, a circumstance that hampered the material progress of the Bengali Muslims and added more tension to ancient Hindu-Muslim rivalry.

Therefore, as a consequence of British economic and mercantile policies, "agriculture became the only occupation available to an overwhelming majority of the population and for many has meant a life of poverty as a tenant or landless laborer.[3]

The Hindus, became an economic power in Bangladesh. The Hindus apparently adapted more quickly to changing socio-economic conditions. The Muslims remained more aloof from the modern sector, disdaining, for example, the western-oriented education system. While they zealously maintained their intellectual prominence in the subcontinent's cultural, literary, and philosophical circles, this aloofness cut the Bengali Muslims off from the many new avenues opening up for the sub-continent's emerging middle class.

Bangladesh's remoteness from the center of government, coupled with poor lines of communication, intensified this isolation. Additionally, the British tended to prefer recruiting Hindus for the civil service and the army. All of this combined to gradually create a minority status for the Bengalis and, perhaps most importantly, their acute awareness of it.[4]

East Bengal did not share equitably in the economic infrastructure and market systems constructed by the British. Even though those systems and tariff policies were designed to favor British interests and economic institutions, a fairly solid framework was gradually built up that eventually paid dividends in terms of development of indigenous industry in much of India. But this did not happen in Bangladesh, where local participation in the economy was pretty much limited to real estate speculation and petty trading. The climate was not favorable for the emergence of a Bengali capital market in industrial areas.

For our specific purposes in this privatization study, we should also point out that the public sector in Bangladesh under British rule was essentially limited to administrative and regulatory functions and to providing services such as communications, health, and education.[5] The colonial administration also operated a few arsenals. Activity in the market place, however, was left in the hands of the private sector. It must be kept firmly in mind that that activity and those governmental systems were skewed to serve the interests of the colonial power.

The Pakistan period (1947 - 1971)

After the British left, and Pakistan was formed, East Bengal became East Pakistan. Unfortunately, many of the same attitudes and policies that had held in check the economic development of East Bengal persisted under the flag of Pakistan. The Bengalis gradually came to the conclusion that their fate was still being governed from afar. Karachi replaced London as the seat of political and economic power, even though East Pakistan contained by far the greatest percentage of the new country's population. The factories of England and Scotland were superseded by the interests of the Western Wing's burgeoning industrial complex.

Calcutta and its environs in India maintained their immense influence over the economic life of East Pakistan, as they have to the present over Bangladesh. Even this economic fact of life had about it one of those ironic twists of fate that seem to perpetually plague Bangladesh as it struggles to get out of the economic mire. Trade across the border between Bangladesh and India continued, much of it via the black market and most of it composed of cheap Indian manufactured goods. But partition meant that the agricultural hinterland (Bangladesh) was in a variety of ways cut off from its traditional industrial and banking center (Calcutta). It was necessary to develop new markets and mechanisms, and West Pakistan was not an ideal partner,[6] particularly in regard to jute, the crop and troubled industry that dominated and, unfortunately, still dominates Bangladesh's economy.

The record of how badly erstwhile East Pakistan fared economically and politically under union with West Pakistan is so well documented that we will need only touch on a few high points that bear rather directly on the priority investigations of this study. No attempt will be made to give a balanced, comprehensive coverage of Pakistan's development from 1947 to 1971.

The two salient features of the period from our standpoint are: 1) Pakistan, like Britain, pursued a policy emphasizing the preeminent role of the private sector in industrial development, with government playing a catalytic, supportive, and regulatory role; and b) priority was given to West Pakistan development, with the East providing raw materials and a captive market for the West's industrial products, a similar role to that it had played in the days of the British Raj. During most of the 24 years under the flag of Pakistan, the indigenous economy of the Eastern Wing languished.

Successive five-year plans were clearly oriented toward private enterprise. By the Third Five-Year Plan (1965-1970), the government's policy was quite explicit, essentially limiting the public sector to providing infrastructure and performing service and regulatory functions, leaving "productive" investment to the private sector. It was not until the Fourth Five-Year Plan

(1970-1975), promulgated shortly before the dissolution of Pakistan and the "liberation" of Bangladesh in 1971, that the government appeared to be backing off somewhat from this stance by advocating a larger role for the public sector in major industries involving high technology.[7]

The principal instrument for providing economic growth was the Pakistan Industrial Development Corporation (PIDC), created in 1952. PIDC used many methods for achieving its purposes. It pioneered development of industries lacking at the time but needed by the new country, often by putting up the initial capitalization and then floating shares for private sector participation. Frequently, PIDC covered the foreign exchange component of the venture start-up. Capital markets were not highly developed in Pakistan at the time, especially in the East Wing, and foreign exchange was severely controlled. PIDC's intention was to eventually divest itself of these enterprises it had launched; but its record in this respect was spotty at best, for reasons we will see below.

The government also encouraged indigenous entrepreneurs through liberalization of controls and imports, exchange rate manipulation, tariff and tax breaks, use of a drove of foreign advisers and technicians, price controls, and a very successful subsidy scheme to encourage exports.

In addition to PIDC, the Karachi government established such public and quasi-public bodies as the State Bank of Pakistan (the Central Bank), Industrial Finance Corporation, National Bank of

Pakistan, Agricultural Development Bank, Small Industries Corporation, Port Trust and others with the priority objective to promote or facilitate private sector development.[8]

The industrial sector in Pakistan at partition in 1947 was small, and was negligible in the East Wing. In 1945, only 252 of the 13,163 industrial establishments of undivided India were located in East Bengal. That is just under 2%, whereas what became West Pakistan had 1,154 (9%).[9] Through the institutions and measures mentioned above, Pakistan developed a quite respectable industrial sector. But progress was not equal in the East and West, essentially because the assistance given them was unequal.

From 1950 to 1970, West Pakistan received more than double the expenditure made on East Pakistan. It is also interesting to note that roughly 70% of the money spent over that period in the East was earmarked for the public sector, whereas in the West, the ratio was almost 50-50. This means that in total assistance, West Pakistan's private sector received more than three times the assistance accorded to the East's private sector.[10]

The disparity becomes even more striking when one realizes that by far the greatest amount of funds that did go into industrial development in the east section went to the enterprise activity of West Pakistanis, Marwaris, and Biharis doing business there, not Bengalis. Exact percentages are almost impossible to come by because of the tangled partnership relationships among the various groups and because of the general inadequacies of Bangladesh's statistical gathering methods and institutions.

One source states, however, that "Available data relating to the manufacturing section indicates that at liberation (1971), Non-Bengali business houses controlled 47% of fixed assets and 72% of private industrial assets if we exclude the public sector assets."[11]

The PIDC was reconstituted in 1962, with the EPIDC taking care of the industrial of the East Wing, and the WPIDC responsible for the West. This was done in recognition of past disparities, current needs, and political pressures. The reform proved beneficial to the East. "The EPIDC became the major instrument of government policy to create a class of entrepreneurs from amongst the Bengali small trading class."[12]

In following the pattern of the PIDC, the EPIDC encountered difficulty because of the lack of Bengalis with either industrial management experience or sufficient capital for a large-scale joint venture. Adequate financial assistance was provided by other government funding institutions, who even relaxed the normal debt/equity requirement of 70:30 to as low as 7.5% equity. In some cases, they even permitted the entrepreneur to go to local commercial banks to obtain a guarantee to cover his part of the equity. The banks did not hesitate when the investor was being put into the management of a 250 loom jute mill worth about rupees (Rs) 20 million.[13]

The EPIDC, during the decade of its existence helped establish 74 manufacturing units in East Pakistan in jute (39 enterprises), textiles (1), paper products (4), cement (3), fertilizer (2), chemicals (5), pharmaceuticals (2), shipbuilding (2), sugar (11), steel (1), electrical machinery and equipment (2), machine tools (1), and diesel engines (1).[14] This was a substantial step forward for East Pakistan; but EPIDC's programs were designed and implemented in such a way that they did not encourage productivity as much as they did investment.[15]

EPIDC also assisted a very large number of small and medium-scale businesses, both commercial and industrial. It is estimated that 85-90% of those investments were controlled by East Pakistanis.[16] It is also reported that the repayment record on these smaller loans (i.e., below Rs 150,000 on an average) was very poor.[17]

Repayment of larger loans for industrial enterprises did not appear to have been a major problem until 1970, when war increased feelings of insecurity, particularly among West Pakistanis operating in the East. Repayment is, however, one of Bangladesh's gravest problems in the eighties. Government Development Finance Institutions (DFIs) have been brought to the brink of insolvency because of this problem. It is interesting to note that even in Pakistan days, there was a drastic fall-off between DFI approvals and projects actually implemented. During the Third Five-Year Plan (1965-1970), implementation was only slightly over 50% of sanctions in all three of the leading financial institutios.[18] This road block persists to the present.

EPIDC's major investment in East Pakistan's industrial development was in jute. Even then, the region we now know as Bangladesh produced 50% of the world's jute; and its export accounted for 80% of Pakistan's foreign exchange earnings.

Even though the country's Eastern Wing produced 80% of the jute sold on the international market, Pakistan did not possess a single jute mill in 1947. Between 1952 and 1958, PIDC assisted the private sector in establishing 12 jute mill companies, the first being the world's largest, Adamjee Jute Mills. The 12 were built in East Pakistan, but the PIDC's private sector partners were, in all cases, West Pakistanis. Eventually, all 12 were divested before liberation at prices favorable to the private investors.

EPIDC engaged in the promotion of another 27 jute processing mills,[19] many in conjunction with East Pakistanis. Disinvestment of these units up to 1970 was unsuccessful. The EPIDC had a difficult time finding Bengalis with the requisite finances, industrial experience, and long-term entrepreneurial interests. Rehman Sobhan, the leading exponent of nationalization and foe of privatization in Bangladesh, implies, probably with some justice, that public opinion in Dhaka did not favor further divestitures if the mills would fall into the hands of West Pakistani capitalists.[20]

On the exporting side, by 1969-70, 32.7% of the jute was being exported by 91 Bengali firms, 30.0% by 3 public enterprises, 12.5% by 2 foreign firms, and 24.8% by 10 non-Bengali companies.[21]

Aside from the 12 jute mills, EPIDC was only able to carry through on its privatization plans by 1969-1970 on one cotton mill, one sugar mill, and one or two large paper mills. Besides the lack of Bengali entrepreneurs and local capital, or the fears of West Pakistani take-overs, a big reason for the reticence to buy big industrial enterprises in the late sixties was growing unrest and political instability leading up to open civil war by the end of the decade.

A USAID-sponsored study published in early 1970 commented on the area's other important industry, textiles. It said,

> Cotton textiles, which are the next largest group of loans in East Pakistan, account for more than 10% of total investment impact. Seventy-five percent of the total value of all cotton textile projects sanctioned in East Pakistan from 1958 through 1968 are reportedly East Pakistan-controlled. Since 1964, only one West Pakistani-originated cotton textile project was mounted in East Pakistan. Eighty-five percent of the total investment value of all East Pakistan cotton textile mill projects financed by the institution were sanctioned from 1966-67 through the first half of FY 1968-69. Of these, 90% (by value) were reportedly controlled by East Pakistani interests.[22]

In large-scale industrial production, Bengali entrepreneurs were mainly confined to jute and cotton textiles. At liberation, Bengalis owned about a third of the fixed assets in the jute industry, and just over half in cotton textiles. However, outside these two industries, there were only six Bengali-owned enterprises with assets of more than Tk2.5 million (US$318,000 at an exchange rate then of 7.6/1). Bengalis were more interested in small and medium industries, where they owned approximately 20% of fixed assets by the time of independence from Pakistan.[23]

As we approach study of the time when Bangladesh had to face its economic problems as an independent nation, let us take a look at a few figures and questions to see, as best we can in our brief survey, just where she stood at the end of the Pakistan period.

Through the direct effort of the EPIDC and other government agencies, the following groups of Bengali-owned enterprises were launched in key economic fields:

Field	No. of Enterprises
Jute Mills	36
Major jute exporting	16
Textiles	25
Sugar	1
Inland water transport	12
Bank	1

Beyond this, a number of Bengali firms became prominent, if not dominating, in import-export and trade generally; and a significant number did well in the contracting business or as commission agents of various types.[24]

According to Rehman Sobhan, Bengalis in sizable numbers "graduated to the ranks of the upper bourgeoisie" through the professions, academia, and especially, the civil service. In the provincial secretariats, almost all the top ranks were manned by

Bengalis. In the central government, four were secretaries by 1970; and 14 were joint secretaries. Further, he states,

> Bengali professionals suddenly found themselves on the boards of foreign and non-Bengali companies operating in East Pakistan and in positions of responsibility in management. Lawyers, engineers, and accountants were much in demand by non-Bengali and government clients. Contractors flourished: indentors found their tenders being more readily accepted, even at Islamabad. This last phase was something of a golden age for the Bengali upper bourgeoisie, and reflects the political compulsions of the Pakistan rulers to influence the course of the impending elections and to moderate the character of Bengali nationalism. This phase, in turn, coloured the hopes and fears of the Bengali bourgeoisie for their future in an independent Bangladesh.[25]

In 1947, there had been only a handful of large-scale industrial units -- a few cotton mills with 99,000 spindles and 2,583 looms; a few sugar mills with a capacity of 39,000 tons; one cement factory with a capacity of 100,000 tons, and some jute baling presses. The bulk of activity was in a variety of small, cottage industries. In 1949-50, the entire manufacturing sector accounted for only 3% of gross domestic product (GDP), a large-scale industry was just over 0.5%, with small-scale manufacturing at 2.4%.

By the end of the 1960s, the percentages attained somewhat more substantial levels. In 1969-70, the manufacturing sector was up to 7.8% of GDP; and the contribution of large-scale industries was 3.7% and small-scale manufacturing 4.1%. While this was mildly encouraging, it was not much to show for 20 years of expecting better things, especially when West Pakistan progressed much more rapidly.[26]

The number of registered "factories" in 1968-69 was 3,130, of which 791 units were in textiles, 576 in chemicals, and 406 in food manufacturing.

Since the present study is preoccupied with questions of public-private balance, we will conclude this brief survey of Bengali fortunes under the Pakistan flag with some general data showing the public-private mix at the end of the Pakistan period.

Type Ownership	Number of Units	Value Fixed Assets (in Tk millions)	% Share Fixed Assets
Under EPIDC ownership	53	2,097.0	34
Under private, non-Bengali "	725	2,885.7	47
Under private, Bengali ownership	2,253	1,118.8	18
Under private, foreign ownership	20	36.0	1
Total -	3,051	6,137.5	100 [27]

While these figures are useful for indicating how the major players shared, or perhaps more correctly, "controlled" the industrial sector, they are somewhat misleading in that they imply 100% ownership of each unit, whereas there was a great deal of partial ownership and co-venturing.

Most of the economic activity of Bangladesh in 1969-70 was to be found in agriculture and in the 330,000 "industrial" enterprises in rural areas, most of which were really cottage industries located within the homestead. Only 3,500 of these enterprises employed more than 10 persons and, therefore, place them under the Factories Act.[28] Unfortunately, no similar statistics exist for small and micro-enterprises in urban areas; but there is no doubt that the domestic economy was dominated by such small-scale activity, both in rural and urban locales, as independence came to Bangladesh.

Liberation and nationalization

Bangladesh became an independent nation on December 16, 1971,[29] after a brutal civil war with Pakistan that left the population exhausted, the countryside devastated, and the economy shattered. The new country's leaders, few of whom possessed high-level governmental experience, were overwhelmed with problems of monumental dimensions. Only the exhilaration of independence or, as the Bangladeshis call it, "liberation" sustained the beleaguered leadership and the general population.

Of immediate concern was the absolute necessity of getting the economy started again. Economic activity on a national scale had come to a virtual standstill, due to the dislocations and ravages of war and the traumatic flight of the Pakistanis who had dominated much of it.

During the first few months after liberation, the government engaged in a flurry of reorganizing activity on a number of fronts. They were preoccupied with reconstituting and restaffing the various former Pakistan government agencies and autonomous bodies. Even though, as we have seen, Bengalis had been gradually creeping into the upper echelons of the bureaucracy, all too few had experience at senior administrative and policy levels.

One of the most pressing problems was how to restart the many former West Pakistan-owned or managed industrial enterprises that were standing idle and vulnerable to vandalism and scavenging.

On January 2, 1972, the government passed the abandoned Properties Ordinance[30] and took over not only factories and commercial establishments, but also houses and income property, and even vehicles of all types.

The government frantically searched the country for managers for these enterprises and properties. Experienced managers were in short supply in Bangladesh, especially among Bengali Muslims. The government recruited from the ranks of civil servants, merchants, union leaders, supervisory employees of the firms themselves, and outsiders to run the enterprises.

Some of the appointments were temporary and most were _ad hoc_. As might be expected, the search campaign was also used to reward supporters of the recently-established ruling party, the Awami League. Equally predictable, the performance of many appointees was poor. Most were inexperienced and inept. Not a few were unscrupulous, using the opportunity for personal financial gain by systematically stripping the resources of the industrial enterprises entrusted to them. In some cases, this was done to pay staff and workers' salaries, but in more instances, it was done to line the pockets of board members and managers. Credit, however, should be given to the management in those companies that "took great pains to keep the enterprises running as efficiently as resource and manpower constraints permitted.[31]

Outright plundering was even more rampant in the case of several thousand abandoned commercial firms, the majority of which were small, structurally uncomplicated companies. Many were nothing more than "Mom and Pop" operations. Large numbers were so plundered by appointed managers, other employees, or even the general public that they, for all practical purposes, ceased to exist as functioning businesses. With the smaller commercial firms, these depredations often took place very quickly. In more sophisticated enterprises, the process proceeded over a period of years, as we will see in later sections.

On March 26, 1972, the landmark President's Order (P.O.) No. 27 was issued. It effectively nationalized the industrial sector, fulfilling an Awami League promise made in a highly successful election campaign in mid-1970. The party's "Manifesto" received had widespread support from the public, who had seen nationalization of financial and industrial sectors as a way to forestall a concentration of wealth in a few hands. This had been the sentiment even before the break with Pakistan. Then, the concern had been domination by the notorious 22 leading families of West Pakistan. In 1972, it was directed at Bangladesh's own fledging industrial community. Presidential

Order No. 27 had a good measure of public support and was heartily endorsed in academic and intellectual circles.[32]

As a consequence of P.O. #27, the proportion of the fixed assets of the industrial sector shot up overnight from the 34% it had been in EPIDC days to 92%. Of the 725 units that were taken over, 392 were brought into the public sector as state-owned enterprises (which we will hereafter refer to as SOEs). The remaining 462, while brought into the public sector were tentatively earmarked for early or eventual disinvestment. About 160 of these were, according to some sources, released to former owners rather soon. The remaining 300, mostly small units, were turned over to government-appointed management boards. Many of them actually remained on the government rolls, but some were gradually returned or sold to the private sector. The reader should bear in mind that though these firms are listed as "industrial enterprises" or "factories," most were little more than industrial shops, employing few people. We will take another look at this group of firms later in the study.

For the moment, let us keep our attention on the major enterprises. In addition to the 263 large abandoned enterprises, the group included the 53 enterprises operated under EPIDC, one foreign firm, and 75 <u>Bengali-owned</u> industrial enterprises, bringing the total of substantial entities to 392.[33]

While the number of SOEs was small in relation to the total number of businesses in Bangladesh (there were an estimated 2,700 small Bengali "industrial" firms), they dominated the major industries, represented 7.3% of GDP (but 20% of the non-agricultural GDP), 58% of the value added, 92% of the fixed assets, and 80% of the country's exports.[34] The expanded public sector was said to account for 85% of government revenues,[35] which says quite a bit about the tax structure.

Besides the industrial sector, the banking and insurance fields were completely nationalized under P.O. #26, also of March 26, 1972. Then, several thousand commercial and trading establishments, were taken over, though under no particular order.

Several of the specifics and technical provisions of the nationalization act warrant our attention in order to comprehend its scope and ramifications. We will then address some of the more general questions dealing with the intent and socio-political philosophy of the framers, with particular scrutiny of these ideas regarding the relative roles for the public and private sectors. The chapter will end with an evaluation of the Mujib government's policies and the performance of the nationalized enterprises. In this exercise, we will attempt to show how policies and actions in the immediate post-liberation period not only influenced future developments, but made them inevitable for better or worse.

P.O. #27, in addition to nationalizing certain industries and enterprises, established a number of sectoral Corporations to ensure coordination of government control and to supervise management of the various nationalized enterprises placed under each of them. Immediately below is a table, which provides an idea of the scope of the Corporation network, industry by industry, as of December 1972.

Sectoral Corporation	Number of Enterprises
Bangladesh Jute Industries Corp.	77
" Textile " "	72
" Sugar Mills "	16
" Food and Allied Products Corp.	54
" Fertilizer Chemical and Pharmaceutical Corp.	13
" Paper and Board "	9
" Tanneries "	30
" Steel Mills "	20
" Engineering and Shipbuilding "	34
" Minerals, Oil, and Gas Corp.	7
" Forest Products Corp.	20
Total:	352 36

The intent of the Planning Commission (where the nationalization was hatched) was that the Corporations would be the predominant authority over the operations of the individual enterprises rather than the regular governmental ministries, under which the Corporations themselves were grouped according to industrial sector. The thought was that the Corporations would run the individual enterprises more along business lines than would the more bureaucratically-oriented line ministries.

The validity of that assumption can be challented on the face of it. While the Corporations were obstensively designed to dispense guidance along more businesslike lines, many observors regarded the Corporations and the ministries as a case of bureaucratic Tweedle Dum and Tweedle Dee. The designers were, after all, academics and bureaucrats, not business types.

In any case, the importance of the issue is that the bureaucratic struggle has never been resolved. The ministries and the Corporations are still fighting over control, and the enterprises are continuing to suffer for it. The ministries still interfere unduly in traditional bureaucratic fashion in the day-in, day-out operations of the SOEs. The Corporations continue to issue policy statements and conduct their affairs (and, hence, the affairs of the enterprises under their jurisdiction) in ways that have little relevance to market forces that govern the business world.

In the early days, the problem was supposed to be resolved by issuance of a set of Rules of Business, which would clearly stipulate "the limits of powers and responsibilities" of the Government (i.e., to the ministries), the Corporation, and the enterprises under the Corporation. The Rules, which were intended to favor the role of the Corporations (versus the ministries) and to give a semblance of autonomy to the enterprises, were never issued. Long-time advocates of the pro-Corporation position maintain that the bureaucracy scuttled the draft copies of the Rules, thereby maintaining its domination over the SOEs and the industrial scene.[37]

As stated in Chisty's landmark paper on privatization in Bangladesh, "The nationalization policy of 1972 did not clearly define the role of the private sector, except by implication. It specifically excluded private sector enterprises from the jute, textile, and sugar industries, raw jute export trade, insurance, and banking."[38]

We do know, however, that there was considerable, heated debate within the government about this question. Initially, the debate centered around the management and disposition of abandoned properties. Among other things, it had become "clear that the ad hoc arrangements made for running the abandoned enterprises were not proving adequate."[39]

As early as February 1972 (in other words, before P.O. 27), the Ministry of Industries had prepared a working paper proposing that the large units be run by the state, medium-sized units be considered for joint ownership with the private sector, and small units sold to the highest bidder. The idea of joint ventures with the private sector was proposed.[40]

These and similar proposals led to the full blossoming of a wider debate: should the new country follow the socialist pattern of development which would involve inhibiting the growth of a Bengali capitalist class, or should it opt for the "mixed economy" approach being pursued by a number of Asian countries.

As we have noted earlier, there was widespread support for government control of the economy among workers and academics. Within the government, however, sentiment was more evenly divided. As a matter of fact, the bureaucracy appears to have been largely in favor of a mixed economy, or at least an active private sector along the general lines pursued by the EPIDC. The political leadership was split. The principal advocates of the socialist approach were four key advisors in the Planning Commission.[41]

The issuance of P.O. #26 and #27 demonstrated rather clearly that the Planning Commission had won the day. They evidently convinced Sheikh Mujib (who was a populist rather than a socialist) and others in the core of the political leadership, that the socialist path was the one to follow and would have general public support. Any ideas of a mixed economy or joint public-private enterprises were rejected.

The fact that 462 of the abandoned enterprises were tentatively earmarked for divestiture of one type or another would make it appear, at least on the surface, that the decision was not categoric. Actually, it was. As Rehman Sobhan, one of the principal architects of the nationalization policy/program, has written,

> We have seen that the idological premise of the nationalization policies was to prevent the growth of the upper bourgeoisie and to treat the private sector as merely a temporary phase whilst the public sector and socialist cadres developed their managerial resources and ideological commitment.[42]

He has written that they planned for a "phased transition to socialism,"[43] adding:

> At that original stage, it was realized that a nationalization policy which did not spell out the role of the private sector could in the future lead to contradictions in the conduct of state policy. The issue was, however, not pressed, largely for tactical reasons. It was felt that the nationalization package was itself sufficiently drastic for the upper bourgeoisie and their backers. If they realized that this was, itself, part of a policy to completely preempt the development of their class, their resistance may have become sufficiently implacable to prejudice the nationalization policy itself.[44]

In other words, the private sector was to be tolerated only until the public sector was strong enough to do it all. What about the 462? Almost all of the ones selected for release were small, losing money, and not considered to be potentially viable. Most stayed on the government rolls. Only 52 were eventually sold to private investors, and 30 were turned over to former owners. Total private investment in these transactions did not exceed Tk50 million (approximately US$4 million), which indicates that these "industrial enterprises" were actually little more than shops in cottage industries.[45] Reasons for the reticence of the private sector to invest in such purchases included a) the units were too small, b) the condition of equipment was uncertain, c) the evaluation process of the Disinvestment Board was too slow, d) title was unclear in many cases, and e) workers were in control in some enterprises, and potential investors feared they would not be able to take over. A proposed scheme to enable workers' cooperatives to buy and operate some enterprises was never clarified.

The limits on private sector investment and growth were officially clarified in January 1973. Private investment was limited to Tk1.5 milion (US$197,000) and growth up to assets of Tk2.5 million (US$330,000), or ultimately up to Tk3.5 million (US$460,000) through reinvestment of profits.[46]

The government did promise a moratorium on further nationalization for 10 years on firms of that size; but reserved the right to take over any private firm consistently losing money or running below capacity "due to mismanagement." Paradoxically, the nationalization plan placed no obligation on public enterprises to generate profits.[47]

Severe restrictions were placed on foreign investment, and collaboration with the private sector was confined to licenses and patents without equity participation. Foreign venture investment was allowed only in joint ventures with the government, with the government holding at least 51% of shares in the equity.[48]

When taken together, these and other limitations amounted to virtual strangulation of the private sector. Already prohibited from participation in the key jute, textile, and sugar industries (and 15 more industries were to be added to the prohibited list), the private sector was not even permitted to grow in the few areas left to them.

As Sobhan mentioned above, there were contradictions in the program, but they turned out to be somewhat different from the ones he posited. First, the Awami League, while mouthing socialist slogans, was essentially quite middle class in makeup and inclination.[49] Second, the socialist program of the Mujib regime did not serve all equally. The system created an atmosphere in which wealth concentrated in the hands of a few greedy leaders. Observors have called it "State Capitalism" or "Capitalist Nationalization."[50] After liberation, the political elites jockeyed to consolidate their power base and employed the resources of the nationalized enterprises toward that end.[51]

Some analysts have regarded the left of center Awami League actions "as nothing more than a sudden spurt of enthusiasm of middle class vague ideas of social justice.[52]

Third, even though large-scale industrial production was in government hands, the marketing and distribution systems were firmly in the hands of the private sector. Each frustrated the other.[53]

It would have been difficult to achieve growth in a subsistence economy like Bangladesh's under the best of circumstances, none of which existed to help this troubled country. Externally, 1973 was a year of great instability and rising energy prices. Bangladesh, like many agriculture-based economies, was particularly vulnerable to such fluctuations. Sugar prices were plummeting. Also, increasing competition from synthetic fibers was reducing demand for Bangladesh's major export commodity, jute. Finally, in 1947, East Pakistan had been forced to realign its economy by virture of having lost its principal trading partner, which, by no random circumstance, had also been the seat of economic policy making - Calcutta and West Bengal. Newly independent Bangladesh faced a similar situation with the cutting of ties with Karachi and West Pakistan.

But as adverse as international factors were, internal forces were damaging the country even more. The war had shattered and devastated the country's infrastructure. To top it off, a confused, impoverished, and fractured society turned upon itself once the euphoria over liberation subsided and the new nation had to face stark reality and the possibility of unfulfilled dreams. Faction fought faction, and the problems multiplied. It was about this time that Bangladesh was labeled the "international basket case."

The hope of the Planning Commission zealots was that nationalization was the mechanism for leading Bangladesh out of the wilderness. It was a false hope, a cruel delusion for a number of reasons.

For one thing, there weren't enough qualified people around who could run the government, much less take on management of all facets of the economy, including even the segment already being run by Bengali industrialists. They did not see, or would not see that "entrepreneurial talent, extremely scarce after independence, was concentrated in the private sector, not in the government."[54]

Anyone studying Bangladesh affairs of the period is constantly told that a main reason for nationalization was that half of the managerial talent fled to West Pakistan. There was no recourse, so the argument goes, but to have the government take over. There is a certain logic to a heavy public presence in a subsistence economy,[55] and there was certainly some justification for a high profile in Bangladesh. But the government overreached itself by assuming responsibility for 92% of the economy and deliberately adopting politically-oriented policies which ensured that the private sector would stagnate and could not play a supportive, collaborative role. The writer has come to the conclusion, through considerable reading and talking with a large number of people in all sectors, that there were more Bengalis available for running medium-sized businesses than is normally recognized.[56] At the very least, there was available a potential resource that should not have been so purposely neglected (except for tapping political cronies).

One cannot escape the thought that the principal advocates of the socialist solution were more motivated by ideology than economics. They constantly spoke and wrote about the danger to socialism posed by the bourgeoisie rather than centering on pragmatic considerations related to economic development.[57] The academic economists did not understand reality; they misled the Mujib government; and few saw the private sector as the only real hope for growth.[58] The obsession with ideological triumph is the only reason one can discover for taking over the Bengali-owned industrial enterprises, along with the abandoned properties. This rash and economically unsound act was eventually instrumental in solidifying the opposition.

Nationalization was a hasty act launched without any discernible long-term strategy or well-conceived plan. Everything was swallowed in one big gulp. There was no coherent policy to determine proper roles and functions for both the public and the private sectors for working in unison.[59] The planners, while demonstrating great interest in grandiose policy, showed a parallel tendency to ignore the more mundane aspects of implementation, a trait that, unfortunately, has persisted to the present. A leader of the business community put it rather succinctly when he reminisced, "Nobody knew how to run a country."[60]

It soon became evident to even the most casual observor that the economy was not moving. The public sector was not performing up to expectations. Most of the umbrella Corporations were losing money, some (like jute, paper, and chemicals) quite heavily. Only textiles, steel, and engineering were earning consistent profits;[61] and there were doubts raised about "creative bookkeeping" by government accountants making the situation look rosier that it actually was.[62]

The level of public subsidy was staggering, yet apparently ineffective. Savings indicators were actually negative. Inflation was rising, as were prices. The government resorted to deficit financing. Production declined, while smuggling went up. High rates of unemployment, chronic underemployment, and abysmally low per capita income pushed most of the population below the subsistence level and kept them there.[63]

The brave but unrealistic First Five-Year Plan (1973-1978) was little more than a rhetorical exercise. Manufacturing was 7.3% of the GDP in 1972, but only 7.4% by 1975.[64] Output in 1975 was only 75% of 1969 levels.[65]

It was obvious that some new approaches had to be tried. By July 1974, it was decided that the economy might be stimulated by giving a somewhat expanded role to the private sector. The previous ceiling on investment was raised from Tk3.5 million

(US$197,000) to Tk30 million (US$3,873,000). This was partly due to a hope for infusion of capital, and also reflected the increase in the cost of land and machinery for setting up any sizable industrial establishment.[66] Emphasis was given to labor-intensive industries.

P.O. #27 had, as we mentioned earlier, lacked specificity regarding private sector participation, except to exclude it from jute, textiles, and sugar. An early 1973 law, however, had reserved 18 industries for the public sector. They were:[67]

Arms and Ammunition and allied defense equipment

Atomic Energy

Jute Industry (sacking, hessian and carpet backing)

Textiles (excluding handlooms and specialized textiles)

Sugar

Paper and Newsprint

Iron and Steel (excluding re-rolling mills)

Ship-building and Heavy Engineering (including machine tools and assembly/manufacture of cars, buses, trucks, tractors, and power tiller)

Heavy Electrical Industry

Minerals, Oil, and Gas

Cement

Petro-chemicals (fertilizers, PVC ethylene, and synthetic fibre)

Heavy and Basic Chemicals and Basic Pharmaceuticals

Air Transport

Shipping (including coastal ships and tankers above 2000 DWT)

Telephone, Telephone Cables, Telegraph and Wireless Apparatus (excluding radio receiving sets)

Generation and Distribution of Electricity

Forest Extraction (mechanized)

This had not left much for the private sector. The 1974 law did not change those restrictions, but it did at least recognize that the private sector had a more definite role to play in the economy. Limited interplay between foreign investors and the private sector was permitted, mainly because of pressure from foreign business.[68] The moratorium on nationalization was extended from 10 to 15 years. The rights and interests of foreign equity investors were reconstituted. The 19 foreign firms in Bangladesh, mainly British, received preferential treatment.

Despite its shortcomings, the 1974 action was the first breach in the nationalization wall. Even though the President regarded the policy revision as just a "sop to the capitalists" that would not yield significant results,[69] the 1974 act was, in reality, the first breach in the nationalization wall. More were to follow.

It comes as a surprise to most that there were approximately 120 divestitures consummated during the Mujib period.[70] Most of the units were "disinvested" because they were small and unprofitable, and a certain number represented corrections of mistakes made during the chaos right after liberation.

Of the 120 divestitures, 10 were former Indian properties taken over in 1965 during the Indo-Pakistan War. Most were rice mills. The others had been small Pakistani-owned enterprises in a variety of fields including printing and paper (8), flour and rice mills (10), engineering (12), textiles (11), metal works (7), vegetable oils (5), chemicals (4), wood products (3), and a scattering of other activities.[71] Most of these were apparently little more than shops.

A few significant transactions were put through in recognition of the fact that the public sector was doing an inadequate job and private initiative was needed. For example, one of the steel rolling mills of a Chittagong-based Pakistani family, which was taken over as abandoned property, was returned to the owners as early as August 1972 <u>at the government's request</u>. There were several reasons for this remarkable transfer. First, two government-appointed managers had not only been inept, but had engaged in such outrageous corruption that a very profitable enterprise was in jeopardy. Second, the Akberali family, though West Pakistani, were respected for their integrity, business acumen, and genuine interest in the development of East Pakistan cum Bangladesh. Third, the family had been close to Sheikh Mujib himself.[72]

While the Akberali case is not typical, there were other instances of discreet moves by practical politicians and bureaucrats to back away from total dependence on the socialist model. A carefully-orchestrated campaign to discredit the performance of the public enterprises was led by dispossessed Bengali jute and textile groups. The clamor grew as SOE failures and more general inadequacies became more apparent, and as political instability and dissatisfaction increased during the months before Sheikh Mujib's assassination in August 1975.

In many ways, the Mujib period is the most fascinating in the turbulent recent history of the Bengalis. The policies, issues, and patterns that surfaced during this short period have had a profound influence on the shape of events that followed. This is why extended rather than brief coverage of nationalization has been presented in a study primarily devoted to its opposite, privatization.

Chapter IV

PRIVATIZATION - THE FIRST PHASE (1975-1981)

The overthrow of Sheikh Mujib ended the doctrinaire approach to management of the economy. What followed showed a more pragmatic appreciation of economic and social realism. The early post-liberation constitution had sanctified socialism as both the goal and the vehicle of national reconstruction. In 1977, the constitution was amended and, in a politically sensitive bit of tightrope walking, the word "socialism" was qualified to mean "economic and social justice."[1]

Bangladesh launched its economic development program on with an overextended public sector. The original belief had been that by "controlling the heights" of the economy, the government and its socialistic program could mitigate "the evils of capitalism,"[2] and could direct the country's resources in ways that would serve the common good. Ironically, a policy that ideologically was "anti-bourgeoisie" had the effect of being "pro-bourgeoisie." Even its most ardent supporters have reluctantly admitted that.[3]

The Planning Commission idealogues had tried to force a European Fabian socialist model of the forties and fifties onto a primitive, subsistence economy that was in chaos. The inept and corrupt state control system they installed only exacerbated the basic problems, which were still not being addressed. In their fervor, the planners not only did not come up with a coherent plan that was consistent with conditions existing in Bangladesh; they showed they did not really understand their own society, with all its foibles, its peculiar traits and the highly individualistic motivations that drove it.

General Ziaur Rahman, who succeeded Mujib, decided to steer a different course. Relying heavily on the advice of his able and dedicated Minister of Industries and Commerce, Shafiul Azam,[4] he announced in December 1975 that:

> the government is ready to extend all possible support to the private sector for utilising the full potential of the private entrepreneurs in stepping up of the productive economic activities in the country.[5]

Zia's approach to the policy reorientation was, however, cautious. He was open-minded about gradual privatization, but only after he had consolidated his own political power.[6] He did not feel strong enough to take the full plunge right away, but he had the courage and wisdom to take the first necessary steps.[7]

When this writer asked well-informed officials, who had been in responsible positions at the time, what was in Zia's mind when he opted for privatization of the economy, the consensus was that he basically believed that private enterprise was more efficient and dynamic. Zia assumed that the best chances for growth would come from the private sector, not the public sector. He was generally aware that the Asian countries that had emphasized private sector development had progressed faster than socialist countries, but his knowledge of such matters was generally not deep.[8]

The Revised Investment Policy of December 1975[9] was a watershed in reorienting the economy toward more dependence on private sector activity. Technically, the new policy maintained the 18 reserved categories; but it opened 10 of them to joint ventures between the public corporations and private investors, indigenous or foreign. The government would, in all cases, hold at least 51% of the venture. The limit on investment was raised to
Tk100 million (US$8.3 million).[10]

The eight categories still reserved to the public sector were:

1. arms and ammunition and allied defense equipment
2. atomic energy
3. jute (sacking, hessian and carpet backing)
4. textiles (excluding handlooms and specialized textiles)
5. sugar
6. air transport
7. telephone, telephone cables, telegraph and wireless apparatus
8. generation and distribution of electricity

In other words, the fields that were now open at least partially to the private sector included paper, iron and steel, shipping and ship building, heavy engineering, minerals, oil and gas, cement, forest extraction, and chemicals. In actuality, the doors had only been opened a crack. The government was giving ground slowly. As Shafiul Azam told the author, "Once anything is in the clutches of the government, it is difficult to dislodge."[11]

The act stated that, "In view of the misgiving that has been created in the minds of investors by the reference in the New Investment Policy (of July 1974) to the moratorium on nationalization for a period of fifteen years, this provision has been deleted."[12]

Tax holidays and other incentives were increased. A special provision was included to specifically state that the official Bangladesh Shilpa Bank (BSB) had been "directed to provide equity support in deserving cases to small industries, particularly agro-based, agro-supporting and export-oriented industries." This was intended to respond to complaints that government banks a) gave preferential treatment to state enterprises, and b) tended to favor assistance to large, urban based industries.

An Investment Corporation of Bangladesh was established; and the Dhaka Stock Exchange, which had been shut down during the nationalization fever of 1972, was reactivated. It reopened to little fanfare and less interest in July 1976 with two listings on the board.

The final substantive paragraph of the document put the government on record for the first time as having an official privatization program. It read:

> With a view to allowing the sector corporations to improve the efficiency of management, some industrial units under

> their control which were declared abandoned and handed over to them for management will be disinvested to Bangalee entrepreneurs on cash payment. Persons receiving compensation under President's Order No. 27 will be allowed to adjust their compensation money against the sale price of such disinvested units.[13]

While what the Zia Government put forward was definitely better than what the Mujib had offered, it turned out that most of the enerprises initially identified for divestiture were small units that were losing money under Corporation management and which were outside the 18 categories on the reserved list. Quite a few were located in remote areas of the country.

One source[14] has reported that by late 1977, 21 units under the jurisdiction of the Corporations had already been divested and possession turned over to the new owners. Another 15 were divested but not handed over. Another 33 were in process, and 17 were under consideration for divestiture. Altogether these 86 would represent almost 40% of the 224 originally confided to the Corporations. A total of 110 of these enterprises were privatized during the Zia period,; so this number appears on schedule and reasonably accurate.

The source appears to have been on less firm ground when reporting that of the 462 enterprises placed under Boards of Management, 159 had been released in favor of owners, 144 sold and possession transferred to the owners, and 56 sold but not yet handed over. According to this source, the remainder were under consideration for eventual divestiture. This second group of figures is undoubtedly high and must include some commercial enterprises in addition to industrial companies.

A Disinvestment Board was established to facilitate the process set in motion by the policy announcement of December 1975. A decision was made to return several specialized textile units and jute twine mills to their former owners. This was significant because jute and textiles belonged to the core of major industry taken over. The specialized textile and jute twine units were selected because they were operationally better suited to small-scale management.[15]

For some time, there had been a strong lobby of shareholders of private firms that had been nationalized without compensation. The government set in motion a compensation plan that involved repayment of 20% in 1975-76, 30% in 1976-77 and the remaining 50% in 1977-78. The schedule was more or less adhered to. Over fifteen thousand claims were received through 1977, amounting to about Tk320 million (US$21 million).[16]

The lobbying effort also led to a decision by the Disinvestment Board to put up for sale a large number of commercial and trading firms that had been taken over as "abandoned" Pakistani property or Indian firms taken over as "enemy property" during the 1965 Indo-Pakistan War (and renamed "vested property" after the War of Liberation, in which India was an ally).

Twenty-three of the "vested" industrial enterprises had been returned by the Mujib regime. Another 31 were returned by the Zia Government between late 1975 and 1981.[17]

The commercial and trading entities presented a vastly different problem. There is no aspect of the study of privatization 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 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.[18]

It is as if people either don't know much about this matter or, more probably, they just don't want to talk about it (particularly with a foreign researcher).[19]

The reason for this apparent reticence is not difficult to deduce. From what information one can piece together, it becomes obvious that a great deal of corruption, malfeasance, and outright pillage was involved. Some of it started even before the war with Pakistan was over. Many Pakistanis, realizing what the result of the fighting was going to be, fled in the Fall of 1971. They pulled out what funds and belongings they could, but they had to leave behind most of the holdings of their businesses. Scavengers descended on the thousands of enterprises left unguarded. Looting was widespread. It was not confined to the abject poor. Friends, neighbors, competitors, former employees, and stray passersby all expropriated furniture, equipment, inventory (sometimes sizeable), family possessions, etc., or just plain took over the premises.

The situation did not improve markedly after the government nationalized these entities - the pillage merely became institutionalized. Officials systematically stripped the firms of what was left or used their stewardship rule to operate the businesses for their own personal gain. A company's name and reputation or its customer lists were often the most valuable assets of commercial/trading firms.

In the chaotic socio-economic situation that existed in Bangladesh, such firms disappeared in the maze. With several changes of name, they became untraceable. Many ceased to exist once they had been completely drained of resources. Others became the basis upon which substantial, respectable businesses were built. More than a few fortunes in both official and business circles were launched from such beginnings. Abandoned houses were parcelled out to political cronies and supporters, including quite a few former Freedom Fighters.

It is no wonder, then, that useful information, much less hard data, is hard to come by. The Ministry of Commerce was not at all cooperative in supplying data to the author. Higher officials were willing to discuss the situation, often quite frankly. But everything bogged down in the middle bureaucracy when statistical information was requested.

The Ministry finally came up with a hastily concocted, handwritten note stating that 745 commercial units had been nationalized.[20] This figure was patently ridiculous. When pressed on the point that thousands had been taken over, the

Ministry haltingly responded that the 745 represented the "larger" abandoned companies that had been nationalized. No clarification was given as to how the dividing time between large and small was determined. The note stated that up to late 1986, 417 units had been sold, 214 were "awaiting sale," 66 were under litigation, and 48 had been returned to "Bangladeshi owners" (of whatever dubious documentation). No names of firms, sale prices, or dates of transactions were provided. The impression given was that only this number had been nationalized and all had been privatized or were in process.

The Ministry of Industries has admitted that monitoring of divested industrial enterprises has been intermittent and selective at best. In the case of commercial, firms it has been nil. In fairness, keeping track of divested firms in the labyrinth of commercial trading houses in the bazaars of Dhaka, Chitagong, Khulna and other Bangladesh towns would be a most difficult task.

One reason is that many of the so-called divestiture transactions probably never took place, because the enterprises had, for all practical purposes, ceased to exist as functioning businesses. They remained on the registers only as legal entitites. It is probable that they were finally written off by a simple entry as "disinvested."

When one considers that commerce and trading have traditionally constituted the major participation of the Bengali business community, this is a sorry tale that is, however, unfortunately symbolic of economic activity in Bangladesh.

One should keep this in perspective, however. Despite these murky intrigues, the percentage of the private part of the commercial/trading sector increased from only 30% in the heyday of state control to 65% by 1977,[21] due to heightened confidence and improved access to credit.

Industrial output finally reached 1969 levels by 1977 overall,[22] though the mainstays, jute and textiles, were still only at 85% of pre-liberation output.[23]

The improved investment climate resulted in increased and broader activity by the private sector. Approved investment projects included ventures in deep sea fishing, synthetic and specialized textiles, garment manufacturing, footwear, weaving units, canning, pharmaceuticals, plastics and rubber, plus ship repairing, building of river barges, engineering works, etc. All these were areas where the public sector was not active, or had recently reduced its presence through divestiture.[24]

The government also sold 10 of 29 tea "gardens" in 1977 at a time when the industry was booming.[25] As usual, this prompted some criticism from entrenched circles who seemed congenitally incapable of realizing that the economy as a whole profits (not just a few grasping capitalists) if the government unloads "going concerns" not just losers that no one wants.

It was also about this time that a notable trend started in earnest. Bengali businessmen in commerce and trade began to show more interest in longer-term industrial investments. Their dependence on public support and patronage was still strong (perhaps even stronger than in EPIDC days because of less favorable economic conditions in the mid-seventies),[26] but they were beginning to venture into larger, more sophisticated longer-term activities. This has been a discernable involvement pattern in many LDC economies.

Though the diversification of economic activity was encouraging, the public sector still dominated the modern industrial sector. As Q.K. Ahmad wrote in 1978, "The most fundamental implication of the nationalization of industries for private capitalism in Bangladesh is its virtual elimination from large-scale industrial ownership."[27]

The major industrial concerns were housed in sectoral Corporations. In 1976, the scope and size of the holdings looked like this:

Corporation	No. of Enterprises	Fixed Assets (Tk. million)	Annual Sales (Tk. million)	No. of Employees
Bangladesh Jute Mills Corp.	78	1,700	2,938	199,600
Bangladesh Textile Mills Corp.	75	611	1,813	65,500
Bangladesh Sugar and Food Industries Corp.	58	407	1,401	31,600
Bangladesh Chemical Industries Corp.	65	2,017	1,849	25,300
Bangladesh Steel & Engineering Corp.	54	804	1,424	14,500
Petrobangla	4	177	220	2,800
Bangladesh Petroleum Corp.	7	148	560	2,800
Bangladesh Minerals Exploration Development Corp.	10	—	211	1,100
Bangladesh Forest Industries Development Corp.	20	338	78	4,000
Totals	371	6,202 (US$404 million)*	10,494 (US$684 million)*	347,200[28]

*Exchange rate in 1976 (Tk.15.35/US$1)

When the new privatization policy went into effect, the enterprises under the Corporations still accounted for almost 90% of the fixed assets in major industrial areas and 78% of government revenues.[29] Raw jute and jute manufacturers amounted to 75% of the foreign exchange earned through exports.[30]

Meanwhile, the Corporations and the ministries continued their tug-a-war over control of the SOEs. In the latter stages of the Mujib regime, a move was made by the government to give the Corporations the status of Divisions within their respective ministries, which would have increased both their power and operational freedom. Four were, in fact, given such status and their chairmen were awarded Secretary status.[31] The process, however, was halted when the Zia Government came to power. Power reverted to the regular ministerial Secretaries.

Consequently, while policy was being liberalized under Zia, operation of the SOE system was not. An insecure government was tightening the reigns. Renewed ministry control meant that SOEs would be run on bureaucratic, rather than commercial principles. Ministerial interference increased and managerial autonomy at the enterprise level decreased, with a parallel loss in both initiative and accountability[32] (to say nothing of profit-ability).

This situation continued until May 1976, when the government felt secure enough to issue the Rules of Business that had been such a bone of contention for years. Under the new Rules, the functions of the ministry were to be confined to policy-making, appointment of Corporation chairmen, budget approval, review of audits, and evaluation of SOE performance. A parallel intent was to increase both the autonomy and the accountability of the individual enterprises under the general supervision of the Corporations.

Despite such well-meaning phrases as "the Ministry/Division shall scrupulously refrain from interfering in day-to-day management ... and shall scrupulously respect the operational freedom of the Corporations/autonomous/semi-autonomous bodies," the Rules, in practice, did not improve the situation much.[33] Like many other public pronouncements in Bangladesh, rhetoric was not matched by performance.

Industrial financial has always been a critical factor in the development of the modern sector of Bangladesh's economy. One of the major objectives of the nationalization of financial institutions had been to improve credit allocation among different sectors. The imbalances existed throughout the economy.

For example, the rural agricultural sector produced 80% of the GDP in the mid-seventies, but had only about 10% of bank deposits.[34] Bank nationalization had not adjusted that imbalance, and it had only increased the tendency of financial institutions to meet the needs of the public sector on a priority basis, thereby reducing the amount available to the rest of the economy.[35]

Banks gave little scrutiny to loan requests from BJMC and BTMC. Ironically, bad repayment experiences with these and other public institutions induced greater caution in bankers; but most of their reticence was directed at private sector applicants. As Rahim points out, historically, the strategy of lending by commercial banks was not based on development, much less commercial considerations. Politics ruled the day in both the official development finance institutions (DFIs) and the nationalized commercial banks (NCBs).[36]

During the seventies, 43% of the financial resources provided by the commercial banks went to the manufacturing sector; and the bulk of these went to the SOEs.[37] The situation, extreme during the Mujib period, did change under Zia. For example, the Bangladesh Shilpa Bank (the leading DFI) directed 20% of its loan assistance to the private sector in 1973-74, 17% in 1975-75, but 90% by 1976-77.[38]

In dealing with the private sector, however, commercial banks have tended to go for quick returns in the trading sphere rather than the longer-range returns in industrial development.[39] Most of Bangladesh's entrepreneurs had the same predilection.

This, when coupled with lack of equity capital and excruciatingly long delays during the DFI approval process, helped to create an investment climate within which private industrial sector investment was slow to pick up steam. Initial investor reaction to the reactivation of the Dhaka Stock Exchange was almost nil.[40]

Despite limitations, the performance of the private sector, though still behind the unrealistic goals of the Mujib government's First Five Year Plan (1973-78), was superior to that of the public sector, mainly because of the somewhat less constricting investment climate.[41] By the end of the decade, the disparity was becoming quite clear. Between 1973-74 and 1980-81, industrial production went up 45%. The private sector grew 64%, but the public sector grew only 39%.[42] Of course, the private sector started from a smaller base. The private sector's greatest gains were in chemicals and electrical equipment manufacturing.[43]

The following chart shows the comparative performance of both sectors in terms of investment and output during this period:[44]

	Investment In Taka millions		Industrial Output with 1973-74 as base	
Year	Private Sector	Public Sector	Private Sector	Public Sector
1973-74	N/A	N/A	100.0	100.0
1974-75	5,091	5,102	89.5	100.0
1975-76	6,102	5,056	103.4	105.4
1976-77	5,664	4,935	112.5	114.0
1977-78	7,454	9,049	122.5	125.2
1978-79	9,004	9,808	145.2	128.6
1979-80	11,424	17,786	151.1	126.9
1980-81	13,941	19,784	164.3	136.9
1981-82	15,215	14,959	166.3	135.7

(Note: Investment figures are economy-wide; output figures do not include micro and cottage industries.)

It is revealing to note that after a slow start in the mid-seventies, the effect of a number of public policies and entrepreneurial initiatives began to pay off in the form of more rapid private sector growth by the late seventies and early eighties. Production in the public sector went up, but more slowly. Public sector losses also went up, averaging about US$250 million annually in the early eighties. These recurrent public sector deficits, with consequent drain on a strained budget in a "basket case" economy were among the prime motivations behind the government's decision to turn up the privatization throttle another notch in 1982.[45]

A side effect of increased private sector activity is that the public sector began to feel the bite of competition. One economist critical of private sector objectives and methods was forced to admit that private jute traders were "devastatingly effective" in under bidding the BJMC on jute carpet backing in 1976-77 and 1977-78 through price flexibility.[46] Elliot Berg, in his worldwide survey of divestiture for the World Bank, postulated that the introduction of competition from the private sector was having a beneficial effect on the way SOEs were being run. He said that, at a minimum, the government now had a measuring stick for their performance.[47]

During the 6 years of the Zia regime, a total of 255 stateowned enterprises were divested or privatized in one way or another.[48] Thirty of these were the last of the "enemy" cum "vested" properties originally confiscated into government hands during Pakistan days. Another 115 were small firms divested through the Office of the Director General of Industries (DGI), similar to the small units unloaded during the Mujib period.

The remaining 110 were somewhat larger entities housed in the Corporations, the first such enterprises let loose. Of these, 84 had been classified as "fully abandoned" and 26 as "partially abandoned," meaning that there had been other original owners as well as Pakistanis. Most of these had been Bengali minority shareholders, although there were also a few Indians and Europeans.

It is difficult to describe with precision the size and makeup of these divested entities. We have previously commented on the perils of trying to gauge their value (especially the smaller units dispensed by the DGI). Nevertheless, our research determined that among the 30 enemy/vested properties were 18 rice mills, 5 vegetable oil companies, 4 chemical/pharmaceutical firms, an ice company, a printing operation, and a trading company.

Of the smaller firms divested through the DGI, the list would include:

metal working	8
rubber products	11
paper and printing	7
vegetable oils	16
rice and/or flour mills	21
textiles and hosiery	10
soap and chemicals	4
films	3
jute rope	2
ice and cold storage	3
hotels	2
trading	3
engineering	5
wood products	4
glass and optical	3
salt	2
misc.	11
Total	115

Finally, of the 110 divested from the Corporations there were:

tanneries, hides and bones	25
metal works	17
textiles	11
jute products	7
tobacco	6
rubber products	5
food products	5
wood products	5
vegetable oils	5
matches	4
ice and cold storage	4
engineering	3
chemicals and pharmaceuticals	3
misc.	10
Total	110

Though generally bigger than the entities released by the DGI, few of the enterprises described immediately above were among the largest or important Corporation holdings.

In sum, privatization and private sector development were advanced significantly during the period of President Zia (1975-81). The policies were basically liberal, but carried out with caution rather than conviction.[49] Policy was emphasized more than implementation and, like the predecessor government, no well-thought-out plan with coherent objectives was ever developed.[50]

Only a few, like Shafiual Azam and Shafiqur Rahman, had a well-developed idea of where they were going or should go in the future. The concept of a mixed economy and what that entailed in defining roles for a public-private partnership were not widely understood, much less accepted and implemented.

Nevertheless, the ground was well prepared for the next logical step in the evolvement of a privatization policy, even though the turmoil and insecurity engendered by the assassination of President Zia in May 1981 made the future uncertain for a time. This was not new to Bangladesh.

Chapter V

PRIVATIZATION - THE SECOND PHASE (1982-1987)

Despite uncertainty and instability brought about by the assassination of President Zia, 1981 was a relatively good year, economically, for Bangladesh.

Some of the earlier policies and programs began to pay off, albeit modestly. GDP increased 7%, significantly better than earlier years. Industrial production increased 8%; and improved domestic food production lowered prices somewhat, helping to bring the inflation rate down to 1[illegible]%.

However, a drought made the prospects for continued agricultural growth in 1982 dim. It was made clear again that agriculture's marginal capacity for growth was insufficient for the economic expansion the country desperately needed. Because of the drought, food grain production went down and food imports increased. Consequent budgetary strain meant cutting back on public sector expenditures at a time when state enterprises were performing poorly. This, in turn, resulted in shortfalls in profits and high debt service payments on many large public enterprise loans.[1]

Given the limitations on employment creation in the agricultural sector and persistent balance of payments problems, the country's planners believed that greater emphasis should be placed on industrial growth and export earnings.

A review of the public sector enterprises convinced government leaders that the SOEs were not capable of leading rapid industrial expansion. SOEs were viewed as too bureaucratic and inefficient, lacking accountability, ambivalent about social and commercial goals, and most were consistently losing money - hardly a formula for dynamic leadership of a troubled economy.

It was decided to make a major break with the past and embark on an economic development effort in which the private sector would take a much more prominent part. To do this would necessitate a change in the relative roles of the private and public sectors and an improvement in the investment climate and regulatory environment that would permit the private sector to flourish.

After several years of inconsistent planning and cautious opening of the economy to the private sector, the government of General H. M. Ershad took a bold step to dramatically force the issue.[2]

Shafiul Azam was again at the helm of the Ministry of Industries and Commerce.[3] His presence undoubtedly provided impetus for the decision to take action. As he told the author, Azam had long held that "the role of the public sector is to supplement the private sector, not supplant it." He viewed conditions in 1982 as almost ideal for more aggressive pursuit of his economic philosophy. He said, "I got my life's chance!"[4]

New Industrial Policy of 1982

Azam says he told Ershad in the Spring of 1982 that the government "must denationalize in a big way," further stating that, "Your name will be written in gold letters; it will be electrifying!"[5] Azam recounted further, perhaps diplomatically, that it had been a "true meeting of the minds - the President was already thinking along the same lines."

Ershad was more familiar than Zia with private sector successes, in Korea, Taiwan, Japan and Hong Kong, but he used no models as such and little ideology. According to Azam, Ershad's approach was "pure pragmatism."[6]

After the presidential go ahead, Azam gave two trusted deputies, Shamsul Haque Chishty and Shafiqur Rahman, until November 1982 to get the privatization program started. In his methodical way, Azam set deadlines, required progress reports and background studies, and periodically checked up on the progress of the project.[7]

The core group promoting privatization knew that their best hope for pushing through something significant would be to act quickly, "while the iron was hot," as they said, before the opposition firmed up and before the military, up to then uncommitted (even unconcerned), took a firm position.[8]

Also, the government held detailed and extensive discussions with representatives of various chambers of commerce, trade associations and industrial enterprises. Not only was it unusual for the government to consult with the private sector before a major action was taken, it was doubly suprising in that those discussions apparently had considerable influence in the formulation of the policy that followed.[9]

The result was the New Industrial Policy (NIP) announced June 1, 1982. Its stated general purpose was "to provide a new dimension and greater thrust to industrialization of the country. . . ."[10]

The NIP, like most Bangladeshi policy statements, contained a long list of objections covering all conceivable bases, but the most important were to:

- expand the manufacturing sector with increased participation of the private sector;
- limit the role of the public sector to the establishment of basic heavy and strategic industries;
- improve the efficiency and profitability of public sector enterprises;
- protect and promote local industries by reasonable tariff measures and/or banning imports where there is adequate domestic capacity;
- promote export-oriented industries;
- encourage efficient and economic import substitutions;
- create additional productive employment opportunities in the rural areas through promotion of rural and cottage industries.

The list of industries reserved for the public sector was trimmed to six: arms and ammunition, atomic energy, air transport, telecommunications, electricity generation and distribution, and mechanized forest extraction.

The other 12 industries formerly on the Reserved List were placed in a new category called the Concurrent List, which permitted both public and private investment, and even encouraged public-private joint ventures. The reader may recall that the door had been opened a bit for this in the Revised Investment Policy of December 1975. What was implicit in 1975 was made explicit in 1982. The concurrent list included:

- jute industry (sacking, hessian and carpet backing)
- cotton textiles (excluding handlooms, power looms and specialized textiles)
- sugar
- paper and newsprint
- iron and steel (excluding re-rolling mills)
- shipbuilding and heavy engineering
- heavy electrical industry
- minerals, oil, and gas
- cement
- petrochemicals
- heavy and basic chemicals and basic pharmaceuticals
- shipping
- appliances and equipment for telecommunications service[11]

In other words, all but the six industries were opened to the private sector, and joint venturing with foreign investors was permitted with few restrictions.

The NIP even suggested that in some "deserving cases" where there was public-private collaboration, management could be awarded to the private investors even though the major shares were still held by the public sector Corporation.

Corporations were to divest "abandoned" enterprises or units established by the Corportion when such enterprises were continually losing money or could not compete effectively with the private sector. The NIP took another bold step by stating:

> In order to stimulate the share market and raise additional funds, shares up to 49% of some enterprises managed by the sector Corporations will be unloaded for public subscriptions or operation by Investment Corporation of Bangladesh.[12]

This provision caused a furor that prompted the government to go more slowly in this direction for a while. They put this idea on the back burner. It was put on the front burner again in late 1986, as we will see later.

The blockbuster in the NIP was the decision to return the jute to textile mills nationalized a decade earlier to their original Bangladeshi owners. The jute lobby had been pushing hard for this for several years. There is no doubt but that this had been the central point of political, as well as economic, discussions between the government and business leaders prior to promulgation of the NIP. The move to privatize these two major industries was made in order to create a favorable investment climate and confidence in the minds of entrepreneurs."[13]

The move represented the first privatization on a major scale of large industrial enterprises in strategically important areas of the economy. The denationalization of 27 textile mills and 33 jute mills was accomplished within a year.

The government turned over to the private sector 38% of the jute capacity, 45% of the spinning and 57% of the weaving capacity in the textile industry. The government subsequently sold another 4 textile mills through sealed tender.[14] We will return to the jute and textile industries privatization later.

There were other provisions of the NIP that warrant at least passing attention. As we intimated earlier, Bangladeshi policy statements seem to have an inherent predilection for covering the waterfront - and the NIP was no exception.

Like its predecessors and successors, the NIP's provisions were so voluminous that the improbability of them being implemented increased in direct proportion to the number of propositions. Their inclusion, however, at least indicated awareness of the manifold problems facing the modern sector of Bangladesh's industrial economy. The basic thrust of the document underlined the government's position that the greatest potential for economic growth and progress rests with private enterprise, not the public sector.

The NIP stressed rehabilitation and reform of existing industrial establishments and use of local resources, whenever possible, in order to better balance development and dispersal of industry geographically around the country. A recommendation to increase subcontracting by large enterprises to small companies was prominently mentioned. The NIP also expressed a desire, considered by most observers as premature, for Bangladesh to move away from "assembly"-type operations to actual manufacturing.[15]

Various incentives for investment, both domestic and foreign, were included in the NIP. An encyclopedic total of 84 industries were identified where technology was desired, most probably from foreign investors. The systems of Investment Schedules were supposed to be streamlined. These Schedules had a remarkably consistent record of earmarking the wrong industries for investment and expansion.

The list of "free sectors," where no formal governmental permission was required prior to investing, was gretly expanded. These were mainly areas where the public sector was not active. They were also areas where relatively small private units were doing quite well. In those cases where governmental santions were still necessary, the NIP made a gesture at streamlining and shortening the process. Deadlines for approval were set that were rarely met.

A Foreign Investment Cell and a "One Stop" Service were set up to facilitate investment applications of foreign companies. The ineffectual performance of the latter unit prompted frustrated applicants and local wags to suggest its name be changed from "One Stop" to "Dead Stop."

The performance and profitability of SOEs were to be improved by installing monitoring and MIS systems, permitting more flexibility in pricing, encouraging greater efficiency and more autonomy in operations.

Reaction to the New Industrial Policy was mixed. Everyone acknowledged that something dramatic, even drastic, had to be done to turn around the faltering economy. All but the diehards realized that such hopes could not possibly rest with the lumbering, graft-ridden state enterprise system.

But privatization, as such, had 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 decry the influence of foreign ways, but loathe even more the traits and backwardness of their own traditional society. In some ways, they are more foreign than the foreigners. They speak in grand humanitarian terms, building elaborate state control systems within which they can play an olympian guru role. There are some competent scholars in Bangladesh, but generally the scholarship is slanted and polemic, particularly on the subject of privatization and private enterprise. Few have business experience, except in hawking their scholarly wares.

The Awami League, now the opposition party, was a dedicated foe of privatization of the mills, holding to the tenets of its socialist manifesto. 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, though 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 in 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 trauma and turmoil associated with the unknown is worse.

Unemployment in Bangladesh has consistently run in the neighborhood of 37-38%, and underemployment is even higher. The workers had been given false hopes by the nationalization of 1972. In 1975, they had been concerned, but went along in the hope of better times. Their attitudes hardened by 1978-79. They viewed privatization in 1982 as a threat, particularly since the principal denationalization was to take place in jute and textiles, the two industries employing the most people.[16]

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

Meanwhile, the rural and agricultural population, which comprised 80 or more 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 was 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, however, realized the weaknesses of the current system and thought 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 uneasiness. A few shared the view of the academics and the bureaucrats that Bangladesh's private sector was not sophisticated or public spirited enough to take a leadership role.

A few of the business elite actually 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 government to keep privatization policies and programs within palatable limits that served, not endangered, their interests.

One cannot help but wonder what prompted the political leadership to undertake such a bold step in the face of rather general antagonism in a society so factionalized and riddled with self-interest.

The reason was the same as in 1975. The previous experiment - nationalization and public sector domination - had failed miserably. The situation had deteriorated even further by 1982. One senior official in the Ministry of Industries said to the author, "We had wasted 35 years (1947-1982). We had to do something different and definite!"[17]

As we noted in an earlier section, most governments don't opt for privatization for positive reasons. They usually do it for negative reasons - something else has failed. That is why the first moves toward privatization in Bangladesh and, indeed, in most LDCs, were cautious and lacked confidence. It is inherently unfamiliar ground for governments, who only vaguely sense that this is the way to go.

As Shafiul Azam said, "Few saw the only hope as private sector growth."[18] Ershad and Azam struck quickly and decisively before the antagonistic but scattered factions could coalesce into a more formidable opposition.

Many of the Bangladesh government's actions over the years have been _ad hoc_, poorly planned, and even more poorly carried out. Some, however, have been handled thoughtfully and meticulously laid out, depending on the personalities involved.

In key instances, the government was fortunate in having the services of Shamsul Haque Chishty and Shafiqur Rahman, the two senior aides of Shafiul Azam mentioned earlier. Azam gave them the following guidance regarding the disposition of state enterprises, "Dispose of each file 1) objectively, 2) quickly, and 3) applying high standards of quality. Then follow it up - keep at it. Also, build a good library for reference."[19]

Chishty was in charge of important phases of the negotiations for the sale of abandoned mills and the return of the mills to the former owners. He was well informed on the subject and knew all the principals, having been Chairman of the Board of BJMC a few years earlier. Because he handled return of the jute mills so efficiently, he was appointed to oversee the process for the textile mills, as well.[20]

Four basic forums handled the claims:

1) Tender Committee - to open and examine the validity of tenders;

2) Scrutiny committee - to verify the title and nationality of the former shareholders/owners (a terribly complicated process, given the great variety of tangled relationships that existed);

3) Working Group - to evaluate the assets and shares of the enterprises and principles, and to make recommendations for disposition;

4) Disinvestment Board - the final decision-making authority.

A floor price (called the National Reserve Price or NRP) was marked out and used as a basis for negotiating with the former owners over their bids. The final selling price was the NRP or the winning bidder's (there were several bidders in some cases), whichever was highest, other things remaining the same.

The successful bidder was to make a down payment of 25% before the final transfer, if the mill was located in a developed area (Dhaka, Khulna, Chittagong and the like), or 20% if it was in a less-developed area. The balance was to be paid off in 3 equal annual installments for mills in developed areas or 4 installments in less-developed areas. The payment was to begin 24 months after execution of the Deed of Agreement for sale.

The major details of the complex agreements are included as an appendix[21] at the end of the study.

One of the immediate problems facing Chishty and his colleagues was to sort out which mills were fully "abandoned" property and which ones had been fully or partly owned by Bangladeshis (even the determination of citizenship was not uncomplicated). There were cases where Bengalis had owned the majority of the stock, and others where they actually owned less than 50%, but could be considered in the majority when their shares were combined with the holdings of financial institutions.

There were other cases where they owned less than 50% but were to buy enough shares to reach majority status. There were still other instances where they had been minority status, but had managed the mills. They would be allowed to buy shares to take control, provided their original holdings were not less than 30% (this requirement was apparently relaxed in some cases). As one can easily see, this could get to be a very complicated situation. But it is also a very important question.

What it boiled down to was that previously owned shares could be bought at par or face value or at the compensation price determined in 1972. This was to the advantage of the former owners, due to appreciation. If they had owned less than 51%, they had to pay a revalued price price for the shares to bring them up to 51%. In some instances, they were required to purchase such additional shares if they wanted to get back even their original investment.

All shares above 51% not previously owned were to be purchased at market value, which was much higher. Most purchasers opted not to buy at inflated prices. (This process is discussed in greater detail in Chapter VII.)

Therefore, the government retained considerable portions of stock (and control) in the "privatised" firms, a fact not generally realized outside of Bangladesh. As a matter of fact, only one or two mills are 100% private. The degree of government participation or interference varies markedly from case to case. There does not appear to be any set pattern.

Another principal bone of contention was over the liabilities of the SOEs being divested. The first position of most buyers was they should not have to accept any liabilities, even the ones existing at the time of nationalization. Their position was that if they had kept their firms (i.e., no nationalization), they could have liquidated those liabilities.

Since it was obvious that the government would not agree to that, the buyers fell back to a position that while they would accept the liabilities existing in 1972, they should not be held responsible for the liabilities built up during 1972-82, when the firms were operated by the government.

Ultimately, after prolonged and frequently bitter debate, they had to accept all liabilities. Several sources told the author that the President personally intervened and, in essence, told the buyers, "Take it or leave it!" Mill owners said to the author, "We had no real choice. We had to accept or we'd never get our businesses back."22

The significance of this situation was that the buyers had to accept a price that they felt was unreasonably high. Inflation worked two ways. Valuation of fixed assets, based on earlier market values, favored the buyers because of appreciation (although most equipment and facilities were old and in bad shape). On the other hand, inflation had made debt service intolerable.

The result was that the buyers came to the conclusion that they should not or could not pay back the loans out of the proceeds of the business. They accepted the government's deal with no intention of paying back the loans. Some mill owners state that after the President laid down his ultimatum, officials in the Ministry of Finance told them to accept, intimating that the government would compromise later.

The problem of nonpayment of these loans remains a major unresolved problem to the present. It must be faced and concessions from both sides must be made. The two principal government development finance institutions, BSB and BSRS,[23] have repayment rates of approximately 10-12%. The loans related to the divestiture of the jute and textile mills are certainly not the only ones past due - it is a general malaise throughout the society - but they are large and prominent enough to set the tone.

Another key stipulation which highlights yet another recurring issue concerned the personnel situation. The buyers were obligated to take over all officers, staff, and workers, as well as the liabilities for their service benefits. They also had to agree to take on board a negotiated number of BJMC officers and staff made superfluous by the transfer of the mills out of the Corporation. No terminations were to be made for one year. As it turned out, termination of workers was politically difficult after that time anyway.

Negotiations over the privatization of the jute and textile mills lasted six months and involved innumerable lengthy sessions. It is interesting to note that the government accepted the Bangladesh Jute Mills Association as the spokesman and broker for the private jute owners, a break in precedent.[24]

Shafiqgur Rahman reported to the author that between June 1982 and June 1984, he supervised the divestiture of 87 public enterprises, in addition to the 33 jute mills and 31 textile mills.[25]

He also reported that another 92 small and medium enterprises were in process. In most of these cases, the formalities were completed and the agreements signed. The down payment had even been made in a large number of the cases. All that was left in most instances was to turn over the enterprises to the buyers. The government was legally bound to the transactions.

Shafiqur Rahman gave the President a full report, including the matter of legal obligations. The President gave him the go ahead.[26]

Everything was, however, put on hold after President Ershad made a speech in August 1984 to the Bangladesh Steel and Engineering Corporation Employees and Workers Forum, in which he announced that no more public enterprises would be "disinvested or returned to private entrepreneurs." A contemporary news story[27] reported that this announcement was greeted with "applause and welcome slogans." The President implied that the government's New Industrial Policy had really been designed to protect local industries, a policy which he promised to continue.

One cannot be certain whether the President's speech signalled a major policy shift or was merely another instance of an insecure politician catering to the strong feelings of a major pressure group. Subsequent events and pronouncements have not shown a consistent pattern, either for or against privatization.

That very lack of consistency, however, indicated a lack of firm commitment to privatization, or at least to implementation of such a policy.

The fact remains that no significant divestitures have taken place since mid-1984. Shafiqur Rahman has stated that 70-75 of the 92 small enterprises in process were eventually quietly handed over, but it has been difficult to get any kind of satisfying verification of that. The same is true of reports of another 20 "disinvestments" in 1985-86.

What probably took more out of the drive for a privatized economy than the President's speech was the departure from the scene of Shafiul Azam as Minister of Industries. Informed sources have said that "95% of the accomplishments of the privatization movement were made while Azam was in office." After he left in mid-1984, "the opposition in the bureaucracy got the upper hand."[28]

Reorganization and revitalization of public enterprise system

One of the more heralded thrusts of the NIP was reorganization and revitalization of the public sector. A special task force, called the Committee for Reorganization of Public Statutory Corporations (CRPSC), submitted its report in 1983. Among other things, the CRPSC recommended that 13 SOEs should be abolished, 30 others amalgamated into 12 units, and 21 restructured. The remaining SOEs were to be under continuing scrutiny.[29]

Other recommendations included the perennial ones of increasing the operational autonomy of individual enterprises, giving them greater flexibility in pricing, and running them more on commercial criteria, particularly in marketing and sales. Better monitoring was recommended both by CRPSC and an excellent study carried out under United Nations Development Program (UNDP) auspices.

The government has also experimented with management contracts. For example, Fabrique National of Belgium was contracted in 1984-85 to run the ailing Bangladesh Machine Tool Factory. Similar arrangements were being discussed in regard to GEM Co., Ltd., Chittagong Dry Dock, Pragoti Industries, and North Bengal Paper Mills.[30] Outside management contracts may marginally increase the efficiency of some SOEs, but the practice does not solve basic issues and, above all, it fails to face the issue of commercial survival.

As the World Bank has noted:

> the recommendations of CRPSC, while accepted by the Government of Bangladesh, have only been partially implemented . . . and those dealing with the respective roles of Government, Corporation and enterprise; as well as issues of autonomy and accountabilily have not been implemented.[31]

The major CRPSC recommendation that was carried out was converting enormous SOE debt to equity. By early 1984 24 SOE's had been financially restructured by convering Tk6.1 billion (US$244 milion) from debt to equity, plus extending another Tk900 million (US$36 million) in equity. Grants of Tk1.3 billion (US$52 million) were given, and the remaining debt service repayments were scheduled.[32] This made the books look good and eased some pressure on the budget, but did not solve the basic problems.

Something had to be done, however, when the debt/equity ratio had reached 90/10 on the average. According to the World Bank, public enterprises have survived due to cash subsidies from the government and borrowings from the nationalized commercial banks.[33]

In 1971, it had been hoped that the SOEs would generate profits, but they actually became a serious drain on the budget. It is difficult to determine just how much public enterprises lose or make money, mainly because of the way they structure their books. Subsidies are often disguised, as are interest liabilities or huge loans. Profits are usually shown <u>before</u> interest, which gives a warped picture. For example, in FY 1984-85, the net profit of the public enterprise system was 5.1% (of sales) before interest, but -4.2% after interest.[34]

The net profit of the five main Corporations progressed from a profit of Tk900 million(US$36 million) of 4.9% of sales in FY 1982-83 to -Tk2.2 billion (-US$70 million) or -9.2% of sales in FY 1985-86.[35]

In most years, the losses in the industrial enterprises more than offset profits made by public financial institutions, with BTMC and, especially, BJMC the big losers. The World Bank states that the current financial position of many SOEs "would be untenable under normally applicable commercial criteria."[36]

Even though the number of SOEs has decreased over the last decade, their influence on the modern sector of the economy is still profound, especially in large-scale industry producing intermediate and capital goods with high forward linkages. This being the case, the efficiency of SOEs also affects all downstream users.

Immediately below is a table showing the number of enterprises in all six major public Corporations, the ministry under which they operate, and a rough estmate of the share they have of certain (but not all) industries:[37]

Corporation	Ministry	No. of Units	Share of Selected Markets
BJMC	Jute	35	jute products - 63%
BTMC	Textiles	48	textile - 25%
BFIDC	Agriculture	14	mechanized forestry - 100%
BCIC	Industries	23	cement - 100%* fertilizer - 100% pharmaceuticals - 8% rubber footwear - 20%
BSEC	Industries	25	basic steel (not including rerolling) - 100%* water vehicles - 36% bicycles - 47% pumps - 50% radios and TVs - 20%
BSFIC	Industries	18	refined sugar - 100%
	Total units	163	

*probably high estimates - see note #36 at end of chapter

From even this sketchy picture, one can easily see that the public sector is still a dominant factor in Bangladesh's industrial economy.

This, in turn, leads one to ponder just how much the actual divestitures of state enterprises carried out by the various Bangladeshi governments have contributed to the private sector of the industries listed above (and of the economy as a whole) and how much is due to general private sector activity and growth, accomplished with or without government encouragement or support. The answer to this question is only clear in the case of jute and textiles, where the linkage is direct and unambiguous. It leads one to ask just how committed the Bangladesh government has actually been to privatization of the economy.

Privatization and private sector development since NIP-'82

There is no question that the NIP of 1982 contributed significantly to improving the environment for private sector activity. Investors' confidence increased. A new breed of industrial entrepreneur began to emerge from the commercial trader ranks. Economic activity became more varied.

Industrial growth reached 9% in 1984 and 1985 after being almost zero in FY 1982 and 3.7% in 1983[38] as the result of political instability. Growth came from labor intensive private sector industries like ready-made garments, food processing (especially shrimp), light engineering, and pharmaceuticals, areas where the public sector was not directly involved.

The public sector grew less rapidly and stressed investment in capital-intensive industries. Patterns began to shift. The combination of jute, cotton, textiles, paper and tobacco, which had represented 60% of production in FY 1974 shrunk to 40% by FY 1985.[39]

But this was still a troubled economy. Unemployment and underemployment were still high, and productivity remained abysmally low. Private sector performance, while mildly encouraging, was spotty; and public sector performance was sluggish. Foreign exchange earnings were tied to a dying industry (jute), and the country was using 80% of the scarce foreign exchange for purchase of petroleum.[40] And always lurking in the background was the disturbing fact that the "unofficial economy" (i.e., black market and smuggling) was larger than the official economy[41] and, as a consequence, influenced the application of resources.

By 1986, two-thirds of domestic savings were in the private sector. Allocation of credit between the public and private sectors, which in 1982 had slightly favored the SOEs, had, by 1986, shifted to the private sector by a factor of 2 to 1. Unfortunately, the repayment problem continued, even increased. It became more profitable to borrow than to produce.[42]

The rate of inflation slowed slightly to 12 in FY 1985 and 11% in FY 1986.[43] Manufacturing was still only 12% of GDP and 8% of total employment. The large-scale modern sector employed 18% of the manufacturing labor force, but generated 58% of value added. Small and cottage industries employed 82% of the work force, but only 42% of the value added.[44]

Given the inelasticity of the agricultural sector, it was recognized that rapid economic development in general, and job creation in particular, would have to depend heavily on promotion of industry. Further, it was also recognized that the potential for the growth the nation needed so desperately did not rest with the ponderous public sector, but rather with private enterprise.

The Third Five-Year Plan (1985-1990) was surprisingly frank about the problems of the economy and the persistent gap between the rhetoric of policy and the actuality of implementation.[45]

The Plan traced the increased role of the private sector in the development process. Allocation for the private sector was 11% under the First Five-Year Plan (1973-78), 16% under the Two-Year Plan (1970-80), 35.5% under the Second Five-Year Plan (1980-85), and another 35.2% for the Third Five-Year Plan (1985-90).[46]

The Plan also spoke of the NIP as a "momentous step compared with any earlier measures," noting that denationalization of the jute and textile mills had "significantly improved capacity utilization."[47]

The importance of increased private investment was stressed. The Plan posited that the improvement of the performance of the private sector and, hence, its contribution to national development would depend on improvement of the environment within which it must operate. While noting the need of the private sector to "earn the confidence of the society," the Plan saw the government playing more of a "catalytic role," reducing "direct interference with the economy to a minimum" as the country moved "towards the market economy." It continued,

> The Third Plan will strengthen the process by increasing the private sector, on one hand, and increasing substitution of direct control by indirect control through macro-economic policies reforms on the other. The Plan thus emphasizes a greater reliance on policy planning than before to ensure a harmony between social and private goals.[48]

These eloquent words authored by the Planning Commission for the Third Five-Year Plan in December 1985 are worlds apart from the socialistic ideology espoused by the Planning Commission in 1972 when it launched the nationalization program. Yet they share a common trait - detachment from reality, though in vastly different ways. While the 1972 pronouncement was forcefully leading the government along a certain path (nationalization), it was, as we have seen, divorced from the realities of the socio-economic conditions of the time. The 1985 statement, while reflecting economic reality, was not in sync with the direction, or lack of direction, the government was demonstrating.

In the last 2 1/2 years, Bangladesh has pursued an off-again, on-again, affair with privatization. The government has plunged boldly forth at times, veered or backed off at others, and generally vacillated. It is fascinating, if depressing, to observe the tortuous, ambivalent pursuit of major national policy - policy by whim, if you will. We will attempt to demonstrate this by noting a sampling of headlines and clips from newspaper articles during the period, starting with President Ershad's speech of August 25, 1984. This does not represent a thorough search of the media. It is a sampling of articles that happen to be in the author's possession as the result of random clipping. A more scientific sampling would demonstrate the point even more clearly. The clips are:

"No more disinvestments"
The New Nation, 8/26/84

"Industries Minister Defends Privatization Policy"
- "NIP a progressive measure"
The Tide, Fall 1984

"Some disinvested units may be taken back"
Bangladesh Observer, 10/18/84

"A fast diminishing public pressure in Bangladesh"
- "government may sell up to 49% equity stakes to private investors in government-owned banks, shipping lines, the national airline, and the telephone industry via the stock exchange"
  Far Eastern Economic Review, 7/25/85

"536 industrial units divested so far"
- "Minister of Industries says process of disinvestment will continue to encourage the private sector"
  The New Nation, 8/5/85

"Another dose of privatization: Ershad announces disinvestment of existing NCBs" (nationalized commercial banks)
  Holiday, 10/11/85

"DISINVESTMENT"
"Recognizing the importance and impact of PRIVATIZATION, the Government will continue to pursue the following policies:

(i) abandoned, vested and taken-over industrial enterprises and shares and other proprietary interests will continue to be disinvested;

(ii) industries established with Corporation's own resources or ADP (ed: national budget) may also be disinvested;

(iii) Corporations may develop industries . . . and then disinvest them or unload their shares;

(iv) shares (of state enterprises) will be unloaded mainly through public subscription or through the Investment Corporation of Bangladesh"
  Industrial Policy - 1986
  Ministry of Industries, July 1986[49]

"More enterprises likely to be disinvested"
  Holiday, 9/19/86

"New Industrial Policy realistic says Moudud" (Deputy Prime Minister and Minister of Industries)
  Bangladesh Observer, 10/9/86

"No more special protection for public sector says Moudud"
  The New Nation, 10/26/86

"Public sector units to be turned into companies"
- "must survive in open market competition"
  Bangladesh Observer, 12/26/86

"Disinvestment of NCB soon likely" (Rupali Bank)
Bangladesh Observer, 12/20/86

"Shares ready for public offer"
Holiday, 1/9/87

"No more subsidy to public sector"
Bangladesh Observer, 1/14/87

"Rupali Bank to remain in public sector"
The New Nation, 1/22/87

"Jute mills disinvested for corruption: Zafar (Minister of Jute)
Bangladesh Observer, 2/4/87

"Private sector to be made dynamic: Ershad"
- "government-owned industries and banks will remain in public sector"

Daily News, 2/6/87

"Private, public sectors must co-exist: Ershad at CONOPE"*
Bangladesh Times, 2/6/87
*(Consulting Committee of Public Enterprises)

"Ershad rules out bank disinvestment--public sector units won't be privatized"
Bangladesh Observer, 2/6/87

"132 disinvested units failed to pay"
- "Moudud said that there were provisions to scrap the agreements with the lawyers and take over the disinvested units by the government again"

Bangladesh Times, 2/24/87

Ershad: "I believe in a mixed economy in a country like ours"
- "Certain industries--we have reserved--no private enterprise coming in--but, by and large, small and medium industries must go for privatization."
- "the stock exchange is activated--so this is also in a way privatization."

The Tide, Special Issue, Feb-March 1987

Industry: "After privatization . . . poor performance . . . led to national consensus to visualize the whole thing once again"
- "Recognizing the importance and impact of privatization, the government will continue to pursue disinvestment."

The Tide, Feb-March 1987

Moudud: "The process of privatization accelerated and it achieved the desired goal."
- "This is now a policy of consolidation of the privatization of our industries."
- "There will be balanced growth between public and private sectors."
- "We would like to make the public sector competent and profit-making."

The Tide, Feb-March 1987

Finance: "The introduction of the 1982 industrial policy with a new look toward withdrawal of government discretion from public sector and encouraging private sector is now experiencing a transitional hazard regarding efficient management, procedural discrepancies and political commitment."

The Tide, Feb-March 1987

"Abandoned industries to be made public limited companies"
- "51% to be retained by corporations."
- "15% resrved for workers"
- "34% subscribed by public through stock exchange"

The New Nation, 4/27/87

"Call for strike at industries tomorrow"
- "protest against the disinvestment policy of the Government"

The New Nation, 4/27/87

While all this flip-flopping and platitudinous posturing was going on, senior officials of the government were saying privately to the author in late 1986 and early 1987 that privatization policy would and should continue. For example, On October 23, 1986, Deputy Prime Minister Moudud responded to my query about future divestiture of state enterprises by saying, "In my personal view, we should give up all of them." Other senior people in key ministries said such things as:[50]

"The government should get out of manufacturing and do what government should do."

"Sick or not sick--sell the public enterprises."

"We should start selling the viable ones."

"Bangladesh should denationalize in a big way."

But by early 1987. it was becoming clear that despite confidential endorsement, privatization would not be aggressively pursued as public policy. In backing off, the emphasis shifted to promoting a "mixed" economy[51] and to making still another try at improving the performance and profitability of the public enterprises, while still declaring a continued strong commitment to developing the private sector.

Increasingly vocal opposition to privatization has been effective. The Awami League has been the most strident in its criticism of the government's privatization policy, even recommending renationalization in some industries.[52]

However, the biggest 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. Small demonstrations are almost a daily occurrence in the central commercial district of Dhaka.[53] City-wide and county-wide strikes are in vogue. Not infrequently, striking workers literally kidnap factory managers and their pricipals, holding them hostage until labor demands are met.

Mobs in South Asia are volatile and unpredictable. Deaths are not uncommon during these demonstrations. The situation has become even more prevalent and dangerous since organized labor has found out that violence pays off when dealing with an indecisive, insecure government.

One of the more striking surprises that gradually dawns on a person studying Bangladesh affairs is that the Martial Law Authority (MLA) does not live up to the usual image of such regimes, exercising a no-nonsense, iron-fisted control. It gradually becomes apparent that the Bangladesh version of an MLA government is actually more characterized by impotence - it does not display much capacity for controlling anything.

While loss of jobs and making the rich richer are the principal charges made against privatization, pressure from foreign donor agencies is another frequent and effective criticism. The role of donor agencies will be discussed in a later chapter. For the present, we will only say that this researcher found less of it than expected. There is no doubt that the World Bank and the U.S. Agency for International Development (USAID) both favor emphasizing the private sector approach to economic development. They have both expressed such beliefs frankly to various Bangladesh regimes. But the author found little evidence of undue pressure or ultimatums of "privatization or else." There has been pressure for instituting various reforms, particularly in financial management; but the relationship to privatization appears, at least to this researcher, to have been more indirect than direct. Until very recently, what pressure there has been does not appear to have been either forcefully exerted or terribly effective.

Accusations of excessive foreign pressure is an effective political device in a former colony; but in this case, it seems to have been exaggerated. Indeed, the measure of the dnors to effectively address issues related to privatization in the context of overall economic development may well rest in the future rather than in past acts.

USAID in Bangladesh has generally encouraged private sector development over the years; but the effort has, by AID's own admission, been scattered and intermittent. The Mission has only carried out one major project directly related to privatization prior to the present study, but that has been a most significant one.

For eight years, USAID has been the prime mover in privatizing the distribution and sales of fertilizer, an extremely important in an agriculture-based economy like Bangladesh's. What is doubly interesting about this program is that the privatization did not result from the divestiture of a government entity, as has usually been the case in Bangladesh. Rather, what USAID has done is help in the establishment and development of a private sector network that has gradually replaced the government system.

In effect, the government apparatus was marginalized or frozen; and the private alternative network was built up, first at the retail level, then at the wholesale level, and most recently at storage and importing points. Perhaps manufacture will be next.

This is a form of the "quiet liquidation" that other LDCs, such as Taiwan, have used so effectively; but it is, to date, unique in Bangladesh. The project has not been without its problems and is still politically sensitive. Nonetheless, it involves an approach to what the author labels "privatization of the economy" that warrants close scrutiny for application in other fields in Bangladesh and elsewhere.[54]

Industrial Policy of 1986 and the "51-49 Plan"

In the midst of the headlines and media clips listed earlier, one official government policy document was also quoted. That was the important "Chapter VI - Disinvestment" statement of the government's Industrial Policy - 1986 (IP-'86).[55]

The IP-'86 is basically a refinement of the NIP of 1982. Like its predecessor, the IP-'86 includes an encyclopedic list of objectives and strategies (15 of each). Most of them are similar to the 1982 proposals, though in 1986 there is some additional attention to incentives for both foreign and domestic investment and to promotion of small and medium, agri-based industries.[56] Generally, IP-'86 broadens the scope of NIP-'82 in regard to private sector development. Bangladeshi officials are prone to say it has now "opened the window fully" for the private sector.[57]

The industrial categories reserved for the public sector were raised from 6 to 7 to include "security printing (currency notes) and mining." The "Concurrent List" was dropped, replaced by a statement that, "All industries not reserved for the public sector will be meant for the private sector."[58]

A new feature was the appearance of lists of "priority" and "discouraged" industries. There were 6 categories of "priority" industries: 1) agro-based industries (with 5 sub-fields); 2) textiles (with 6); 3) tannery, leather and rubber products (5); 4) chemicals, pharmaceuticals and allied products (12); 5) engineering (11); and 6) electric industries (5). Certain industries were listed as "discouraged" because of over-capacity or under-utilization of capacity. They included automatic rice mills, cigarettes, cold storage, deep sea trawling, distilleries, edible oils, sugar mills, specialized jute products, wooden tea chests, tanneries (for wet blue), and safety matches.[59]

The 1986 policy mentioned more prominently than before the possibility of joint public-private ventures in industrial fields where the private sector lacked sufficient funds, with the government gradually bowing out once the venture was functioning.[60] Also, an attempt was made to streamline sanctioning and licensing procedures.[61]

Here, however, we are interested primarily in only two important aspects of IP-'86: 1) the restatement and elabortion of a program introduced in NIP-'82 (but never implemented) - of converting the public Corporations into "public limited holding companies" and the consequent offering of shares to the private sector of up to 49% of enterprises under the sector Corporations;

and 2) the emphatic endorsement of privatization and continued "disinvestment" at a time when the government was waffling.

At this point in our study, it is only necessary to mention the highlights of the stock selling plan, describing (with some commentary) what has taken place to date. More thorough analysis and alternate scenarios will be reserved for concluding sections.

In the Summer and Fall of 1986, considerablee fanfare was given to the government's intention to sell shares of public enterprises through the reactivated Dhaka Stock Exchange or the Investment Corportion of Bangladesh. Statements varied as to whetther the government would offer shares of all or only some enterprises.

It was obvious to most observers that many of the enterprises would not be attractive investments. Who would want to buy shares of an enterprise that had been consistently losing money for years? This was especially so since the potential for reform or revitalization is limited because of the government's published intention of retaining 51% of the shares and, hence, control of the enterprise's fortunes.

Privately, officials have stated frankly that the government would be willing, eventually, to sell 100% of the shares of most public enterprises, but it would be politically impossible to admit this just before elections. Given the undeveloped state of capital markets in Bangladesh, the government only expected to be able to sell about 20% of the stock of most enterprises initially, anyway.

The stated purposes of the program were a) to increase opportunities for private sector participation in the larger and more important phases of the economy, b) to broaden the base of the public-private partnership, and c) to add badly needed cash to the exchequer.

Critics in the private sector said the plan was a way for the government to save its floundering industrial empire with private capital, but without giving up control, which would severely limit chances for reform and improvement. In response, the government has intimated that it would be willing to consider making concessions to substantial buyers in regard to management of the enterprises.

For example, if a buyer or consortium of buyers were purchasing, say 33% of the shares of a given enterprise, they would normally expect to get 3 of the 9 positions on the board of directors. Instead, the government has intimated that it would be willing to offer such a purchaser 4 slots, which is one less than a majority and, additionally, to turn management of the enterprise over to the private sector.

Buying of minority shares in a company is not a well developed concept in Bangladesh's business world. Investors traditionally want complete control. Also, the private sector lacks confidence in the government's willingness to actually surrender control. They fear continued bureaucratic interference.

In a public relations sense, the program is vulnerable to the criticism that the shares will be bought by the already wealthy, or dealt out to cronies, or both. The government seems to feel, however, that the 51-49 Plan is more palatable to the general public, and especially, to the labor force than outright divestiture.

One stratagem the government has offered to allay fears is to show interest in offering 10-15% of the shares to employees, individually or to their retirement trusts. Shares would be priced at 100 to 200 Taka to enable poor workers to participate.

This is a new idea for the government, and one that deserves priority attention. The ESOP (Employment Stock Option Plan) has been a successful ploy in other LDCs. It could be an effective method in Bangladesh to lessen labor unrest and disruptive activities. It is amazing how attitudes change once a worker becomes an owner.

Perhaps it is for this reason that union leaders, feeling possible loss of their own power, are showing less enthusiasm for the plan than one might expect. Incidentally, several government officials expressed strong feelings to the author against permitting unions to buy shares. They tend to believe that would be like letting the fox in the chicken coop.

The stock-selling plan has obvious weaknesses and has not been carried out effectively; but in an economy like Bangladesh's, the 51-49 Plan should not be dismissed out of hand. It can be a way to gradually build up a capital market. Extreme care must be taken, however, to avoid over concentration of shares, money and power. Restraint along these line has not been one of the cardinal virtues of Bangladeshi political leadership to date.

More thoughtful planning will also be required than the government has shown so far. For example, the initial entitities proposed for the share selling scheme were four enterprises under BCTC, the two larges DFIs (BSB and BSRS), and one of the NCBs (nationalized commercial banks). It is not at all clear what criteria were used to select BCIC as the trial case, although it is at least encouraging that the four medium-sized enterprises selected are all profit-making.[62] The assumption is that the choice of BCIC was an *ad hoc* decision. It may turn out to be a fortuitous decision, but one would not normally select the chemical industry for such a program because of high costs, required level of technology, and dependence on expensive imports (and consequent onerous red tape).

It is difficult to figure out what prompted the government to believe that investors would seriously be interested in buying shares of BSB and BSRS. The sums involved are vast, and the two are virtually insolvent. It would take a real plunger to speculate on these stocks.

Rupali Bank was proposed as the NCB to be put on the block. Since Rupali is the most profitable of the four NCBs, it is again encouraging that the government is aware of the need to offer attractive enterprises at first. But the government handled the situation so badly that it has endangered the entire deal.

The Managing Director of the Rupali Bank walked into the bank one morning to find three senior government officials in his waiting room. When he ushered them into his office, they promptly informed him that his bank was to be privatized in two weeks. This lack of thorough preparation, consultation, and consideration of all relevant factors is typical of the compulsive way the Bangladesh government handles its affairs. It frequently operates from en haut or as if it is in a vacuum.

The result in this case was that when the bombshell was unloaded on the staff, they walked off en masse. Rupali was pulled off the market, then later put on again. It has been offered three times, but interest has been minimal. This is doubly unfortunate because, on purely economic grounds, this is an attractive offering.

A similar situation transpired in regard to the Dhaka Stock Exchange, the private instrumentality that would be required to handle a large percentage of the stock sale and transfer transactions. Even though there had been countless public pronouncements and newspaper reports about the 51-49 Plan for several months, no one from the government discussed the situation with the Dhaka Stock Exchange (DSE) as late as October 8, 1986, when the author called on them to determine what preparations were being made to handle the tremendous increase in their business that would inevitably result from the proposed stock sale program.

As a matter of fact, no one from the government came to the DSE until February 23, 1987, when the Deputy Prime Minister appeared to give what amounted to a "pep talk," but not to engage in substantive, technical discussions.

The Stock Exchange in Dhaka has gradually increased in activity and sophistication since its reactivation in 1976, but is still a relatively primitive institution, manifestly incapable professionally of responding effectively to the demands of the enormous program the government is launching.

Finally, the government has not adequately researched the complex legal and constitutional issues involved in converting the Corporations into public limited holding companies and sorting out questions of transferring shares and control of assets. The government may be in conflict with its own laws. These matters must be handled before anything else can proceed.

Nevertheless, the Deputy Prime Minister in a conversation with the author on October 23, 1986, stated that he expected the program to get rolling soon, noting that he was counting on 30-40 crore taka in revenue from the program in the current budget. He also mentioned that while he personally favors a broad base of investors, the Ministry of Finance would prefer to restrict the number of shareholders.

The government has not resolved the delicate financial-political question of how you allow the certain amount of concentration of wealth necessary to build a viable capital market without creating over-concentration as has happened in many countries. They should be very conscious of the adverse political and financial ramifications of the domination of the Pakistan economy by the famous (or infamous) "22 families." Fortunately, the fledgling capitalist class in Bangladesh does not appear to have the potential for that degree of over-concentration of wealth and power.

Despite the ambitious language of the Industrial Policy-1986, no major divestitures followed. Few observers felt that anything significant would happen prior to the elections in November 1986. There was speculation that the government might feel secure enough after the elections to move forward again on major economic problems. For one thing, many felt that the government would clamp down on rampant labor movement violence. This has not happened so far (May 1987).

Second, it was thought that the administration might move again toward divestiture of selected public enterprises. That, also, has not transpired. In fact, the government seems to be moving further away from that option. The sale of shares is the substitute privatization measure.

Third, it was hoped that the government would move aggressively against loan defaulters or act in some other manner to solve the serious repayment dilemma. Action did occur here. Previously, the government had not staunchly backed the DFIs, but did in December. BSB had set a December collection target of

Tk175 million (US$5.8 million).[63] By being aggressive they actually pulled in Tk250 million (US$8.2 million). The total collected for July-December was Tk3.6 billion US$119 million), which for the first time in history exceeded its target, which was Tk4 billion (US$112 million).[64]

All of the overage came from the private sector, because the December target for collection from the public sector was not met, Tk20 million (US$667,000) was collected against a target of Tk34 million (US$1.1 million).

BSB had especially targeted 16 of the larger defaulters (all jute mills). They got 12 of them to bring payments more up to date. When the other 4 found out that they could not get credit anywhere else, 2 of them settled.

A list of 132 firms in default was published in local newspapers. Four debtors were summarily thrown in prison, which caused a furor in the business community. The lesson was not lost on other defaulters. Repayment picked up. But investment rates dropped. Some observers, both in and out of government, feel that the "legal system is being completely upset and distorted" by the jailing of the 4, in that criminal law was being applied in a civil law situation.[65]

There is no question that something had to be done about the desperate default problem; and it is hoped by the World Bank and others that the pressure will be kept on. The government certainly made its point, but its impetuousness may have spawned a whole set of new problems. One partially redeeming feature is that stricter collection activity may help in some measure to improve the ghastly financial situation of the DFIs, but probably not enough to make their shares much more attractive on the stock market.

Privatization in Bangladesh - a recap

This brings the "Bangladesh Privatization Story" up to the present. Therefore, before we proceed to in-depth analysis and evaluation of various aspects of the subject, it might be useful to recap what has transpired.

Successive governments in Bangladesh have divested or denationalized 609 industrial enterprises, 2 banks and an estimated 465 commercial businesses, for a grand total of 1,076.

One can add in another 3,000-4,000 if one wishes to cover the small commercial trading firms that sank out of sight, as described earlier. For the record, of the 609 industrial firms, 12 were hangovers from EPIDC, 120 were unloaded quietly during the Mujib period (1971-75), 255 under the official privatization policy of the Zia Government (1975-81), and 222 (including most of the larger ones) under the NIP-'82 and IP-'86 of the Ershad regime.

The numbers are impressive. A recognized authority like Elliot Berg was prompted by such figures to call Bangladesh "a champion performer in the world of privatization or divestiture."[66] The preceding pages should convince any thoughtful reader that while Bangladesh's experience with privatization has indeed been remarkable, the performance has not been of championship caliber. The numbers are impressive, but they are also misleading.

Bangladesh's privatization effort has been carried out without a coherent and consistent plan. When one gets past the sloganeering, it is difficult to determine just what specific objectives the varous Bangladeshi governments had in mind when they issued privatization policy statements.

There has also been an enormous gap between policy statements and implementation. It is as if once the policy is issued, that is the end of it, that's all that needs to be done. The Bengalis' renowned love of words that has carried them to the heights of South Asian poetry and literature may have betrayed them in the tangled world of politics and economics.

The several Bangladesh governments have not sufficiently understood that the formula for success in privatizaton involves more than the unloading of large numbers of unprofitable state enterprises. It also requires a well integrated set of concrete programs that ensure that the private sector can flourish. What is involved is not just divestiture, but privatization of the economy. To accomplish this, the roles of the public and private sectors must be clearly defined and consistently acted out.

Given these shortcomings, it is remarkable that privatization in Bangladesh has proceeded as far as it has, and accomplished as much as it has. In the following sections, we shall investigate some of those weaknesses and strengths and, in the process, come up with some conclusions and recommendations for future policy and courses of action.

Chapter VI

PRIVATIZATION - THE PRIVATE SECTOR'S PERFORMANCE

The first question asked when privatization in a country is being evaluated is almost always, "How have the privatized enterprises performed?" This question is invariably fired in unison with the even more pointed query, "Have they made money or lost money since being privatized?"

These are legitimate questions. In most countries, they would be appropriate questions. In Bangladesh, they are not the right questions.

The focus should be on the economy, on the policy and regulatory environment within which the enterprise must function and not on the enterprise itself. This is not an attempt to avoid taking a hard, close look at the weaknesses or failures (or successes) of individual privatized industrial enterprises. Rather, it is an approach that recognizes that in Bangladesh's struggling, backward economy, there are powerful adverse forces and factors that have more influence on determining an enterprise's fate than its own "performance."

It has been previously stated in this study that privatization cannot, in and of itself, solve Bangladesh's enormous economic problems. In turn, the success of privatization depends on creating and sustaining an overall economic environment that fosters dynamic growth through increased private sector activity.

We are applying the same criteria at this point. The possibility of a denationalized industrial enterprise prospering is more governed by a variety of external factors, such as prevailing conditions in the enterprise's particular industry, government policies and procedures, general economic forces, etc., than by the internalized criteria usually applied that focus on managerial skills, marketing acumen, technical know-how, or profit and loss (P&L). The latter are the measuring sticks normally used and manipulated by critics to "substantiate" their predetermined opinions.

The same proposition applies to any private enterprise, although divested[1] firms often possess special inherited burdens that threaten viability. These would include bloated and unmotivated staff, inefficient production and marketing systems, old, poorly-maintained equipment, and substantial debts. Some, but certainly not all, divested enterprises start out with two strikes against them. In fact, these additional factors make focusing on the individual privatized enterprise even more unproductive and misdirected.

The suggested broader approach is consistent with our position that what is important to consider about privatization is not just the unloading of state enterprises, but the privatization of the economy.

There is a school of thought that proposes that the most efficient way to evaluate privatization is to "go to the books" of the individual divested enterprises. That approach is rejected as a primary approach in this study. It would be folly to completely disregard the accounting and financial records of privatized firms. They can provide the thoughtful investigator with useful information. But analyzing the books is only one of many tools and, in Bangladesh, not one of the most productive.

The principal drawback is that the information is likely to be unreliable. Sharing of confidential financial information is not a local tradition. The Chinese tradition of keeping three sets of books (one for the government, one for your partner, and one for yourself) has its highly-developed Bangladeshi counterpart. Lack of trust of outsiders and fear of the tax man is endemic.

Also, in interpreting accounting data there is often a tendency to apply western criteria to Bangladeshi practices and procedures. Further, the accounting systems of most Bangladeshi firms are simply not sophisticated enough to develop the information and insights one is able to glean from company accounts in more sophisticated business communities. In order to evaluate the performance of a denationalized enterprise or understand what has contributed to the success or failure of privatization in Bangladesh, one needs much more than accounting analysis.

In pursuing this research project, a conscientious attempt was made through interviewing and a carefully constructed questionnaire[2] to gather accounting data, financial information, production and sales figures, etc. While considerable data were collected, it was regarded in realistic perspective of its value and limitations. We were constantly reminded of the local joke, genially offered in business circles, that a Bangladeshi entrepreneur will tell you that, "Our production is up, production costs are down, sales are up - but, by the way, we're losing money."

Therefore, other information collected was considered more important in the preparation of this study. This latter material included such items as prevailing conditions in the particular industry, labor problems, future plans for expansion, government policies and practices that help or hinder the firm's business activity, etc.

The present report was guided by the dual premise that privatization in Bangladesh is a policy-oriented study and that privatization is only one aspect of a loosely integrated economic mosaic.

The problem in pursuing this subject is to keep everything focused on privatization without neglecting the broader issues that significantly impact on it. As we have just inferred, this is a particular problem when addressing the matter of "performance" by the privatized sector.

Random notes on the Bangladesh business community

The nature and make-up of Bangladesh's business community has been changing dramatically in recent years, much of it due to privatization and other government policies increasing incentives for private investment and liberalization of various regulations. There has also been a gradual maturing process as more opportunities opened up for the local private sector after independence.

East Bengal cum East Pakistan was dominated by non-Bangladeshis, be they British, Bawanis from Burma, Pakistanis, or Marwaris, Biharis and West Bengali Hindus from India. The presence of prominent non-Bengali elements in Bangladesh's economy is still strong today, and becomes stronger the deeper you dig under the surface. Nevertheless, Bengali Muslims are increasing their presence in all facets of their country's business life, not just the commercial trading paths they traditionally followed.

Nationalization put a crimp in that development for a while, perpetuating the small shopkeeper stereotype. At liberation, it was estimated that 47% of the fixed assets were in the hands of non-Bengalis. One of the justifications for nationalization was that there weren't enough Bengali managers to run the abandoned Pakistani enterprises. The author has never been completely satisfied by that argument; and there is also a substantial body of local opinion that there were more locals around at the time with managerial experience, though perhaps few at the top decision-making levels. For example, in the two principal industries, jute and textiles, there was considerable experience, even ownership, as the NIP showed in 1982 when so many mills were returned to former owners and managers.

The fact remains that in 1972 someone had to run the abandoned businesses. One cannot but note that the public service, which took over, had to search frantically outside its own ranks to find managers. Many of these were in the private sector. The fact that many were unfortunate choices speaks as much to the politics of the affair as anything else. The nationalization program, in the final analysis, did provide a managerial training ground of sorts, although a lot of time was lost and some inappropriate methods learned.

The concept of corporate management, which is important in the modern industrial sector, is still not well understood in Bangladesh business circles. Many Bangladeshi enterprises, even most of the larger ones, are still run along family business lines. Sons, rather than professional managers, are trained or at least destined to take over from aging patriarchs to preserve the family holdings.

There are progressive industrialists, however, who see the limiting aspects of the traditional system. For example, Affsaruddin Ahmed, a Chittagong industrialist with a wide range of holdings in construction, shipbreaking (dismantling) engineering, textiles, and rubber products, is dedicated to the proposition of hiring, training and developing professional management. In 1986, he purchased Bengal Belting, a venerable rubber products company that had been denationalized in 1983, but failed under the first buyer.

Ahmed bought it and promptly recruited a professional management team. While Ahmed is active in policy decisions, he deliberately leaves the day-in, day-out running of the company to his managers. He is proud that he "hires the best" and that "it is not a one-man show." Bengal Belting is recovering nicely. Production is up, production costs down, sales are up, and they're no longer losing money.[3]

Unfortunately, there are still not enough enlightened industrialists like this in Bangladesh; but, then, there weren't in Taiwan or Korea 25 years ago, either. Management training of a practical professional (in contrast to academic) type is badly needed.

The interesting group is the new brand of owner/managers who are now entering the industrial scene. They are from a variety of backgrounds, but most have come from the commercial/trading world. Others have made their money in the manpower business, connected with service in the Middle East. Many have profited in real estate. Some come from rural or small town agribusiness or farming, and more than a few have graduated from the ranks of small industrial shops. The majority are not well educated, and few have experience in industrial management.

Their motives are as varied as their backgrounds. A common thread among the former commercial/trading types is the desire to put their money into longer-range industrial investment than risking all on big, one-shot commercial deals every so often. The appearance of stability and permanence is attractive even if the pitfalls are only vaguely understood.

The same is true of the general attitude about quick profits. Most will say they are willing to bank on longer-term profitability, but don't seem to comprehend what that implies in an industrial setting. To them, long term is six months, not three-to-five years.

Parallel to this is the conception of profit. A long-time professional colleague of the author recited the story of his explaining the operations and profitability of a certain American company cited in an article. His Bengali discussants were particularly interested in the 20% net profit of the firm. My friend, thinking they were impressed by that high return, was surprised that their reaction was exactly the opposite. They said they would not undertake such a venture unless they were able to anticipate a net profit of 200%, which was what they were used to in trading.[4] Such attitudes and perceptions change slowly.

Industry is more prestigious than commerce, a factor that attracts many in a society where the ordinary businessman is not held in high regard. Many of the transition types speak of thinking of their children's future.

Several who spoke to the author expressed a patriotic motivation, saying that industrial development would be more important to Bangladesh's future than commerce and trading. This was usually stated almost shyly or hesitantly, as if they felt they wouldn't be believed. Yet they appeared quite sincere.

The widely held reputation of business people in Bangladesh is that they are aggressive slickers out to make a fast buck in any way possible, usually at the expense of others. They are regarded as exploiters rather than builders. There is certainly a rich tradition in South Asian society to support such an impression. One does not have to look far in Dhaka or Chittagong to identify types that roughly fit that description in one way or another. In the preparation of this study they were not unnoticed.

However, the author was mildly surprised at the high quality of owner/managers he met. Most did not fit that unsavory popular image. There were people who were sincerely proud of turning out a quality product, treating their employees relatively well, being fair with their customers, and fulfilling their obligations. They gave the impression of being aggressive and accustomed to sharp dealing, but not utterly ruthless. Most would be considered quality people in almost any setting.

It may be interesting to note for the reader that these "model" businessmen come from such disparate fields as steel, vegetable oil, tanning and leather products, private banking, rubber products, food processing, investments, advertising, shrimp raising, jute, textiles, shipbreaking, and road construction, among others. Snippets of their stories and frustrations will be interspersed (though largely unattributed) throughout this and later sections of the study.

Purchase of a divested enterprise can be a good deal, despite the acknowledged burdens stated above. For an entrepreneur making an initial entry into an industrial field or as an established industrialist diversifying or adding to his holdings, there is a definite advantage to obtaining an existing physical plant and equipment, developed land and utilities, a relatively experienced staff, and an established customer list. For the neophyte, especially, it is better than starting from scratch, despite what problems might exist.

This holds true only if the business has not been run completely into the ground under state management or the price set so high that it is absolutely unattractive. As a matter of fact, several former owners, who were originally interested in getting their property back were so disenchanted by the inflated price that they decided against it. Regular buyers have become similarly discouraged.

This is a common occurrence in LDCs where government auditors, fearful of being accused of "giving away the country's patrimony" to the wealthy, overvalue the assets and set the sale price too high. In Bangladesh, the business community frequently states that the bureaucracy has set the selling prices high to discourage divestiture or to financially burden the buyers to such an extent that they will default or fail, or both.

These and other practices have led to a number of bad effects from some divestiture transactions. As has been mentioned earlier, high selling prices and inflation have meant that some buyers purchased state enterprises with no intention of paying off the loans. They essentially obtained the enterprise for the 20-25% down payment and made money by reinvesting the loan money.

In certain instances the money has changed hands so often or the enterprise resold several times so that it is virtually impossible to trace the funds and the obligations. It is easy to launder the money, since the government makes no more than a token effort to monitor firms after divestiture, other than direct collection on the original loan.

Some speculators bought the enterprise because of the value of the land. Others stripped the company of its assets. This has been particularly true in the jute industry. While it is an ailing industry, there is a lot of money to be made in jute. Huge sums of cash flow in and out. Some owners pocketed the cash while letting the business itself descend into ruin. Seven jute mills have failed for this and other reasons, and several others are on the verge of collapse. Because jute is, for better or worse, the country's leading earner of foreign exchange and employer of the largest number of workers, the government will bail out ailing firms up to a point, and may be forced to take some back eventually.

Usually, the blame for such practices is attributed to unscrupulous private profiteers; but the government is also culpable in several ways, particularly in managing the divestiture system in such a way that it made such practices and results inevitable. Collusion between public servants and buyers in such cases is widely known, and will be touched upon in a later chapter dealing with the performance of the public sector.

Non-repayment of debts is a national malaise that threatens economic progress. The World Bank places it as the number one obstacle to industrial development. It is undermining more than just the jute mill purchases. It is undermining confidence in the financial sector and adversely affecting possibilities for further investment.

Generally speaking, the several major chambers of commerce and trade associations have not done the job they should have in setting and policing ethical and professional standards for their members. Such organizations have mainly been concerned with playing an advocacy role for business in its relations with the government, and have tended to represent powerful business interests who are already well connected with the political elite.

There is no chamber of commerce that represents the interests of the small and medium enterprises that represent the greatest number of firms and the greatest potential for growth.

Such a void needs to be filled, though the idea for such a federation of small and medium enterprises will not be well received by government or established business elites.

The main thrust of the random remarks about the business community is to point out the new blood and new vitality that has come into the industrial sector in recent years. There is much more varied economic activity now, and almost all of it is emanating from the private sector. There is no question that much of this vitality and varied activity is due to the privatization policy of the government. This is true in two major respects, among others. First, there has been the reappearance in the private sector of over 1,000 privatized firms, 600 of them in the industrial sector. That is a significant percentage of the modern sector in an economy like Bangladesh's.

Second, the divestitures and related incentives to the private sector incorporated in NIP-'82 and IP-'86 have stimulated private investment. The one contributed to the confidence that engendered positive results from the second. They are inseparably linked and represent privatization of the economy in the most meaningful sense of the term.

One final and general point should be made about the business community before passing on to somewhat more specific subjects. Because of our preoccupation in this study with the industrial/manufacturing sector, we may not have made it clear that outside of industry (approximately 12% of GDP and 8% of the labor force) large segments of the Bangladesh economy are almost completely dominated by the private sector. These areas include agriculture (90% of labor force of 14 million), construction (100% of 600-800,000 workers), transportation (25% of 500,000 employees, but 85% of road and water transport), trade (almost 100% of one million workers), finance (75% of 400,000 people), and professional services (virtually 100% of 1.5 to 2 million).[5] From these figures, one should not, however, get the impression that the industrial sector is insignificant, because it is not. The industrial sector possesses the greatest potential for economic growth, employment creation and income generation.

Included in the parts of the economy which we cannot give more than passing notice is the so-called "unofficial economy," that is the "black market" that some observers believe involves more than 50% of the economic life of Bangladesh. The largest portion of this market is involved with smuggling across the Indian border. Although it operates outside the normal official economic channels, it affects them mightily. It is, in a sense, the ultimate privatization sphere. The government has virtually no control over it as an institution, although individual bureaucrats are intimately involved in its affairs.

It is difficult to see how the Bangladesh economy can achieve rational progress until the government adjusts its policies and practices in ways that will make the unofficial economy less attractive than the official one. It is obvious that the black market will remain a powerful force in the

Bangladesh economy for the foreseeable future. Enormous activity and resources are involved that are not being channelled into the more inflexible "official" economy. It is widely rumored that the government is ready to grant amnesty for "black money" that is used for investment in priority industrial areas of the regular economy.

Interaction with the government and the public enterprises

Much has already been said throughout the study on the interaction between the public and private sectors. More will be covered in the next chapter which is concerned with the performance of the public sector. Here we will concern ourselves with only a few major aspects of the relationship.

The private sector is generally pleased with the general thrust of government economic policy in recent years. What had been an anti-private sector stance during the Mujib period has gradually evolved into a policy framework that, on paper at least, encourages private sector development. Most of the discriminatory policies have been rescinded or revised. Incentives for private sector investment have increased, and barriers to participation in all but a few fields have been removed. There has even been a start at liberalization of the regulatory environment, although there are still impediments that frustrate businessmen, particularly in the area of import restrictions and regulations.

The private sector's concerns and problems have shifted from policy to implementation. What looks great on paper has a way of turning out to be something less than that in practice. The gap between policy and implementation, between rhetoric and action, is enormous.

The degree of bureaucratic lethargy, ineptness, obstructionism, red tape, and downright venality that exists in Bangladesh must be seen to be believed. The author has not seen its equal in thirty years of dealings in Asian affairs. Bangladesh businessmen must deal with it on a daily basis Indeed, they are part of it.

Some of the public service obstructionism stems from distrust of or disdain for the private sector. Other bureaucrats resent loss of power and opportunities for illicit money making as the public sector has shrunk and private sector activity increased.

Some very large and lucrative empires were broken up by divestiture and other liberalization programs. For example, numerous businessmen have commented on how difficult it is to deal on even minor items with the office of the Director General of Industries since that bureau lost its powerful sanctioning power and control over more than 400 small state enterprises.

There is a general feeling among foreign and local businessmen that the situation in regard to official corruption and required bribes is getting worse, not better.[6] There is a story going around Dhaka that a businessman wanted to start a small venture in a field that no longer required a sanction or license. Just to be on the safe side, however, he checked with the office he had always dealt with. They both agreed that a license was technically no longer required. But unsure of his position in the more liberalized atmosphere, he got the old form anyway, and paid the usual "expediting fee."

Lest anyone get the wrong impression, let us emphatically state that while increased private sector activity may be leading to more bribes for obtaining licenses, this is small pickings in comparison to the enormous corruption that takes place when the government runs an enterprise and the bureaucracy is, as they used to say, "controlling the heights." Things must be kept in perspective.

What is going to follow is a series of vignettes drawn from the case studies of privatized companies gathered for this study. For lack of a better term, we shall label them "incidents." The particular incidents selected here demonstrate the types of problems divested firms encounter in their necessary dealings with the government. They are typical, not exceptional. In some cases, they are directly related to the special circumstances of divested units. Some incidents, however, could have happened to any private enterprise operating in the Bangladesh environment.

Incident #1: In many instances, the problem is not deliberate obstructionism or venality, but ignorance. A Chittagong garment company imported some materials related to the manufacture of shirts. Since the company was in the Export Processing Zone and under the Bonded Warehouse Scheme, the materials were approved for importation without duty. The local customs officer, apparently unaware of these regulations, seized the shipment and held it for payment of duty. He did not accept the arguments of the manufacturer. At first, the supposition was that the customs official was really jockeying for a payoff; but it became apparent that he sincerely believed that duty was due. He just wasn't current on the regulations. Finally, after four months of fruitless argument, the manufacturer got the Minister of Industries to personally intervene with the customs officer's superiors. Import duty was waived, as it should have been in the first instance. In the meantime, the manufacturer had literally lost his shirt. But he wasn't through yet. After he received his shipment, he received a bill for four months' demurrage.

Incident #2. The manager of a privatized steel rerolling mill informed the marketing manager of the enormous government-owned Chittagong Steel Mill that he had happened to run onto a buyer for a large inventory of metal ingots that had been sitting unsold in the government mill's yard for a long time. The private mill owner proposed a joint sales contract wherein he would take only a reasonable commission for moving the merchandise. Though the government mill could move unsold inventory and be the big gainer in the transaction, the marketing manager turned down the offer with only the explanation that, "I can't do business with you because you are private." Not only does this demonstrate why SOEs lose money, it was done at a time when IP-'86 was specifically recommending public-private sector joint activity. As in case #1, the left hand did not know what the right hand was doing. Additionally, the public mill reflected the commonly held feeling that the private sector is a competitor.

Incident #3: The Minister of Industries, who is concurrently Deputy Prime Minister, personally recounted an instance he encountered recently where the import duties on raw materials for the manufacture of small motors were greater than importing the finished product. As a result, the proposed venture to start a company to manufacture the motors was scrapped. The machines were imported from India, mainly through the black market. Local industry was the loser, and so was the government; because it didn't even collect duty. The Minister said that this was not an isolated case wherein import regulations were directly in conflict with national development goals.

Incident #4: Just after purchasing a nationalized soap manufacturing company, the new owner found out that the government just before the final transfer took place dumped the firm's huge unsold inventory of soap at a fire-sale price at auction. This made it virtually impossible for the new owner to sell his product for six months because of the precipitous flooding of the market by the auction sale. Second, some of the chemicals he was supposed to receive as part of the sale transaction were transferred at the last minute to another stateowned soap factory. Other promised materials and technical manuals disappeared. The government tendency to favor state-owned enterprises is fairly common. The practice is devastating to recently privatized firms which have not had the opportunity to arrange alternate sources of supply or service, which long-time private firms had learned by bitter experience that they must develop. Incidentally, in the case of this particular entrepreneur, he never really recovered from the cash flow crisis created by government unfair practices and irregularities at the critical point of launching the privatized venture.

Incident #5: During negotiations between USAID and the Ministry of Labor and Manpower over a multi-million dollar management training program, the Ministry noted that 60% of the funds were destined for training in the public sector and 40% for the private sector. The Ministry said they could not be responsible for the portion provided to the private sector, despite being shown precedents. The issue was evidently resolved eventually, but the point is that the government bureau responsible for the nation's manpower development failed to see the role of government in promoting development through the private sector. They refused to see the partnership aspect. They were only interested in their own bailiwick, the public sector.

Incident #6: The government sold one of the chemical plants under BCIC, telling the buyer he would have virtual monopoly in that particular area of the chemical business. The supposition was that the unprofitability and inefficiency could be turned around under more dynamic private management. Almost immediately after the transfer, the government started construction on a similar plant with new, up-to-date equipment. The inference was that the government wanted to get rid of a "dog." The parallel thought was that considerable side money would be made out of the construction and purchase contracts on the new plant, which was not expected to be profitable anyway. With overcrowding of a limited, market neither enterprise has any reasonable potential for profit.

Incident #7: An entrepreneur bought a cold storage plant from the government, but didn't get title. In the meantime, the government allowed unlimited investment in the cold storage field. Plants mushroomed everywhere (the so-called "herd behavior").[7] As a consequence, when the original purchaser finally got title, the field was overcrowded, few were making money, and cold storage was put on the "discouraged" list of industries.

Incident #8: This is actually a composite of several "incidents," reported here because it is a universal complaint: the inordinate amount of time it takes to get any kind of approval out of the government, and particularly the time consumed by the loan approval process. A privatized food processing company related a horror story that he waited two years to get a crucial plant improvement loan only to be told by BSRS that even though the loan was approved, the bank had no money, and he must wait an estimated two years more before he could expect funding. Businesses and business opportunities cannot wait four years. Therefore, he went to a foreign commercial bank and received the loan within three weeks, based on his excellent credit record (though he had to pay a higher rate of interest).

A trade association reports that its members wait 2-3 years for approvals, while faltering SOEs, with abysmal repayment records get quick loan service. The list is endless. A study conducted by scholars favorable to the state enterprise system still had to concede that less than 50% of the sanctioned projects were funded within three years.[8] The World Bank puts the figure at 50 months between application and production, with 12 months for the banking decision, 23 months for importing equipment and 15 months for other start-up procedures.[9]

Incident #9: This is another composite item. Almost without exception, privatized firms inherited old equipment that had been poorly maintained, requiring major rehabilitation or replacement. In few instances had the government purchased new equipment during the period of nationalized operation. In cases where equipment had been updated, the government had a far greater tendency to keep those plants.

In one case, a privatized rubber products company found in going through the records that just before being nationalized in 1971, the original owners had purchased an expensive mixing machine. It was still in the dock warehouse 15 years later! It had rested there during the entire nationalized period. Amazingly, it was put into operating order with minimum problems (except taking possession).

Incident #10: Vegetable oil processing and distribution is a major industry in Bangladesh. Most SOEs of this type have been privatized. One of the most respected private owners commented on government importing in the vegetable oil business that has directly affected his privatized (formerly "abandoned") firm. The table below was written out to demonstrate his point that the government policy was "not very intelligent":

Bangladesh's total requirement for edible oil is	250,000	metric	tons
Locally available	- 15,000	"	"
Leaving	- 235,000	"	"
Produced out of rapeseed, sunflowers and mustard from Canada	- 125,000	"	"
Leaving	- 110,000	"	"
Crude degummed from PL480	- 80,000	"	"
Leaving	30,000	"	"

The 30,000 MT is the amount that should have been imported to meet requirements. Instead, the government imported indiscriminately a total of 180,000 tons of palm oil in 1985(?). The flooding of the market forced several mills to close down. This also came at a time when the price of palm oil (actually best for industry, but used as edible oil after purification) plummeted from $550/MT in 1985 to $315 in September 1986. When the author checked this out with other informed sources, they verified the accuracy of the figures and his analysis, only adding to what he had not said by intimating that some bureaucrats had made personal gains by this importation policy.

A similar instance where government import policy has directly affected the private sector in an adverse way is in the textile industry. For political reasons, the government imports low quality from the People's Republic of China under the terms of a barter treaty. In 1984, a particular shipment was of such poor quality that it was unsuitable for spinning. While BTMC was forced to take most of the large shipment, great pressure was put on the private mills to accept 10 to 15% of it. Evidently, most of it is still in stock, unused and unsold.

<u>Incident #11</u>: Shortly after divestiture, a number of the mills received past due electrical bills amounting to millions of taka. The unpaid charges related to the period when the mills had been government operated. The public utilities company said presentation of the bills was delayed because of "faulty meter reading." Similar bills were presented to the mills still being publicly run. After prolonged negotiations, the utilities board agreed to substantial reductions. Inconsistent and generally inadequate power supply is still a major problem, however.[10]

Stories similar to the 11 cited above are endless and varied. The ones referred to here are merely illustrative. They only represent a sampling of cases with which the author became familiar through a normal interview process. They were not specifically sought out as "worst case" examples.

Discussing and analyzing the public-private relationship can, like the citing of examples, go on endlessly. Striving to avoid that, we will bring this section to a close by touching on one of the more paradoxical aspects of the relationship.

The business community is ambivalent about the government. On the one hand it distrusts the government and is constantly frustrated by the bureaucracy. On the other hand, the private sector constantly looks to the public sector for guidance and support.

For generations, businessmen in South Asian society (and, for that matter, most other areas of the Third World) have depended on royal or governmental patronage. Even today, the Bangladesh business community is strangely uneasy and unsure of itself under the more liberal regulatory environment. The weaning process can be painful and prolonged. Bangladesh's business community is not unique in this respect. Sustained growth and success will increase confidence, particularly if political stability and consistent policies continue.

Some will say that the mendicant attitude is due to a propensity of the private sector to use government funds for financing expansion, while risking as little as possible of their own capital, and combined with a tendency to view "profits as theirs and losses as the banks' or the government's."[11]

There is more than a little truth in that sentiment. Experience elsewhere has demonstrated that such an ambivalent attitude can be ameliorated once both parties consistently act in ways that foster greater mutual trust and cooperation.

The volatile labor question - the dilemma of unemployment in a very poor country

Organized labor in Bangladesh has declared war on privatization. Every time privatization raises its head above the trench, labor starts sniping and, if the threat of privatization persists, calls out the troops for a direct frontal attack. Most recently, a general strike was called for April 28, 1987, in protest against the government's privatization policy.[12]

The issue is, of course, the fear of loss of jobs if a divested enterprise believes that to increase efficiency and profitability it must reduce personnel. That specter is constantly raised by unions to their public service members at the first hint of privatization of a particular state enterprise. Partly, this is recognition of the fact that SOEs are overstaffed, with an inordinately high percentage of unproductive workers.

Any worker will fight when he thinks his job is threatened. In a country like Bangladesh, the resistance is understandably stronger, because unemployment can mean abject poverty, even starvation for the family. Unemployment also means loss of union members and loss of power for the leaders of the rough and tumble labor movement. Privatization is a perfect target.

Reliable statistics are generally difficult to come by in Bangladesh. In the field of labor, they are impossible. Reports are fragmentary, frequently conflicting, and usually self-serving. Despite the uproar over the supposed relationship of privatization and termination of employees, there is very little published material on actually how many people have been laid off or employed as the direct result of privatization. One early piece (mid-1984) by Rehman Sobhan is somewhat useful, but flawed by bias and questionable data.[13]

An example of the confusion appeared in two press reports appearing in Dhaka papers on February 18, 1987. The accounts both quoted the Minister of Jute as saying that employment in the jute industry has declined from 176,972 to 143,349, or a loss of 33,623 jobs; but they differed in major respects. The _Bangladesh Times_ said those figures reflected employment reduction in privatized mills from "before denationalization" (1981) to the present. The _Bangladesh Observer_, however, used the same figures to reflect employment reduction in the _"nationalized"_ jute mills after _liberation_ (1972) to the present. Both papers quoted the Minister as saying that the jute industry had lost Tk621.44 crore (U.S.$205 million) from 1971 to 1987, which is way low. One can guess that the employment figures are also for the overall industry, reflecting reductions in both public and private sectors.

In a recent conversation, the Minister of industries stated that 27,000 jobs had been lost because of privatization across the board; but he did not elaborate on either the source or breakdown of that figure. This seems very high for the modern industrial sector which only totals around 500,000 in employment[14] out of approximately 980,000 in the entire industrial labor force.

The fact is, no one really knows (or is willing to report) the actual situation. It would not serve the interests of the various interest groups to report factually what has actually taken place.

There is no doubt that there have been some reductions in privatized jute and textile mills. Responsible officials with whom the author discussed the situation estimated total reductions as around 10% or slightly higher, but they could not, or would not document that.

The private sector argues that reductions in the mills have been much less and that increases in industrial growth have more than offset them. This is doubtful. The private sector is on firmer ground when they point out that the greatest growth in recent years has been in labor-intensive industries like garment manufacture, where 140,000 jobs have been created in the last three years.[15] Nevertheless, creation of jobs in another industry or another company means little to the man laid off in Bangladesh's labor surplus economy.

Mill owners support their argument about reductions being modest by pointing out how the government still sets the rules of hiring, firing and pay scales. Divestiture agreements, for example, contained a provision that there would be no terminations for one year, and that subsequent reductions must adhere to certain restrictions (which vary considerably). Some employers forced the issue by paying one year's severance pay. Owners are emphatic in stating that it has been practically impossible to terminate more than a few even after the passage of the year because of extreme political and union pressure, and threats of strikes and violence. It should also be noted that there was constant labor trouble in the years preceding denationalization.[16]

They further state that most of the reductions that have taken place have been at the officer and staff levels, replacing unnecessary and incompetent bureaucrats, with almost no reductions of workers.

Private mills were forced to follow when the government gave two 30% pay hikes in recent years in the ailing jute industry. They even had to pay workers when the mills were idle, though they did not offer the 75% of normal wages awarded by SOEs. Nor did they pursue the commercially disastrous course of the public mills of producing at capacity to keep workers on the payroll, even though inventories were building up to extreme levels because of lessening demand.

A 10% total reduction would seem reasonable in view of the fact that several jute and textile mills have gone broke and closed up. In some of those instances, however, the government hired some of the employees.

Further, there has evidently been some shifting of regular employees to casual labor status in private mills. The extent of this practice is not known precisely. It is an important matter, because casual laborers do not receive as many benefits. Private sector companies do not offer employees the fringe benefits accorded by state enterprise.

This aspect is one of the most intensely debated in connection with the 51-49 Plan. The parties have not worked out how the status and benefits of employees will be handled. The employees will, however, be permitted to purchase up to 15% of the stock and have one (of nine) board members.

The employment stock option plan is being resisted in some quarters (the Ministry of Finance and some business leaders), but it is politically attractive. The parallel hope is that workers will begin to think more about the welfare of the company once they have a stake in it, however small.

Because most workers are too poor to buy regular shares, their pension funds, mutual funds, or similar instruments may buy them. The workers could then buy in increments of 100 or 200 taka. The stock buying option is not the ultimate solution, but it is a sound and progressive step forward.

Incidentally, there is almost universal agreement among government and business leaders that unions should not be allowed to buy shares. The author predicts that political realities dictate that ultimately unions will participate in the stockbuying scheme. Unions in Bangladesh are hard to classify.

While in principal they are protecting workers who certainly need someone to look out after their interests, many union leaders are making small fortunes in the process through payoffs. Rumors are prevalent about ties to the underworld.

Back to the question of employment, the enterprises involved in the case studies gathered for this study generally indicate increases in employment after privatization. Incidentally, the enterprises selected for special scrutiny were not all winners. A sincere attempt was made to balance the admittedly small sample between winners and losers.

In three textile mills studied, employment has held even in one, and increased 20% in the other two. In the former, the owners say this actually represents an increase. When they took over, the new owners discovered the presence on the books of a large number of bogus or "ghost" employees, that is, names of people who never existed. The senior civil managers pocketed such salaries, much as Cambodian generals did with nonexistent troops during the war in the early seventies. In addition, the auditors found listed as enterprise employees 2 cooks, 2 bearers, and a gardener, all working at the Managing Director's residence.

Employment is up 14% in one jute mill investigated and down 5% in another. The reduction in the latter was almost all at the officer and staff level.

A food processing company had 150 employees at the time of nationalization, grew to 192 under government operation (while share of the market plummeted), and in three years of private ownership has grown to 257 because of increased business (also use of outside part-time vendor/salesmen has grown three-fold). Total employment will double by mid-1987, with the opening of a second manufacturing plant in a provincial capital.

A leading vegetable oil business found that the number of employees doubled during nationalization. Because of rejuvenated business, the returning management kept almost all of the workers (though there was some shifting of duties);[17] but higher level staff was reduced markedly. The owner/manager says that relations with union leadership are strained, but manageable. The union had fought privatization.

Two metal products firms were analyzed. One showed 108 employees when taken over. This increased to 154 under government management, and was back to 140 in late 1986. The staff is expected to increase significantly in 1987; as electricity has become more dependable, enabling the company to install new equipment to handle increased demand and productive capacity.

The other firm, which operates in a more traditional, "one-man show" fashion, has experienced consistent labor problems and lessening of profits. During three days of intense labor negotiations in mid-1986, labor leaders kidnapped two company officers from the government labor office, took them to the factory and held them (and, reportedly, beat them) for two days until they got what they wanted. No legal action was initiated against the union by either the government or the company.

Other case studies demonstrated a similar pattern of reducing management and staff, but few workers. One chemical company had the unique experience of having the government terminate the entire staff just before transfer to the new owner. He hired 80% of them back because of their experience, though the government tried to divert them to another government enterprise in the same field.

Low productivity is a pressing problem. The work force is largely unskilled. Cheap labor is what the government believes it can sell to foreign investors, but that is a two-edged sword. A Chinese team, imbued with their accustomed work ethic, was appalled and frustrated that the employees of the government maintenance facility they were advising balked at working more than three hours a day.

A Swedish electronics expert made the interesting observation that while it was difficult but possible to train electronics assembly line workers, the real problem was locating, training, and motivating supervisory personnel. The Bangladesh system simply does not develop foremen who are technically competent and who know how to train and supervise workers.

Vocational training is limited and of low quality. The government is financing few training or retraining programs. Bangladesh will be severely hindered in any attempt to improve industrial productivity until this situation is vastly improved.

It is surprising that the top levels of the government turned down applications from Singer and Phillips for plants, because they were contemplating assembly operations rather than manufacture. Bangladesh is not ready for the latter in a major way. Their unrealistic expectations should be tempered by a closer look at the experience of places like Taiwan, Korea, Singapore and Thailand, all of whom were quite willing to build their industrial capacities gradually, relying on labor-intensive assembly operations for a number of years to create jobs, gain experience and increase local capabilities.

The areas where the greatest number of new jobs have been created have been garment manufacture, food processing and pharmaceuticals. The private sector has provided the motivating force, with little or no direct participation from the public sector.

With the enormous influx of landless workers from rural areas into the urban economic maelstrom, it has also been the private sector that has absorbed by far the greatest number of people, mainly through the informal sector of vendors, repair shops and miscellaneous "industrial" subcontractors and micro-enterprises. While many of these workers are still on the edge of disaster, half of Bangladesh's so-called "industrial workforce" is working full or part time in endeavors at this level. This type of economic activity is completely in the private sector.

As we have said throughout this study, one cannot separate privatization from private sector activity. They are inseparably linked.

The traditional tests - management and the bottom line

We are now back at the point at which we started this chapter - the questions of how the privatized enterprises have "performed" in terms of the traditional measuring stick, i.e., profit or loss. As we said before, these are legitimate questions, but they are not the place to start, nor do they provide the ultimate answer. With the path taken to this point, we are aware of the many factors that must be fed into the equation and, therefore, are in a better position to put consideration of the P&L aspect in proper perspective. We can then be better prepared to address the ultimate question: Has privatization been good or bad for Bangladesh's economic development?

The availability and reliability of profit and loss figures for the private sector parallels the situation for employment figures. The government does only a barely adequate job of reporting on its own entities and does little or nothing to monitor and provide information on private enterprise. The tax department is incapable of collecting revenue, much less reporting on private enterprise earnings. The banks are only slightly better.

Therefore, one must rely on Bangladesh's private sector itself, an interested party that has not earned a reputation for openness, or the academic community, which has not been noted for its neutrality. In other words, practically everyone publishing data has an axe to grind.

The main indicator that money is being made by Bangladesh business is that the industrial sector continues to grow at 6-8% per year, almost twice as much in the private sector as in the public sector. Second, private investment continues to show dynamism, if one looks beyond the dismal showing of the development banks and the discouraging record of entrepreneurs in repaying them.

Evidence is clear that there is plenty of money out there (both in the legal and black markets), and it is being invested in an ever-widening pattern of undertakings. Non-traditional export industries are showing the greatest growth, though the private sector's inexperience and shortsighted pursuit of quick profits continue to result in the herd effect and boom and bust.

The profit picture is a mixed bag. Some firms profit more than others because they are better run; but for the most part, companies tend to win or lose according to the fortunes of the particular industry within which they operate. Ready-made garments, steel, shrimp raising, hide exports, and chemicals point in one direction, while jute, textiles and shipbreaking point in the other. Unfortunately, big industries in Bangladesh are troubled industries.

In this atmosphere, the fact of being denationalized or private from the start appears to make only marginal difference after the first few years. It is at this point that the managerial skills of individual firms begin to make a significant difference within the overall limitations of the particular industry. Bangladesh's fledgling industrial sector is only now beginning to emerge from this shake-down stage.

At this stage of Bangladesh's economic development, good management is not the norm. There is a sophisticated old guard, but it is a relatively small group. As the economy grows, the need is for a larger, more professional entrepreneurial/managerial class. This group is only beginning to emerge. It will be a decade before their voices dominate in the chambers of commerce in Dhaka, Khulna and Chittagong. The new class of managers will be more purely Bangladeshi in their outlook and experience than those of earlier eras.

Except in jute, textiles and banking, one finds very little attention given to the performance of divested enterprises, and even there, the analysis is quite general, usually centering rather superficially on a comparison with counterpart entities in the public sector. As one of the best-informed observers of Bangladesh's economy has remarked, "There is no usable performance record on privatized firms."[18]

One early study by Rehman Sobhan and Ahmad Ahsan[19] made an attempt to evaluate the production, marketing and profitability of a cross section of privatized firms. Like most of Sobhan's work on nationalization and privatization, it is commendable as a pioneering effort, but is flawed by the author's bias and selective use of data.

Rehman Sobhan was one of the four principal Planning Commission framers of the nationalization policy in 1971-72, and he has been preaching the gospel sincerely ever since. Anyone who studies Bangladesh's economic development is in debt to Sobhan. It may be that he suffers the curse of the first scholar to study any complex subject. Others, probing more deeply and widely, will later detect flaws in his earlier work.

In Rehman Sobhan's case, there is something more to consider. The composite opinion of several analysts and government officials is that while a reader should be aware of Sobhan's bias and must question his data and analysis, his writings give more insight into what was going on and being said in policy circles in the seventies than any other scholar's work.

Sobhan's paper on the private sector performance is less admirable, but still useful. He tried to evaluate the process too soon after the event, telegraphed his position, accepted questionable government data without questioning, neglected the experience of other countries, and, after saying he did not have sufficient data on which to base conclusions, went right ahead and drew conclusions anyway. This was not difficult in his case because he had already concluded that there was nothing to support the concept that the private sector was more efficient and profitable than the public sector other than the faith of the true believers.

Sobhan's sample was in the neighborhood of 40-45 firms, depending on the particular question being asked. We will only touch on the highlights of his findings for illustrative purposes. His data were drawn almost completely from government sources.

With regard to production, the paper found 19 companies with increased production after privatization, 11 that showed a drop off and 5 that closed down. The data also suggested that a number of firms discontinued some product lines and concentrated on a narrower range of products. Former BSFIC units seem to have fared the best, but those out of BCIC and BSEC did less well. This is interesting because metal and chemicals have done relatively well subsequently.

Twenty-nine firms increased their sales after privatization and 9 showed a decrease. Former BCIC units apparently did well here.

The picture was more complicated with regard to P&L. The sample was smaller (24 units). Four enterprises turned losses to profits, 2 increased profits and 2 decreased losses. According to their figures, however, 4 turned profits into losses, 7 raised the level of losses, and 5 went out of business. Former BCIC fared better than BSFIC and BSEC firms.

Three things should be noted about these figures. First, Sobhan accepted, apparently without question, the government's estimates of profit and loss of the units when they were in the public sector and afterwards. As we have seen earlier, government methods for determining and reporting "profit" are highly questionable.

Second, all of the P&L estimates were drawn from units divested only 18-24 months prior to the publishing of the paper. They were in transition, short of cash, rehabilitating worn-out equipment, and burdened with debts. Third, private sector representatives with whom Sobhan's paper was discussed in late 1986, felt that not only was the research done too soon after divestiture, but the years chosen were particularly turbulent and that severe electrical shortages profoundly affected industrial production and profitability.

Bearing all these things in mind, one can come away from Sobhan's paper with a far different evaluation than its author intended. Considering the circumstances, the record is not bad at all. In fact, it presents a mildly encouraging picture at that early stage. A very wise "old hand" in the country once told the author, "Be content with small gains in Bangladesh."[20] He was right.

Rehman Sobhan says his findings show clearly that "private ownership does not automatically lead to improved financial performance." Of course it doesn't; but few claim that it does. Privatization is untidy business with few short-term victories. Failures (like the 5 in Sobhan's piece) are expected, and certainly predictable in a troubled economy like Bangladesh's. They are, in the long run, healthier than failing state enterprises kept from complete collapse by constant subsidy and bailing out by an already-strained public treasury.

Using a sample less than half the size of Solihan's, but drawn completely from sources in the private sector, the present study came up with different results. P&L were hard to come by, and were at times estimated in percentage of increase or decrease rather than absolute figures. Asking for information that way increased chances for getting something useful.

The cotton mills were divided. Production was up in all three, varying from 15 to 30 to 50%. Production costs increased, but averaged only 20%. Sales were up 10-15%, but in one they fell sharply. The mill closed down for three months. One large mill made only 500,000 taka profit; the others made a net profit of 5 million each. All three commented on how the black market trade in textiles is severely hurting their business.

One jute mill showed an increase of 8.4% in production, a drop of 6.5% in production costs, a sales increase of 44%, but still reported a loss (though an improvement over the previous year). The other mill did poorly in almost all respects as a company, though money appeared to be made out of the business.

One food processing company had a big jump in production in a growing industry, and a drop in production costs due to new equipment. Sales were up 12%. There was no major change in profit, primarily because of a substantial hike in taxes.

The vegetable oil industry is hard to gauge because of extreme fluctuations in price. The case study showed a 10% increase in production and profit.

A tannery indicated increases across the board between 1983 and 1984, but a sharp drop-off in 1985. Net profit was 16% of sales in 1983, 16.5% in 1984, and 13% in 1984 on a much reduced volume.

A metal products company reported a 25% increase in production, a 40% increase in line production costs, a 20% boost in sales and a doubling of profit. A second metals firm reported losses, citing labor costs and one big loss on a ship breaking deal. Nevertheless, it is doubtful that this complex of companies ended up losing money for the owner. This finding cannot be documented.

A chemical company continued its downward trend. It is doubtful that the principal arm of the company can survive much longer. Other companies in this field are profitable. The answer here appears to be poor management (the owner has an American MBA), plus a rocky start because of misunderstandings with the government. The company was never able to recover.

A rubber products firm is under new management. It is too soon to quote figures, but the outlook is quite bright for product line diversification, efficient management, and aggressive marketing.

Other firms in the sample did not provide sufficiently precise financial data on which to base profit estimates, though discussions with them were very useful in gaining insights into operating problems, relations with the government, etc.

Jute and textiles

The biggest controversy and largest sums of money are connected with the privatization of the 33 jute mills and 27 textile mills as the principal act of the New Industrial Policy of June 1982. The pros and cons of that move are still at the center of the debate over privatization. The arguments and the figures are partisan.

For example, the Metropolitan Chamber of Commerce states,

> Denationalisation of Jute Mills has not failed. On the contrary, it yielded substantial benefit to the jute industry. Productivity per loom has increased, cost of production per ton has declined and communication with overseas buyers has improved. The average annual production of denationalised jute mills went up from 148,000 MT during the nationalisation period to 177,000 MT in the denationalisation period indicating an increase of over 19%. During the last three years (1983-86), the output per loom in operation in denationalised jute mills was 22.84 MT whereas in nationalised jute mills it was 20.32 MT. It indicates that loom productivity in denationalised mills was 12.40% higher compared to nationalised mills. During the first nine months of 1985-86, denationalised jute mills incurred a loss of Tk.3,369 per MT of production compared to Tk.5527 loss per MT of production incurred by the nationalised mills. That is, in nationalised mills the loss per MT of production was 64% higher compared to denationalised mills.[21]

They further advance the pro-privatization case by pointing out certain historical and operational aspects of the question.

> The record shows that 34 denationalised mills incurred a loss of Tk. 156 crore during nationalised period 1972-82 and government made a total cash infusion of over Tk.204 crore to these mills during the period, out of which BJMC repaid to BSB and BSRS just over Tk.85 crore. After denationalisation, the private mills worry about liquidity, but the public sector mills still get cash infusion from the Government; as recently as in May 26, 1986, Bangladesh Bank directed commercial banks to advance a sum of up to Tk.60 crore to the public sector mills to meet all their expenses

> during May and June irrespective of whether the mills have drawing power, but such facilities were refused to private mills.
>
> While appreciating the better performance of the denationalised mills it should, however, be kept in mind that operational freedom of these private sector mills was controlled, firstly by the provision of Jute Goods Trading Order 1982 and then again wage hikes were imposed ignoring the legal provisions. What is more important to note is the fact that these mills although perform better than the public mills are still making huge losses because of international market factors. Because of stiff competition from substitutes and ever rising domestic cost of production, the future of this industry also seems to be rather bleak. It is in the above perspective, that the private sector mills' escalated loan liabilities have to be seen. Unlike the public sector mills, private sector mills do not have assured financial backing of the public exchequer.[22]

The remainder of the argument centers around controversy over various aspects of the indebtedness question.

The Bangladesh Jute Mill Association claims that the 33 public sector mills lost Tk315 crore (US$10.4 million) from 1982 to March 1986, while 36 privatized mills lost only Tk135 crore (US$3.3 million), even though the SOEs enjoyed a monopoly in barter and counter trade sales and financial support from the government.[23]

Few deny that the private mills are sustaining smaller losses than the government mills, but anti-privatization, pro-government forces say this has happened because of price cutting and other unscrupulous practices, while the government mills have exercised greater restraint while serving the whole society. The government argument seems to be that price flexibility is unfair. It has been observed that jute mills only made "profits" in Pakistan days because of subsidies and export bonus schemes. The jute industry will always require propping up to break even consistently. We will return to these operational aspects in the next chapter. For now we are preoccupied with only profit and loss.

Chishty, in his landmark paper on privatization, noted that the 27 denationalized mills demonstrated a 10% improvement in production during their first year as private companies again.[24] Those mills earned a net profit of Tk55.23 million (US$2.24 million) in 1983, whereas they had lost Tk114.185 (US$5.16 million) in 1982 under state operation, for a total turnaround of Tk169,395 (US$6.88 million). He added that in fairness to the government, 1983 was one of the few good years for jute internationally.[25] Nevertheless, it was an encouraging performance, especially considering the transition problems mentioned above. The mills that remained in the public sector also improved. In 1984 the U.S. Embassy Commercial section mentioned that BJMC mills were working on a 4-6 month backlog, while private mills were keeping up to date on orders.[26]

The U.S. Embassy reported in 1984-85 that denationalized textile mills "seem to have performed even better than the private jute mills." Cotton textile production was up 20% in the privatized mills. The same mills showed a net profit of Tk400 million (US$16.25 million) in the first year of private operation, after having lost Tk 130 million (US$5.9 million) in public hands the year before, an overall turnaround of

US$22.15.[27] The Ministry of Industries announced similar figures.[28]

That pace did not keep up. The textile industry has experienced difficulties the last 2-3 years. The record has been spotty. Some mills have prospered, but 5 have gone out of business. The private mills have tended to do better than the public mills, even though the latter are generally larger, with more modern equipment; but the difference in performance has not been remarkable. Competition from black market Indian mills smuggled in through the pervasive "unofficial economy" seriously threatens this industry, which imports materials and is aimed at the impoverished domestic market, in contrast to the booming ready-made garment industry, which is export oriented.

Uttara Bank and Pubali Bank, the third and fourth largest of the six nationalized commercial banks, were privatized in 1983-84. Neither has done well. Nevertheless, the government is now (mid-1987) privatizing the most successful of the four remaining NCBs, but the stock sale is not going as well as expected.

Bangladesh's privatization effort has been overwhelmingly concerned with divestiture of industrial SOEs. One of the more successful privatization programs, however, has been in retail and wholesale distribution connected with agriculture. Also, it has not involved any divestiture transactions. Rather, it has been involved in gradually building up a private sector sales and marketing network for fertilizer to replace a government operation that has been marginalized or, one could say, "quietly liquidated."

Besides privatizing distribution, USAID's project has improved extension services to farmers through the new private dealer network, and has had beneficial effects on dereulating prices, decreasing subsidies, and generally creating a more vibrant and efficient competitive market milieu. The fertilizer project has been very successful and is being copied in other LDCs.[29]

USAID's fertilizer distribution project represents privatization in its most effective form. It has replaced a government operation with a solidly private sector activity. This was not done overnight in one compulsive spurt like the denationalization of 33 jute mills and 27 textile mills. It has evolved over 9 years of careful planning and gradual implementation, step-by-step. The politically sensitive aspects of the program have been met quietly but effectively.

Much has been written about this project, so there is no need to document its progress and accomplishments here. The basic framework of the program has been briefly dealt with in an earlier section of the present study. In this chapter, the task is to analyze performance. Therefore, we will touch upon a few of the highlights of the program:

- More fertilizer is being sold
- Fertilizer use by farmers is up
- Distribution is speedier and more efficient

- The price of fertilizer has gone up, but tolerably so, mainly because of competition
- Nationwide distribution is more even, though there are still problems in regard to more remote areas
- Extension services and technical assistance superior to what was provided by the government are now available through the private dealer network
- The government agency (BADC) is beginning to assume the role of monitoring, quality control, training and general marketing advice, besides still controlling production.
- More people are employed in the fertilizer industry than before

There are, of course, many more facets to this immense and complex project. It is included here to indicate that there are many roads to privatization, and most of them do not involve divestiture.

If, as the Third Five-Year Plan (1985-90) indicates, "more emphasis will be given for promotion of agro-based rural industries and consumer industries,"[30] the approach of the fertilizer distribution project could be a useful model. It is positive in that it involves building a private sector capability, not just unloading a public sector failure.

Few phases of the business of privatization can be called "win-win" situations, but this project is about as close as one can get to it in Bangladesh. Policy levels of the government have accepted its basic purposes, and the bureaucracy is gradually accepting the inevitable.

Chapter VII

PRIVATIZATION - THE PUBLIC SECTOR'S PERFORMANCE

One cannot help but approach evaluation of the Bangladesh government's privatization effort with ambivalence.

One the one hand, the sheer number of privatized enterprises involved is impressive, even remarkable. No other country has divested more than a thousand state-owned enterprises.

Further, it is arguable that the privatization policy and related regulatory liberalization have cumulatively had a beneficial effect on industrial growth and have encouraged private investment.

At the same time, however, the thoughful observer, once he penetrates beyond the glitter of the statistics and the clarion call of the rhetoric, is at first disappointed and ultimately dismayed. He finds that there is more sound and fury than substance to the policy statements, that they were frequently hastily, almost compulsively arrived at, then foisted upon the economy without planning or sufficient attention to the practical implications of the high-sounding development strategies they embodied.

The ultimate frustration comes with full realization of the extent of the gap between policy and implementation. Shafiul Azam and Shamsul Haque, Chisty have called the privatization policy "a bold stroke"[1] - and it was. But its effectiveness has been blunted, even thwarted, by inconsistency and lack of commitment at political levels, a suffocating regulatory environment, and obstructionism, incompetence, and downright venality from the bureaucracy.

When all of these official failings, plus the machinations of a militant opposition, are dumped on top of Bangladesh's horrendous economic problems, it is amazing that privatization is still around at all. The fact that it has already made modest contributions to Bangladsh's economic development, and still retains the potential for even greater advances, is testimony to the soundness of the concept in the Bangladesh context.

Considerable attention has been given throughout this study to various aspects of the government's promulgation and handling of privatization. Therefore, this chapter will essentially be a recapitulation with some new material plus commentary.

Politics and the decision-making process

The battle over privatization is usually fought more on political than economic grounds. That has certainly been the case in Bangladesh. Only a few diehards would recommend returning to a full-scale nationalization similar to 1971-1975. Even the professional oppositionists of the Awami League do not propose doing that, though they would renationalize some industries. It was, after all, the unfulfilled expectations of the disastrous experiment with a state-run economy that contributed to their downfall. Rehaman Sobhan continues to fly the socialist flag, but his highly ideological arguments seem to hinge more on what is good or bad for the institution of socialism, as such, rather than what is good or bad for the economy, the people, and the country.[2] For the most part, governmental shifts to privatization have been based on pragmatism not ideology in Bangladesh and other LDCs.

There were practical reasons for bringing the abandoned properties under the government umbrella in 1972, but it has been difficult for even nationalization's most ardent supporters to rationalize the extra step to assume control of Bangladeshi-owned mills and businesses as well. It didn't make economic sense, and it was an administrative nightmare for an already overburdened bureaucracy to take on this extra burden. It was, however, ideologically satisfying to the inner core of the Planning Commission.

There was a different set of practical reasons for making the break in 1975 and starting the privatization process. The main one was that the enormous public enterprise system was floundering and losing money in large amounts.

Second, the political leadership came to believe that the best chance for reducing the growing public debt and promoting growth would be to assign a larger role in economic development to the private sector. The leadership was generally aware that other Asian lands that had opted for the private sector approach were doing remarkably well.

The present Deputy Prime Minister, Moudud Ahmed, who also holds the Ministry of Industries portfolio, recently provided the following "overview" of the country's industrial policy since independence. An unedited version of his statements read as follows:

> . . . let us divide the period into 4 periods from 1972-75 when in the name of socialist transformation, we actually had a system by which we had nationalised 85% of our industries, banks and insurance companies, and without any planning, without having a socialist party in power, without having socialist cadres, without having a socialist bureaucracy they wanted to have a socialist transformation which was self-contradictory in its exercise. And that's why that had failed and we have seen what mismanagement, waste and corruption had taken place during that period. It was the people, not the politicians who were sincere to see that the country have a people-oriented economic system but they did not have the planning nor had they the correct conviction, nor they had the party or leadership to really implement that kind of economy. So, in the process what really happened was a shame. In the process, our economy really collapsed during those years.
>
> Then from 1976-1982 there was a period where some liberal attitude was taken. The process was the reverse but not with a total conviction - they also suffered from indecision about what to do and what not to do. But it was better; it started thinking about revitalising the economy.
>
> Then in 1982, we had the new industrial policy after the present government took over and then this policy was a bold policy in order to reverse the earlier policy which was adopted in 1972. So, a massive denationalisation took place, industrial entrepreneurship was given due recognition. Bangladeshis, who owned industries and whose industries were nationalised, were given back to them. The process of privatisation was accelerated and it had achieved the desired goal, reversing the policy.
>
> Now we have a new policy after 4 years of this phase and the whole industrial policy which has come into effect from July this year was a one-step-forward. This is now a policy of consolidation of the privatisation of our

> industries, of our capital, of our growth, and accelerating the industrialization of the country. . . . This policy period will be a policy of acceleration and consolidation - of the policy that was adopted in 1982. . . . Some of the main features of this policy are: there will be a balanced growth between public and private sectors; . . . we want to see a rapid growth of (the) private sector in this country. So, the people who benefitted by way of denationalisation, by way of purchasing, acquiring new industries or shares in industries in (the) last 4 1/2 years would be now expected to come forward and go for further investment.[3]

The DPM's remarks are intriguing, both for their candor about predecessor regimes and for their lack of introspection, for much of what Moudud leveled against the Mujib and Zia regimes - mismanagement, corruption, no planning, lack of conviction, not knowing what to do - could be said of the ERshad government as well.

As we have seen from the recitation of newspaper clips in the last chapter, and from other material throughout the study, consistency has not been a hallmark of the Bangladesh government's privatization policy. The Ershad government, more than the others, has shifted course, vacillated, plunged forward, or pulled back in the face of opposition (particularly from organized labor) on innumerable occasions.

The government's performance gives one the impression that its leaders have never really figured out what they want from the policy, other than a pious wish for a "strong private sector" or a "mixed economy." It is doubtful that the government has pondered over what is really entailed in developing a vibrant, market-driven economy. It is also questionable if public administrators who have presided over a failing public enterprise system can make sounder decisions in a free market than private entrepreneurs. Bureaucrats are usually more concerned with processes than profits.

One sees little evidence of specific goals and targets that were to be met in carefully planned stages. It was as if once the policy was on paper and promulgated the government thought that was all there was to it, especially since the enacting document had been assembled like a shopping list to include every conceivable possibility.

Little attention seems to have been devoted to planning and little thought given to the implications of the policy, the obstacles it would certainly face, the new problems it would inevitably create, and the follow-up and countermeasures that would be required. In addition, the interrelatedness of policies and problem areas does not appear to have been taken into account. As a consequence, sound ideas and good policies have been put in jeopardy more than necessary.

For example, the major step in the entire privatization effort has been the return of 33 jute mills to former owners. This was an enormously complex and sensitive venture. Jute is Bangladesh's major economic activity, even though it is a dying industry. The largest plants and payrolls are in jute. The state-run mills are losing money.

One of the problems had been the inflexibility of the government pricing system. Its only redeeming feature was that the industry had been able to speak to the interrational market with a single voice through the BJMC. After privatization, foreign buyers could seek the best price from 34 sellers (the BJMC and the 33 now independent mills). What had been overly rigid became chaos. Bangladeshi was fighting Bangladshi, and everyone suffered.

If it had merely been a case of free market forces determining price, the situation would have been tolerable, even desirable. But when the mills were privatized, the settlements forced upon the buyers (if they wanted their mills back) led to all kinds of unfortunate fallout. Most buyers felt they could never get out from under the obligations imposed upon them. Some, therefore, were willing to sell, at any price, just to generate cash, even if it meant that the mill was going down the drain. Others decided not to repay their loans. The public mills, still beholden to the price structure, could not compete in a price war and lost even more money.

What the government should have done was negotiate more reasonable terms in the first instance. Second, some kind of a public-private instrumentality should have been set up to coordinate pricing and selling to the foreign buyers. This need should have been foreseen. Everybody in Bangladesh would have benefited. It was an opportunity for public and private cooperation that was missed in the country's most important industry.

The decision to turn over the mills to the private sector was not, in and of itself, erroneous; but also relinquishing any semblance of monitoring or coordinating control over this vital area of the economy was disastrous. Even if all the mills had been privatized, some kind of coordinating mechanism was essential. The government also neglected its responsibility to promote research and development in jute to stimulate new product ideas in this troubled but crucial industry.

Decision making in Bangladesh is too diffuse. There are a staggering number of councils, commissions, and committees that make economic policy. There are the National Committee for Industrial Development (NCID), the Consultative Committee for Public Enterprises CONOPE), the Executive Committee of the National Economic Council (ECNEC), the High-Powered Facilities Board, and the Committee for Reorganization of Public Statutory Bodies (CRPSC), for starters. This is in addition to normal policy making units in the secretariat and line ministries. While these autonomous bodies are chaired by a few top people, the system is a hodge-podge. It makes one wonder if the system was deliberately designed to avoid responsibility for planning and decision making. Individual committee operate in their own particular vacuum.

Meanwhile, the Planning Commission is not used as a central coordinating body for planning. It is more of a monitoring and evaluation unit, passing judgment on what has been done rather than what should be done. Its authorship of the five-year plans and participation in the budget approval process would indicate otherwise, but these are rhetorical and perfunctory services.

What the government needs is a planner, overseer, and coordinator for economic policy, such as has been so successful in such countries as Taiwan, Korea, Malaysia, Thailand and Singapore. One cannot help but wonder whether after the Planning Commission's enormous (and destructive) influence during the Mujib period, subsequent regimes decide never to allow it that much power again.

Bangladesh's dire economic circumstances have given the Ministry of Finance inordinate influence over industrial development policy that should more properly reside in the Ministry of Industries. Certainly, the Ministry of Finance must have considerable say in both the collection and expenditure of funds, but experience elsewhere teaches us that Ministry of Finance-dictated development policy will most probably not be a dynamic, nation-building policy. It was not encouraging to hear several high-ranking Bangladeshi officials say, in almost identical wording, that "Finance is calling the shots."

Taiwan's privatization program

Regarding policy planning and implementation, a cursory comparison will now be made between the experiences of Bangladesh and Taiwan. This is being presented at the specific request of a number of Bangladeshi officials and businessmen, in addition to several scholars and foreign observers. The author, who is thoroughly familiar with Taiwan's economic development and has written about privatization there, had not intended including such material.[4] My thinking was that the popular perception might be that the situations are too dissimilar for any useful comparison, because the two countries are now at the opposite ends of the development spectrum.

Contrary to expectations, informed persons in Bangladesh were most interested in the Taiwan experience, perhaps because of the great achievements made there, but also because the two countries started out with a surprising number of similarities. If that was so, logically the next question was why one has prospered, while the other is obviously struggling.[5]

Given the limitations on the present study, we can present only a bare outline of some of the similarities and divergences between the two situations; but even this may illustrate some illuminating points. Each country started out under the following circumstances at independence:

- an agriculture-based economy, featuring small holdings and a high percentage of landless tillers;
- a conservative, traditional society;
- a colonial background, wherein the economy had been geared to the needs of the colonial powers (in Taiwan's case, Japan from 1895-1945);
- a backwater area dominated by nearby major commercial centers (Canton and Hong Kong, in Taiwan's case);
- some infrastructure built by former ruling powers;
- densely populated, with the majority of the population in rural areas (Taiwan's concentration is greater, though the scale is obviously smaller);
- almost no natural resurces;
- a large pool of unskilled labor and widespread poverty;
- few indigenous entrepreneurs or managers with top-level experience;

- an economy shattered by war (Taiwan's industrial capacity was 85% destroyed by American bombing in World War II);

- almost no capital markets and limited domestic savings; and

- encouraging prospects for considerable foreign aid.

Most readers of a study like the present one are familiar with the so-called "Miracle of Taiwan," so we will not dwell on the accomplishments that have elevated that island country to membership in that elite club of Newly Industrialized Countries. Also, such readers will know that the two countries did not start out as two peas in a pod. There were differences from the start. Taiwan's possession of a core of experienced administrators who came from the mainland immediately comes to mind (though bearing in mind that the business community is dominated by local Taiwanese). Nevertheless, there were enough common conditions, initially, to enable us to learn some lessons from the differing ways the two nations subsequently performed. These lessons can be applied quite easily to economic development and private sector development, in particular. Here, however, we will deliberately restrict ourselves to those aspects which most directly bear upon the narrower subject of privatization. In taking this approach, it is imperative to keep in mind the fact that privatization and private sector development are inseparably linked. Privatization is not an isolated phenomenon.

Taiwan autorities took into account most of the factors that can make privatization work, including:

- careful planning with clearly identified short and long-term objectives;
- scrupulous attention to organization and details;
- transactions and negotiations conducted with fairness and honesty;
- a planned, structured approach to transition of enterprises from the public sector to the private sector;
- demonstrated political will through consistent support of policies;
- promotion of cooperation between the bureaucracy and the business community and efforts to decrease friction;
- simplified procedures, drastically reduced bureaucratic interference, and curtailment of corrupt practices;
- an integrated set of practical programs promoting private sector activity;
- a privatization policy coordinated with other economic and fiscal policies;
- rationalization of the regulatory and administrative environment for newly privatized enterprises and for private sector in general; and
- effective use of foreign aid.

Taiwan launched its program to privatize the economy with divestiture of four large SOEs, two of which were umbrella organizations containing dozens of sub-units, some of which became extremely successful spinoffs. One of the original four enterprises privatized became the seventh largest company in Taiwan, and one of the best run. After the original four divestitures, most subsequent moves involved a) gradual privatization of large enterprises by selling off selected sections of SOEs periodically, b) selling shares of SOEs, or c) by freezing an SOE budget and functions, letting it gradually fade away, while supporting replacement of it by appropriate private sector activity. By a combination of these policies, methods, and programs, the public/private mix of 80/20 was gradually shifted to 20/80, with every indication that the trend will continue.

The planned approach to growth has been gradual, starting with agriculture, which has driven industry. Infrastructure was built up thorugh labor-intensive consumer products, with dependence on small and medium enterprises. Import substitution was followed by producing for export. Assembly operations gradually gave way to major manufacturing. It is worthwhile noting that Taiwan did not have an integrated steel mill until the late seventies. The influence of the government through all this has been pervasive, but not intrusive. Taiwan has been a textbook case on how to privatize an economy.

The material cited throughout this study shows clearly that the Bangladesh government has not consistently followed similar precepts and programs. As a result, its bold privatization effort has not achieved its full potential for promoting economic growth and the general welfare. Little purpose would be served by restating the litany item by item, in terms of what Bangladesh has done or not done, tried or not tried. The reader is invited to review the above list and come to his or her own conclusions. In the following paragraphs, however, material will be presented that speaks to some of the more important lessons that can be gleaned from the Taiwan model.

Implementation of the privatization policy

Most of the influential personalities consulted in the preparation of this study agreed that "the biggest problem is implementation."[6] The policy sounds great, but somewhere between word and deed the process grinds to a halt.

The government has made considerable strides in liberalizing some of the regulations dealing with various phases of economic activity. A lot remains to be done, particularly in the field of imports, but progress has been made.

That progress is threatened by the bureaucratic torpor that exists in Bangladesh. The beneficial effect of regulatory reform is blunted by administrative inefficiency and venality. Most of the interminable delays occur in the middle levels of the bureaucracy. There are many reasons for this procrastination and obstructionism.

Privatization threatens bureaucratic empires. Therefore, the bureaucracy resists change. The Minister of Industries lamented to the author that after he had signed off on the 51-49 Plan, the paper took another 2 1/2 months to clear the ministry. He said he raised a storm over this. He saw it as an attempt of the ministry's bureaucrats to "study it to death" as a traditional delaying tactic and as a demonstration of unwillingness to surrender some of their power base in state-owned enterprises to either the private sector or to the state Corporations being reconstituted as holding companies. The internal battle described in earlier chapters still goes on.

Unwillingness to take responsibility is another problem. Bureaucrats shirk responsibility by hiding behind red tape or requiring numerous signatures on even routine matters. Also, in many cases, middle-level civil servants are not kept current on regulatory changes.

The government must undertake a major briefing and training program for the bureaucracy. The hope is that such a program might make it possible to avoid many, if not all, of the "incidents" listed in the previous chapter.

There is a special urgency to this, because a distressingly high percentage of the most capable senior civil servants will be retiring within the next few years. The caliber of their replacements coming up from the middle ranks is not nearly so high. This is a recognized future problem for which the nervous government does not yet have a solution.

The President of the Dhaka Chamber of Commerce and Industry (DCCI) strongly suggested that a system of deadlines be established for bureaucratic actions. Regarding the 51-49 Plan, he said that there should be a deadline on implementation. Responsible civil servants should be accountable for meeting deadlines on this and other matters. Someone should monitor their performance, enforce the deadline, and require periodic progress reports. He was not sanguine about the possibility of his idea being adopted. Others have broached similar ideas. The reader will recall that such a procedure was common practice with Shaful Azam when he was Minister of Industries.

The public/private mix

The President of the DCCI had suggested his idea during a conversation in which he also lamented the deplorable state of relations between the bureaucracy and the business community. He said, "Let us forget confrontation! Let us cooperate." This is a sentiment echoed by many in the business community and at the top levels of government. Mistrust and animosity rule the day, seriously hindering private sector development.

Privatization will be a dead letter without better cooperation between the public and private sectors. The matter goes far beyond changing rules and regulations or speeding up procedures. It goes deeply into the question of endemic corruption. Payoffs are part of even the most routine contact (one must pay "backsheesh" even to get a form to fill out). It must be remembered that corruption was far grater when the government controlled 92% of the economy's resources before a substantial percentage of the units were privatized. Some say this loss embittered the bureaucracy.

We cannot explore this important question here other than to note that it is pervasive. One can attack corruption from a moral point of view, but the importance to us here is that the practice absorbs scarce financial resources that are desperately needed for more important purposes in nation building. It also slows up day-in, day-out activities and poisons the atmosphere between business and government.

There is fault in both of these warring camps, but by far the greatest responsibility for the current state of affairs must rest with the government. The bureaucracy holds power and, therefore the key to the situation. The Bangladesh government has never really come to terms with doing business with business. The interrelationship between government and private business sectors is not well understood.

There is a tendency to look at the situations in an all or nothing way. For example, a respected economics scholar, who is a former cabinet minister,[7] when asked about private sector development, responded, "What private sector?" His meaning was that since private enterprise borrows money from the government or obtains certain subsidies or concessions, the private sector cannot be considered really private. He fails to see, or refuses to see, that there is no such thing as an economy that is either 100% private or 100% public sector. The two sectors are independent. The economy depends on the health and flexibility of the relationship.

A very intelligent senior official, who shall remain anonymous, startled the author when he declared, "I don't care if these privatized businesses make a profit or not. That's not my affair." He operates on the basis that once they are privatized, "You're on your own, boys!" He must care. The future of the economy depends to a great extent on how the privatized and other private businesses fare. They, in turn, are to a great extent dependent on cooperative, businesslike cooperation and support from the financial institutions over which this man has considerable future. Follow-up and continued cooperation after privatization are essential for success.

Sentiments like the two just cited or the attitudes of managers of public steel and jute operations mentioned earlier that private companies are the competition must change if economic progress is to have a chance. The government must encourage, support and cooperate with the private sector. Privatization is a key, initial element in this evolution.

This is, of course, a two-sided coin. There is much room for improvement on this score from the private sector side. There must be a more honest approach to repaying loans and meeting one's obligations. This is a nationwide social problem, not just businessmen's lack of integrity. Farmers are also not repaying loans, and SOEs have been notorious about not paying off their loans and obligations.

The issue of nonpayment by recently privatized firms is, however, a national scandal that profoundly affects the soundness of the financial community and has rightly given the business community a bad name. Public reaction has adversely affected chances for further privatization.

The government and the mill owners must come to a resolution of the repayment problem, with concessions on both sides. The government must decide if it really wants the private sector to be profitable.

The government was already losing money on these enterprises when they were in the public sector. It should be pleased to be spared further drain. It is often forgotten that the governnment coffers have benefited from the 20-25% down payments from privatization transactions. Also, some firms <u>are</u> paying off, though they are certainly not in the majority.

Taxes from profits of privatized firms have not been flowing in at expected rates. There are many reasons for this. One of the more important reasons is the need for drastic reform of an incredibly inept and corrupt tax collection system. Privatization and tax reform must go hand in hand.

<u>Foreign investment</u>

Revenue is certainly needed by the government. One source would be foreign investment. There has been a great deal of talk about this, several highly publicized conferences, etc., but the consensus is that Bangladesh encourages, but does not really welcome foreign investment.

Fortunately, it appears that the government hasn't set its sights unrealistically high in this area. Bangladesh has little to offer in comparison with other, more aggressive LDCS, and the regulatory environment and the cost and bother of pervasive corruption scares off all but commodity traders. Substantial industrial firms find the atmosphere unattractive.

Cheap labor is not an incentive when it is so unskilled and unmotivated that productivity is abysmally low. Job creation can be a trap if one forgets the need for creating a viable business, as well. This is a matter of concern for domestic, as well as foreign businesses. The government has not squarely faced up to the issue of quelling the more violent elements in the labor movement.

Foreign investment could be important for the country's industrial development. It is unclear just how far the government will actually permit the local private sector to joint venture with foreign firms, although public statements say the government favors such arrangements. Many observers believe that the government would prefer to keep such arrangements within the public sector. Rumors are that this has both personal and public motivations. It is obvious that foreign firms would prefer non-public partners.

The recent decision to turn down Singer's application is mystifying. The government says it wants to leapfrog assembly operations and go directly to manufacture. The same thing has been said about automobile production. Pride seems to have triumphed over good sense. The lessons from Taiwan and elsewhere seem to have been disregarded.

Donor agencies and private sector development

There is a natural tendency for a government to enter a new field itself rather than supporting private sector intervention. Bangladesh is certainly not unique in this respect. The EPIDC was commendable in its avowed intention to provide scarce capital and technical assitance for launching a venture and then gradually turning it over to the private sector. EPIDC was not overly successful in this regard for a number of reasons, one of which was the paucity of investors during that period. That is no longer as big a problem. Money and investors are more plentiful now.

The government has displayed a knee-jerk reaction about direct entry into new areas. When there is a problem or an opportunity, the government says, "We'll do it."

Over the years, donor agencies have been contributors to this syndrome, for two main reasons: a) it is easier to provide support to a governmental agency; and b) donor agencies, like the government, have not quite come to terms with doing business with business. Many professionals in the foreign aid field still regard direct assistance to the private businesses as unseemly.

Attitudes are changing in the international donor community in this regard, however. In Bangladesh, the World Bank has encouraged a number of private sector intiatives. USAID has designed a strategy for general programming in privatization and private enterprise development.[8] Other bilateral programs are doing the same thing, though on a more modest scale. The United Nations has carried out a surprising number of private sector projects through the UNDP & UNIDO, FAO and ILO,[9] some of them financed by the World Bank. The Asian Development Bank now cooperates with the private sector in a wide range of activities. Even the private Asia Foundation is contemplating programming (with USAID support) with the Dhaka Stock Exchange. The

Foundation also sponsored a 1985 conference on privatization by the Bangladesh Young Economists Association.[10]

None of the international donor agencies have shown much desire to program directly in privatization until very recently. They have programmed around the subject, helping private sector development in a variety of direct and indirect ways. USAID, the World Bank, and ADB have exhorted the Bangladesh government to privatize; but this pressure has not been nearly as great as critics imply. USAID's fertilizer distribution project is the only long-term privatization program carried out by a major donor agency. The World Bank is energetically sponsoring work in several areas, especially financial markets. Other projects are being considered by several agencies, but most will be related to private sector development, not directly in privatization, as such. Privatization is still considered a political briar patch.

As has been mentioned, there is more private investment money around than in previous times. Nevertheless, industrial credit is still a major concern for the small and medium-sized business sectors of the economy that the government hopes to see expand.

When the idea for a special bank to meet these needs was first broached, the immediate decision in mid-1986 was that the government would establish it.[11] This flew in the face of everything the government was saying about privatization and private sector development. There was no need for establishing a new government entity when other resources, both public and private, were available.

It is mildly encouraging to note that the government late revised the plans to call for a Small Industries Bank[12] to be financed 70% from private sources and only 30% by the government. The government states that despite its minority equity participation, the bank will be run as a private institution, along strictly commercial lines, but with low (10%) interest rates.

Concern has been expressed about the viability of the venture. There is no question that small businesses need better access to credit, but the new bank would need an extensive and expensive network to serve those needs, something potential investors would be reticent to underwrite. Some observers say existing public and private financial institutions could handle this market if given direction by central authorities.

The idea of better credit service to small business is good, but faulty planning and inadequate attention to studying all aspects of the question in advance may result in the launching of a bank with no investors and little chance to succeed. It is not clear to what extent the proposition was discussed with potential investors, exisitng banking institutions, or business leaders. It may be another example of a policy decided in a vacuum in one of those special committees in which government abounds.

Improvement of the public enterprise system

Much of the government's attention these days is directed at improving the efficiency and profitability of existing SOEs. This appears to be the approach the government has chosen as a convenient way to distance itself from a stronger but more politically sensitive privatization policy, while building what they now call a "mixed economy." Normally, talk of a mixed economy would be taken as a positive indication. In Bangladesh, it might be more of a euphemism to mask inaction and lack of political will.

Privatization may be controversial, but no serious observer of the Bangladesh economic scene can believe that the lumbering, lackluster, inefficient pulbic sector can provide the motivating force for dynamic economic growth.

The government has tried time and time again to reorganize and revitalize the SOE system. It won't work. It is a waste of money, something Bangladesh can ill afford.

The public sector has required a cash infusion of Tk386 Crore (US$138 million) between 1981 and 1985.[13] Deputy Prime Minister Moudud has said that the country can no longer afford to subsidize the public sector to cover losses.[14] Nor can the prospect of replacing costly old equipment be attractive. The much larger size of SOEs has not led to economies of scale or better labor productivity.[15]

The bureaucracy will not give the SOEs the autonomy they would need to move forward aggressively. Even if it did, the enterprises don't have the type of people needed to do the job. First of all, SOEs do not get the cream of the civil service crop. Second, the ones they do have are not trained for competitive marketing and sales promotion. Third, the only type of promotion such people are interested in is going up through the ranks of the bureaucracy. You don't accomplish that by being aggressive; you do it by avoiding mistakes. Fourth, an SOE manager will be moving on in a couple of years to another post. He is more motivated to keep his nose clean than expanding the business and taking risks.

There is some evidence that increasing competition from privatized mills has had a beneficial effect on how SOEs are run,[16] but it has been marginal. This does not mean that all SOEs in Bangladesh are automatically inefficient and lose money. Depending on the type of operation, some SOEs operate relatively well and generate profits for the treasury. But they usually fall far short where any kind of consumer sales and marketplace competition are involved. Quality control is not a hallmark of most SOEs.

Many SOEs would not welcome the autonomy and accountability that are necessary. They would prefer to hide behind the system and the elaborate government accounting systems. The government is a poor businessman. A bureaucracy that moves slowly can hardly be expected to move as quickly and decisively as the competitive marketplace demands.

There are many SOEs in Bangladesh that would be good prospects for privatization if the terms were right. It does not appear that in the short range the government will sell them off, except through the mechanism of the 51-49 Plan. It appears that the government would be willing to gradually sell 100% of the shares of many entities this way, but it is unwilling to say so publicly. That very unwillingness to bite the political bullet will decrease the effectiveness of private sector development initiatives. If the goverment doesn't believe in what it's doing, why should anyone else?

Selling shares of public enterprises - the 51-49 Plan

For the time being, the government's principal privatization vehicle will most probably be the plan to sell up to 49% of the shares of its SOEs. For the sake of convenience, we have been calling it the 51-49 Plan.

The general outline of the stock sale plan was described in Chapter 5. Here we are more interested in how the government intends to conduct the program, and the internal debate over its purposes and provisions.

The government has given several interpretations of how many SOEs will be put on the block. On occasion, the government has said that all of them will be; but it appears that the program will be tried out with the Rupali Bank, the two DFIs, and four units under BCIC. The choice of the Rupali Bank was a surprise in that it is the most profitable of the four NCBs. Even though the sale of Rupali stock is not going too well, due to lack of investor confidence as the result of staff discontent over the precipitous announcement of the sale, the fact that a profitable bank was put up is encouraging. Many thought the first shares offered would be from Janata Bank, which is in trouble.

The forces within the government pushing for offering attractive investments first to get the program going seem to have won the day, at least temporarily. The four BCIC units, while relatively small, are all profitable.

This favorable impression is clouded by the offering of BSB and BSRS, the two virtually bankrupt DFIs. In those cases, the government was evidently trying (unsuccessfully) to attract ADB and other foreign investment. It is interesting to note that a 1984 Price Waterhouse study recommended gradual liquidation of BSRS.[17]

Part of the debate is over to whom the government wants to sell the shares. There has been concern that desirable properties would go to political supporters, but there is little hard evidence of that so far.

The government has received advice that it should offer only profitable SOEs to the general public. Enterprises with problems and heavy liabilities should only be offered to carefully selected buyers who would know what they're getting into. This was part of a broader debate as to whether the stock sales should generally be open to the public or directed at special, experienced buyers and groups. Because of the concern over criticism of cronyism, the government decided on emphasizing open, transparent sales, though reserving the option of selective selling in special cases.

There are two interesting points and several scenarios that will be discussed here, one involving board membership and management, and the other related to the mechanics of sale negotiations.[18]

As mentioned earlier, the government has expressed a willingness to be flexible about board membership and management. If private shareholders purchased, say, 33% of the stock, they would normally get 3 of 9 seats on the board. Instead, under certain circumstances, they might be given 4 seats, which is only 1 shy of a majority, plus agreement on the management being privatized.

Further, if the employees were permitted to buy 15%, they would be given one directorship. This could mean that majority control would pass from government hands.

On a 5-member board, the ratio might be 2 government, 2 private, and 1 employee director. Several other variations were mentioned. All are theoretical at this point.

Concerning management, a government official said that the Chief Executive Officer (CEO) runs the enterprise and implements board policy. The Chairman (of the Board) is more of an arbitrator and monitor, who should not interfere in day-in, day-out affairs. Shafiqur Rahman referred to him as a "watch dog, not a bloodhound," and likened the relationship to the "parliamentary system, where the CEO is the Prime Minister and the Chairman is the Speaker." The Chairman, in all cases, would be appointed by the government until 51% of the shares passed into private hands.

It might be mentioned here that the scenarios just described for the 51-49 Plan follow the same general pattern of board and management stipulations ironed out during negotiations on divestiture transactions in 1982 and even earlier. There has been no set pattern. Also, in some cases, the government-appointed Chairmen have taken their duties quite seriously (some, in fact, over-zealously), while others have put in only token appearances, leaving the private shareholders almost free rein.

Since most workers are too poor to buy industrial shares, systems have been worked out whereby they can buy into mutual funds, 100 or 200 taka at a time, or pay 50% down and the rest in installments. Pension and trust funds are preferred vehicles, but not unions. One aspect that has not been worked out, as far as the author has been able to determine, is the status of the employees as shares are sold. At what point do they cease to be civil servants and become private employees? This is a crucial question that must be worked out, because government employees enjoy far better fringe benefits. The government is paying great attention to employee reaction now that Disinvestment Resistance Committees are sprouting up over the Rupali Bank affair.

The other interesting government strategy is involved in the sale of shares. What follows could, according to the author's under-standing, apply to the sale of shares at any percentage level, but certainly for shares sold above the 49% level. It was done this way in 1982.

The government's first offer is at market value, but very few takers are expected. The second offer is half-way between par and market. If we assume, for purposes of illustration, that par is 100 and market value is 150 (a reasonable figure in Bangladesh), then the second offer is 125, with still not too many takers (they're waiting).

The third offer cuts the difference in half again, i.e., to 112.5. At this point, agreement can and does come. If it doesn't, then the shares can be sold at par, but only if the sale is opened to the general public. At this point the Stock Exchange comes into the picture. This fact will prompt many to accept the 112.5. The plot thickens if there are only a few buyers competing for control. This would strengthen the government's hand for sale at 112.5.

The government would prefer to manage most of the transactions directly or through the official Investment Corporation of Bangladesh. The Dhaka Stock Exchange will, however, have a major role to play. It has grown from 2 offerings in 1976 to 82 today, mostly oversubscribed. Volume of trading in the first quarter of 1987 is above 1986, and already exceeds all of 1984.[19]

Everything is governed by the Companies Act of 1913 as amended. Companies must be one of three types:

a) proprietorship, which involves a single owner (but could be a family), b) partnership, up to a maximum of 20, and c) a limited company, with a minimum of 2 or maximum of 50 if it is a private limited company, for a minimum of 7 and no maximum if it is a public limited company.

Some observers believe that the government is too concerned with making a killing on each deal. The comparison is sometimes made with EPIDC, which was willing to put up seed money and then gradually turn it over. As a matter of fact, it is surprising to hear how many influential Bengalis, both public and private, hark back with some nostalgia to Pakistan days as a period of more enlightened policies and level-headed administration.

It is not at all certain how the 51-49 Plan will work out. It will be, however, the government's chosen instrument for privatization for the immediate future. The above material was included to provide some insight into the government strategy.

The future of privatization in Bangladesh

The government has never really defined what role it should play in the development of the economy. It cannot restrain itself from interfering directly where it shouldn't, and won't resign itself to the role of planner, guru, coordinator, monitor, and pump primer, where it can be most productive.

Parallel to this, the government has never articulated what it sees as the proper role of the private sector, other than to say it wants private enterprise to be strong. And it certainly has not spelled out how the two sectors can work in tandem.

Therefore, the government continues to give the ailing public enterprises one shot in the arm after another, while providing inconclusive encouragement to the private sector. Without coming to terms with reality or exerting the influence it should over powerful elites in the country, the government continues to drift and waver. So does the country's economy, except for some segments of the private sector that forge ahead with or without government "encouragement, support, and cooperation." Those efforts will not be as productive or widespread as they would be if the government pursued a more consistent development pattern.

Hopefully, government will gradually divest additional enterprises as the politically powered pendulum swings back. It can employ the marginalization and "quiet liquidation" technique used so effectively in other countries and that has been so successful in the local fertilizer distribution project.

Major divestitures are not the greater likelihood in the foreseeable future, given the indecisiveness of the Ershad government. But there are still 281 public enterprises of all types in all kinds of economic activity. Many could be excellent candidates for privatization of one type or another. but selection of candidates must not be on an _ad hoc_ basis. Each Corporation and its sub-units must be carefully analyzed. This can only work in a positive fashion if the government lays out a clear road map of where it wants to go and how it plans to get there, industry by industry, in concert with the private sector.

Breaking up some of the larger SOEs is also an attractive alternative for the government to seriously consider. Some of the marketing or manufacturing arms of SOEs can be spun off to the private sector under terms that would be attractive to buyers.

The agribusiness sectoral Corporation (BADC) should be carefully analyzed for candidates. Agribusiness is an area where Bangladesh should concentrate on a priority basis. Privatization possibilities should be correlated with private sector initiatives. Government backing for these exploratory joint efforts should be made available. Privatization of all or part of a large agricultural public enterprise could be a major stimulus to expanding and diversifying the agribusiness sector. This is a trend that should be encouraged in Bangladesh's economy.

The government should keep certain arms or programs of SOEs that are important in terms of social policy. In doing so, however, the government should be aware of the tendency to blame losses on "social goals," when the cause was really poor management or general bureaucratic inefficiency.[20] Large and complex SOEs with major commitments to social programming are good candidates for contract management or franchising of particular arms by non-governmental organizations (NGOs) or private voluntary organizations (PVOs).

The idea is not so much one of getting government out of day-in, day-out business activity as it is to create a more varied and dynamic economy. But, as we have said, the government is a poor businessman. That is true in most countries, and it has certainly proved to be the case in Bangladesh.

Over the past decade, the private sector has showed more vitality. What is new and growing in the industrial sector has been the result of private sector activity, mostly without direct government participation or assistance. According to the most current figures, private sector activity has been growing at almost twice the rate as the public sector. Private investment doubled between 1981 and 1984, almost all of it in the "free sectors."[21]

Even though expenditures on the public sector have decreased from 20.2% of GDP in 1981 to 18.7% in 1985,[22] the SOE network still controlls 40% of the fixed assets in the industrial sector[23] and almost half of the production and value added.[24] Consequently, government decisions about reforming and rehabilitating the public enterprises or continuing to privatize them will be of great significance to the future economic development of the country.

While it may be necessary to keep substantial parts of basic industries in the public sector for political and social purposes, the government should be constantly alert for ways to encourage, assist and cooperate with the private sector in new, growth areas.

This effort should be given the highest possible priority, and carried out with a high degree of consistent commitment. In the planning process, special care must be given to clearly defining the complementary roles of the public and private sectors, and to identifying clear and attainable objectives for these initiatives. Special attention must be accorded to insure forceful and coordinated implementation of privatization and private sector development programs.

Such an effort will demand a capability and commitment not previously demonstrated by the Bangladesh government. Nothing less, however, will be sufficient to meet the challenge.

Chapter VIII

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The conclusions to be drawn from this study can be stated briefly and frankly. Privatization in Bangladesh has been a mixed bag. Statistically, an impressive record has been compiled. Substantively, the results are more difficult to evaluate. There are many shadings to the picture.

A total of 1,076 public enterprises, 609 of them in the modern industrial sector, have been divested to the private sector, more than in any other country. The public sector, which, during the decade of nationalization, controlled about 90% of the country's industrial assets, now possesses only 40%.

The emergence of the private sector as a major player in the modern industrial sector has not automatically brought prosperity to a troubled, backward, subsistence economy. The economy is still struggling, but there are some encouraging signs, almost all of them emanating from the private sector.

It is difficult to trace, much less gauge, the post-privatization performance of many divested firms. A native unwillingness to share financial information - whether showing profit or loss - combines with the generally unsettled and unstable condition of the Bangladesh economy to thwart the investigator.

In a business community made up of a myriad of medium-sized and ever-changing enterprises, the divested firms have prospered or failed more in relation to the fortunes of their particular industry than because of individual managerial strengths or shortcomings. Privatized firms must be viewed, to a certain extent, like any other private firm; although they may be burdened with residual financial and operational liabilities from their nationalized past that their counterparts, who were private from the start, did not have to cope with. Like their peers, some have succeeded, a few have failed, and the rest are limping along - a mixed bag much like one finds in most developing economies.

We must carry this one step further. The focus should be on the economy and on the policy and regulatory environment within which the enterprise must function, and not on the enterprise itself. In Bangladesh's jumbled, backward economy, there are powerful adverse forces and factors that have more influence on determining an enterprise's fate than its own "performance." Some of these forces and factors arise from the nature of the marketplace in Bangladesh; and some stem from the policies, programs, and procedures of the government.

As a result of these and other considerations, this observor has come to the conclusion that the performance of the collectivity - in this case Bangladesh's private sector - is more significant than the performance of the individual privatized unit.

When we address the question from this perspective, we begin to get a clearer picture. The progress that is being made economically in Bangladesh is being made by the private sector. A broader roster of players is engaging in a more varied range of economical activity because of private entrepreneurship. Private investment doubled between 1981 and 1984. Industrial production has increased at twice the rate in the private sector as in the public sector.

The new growth industries - ready-made garments, food processing, light engineering, pharmaceuticals - have occurred almost exclusively in the private sector, with minimal direct participation by the government. These activities are labor intensive and mostly export-oriented, two points of priority interest in Bangladesh.

The privatization policies of the government have been a key element, perhaps <u>the</u> principal stimulus for that private sector resurgence. Starting with the cautious moves of 1975, then the "bold stroke" of the NIP-'82 and the IP-'86, privatization has been the symbol of government encouragement of private enterprise.

The transfer of hundreds of enterprises from the public sector has had a profound and lasting influence on industry and commerce at Bangladesh's early stage of economic development.

While we have concluded that the aggregate is more important than the individual enterprise, it should be noted that in the country's two leading industries, jute and textiles, the privatized firms have performed better than when they were nationalized and now consistently out-perform their counterparts in the public sector. In the ailing jute industry, that may only mean losing less money; but it is an indicator of significance, nonetheless.

Such direct comparisons can be made in other industries, where SOEs complain that they cannot compete with the "flexibility" of private companies, particularly in pricing and marketing.

The government is now in what it calls a "consolidation period" with regard to privatization, a euphemism that indicates that additional major divestitures are not the greater likelihood in the next few years, or until the political pendulum swings the other way. At the present time, an insecure government will most probably not engage in any bold ventures in the direction of privatization, as such, while it generally continues to encourage private enterprise in building a mixed economy.

Nevertheless, there will be continued, unobtrusive privatization of some state enterprises in ways other than outright divestiture. The government's principal approach in the short range will be the selling of SOE shares through what we have dubbed the "51-49 Plan." The government has privately made it obvious that it would be willing to sell more than 49% under the right circumstances and to make concessions regarding private management of the enterprises to even minority purchasers.

This program has its weaknesses; but in the long run, it may have a more significant impact on building a more sophisticated capital market in Bangladesh than its detractors realize.

Given the unstable situation in Bangladesh and the formidable obstacles to sustained growth, predicting economic trends is very risky business. Nevertheless, it is not unreasonable to forecast that if no unforeseen economic or political disaster strikes the country, the private sector will play an ever-larger role in the economy. If there is one definite conclusion that can be drawn from this study, it is that there is no way that substantial and sustained growth can be achieved in the economy with the public sector as the leading player.

As the benefits of increased private activity become more apparent, the chances for additional major privatization moves will become much greater in, say, another three to five years. In the meantime, there will be ample opportunities, in addition to buying shares under the 51-49 Plan, for selective privatization in less publicized ways.

For example, there can be breaking up of large SOEs by spinning off certain sections that have greater chance for profitability in the private sector, and which do not employ large numbers of workers. Sales and marketing arms would be logical candidates. In other cases, particularly in the agricultural sector, there will be similar opportunities for gradually phasing out cumbersome, inefficient government operations and replacing them with private networks, as has been done so successfully with USAID's fertilizer distribution project.

These examples are merely illustrative. There will be a variety of opportunities. The key will be to insure that the government plans its economic development more efficiently, fulfills policy goals by doing a better job of implementation, and keeps alert in identifying industrial areas where it can work cooperatively with private enterprise for the benefit of all.

For the donor agencies, while it may not be possible or even advisable to program forcefully and directly on major privatization initiatives, the opportunities are infinite for encouraging and assisting the Bangladesh government in promoting private enterprise development. Many of these opportunities will involve, directly or indirectly, privatization in several of the forms mentioned throughout this study. As we have said, the ultimate purpose of privatization is not the unloading of state enterprises, but the privatization of the economy.

Following are some recommendations on ways to proceed towards that goal.

Recommendations

A. To USAID/Dhaka - internal organizational recommendations

Recommendation #1: Appoint a Private Enterprise/ Privatization Officer

USAID/Dhaka should appoint an experienced, relatively senior professional from the existing staff to this position so that he/she can take a leading role in planning, coordinating, and monitoring the Mission's overall programming in privatization and private sector development. The new Economist for the Programs Office would seem to be an appropriate choice in terms of position, professional background, and program responsibilities.

Initially, the position would be a part-time duty for the Economist; but, if private sector development and privatization become a major part of the Mission's program, serious consideration could be given to creating a separate, full-time position, as has been done in several USAID Missions.

Justification: Private enterprise development has become a primary concern of USAID/Dhaka, according to a number of planning documents and project papers. This emphasis by the Mission is in consonance with the "Four Pillars" approach outlined for Agency programming by AID/Washington.

Enterprise development in general, and privatization in particular, are complex and controversial programming areas in Bangladesh. These strategies involve social, economic, and especially political issues of great sensitivity. There are as many roadblocks and hazards as there are opportunities.

Given this context, it would behoove the Mission to assign an experienced officer to oversee this area of work in order to insure that these sensitivities are taken into account. Having such a position will also contribute to better program planning, integration, and implementation.

Recommendation #2: Establish a Private Enterprise/Privatization Committee

The Mission should organize such a committee to review all project proposals, planning documents, papers, etc., to determine if the program activity under consideration has the potential for a private sector component.

Each section of the Mission (Director's Office, Programs Office, Project Development and Evaluation, Food and Agriullture, Population and Health, and Administration) should designate a professional staff member to serve on the Committee, which should be chaired by the Private Enterprise/Privatization Officer. The committee should meet a regular intervals.

Justification: The justification is the same as for Recommendation #1, with the added value of helping to insure that the private sector factor is addressed.

Recommendation #3: Support staff training in enterprise development and privatization

The Mission should be alert to opportunities for staff to participate in appropriate training programs, conferences, seminars and workshops relating to privatization and private enterprise development. This would include study/observation tours to other developing countries having major programs in privatization and/or private sector development.

Justification: Training and professional enrichment in enterprise development and entrepreneurship have been available for some time, but it has only been recently that similar opportunities have appeared in the complex new field of privatization. The Mission will want to take advantage of appropriate opportunities. The Private Enterprise/Privatization Officer would, of course, be an obvious candidate for such training; but the needs of other staff members should not be overlooked, particularly those who serve on the committee.

Recommendation #4: Expand and deepen USAID relations and cooperation with the business community

The Mission has excellent contacts and programming relations with government officials dealing with economic development and even business affairs, but does not appear to have commensurate relationships with the local business community, particularly indigenous business people. Therefore, the Mission should:

- encourage staff members to cultivate personal contacts with local business people, including visits to local business establishments;
- support a limited number of memberships in local business organizations, such as chambers of commerce, trade associations, management associations, research bodies, employee groups, etc.; and
- promote the activities of the Bangladesh-U.S. Business Council.

Justification: This activity would increase staff and institutional knowledge and understanding of local business conditions, issues, problems, and attitudes. It would also increase the pertinency of Mission programming aimed at promoting private sector development. It would help to improve the Mission's image with an important segment of the economic community which, heretofore, has tended to believe that USAID is almost exclusively interested in assisting the public sector.

Recommendation #5: Improve liaison and program coordination with the international donor community and embassy economic and commercial sections

The Mission should make a concerted effort to brief itself thoroughly on the planning and programs of other international donor agencies in the areas of private enterprise development and privatization. Particular attention should be given to the varied project activity of the UNDP and the Specialized Agencies of the UN, who are surprisingly active in these fields. A special effort should be made to increase staff contact with embassy commercial officers, particularly the Commercial Officer in the Economic Section of the U.S. Embassy.

A special effort should be made to keep abreast of what research is being carried out, share information, and coordinate research activity.

Justification: The needs are vast and varied. There is a great deal of activity being planned or implemented by a number of international donor agencies in the general area of private sector development. Improved liaison, sharing of information, division of work, and pooling of resources will lead to increased donor knowledge, expanded and more pertinent programming, and more efficient use of resources.

B. General recommendations for all parties

Recommendation #6: Establishment of a Privatization Unit within the Bangladesh Government

The government should establish a Privatization/ Private Enterprise Development Unit to oversee and guide the parallel policies and programs promoting privatization and private sector development.

The responsibilities of the proposed Unit would be to provide advice to the highest levels of the government on all matters related to privatization and, to a major extent, policies and programs related to private sector development. The Unit would also be a principal discussant on the policies and programs relating to the state-owned enterprise (SOE) system, and the relation of the SOE system to questions of private sector development in general, and privatization in particular. The Privatization Unit would provide policy guidance and recommend strategies, assist in designing legislation, regulations and programs, monitor performance, and evaluate results.

The Unit would generally oversee the government's policies and programs for SOE disinvestment, help insure inter-ministerial coordination on privatization matters, and play a leading role in organizing and implementing disinvestment transactions.

The Unit would perform a liaison role between the public and private sectors, and act as an ombudsman in investigating roadblocks and bureaucratic obstacles to privatization and private sector development. The Unit would authorize and supervise policy and administrative research and technical assistance projects related to privatization.

In short, the Privatization Unit, as proposed, would be a privatization "czar," playing an influential role in developing a varied and vibrant "mixed" economy. (The proposed unit should not be confused with the several "Disinvestment Wings" or "Cells" that exist in various ministries for the purpose of supervising the divestiture of SOEs. The proposed Unit would be at a higher policy level and have influence over the functioning of the Disinvestment Wings.

To perform fully its proper function and service to the nation, the Privatization Unit must be located at the highest possible policy levels of the government and be invested with sufficient power to carry out its mandate. Under ordinary circumstances, the location of the Unit should probably be in the Planning Commission; but because of special conditions existing in Bangladesh, this may not be possible or appropriate. If not, the Unit should be attached directly to the Office of the President. Placing it in one of the ministries would not be productive, because privatization can be a factor in areas under the jurisdiction of many ministries (Industries, Finance, Commerce, Jute, Textiles, Agriculture, Housing, Transportation, and Health, to mention just a few), and would cause severe turf problems. (Under no circumstances, should the Privatization Unit be housed in the Ministry of Finance, where national development is unduly subordinated to immediate fiscal considerations.)

Special attention must be given to selecting the right personnel for the Unit, particularly its leadership, which should be of unquestioned integrity and stature. The staff must be chosen strictly on the basis of professional credentials and competence. By making the Unit a prestigious "elite corps," the government can exploit the examples where such units in other developing countries have been resounding successes. This was even true in colonial days under the Raj.

Under no circumstances should the Unit be permitted to deteriorate into an additional layer of government. It should be an expediter, a coordinator, an ombudsman, and a problem solver. The government should make every effort to create an image of the Unit as lean, powerful, dedicated, and competent.

<u>Suggested role for USAID</u>:

USAID/Dhaka should make a major effort to, first, convince the Government of Bangladesh of the absolute necessity of establishing a Privatization Unit, and second, to provide financial and technical assistance.

The following types of support are suggested: salary support for key staff positions, staff training, overseas observation of successful privatization efforts, technical assistance (both short and long-term) in various priority fields, and sponsorship of relevant research.

This is major support for a significant project. Experience elsewhere has shown clearly that privatization can be more successful when such a Unit is present as a guiding hand. In the case of Bangladesh, the Unit would provide policy planning and implementation functions, the lack of which has seriously hampered efforts to date. The Unit would also provide a convenient vehicle for donor agencies to influence policy in constructive, yet discreet ways.

The Planning Commission reported to the writer and officers of USAID in early 1987 that establishment of a private sector development unit similar to what is suggested here was, in fact, approved in 1983 by the President. It was to be a semi-autonomous unit attached to the Planning Commission. Bureaucratic pressure at the time resulted in the idea being put on the back burner. Conditions warrant bringing it up front again. The fact that the general idea has already received the President's endorsement could make resurrection easier, if the proposal is presented correctly.

The establishment of a Privatization Unit is the #1 priority recommendation of this study.

Recommendation #7: Expanding and improving the capabilities of the Dhaka Stock Exchange

The stock market in Bangladesh has grown ~~grown~~ rather slowly since it reopened in 1976 after a period of five years when it was shut down during nationalization, along with most of the private sector. In recent years, activity at the Dhaka Stock Exchange has picked up markedly. The types of stock offerings have become more varied, trading is more active, and most of the carefully chosen offerings are oversubscribed. Although stock market activity in Bangladesh is still modest, even by Asian standards, private investment in increasing rapidly.

The recent announcement by the government that it intends to sell up to 49% of the shares of a wide range of state-owned enterprises and banks will increase activity at the Dhaka Stock Exchange significantly. The fledgling, underdeveloped institution is simply not capable of handling the increased flow of business or providing the services required by a more active investment market.

The Dhaka Stock Exchange is understaffed, and the staff that it does have is not skilled. Its equipment is primitive and its systems archaic. But whatever its state of unpreparedness, the Dhaka Stock Exchange will play a major role in capital formation and investment as the economy grows and becomes more varied.

Suggested role for USAID

The varied resources available to USAID/Dhaka can be used very effectively to enhance the skills and operating capacity of the Dhaka Stock Exchange. This assistance can take the form of providing short-term technical assistance, modernizing equipment and systems, supporting staff training, and sponsoring study/observation tours of stock exchange and securities control systems in the United States and, especially, selected Asian commercial/industrial centers.

It is further recommended that if the direct involvement of the Mission with the privately run Dhaka Stock Exchange would cause certain political and administrative problems, the Mission could consider using The Asia Foundation as a contractor for administering the project. The Foundation's Dhaka Office has expressed interest in discussing the possibility further. The Asia Foundation has a good reputation with the Bangladesh government and has less difficulty in working with private bodies in Bangladesh. The Foundation has considerable experience in dealing with Asian stock exchanges and is currently involved in a program of support to the active Securities Exchange of Thailand. That assistance is similar to the project being recommended for the Dhaka Stock Exchange (DSE),

The proposed assistance will complement support for the DSE, which the UNDP is contemplating. The Foundation can get its support program operational much faster than the UN, but coordination is suggested.

Recommendation #8: Establishment of a National Jute Goods Sales Organization

Denationalization of 33 jute mills in 1982 accomplished some positive objectives, but also caused some unforeseen adverse results. The desired free market competition degenerated into dog eat dog competition between Bangladeshi and Bangladeshi to the benefit of international buyers. While the prices formerly set by the BJMC were unrealiscically high in relation to the cost of competing synthetic fibers, the recent jute prices have been unacceptably low. No one can make money at this rate.

What is needed is cooperation among the public and private mills to make a common front to the international buyers and then generate internal competition among the Bangladesh mills for jute products sales contracts.

What is needed is a single National Jute Goods Sales Organization (NJGSO) to negotiate all international sales contracts on behalf of the entire jute industry and to eliminate the destructive price slashing activities that are crippling an already-ailing industry. The NJGSO would be a truly public-private entity, with board members and staff made up of persons from the BJMC and the BJMA and the Ministry of Jute.

The quickest way to launch such an entity would be to spin off the Marketing Division of BJMC and combine it with elements from the BJMA and individual private mills.

The NJGSO would operate on a completely commercial basis. A single organization with representatives from all segments of the industry would be in the best position to determine the best free market price that can be obtained for any order. Through overseas offices, it can do a better coordinated job of market analysis and have sufficient power to stimulate the R&D activities so badly needed for quality control and product diversification.

Opposition to setting up a single unit to speak for the industry would be formidable from various vested interests. But it would provide a better system than the one presently prevailing for the survival of this vital industry.

There is a tendency to say, "Ignore jute. It is a dying industry." But the fact is that jute will remain Bangladesh's major industry, major foreign exchange earner, and major industrial employer for some time to come, for better or worse. Therefore, every effort must be made to undertake measures that will improve the efficiency and, hopefully, the profitability of the country's most vital industry.

The project is doubly intriguing in that, if implemented, it would represent the first concrete example of public-private cooperation in an industrial endeavor. A successful NJGSO would be an important model for other cooperative efforts that are so badly needed in Bangladesh. Therefore, it is essential that the unit be portrayed and operated as a truly joint effort, not a thinly-veiled extension of the official BJMC.

The functions the unit would provide would be beneficial to the 33 mills privatized as the result of NIP-'82. It would also effectively privatize the government's inept jute marketing arm, replacing it with an entity in which the private sector would have an equal voice. This is constructive privatization. It would also help to solve a major problem spawned by a poorly planned denationalization program which, while it achieved some beneficial ends, did not anticipate the full implications of the earlier action.

Suggested role for USAID

USAID could provide partial staff salary support and technical assistance, market analysis, and research on product design and marketability. USAID's greatest contribution, however, could be in convincing the

Bangladesh government of the wisdom of establishing such a unit.

The idea for an NJGSO came from a Price Waterhouse team working in-country under UNDP auspices for three years. The team has also been analyzing the textile industry, which is a domestic market-oriented industry. The UNDP will probably not be in a position to underwrite follow-up projects to these excellent analytical studies. Nevertheless, close consultation and coordination between the UNDP and USAID would be necessary.

If the suggestion for a Privatization Unit in the Planning Commission is the most important recommendation in this study, the idea for a National Jute Goods Sales Organization is the most innovative and intriguing.

Recommendation #9: Continued privatization of the fertilizer industry

USAID/Dhaka has supported privatization of the fertilizer distribution system in Bangladesh since 1977. The major thrusts have been to privatize first, the retail distribution system, then the wholesale marketing and storage systems. The Mission is now trying to further privatize the system by allowing private dealers to import fertilizer components directly, without going through the official BADC system. Consideration should eventually be given to privatization of fertilizer production. This fourth phase could possibly involve foreign investment, which the government seeks.

The fertilizer project of the Dhaka Mission has been extremely successful from many standpoints. In fact, it is probably the most widely-heralded agricultural project carried out by AID anywhere. It warrants continuation. It can be used as an example for duplication in other developing countries. It can also be a model for privatizing other agricultural and industrial activities in Bangladesh.

Recommendation #10: Study/observation of privatization in other Asian countries

Bangladesh has much to learn about how to plan, organize, and implement a privatization program. There are several Asian countries that have successfully carried out privatiztion programs of various types. It is recommended that small groups of carefully-selected Bangladeshi government and business leaders visit such countries. The tour groups should be evenly balanced between public and private members.

The countries to be visited could include Korea, Taiwan, Malaysia, Singapore, Thailand, and India. Sri Lanka, Indonesia, Japan, and the Philippines could be other countries to be considered. Each tour should include visits to no more than four countries; and the itinerary and make-up of participants should be designed to emphasize particular aspects of privatization and private enterprise development to avoid the tours being general junkets. Visits to each country should be arranged well in advance and designed for a stay of four to seven days.

Internships of three to six-month duration in these countries should be explored for Bangladeshi civil servants dealing with privatization matters. The Privatization Unit, if established, would be the counterpart coordinating agency for the tour program.

Suggested role for USAID

USAID could provide air travel and perdiem and use USAID Missions for planning visits and making arrangements. In countries where there is no USAID Mission, the services of the U.S. Embassy Commercial/Economic Section or the office of The Asia Foundation could make such arrangements.

Recommendation #11: Research on labor/employee aspects of privatization

The labor question is one of the most volatile and contentious issues connected with privatization of state enterprises in Bangladesh. The government and business have not come up with satisfactory solutions for the many problems involved, such as comparable fringe benefits, severance packages, retraining programs, employer-employee relations, labor negotiations, employee stock option programs (ESOP), etc. Research should be undertaken to study these issues and make appropriate recommendations that could be used in negotiations related to privatization transactions. This would include advice on how to design and conduct public education programs related to privatization issues.

Suggested role for USAID

USAID could sponsor such research, coordinating with appropriate professional agencies concerned with specific aspects of the labor issues.

Recommendation #12: Research on privatization and related policy issues

The proposed research should investigate subject areas of direct relevance to privatization and economic development, with the stress on public policy and administration. They could include:

- policy formulation and decision making
- organization for planning
- relationship of policy and implementation
- integrated private sector development programs
- cooperation between public and private sectors
- valuation of state enterprise assets
- legal issues involved in privatization
- regulatory environment, particularly import regulations
- rationalization of the tax system, reform of both policy and collection

- dissemination and interpretation of regulations and changes in procedures within the bureaucracy

The research would be supervised by the Privatization Unit and should include both Bangladeshi and foreign researchers. All of the research topics listed above are areas where Bangladesh has been weak. Lack of information in these areas has adversely affected carrying out an effective privatization policy.

Suggested role for USAID

USAID could support the research projects financially and by recruiting experts from abroad, using the resources of the Center for Privatization.

Recommendation #13: Research on industrial sector

Sectoral analyses should be carried out in selected industrial fields, especially those where the presence of SOEs makes privatization a possibility. Options for various types of privatization should be analyzed, and recommendations made. Parallel approaches for encouraging and assisting private enterprise activity in those fields should also be part of this action-oriented research.

These analyses could be conducted in any industrial or commercial field with potential for privatization (using the list of industries encouraged in IP-'86), but the following might be especially considered:

- agribusiness, particularly food processing, shrimp raising and processing, tea, tobacco, grain or rice storage and distribution, small tool and equipment manufacture, seeds and milling
- ship repair
- rubber products, including recapping
- small electrical machine manufacturing
- industrial tools manufacturing
- market analyses
- light engineering

Suggested role of USAID

Sponsorship of sectoral analysis research projects, in collaborabion with the Privatization Unit, including recruitment and hiring of foreign and Bangladeshi experts.

Recommendation #14: Use of International Executive Service Corps (IESC)

Development of Bangladesh industry will require critical inputs of technical assistance of the type offered so well by IESC. The IESC works best in assisting individual companies with short-term consultancies. Because of the variety of opportunities that exist for technical assistance in numerous industrial and commercial fields with privatization and/or private enterprise potential, serious consideration should be given to establishing a resident IESC representative in Dhaka.

Special care would have to be taken to insure that IESC expertise is not co-opted by the government and its

SOEs. The emphasis should be on assisting private companies to increase their capabilities in production, marketing, and management to enable them to take over areas now being handled by SOEs. Of course, IESC would also be made available to existing private enterprises (privatized or otherwise) to assist them in improving their operational capabilities and profitability.

IESC is ideally suited to this type of activity, but other technical assistance resources should also be explored. It is recommended that the resources of American industrial corporations be used rather than the traditional path of hiring personnel from consulting firms and universities.

Suggested role for USAID

USAID has been the source of IESC funding since the organization's inception. Support for IESC work in Bangladesh would be a logical extension of that relationship. For hiring of consultants from private companies, contracts could be on a cost-sharing basis, particularly if there was potential for joint venturing or investment.

Recommendation #15: Expanding and improving the services of chambers of commerce in Bangladesh

There are several large and influential chambers of commerce in Bangladesh. The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has the broadest base, the Metropolitan Chamber of Commerce and Industry (MCCI) is the most powerful, and the Dhaka Chamber of Commerce and Industry (DCCI) is perhaps the most practical in terms of engaging what we normally consider as chamber activities.

The privatization study could not encompass in-depth analysis of the various chambers' mandates and capabilities. Therefore, in the recommendations that follow, no suggestions will be made as to specific chambers with which to work.

As a group, the major chambers are influential bodies that can have a significant impact on the success of privatization initiatives, as well as private sector development in general. They are not fulfilling their potential for constructive contribution to private sector development, however. They are mainly narrow interest groups promoting the agenda of the leadership rather than the general membership. They have, however, been about the only spokesmen for the private sector to the general public and with the government. They do not offer the broad range of services normally associated in this country with chamber activities.

The chambers do have enormous potential for effective promotion of privatization and private sector development.

Therefore, the following types of cooperative activities with the chambers are recommended that would expand and improve their operations:

- The chambers should be encouraged to develop statements of business ethical standards and to police their membership for compliance. An energetic campaign of this type, coupled with public education activities could help to improve the presently poor public image of the business community that has so adversely affected privatization policy.

- Generally poor management has characterized the performance of many privatized firms. The chambers are ideally suited to conduct practical management training courses for Bangladesh business firms. In other countries, the business community, itself, has sponsored better professional management training than academic institutions (Taiwan and Malaysia immediately come to mind.)

- Small and medium-sized businesses are not well represented by current chambers (though the DCCI does a better job at this than the others). Consequently, small and medium-sized enterprises do not look to the current chambers for guidance and help. This is, kunfortunate, because these smaller enterprises need help the most. The larger firms can better take care of themselves. Also, the interests of the smaller firms are not taken into account in chamber representations to the government. The government wishes to expand the small business sector, feeling, rightly, that the future economic development of Bangladesh is dependent on expanding small business opportunities. But there is no one to represent them adequately in the existing chambers of commerce.

  Therefore, it is strongly recommended that a Federation of Small and Medium-sized Businesses be formed, either as a separate organization or as a semi-autonomous arm of an existing body. The latter is probably more practical because of the resistance to the idea that would come from the established business community elite.

  The proposed small business federation should have a country-wide spread, because the potential is great throughout provincial areas for development of small business. The potential for privatization in agri-business fields is greatest in provincial towns.

- A Public-Private Liaison Council should be formed as an informal but continuing forum for discussion of economic development and business issues, including privatization. Similar councils have been effective in other countries. Business leaders meet with government economic officials on a monthly or bi-monthly basis. Continuing contact can help to avoid strident and destructive confrontration in crisis periods. Such a forum can increase two-way flow of information and promote mutual understanding. The present government has not devoted enough attention to meeting with business leaders below the top policy levels.

Suggested role for USAID

USAID can provide a variety of forms of encouragement and support to the recommended activities just described. These activities can be an integral part of the private enterprise development program that is now evolving in the Mission. All of the activities just suggested also support, directly or indirectly, the objectives of the USAID/Dhaka Privatization Strategy.

List of Suggested Appendices

A. Footnotes (306 notes)

B. Bibliography (approximately 350 items)

C. Biographical sketch of the author (1 page)

D. List of divested enterprises (486 through early 1987)

E. List of public sector enterprises (281 as of Sept. 1986)

F. Survey questionnaire for privatized enterprises

G. Terms and Conditions Under Which the Transfer is Proposed (of divestiture ... ctions, 1982-83)

H. The Bangladesh Banks (Nationalization) Order, 1972. President's Order No. 26 of 1972

I. The Bangladesh Industrial Enterprises (Nationalization) Order, 1972. President's Order NO. 27 of 1972

J. Revised Investment Policy, Dec. 1975

K. New Industrial Policy, June 1983

L. Industrial Policy - 1986, July 1986 (excerpts)