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**Privatisation in Bangladesh:  
An Agenda in Search of a Policy**

*Paper 16*

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The present paper, **Privatisation in Bangladesh: An Agenda in Search of a Policy** has been prepared by *Professor Rehman Sobhan*, Chairman, CPD.

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## **Privatisation in Bangladesh: An Agenda in Search of a Policy**

### **INTRODUCTION: SCOPE OF THE PAPER**

Bangladesh has been exposed to a process of privatisation of its economic space for the best part of two decades. This process has moved from the transfer of ownership and management in contested space, in the area of manufacturing output and in the financial sector into domains which have traditionally remained the preserve of the state sector, such as education, healthcare, and public infrastructure. The underlying socio-political dynamics of this process is a subject of some fascination both to students of political economy as well as development administration. This is an area which has been addressed by me in other publications and constitutes part of my ongoing work so any discussion of this subject remains premature. In this paper it is therefore intended to focus on an overview of the actual privatisation experience in Bangladesh over the last 20 years. This will look at the expanding compass of privatisation, its underlying problems and will review the limited evidence which is at hand in analysing its outcome. The concluding part will discuss some possible implications of the present approach to privatisation in Bangladesh on the development process in Bangladesh.

### **THE INSTITUTIONAL INHERITANCE OF BANGLADESH**

#### ***The role of the state***

Historically, Bangladesh's development, in what passes for the modern sector of the economy, has been greatly influenced by public action. To the extent that agriculture was and remains the lead sector of the economy this has always delimited the contribution of the state sector to the economy, since the rural economy has remained under private ownership, as does small and rural industry, petty trade and transport. Thus, the contribution of the state owned enterprises (SOE) to value added at the apogee of the extension of public sector, in 1974, stood at 16.3% (Sobhan and Ahmed). If we look at yet another measure of the role of the state in the economy, the share of public expenditure to GDP then Bangladesh's share in 1972 stood at 9.2% which by 1995/96 had risen to 18.3%; this figure however, remains low by the standards of many developing and developed countries.

Allowing for the structural parameters which limit the compass of the SOE sector in the Bangladesh economy, the state has traditionally played a pioneering role in promoting development even in the rural economy. Thus the *green revolution*, based on the use of HYV technology, using fertiliser and irrigation was initiated in the 1960s under state sponsorship where various public corporations played an important role in dissemination of this technology, as well as in the installation of irrigation systems and distribution of fertiliser, both heavily subsidised from the state budget. State funds were also used in the provision of micro-credit under various state supported initiatives, promoting integrated rural development, which also involved heavy public investments in rural infrastructure development. The state sector from the outset has also played a pioneering role in the development of power, gas, urban water supply and drainage, the development of the entire communications infrastructure on land, in the air and the rivers as well as telecommunications. State funds have also largely underwritten developments in public educations at all levels, healthcare and

family planning, investment in science and technology. All these areas mentioned above, had from the inception of public action in the 1960's, been uncontested in their monopoly of economic space in Bangladesh. It was till very recently, taken for granted by professionals, public and donors that any development in these areas must originate from public action and expenditure.

In the area of contested space for manufacture and finance, the Pakistan Industrial Development Corporation (PIDC), as well as various development finance institutions (DFI) played a pioneering role in the development of the jute and textile sector through joint ventures, first with non-Bengali entrepreneurs in the 1950s and later in the 1960s, to promote Bengali entrepreneurs through equity support and loan finance (Hexner). This lead role by the state in promoting development in virtually all the key sectors of the then East Pakistan, now Bangladesh economy, derived from the prevailing development paradigm of that era which vested a lead role with the state in all areas where private entrepreneurs were seen as incapable or unwilling to play a risk taking role as equity investors. Outside of manufacturing and finance, the salience of the state as the catalyst of development was heavily underwritten by all aid donors of diverse political persuasions.

Even in the area of industrial development and finance there was a ready acceptance that the state had a role to play in the then East Pakistan, now Bangladesh, economy. Investment in a variety of medium and heavy industry projects set up by the East Pakistan Industrial Development Corporation (EPIDC) were financed by various aid donors ranging from the World Bank, Federal Republic of Germany, Japan, France, UK, Canada, Switzerland, USSR and Poland.

The multilateral agencies, the World Bank and Asian Development Bank (ADB), played a key role in channelling funds through the DFI to promote private entrepreneurship in Bangladesh. This was supportive of the strategy of the Pakistan government, during the 1960s to invest public resources in encouraging the emergence of a state sponsored Bengali bourgeoisie with a stake in the economy. In the second half of the 1960's, in private sector, Bengali participation in the jute industry, the lead industry inherited by Bangladesh, was catalysed by the EPIDC, which invested its equity in joint ventures with a number of first generation Bengali entrepreneurs. The DFIs also invested term loans to assist this process. As a result, a five million dollar jute mill could be vested in a prospective Bengali businessman whose own stake amounted to an investment of barely 10% of the cost of a jute mill.

### ***The entrepreneurial inheritance***

The lead role of the state derived from the historic dominance of economic space in Bangladesh by a non-Bengali entrepreneurial class, dating from the days of British rule, extending into the period of Pakistan rule between 1947-71 (Papanek). At the time of the liberation of Bangladesh from Pakistani rule in December 1971 the ownership structure in the modern manufacturing sector in Bangladesh was as follows:

TABLE 1

### **DISPERSAL OF OWNERSHIP OF INDUSTRY IN BANGLADESH IN 1969/70**

	Number of units	Value of fixed assets in Tk. mil	% share of fixed assets
A. EPIDC	53	2097	34
B. Private sector	2998	4041	66
i. Non-Bengali/Pakistani	725	2886	47
ii. Foreign	20	36	1
iii. Bengali	2253	1119	18

Source: Sourced from Table 10.1 (Sobhan and Ahmed)

In such areas as banking, insurance, ocean shipping, inland water transport, foreign aid interwing trade, domestic wholesale trade and even large retail establishments, private business activity was largely dominated by non-Bengalis. On the eve of the surrender by the Pakistani army, as of 16 December, 1971, to the joint forces of the India and Bangladesh, there was a wholesale withdrawal of this non-Bengali business class from Bangladesh. This class feared for their security in the post-liberation Bangladesh, in the charged milieu created as a consequence of the bloody war of genocide waged by the Pakistan army against the Bengalis during 1971. This precipitous withdrawal of the Pakistanis left a major entrepreneurial vacuum at the heart of the Bangladesh economy, since these non-Bengalis, were largely drawn from a few ethnic communities specialising in commerce (Papanek). Their business houses traditionally operated through close-knit family dominated management structures which had not only made the key entrepreneurial decisions but had also deployed their clans people in these family dominated enterprises in areas of senior, middle and even shop floor management. Thus at the liberation of Bangladesh, large areas of the economy lay abandoned, not just physically both managerially, with enterprise capacity left idle, little new investment, run down inventories and accumulated bank overdrafts bequeathed to Bangladesh by their departed Pakistani owners. In the same way, banks, insurance companies, most of the mercantile economy lay abandoned. This served to dry up the very lubricants which service the dynamics of an economy.

At liberation there was no readymade Bengali entrepreneurial class at hand to fill the economic space vacated by the departing Pakistanis. Bengali entrepreneurs accounted for 18% of manufacturing assets, mostly located in the jute and textile industry, where, we have observed, a first generation class of entrepreneurs had been inducted, under state patronage, over less than a decade, into arrange of medium scale manufacturing activities. A small class of Bengalis had moved into banking sector Bengali owned banks accounted for 18% of deposits whilst Pakistani owned banks accounted for 70% of the deposits (Sobhan and Ahmad). 12 Bengali insurance companies accounted for only a small share of the insurance business which was also dominated by the Pakistani companies.

### ***The background to the extension of the state sector***

Given the limited private entrepreneurial capacity to fill the vacuum bequeathed by the abrupt

withdrawal of the Pakistani entrepreneurs, the Government of Bangladesh had to assume control over all the abandoned enterprises. This involved a disproportionate expansion of the public space into the traditional domain of private entrepreneurship. The post-liberation government of Bangladesh (GOB) found itself in control of 47% of modern manufacturing capacity over and above the 34% under ownership of EPIDC, a large part of the financial sector along with a large number of small commercial establishments.

Ideology had very little to do with the growth in the size of the state sector in the economy during 1972. Where ideology did come into play, was in the take over of Bengali owned enterprises in jute and textile as well as in banking and insurance as a result of a policy decision to nationalise these sectors, taken in March 1972 and formalised under Presidential Order (PO) no. 27. It is however evident that the major contribution to the growth of the SOE sector originated in historical circumstances created by the liberation of Bangladesh.

This review of the background to the growth of the state sector in post-liberation Bangladesh is important if we are to contextualise the subsequent privatisation process. We have observed that the origins of this expansion lay in the pre-liberation inheritance of an extended public sector, the domination of private space by an expatriate business class whose precipitate withdrawal left a gaping entrepreneurial vacuum to be filled by the state and an underdeveloped Bengali commercial bourgeoisie whose exposure to industrial management was at its first generation stage, barely a decade old.

It was apparent to the post-liberation GOB that, whatever ideological influence informed their approach to the role of the state, there was no way that they could continue to retain responsibility over the 725 enterprises inherited by them from the departed Pakistanis. The original P.O. defining the scope of state investment in the manufacturing sector thus limited the take over of abandoned enterprises to those with fixed assets above Tk. 1.5 million. This involved 263 enterprises with total assets valued at Tk. 2630 million. This left 462 enterprises with an estimated asset value of Tk. 256 million to be divested to private ownership. Over and above these manufacturing establishments a large number of Pakistani owned commercial establishments under the administration of the GOB, which at no stage were intended to be kept under state ownership, also had to be divested. The popular rhetoric that the post-liberation government quite indiscriminately 'nationalised' even *Paan* shops thus bore no relationship to the policy or indeed the intent of the GOB at that time.

In the immediate aftermath of liberation, with a large part of the infrastructure damaged by war, closed factories and employees facing starvation, the primary goal of the government was survival of the population and meeting the human needs of both workers and consumers. At that stage there was no guiding strategy to set either ownership parameters or management guidelines. The decision to nationalise the larger of the abandoned units established a policy framework under P.O. 27 for determining the future of the abandoned enterprises. P.O. 27 not only expanded the frontiers of the SOE sector but left the government with a major task of divesting itself of those units which had enjoyed only a brief tenure under public administration and whose ownership now remained in a juridical limbo.

However, to deciding to dispose of a large number of enterprises under the administration of the government, saddled with large debts, no inventory, little managerial back-up, is rather more

difficult than appears to be contemplated by the *Privatisation Division* of the World Bank. In the post-liberation period these units had been put under the temporary management of a miscellany of people enjoying the patronage of the then government. Many such units were put under officially designated administrators. Some of these administrators were government servants, some were private citizens close to the then government. Some were put under the management of junior managers already employed by the erstwhile owners of the abandoned enterprises, some were even put in control of the workers of these enterprises.

The weakness in the performance of these *ad hoc* appointee managers was, as may be expected, mixed. Some performed quite well, given the extraordinary difficulties each enterprise faced at that time. Some performed badly either due to inexperience or malfeasance or both. The predatory tendencies of some of these managers was one of the compelling reasons of the then GOB to finally nationalise the most viable of these abandoned enterprises which could not be left to the mercies of such predators. The nationalised units were all units with fixed assets valued at more than Tk. 1.5 million. Many of these, such as the large jute and textile mills or the Karnaphuli Paper Mills owned by the Dawood group, made a major contribution to Bangladesh's economy. It was thus imperative for the government to put such high production potential within the institutional discipline of a public body who would be made accountable for the performance of the enterprises. 11 sector corporation were set up and the 263 now nationalised abandoned enterprises were distributed amongst these corporations along with 53 enterprises owned by EPIDC as well as 75 Bengali owned enterprises in the Jute and Textile sector and one Bengali owned sugar mill.

It is argued that this single act of establishing accountability through placing the abandoned units under the ownership of the sector corporations saved many of these once viable enterprises owned by the Pakistanis, from commercial disintegration. Many of these units, once put within the control of public corporations were indeed revitalised with new investments since their Pakistani owners had starved them of fresh resources, preferring to divert their profit to West Pakistan. However, not all the units put under the corporations were run as efficiently as they used to be under their former owners. The new managers suffered from both lack of experience and in some cases the owner's incentive to perform. But this was far from being a universal pattern and many enterprises indeed improved their performance under public management, compared to their performance under Pakistani ownership putting in additional investments, upgraded technology and even more professional management. Many of the corporation executives and SOE managers, during those early years, worked long hours without adequate material incentive, with great dedication as well as imagination, under extraordinarily adverse circumstances. The facts and dynamics of public enterprise performance in that period have been discussed elsewhere (Sobhan and Ahmed) and need not detour us in this paper.

## **BANGLADESH'S APPROACH TO PRIVATISATION**

### ***The changing perspective on SOE***

The rather mixed performance record of the SOE performance in the post-liberation period has, following the assassination of Bangabandhu President Mujibur Rahman in August 1975 and the change of regime through a military coup, been superseded in public discourse by a popularised belief that all enterprises under the Corporations performed badly due to their being under public ownership. This popular perception, which made its appearance from the mid 1970s, has crept into

the policy orientations of successive policy makers who began to themselves argue that all SOEs performed abysmally, without making any differentiation between various corporation and within these, between various enterprises as to their actual economic performance, market regime and operating environment. This universalist perspective was reinforced by the change in the developmental vision emanating from the multilateral lending agencies, who began to argue, with increasing stridency that the government should withdraw from 'business' through disinvestments of all SOEs. This view was apotheosised in the work of the World Bank, *Bureaucrats in Business*, published in 1995.

### ***The evolution of privatisation policy***

The evolution of Bangladesh's privatisation policy reflects both the outcome of regime changes in 1975 as well as the evolution in the thinking of the donor agencies on this subject. Under Pakistani rule, through the 1950s and 1960s state policy on the SOEs had remained pragmatic. In the Pakistan period the approach was to set up industries in the state sector where private enterprise was not forthcoming and to privatise state enterprises to private agents who were willing to invest in such units. The pioneering effort by PIDC to found a jute industry in Pakistan led to the disinvestments of PIDC's stake to the leading Pakistani business houses of the period (Hexner). In later years, Karnaphuli Paper Mill, a large public enterprises was sold at a sub-market price to the Dawoods, Pakistan's leading business family. In the late 60's some units in the textile and sugar sector were divested to Bengali entrepreneurs. In the immediate post-liberation period policy for a brief period committed itself to establishing the paramountcy of the state sector over the economy. However even during this period, we have observed that the paramount of the state in business activity was largely inspired by historical circumstance rather than ideology.

The process of divestment of all these units not corporated in Presidential Order 27 thus began from 1973. Between 1972-75, Table 2 shows that 114 units, with a sale value of Tk. 41 million were divested. These were small units with an average unit value of Tk. 360,000. This process of divestment was stepped up in the second half of the 1970's with a decision to divest jute spinning mills and some specialised textile units on the grounds that they were not covered by the nationalisation order of March 1972 which extended to only jute and textile mills. The approach of the GOB in the second half of the 1970's during the tenure of the late President Ziaur Rahman, was to directly promote private entrepreneurship through an ambitious programme of term loans extended through the DFIs which had in turn been underwritten by loans from the World Bank, ADB and other donors. This approach assumed the co-existence of an extended SOE sector with a pro-active official policy to promote private enterprise.

TABLE 2

### PHASING OF THE PRIVATISATION PROCESS

	1	2	3	4	5	6	7
No.	Period of Disinvestment	Number of enterprises	Value of Sales (Tk.)	Amount Recovered (Tk.)	Unit value (Tk.) (3÷2)	4 as % of 3	Dispersal by period of sale (%)
1.	Pre liberation	13	23,87,125	23,87,125	183625.00	100%	.10
2.	1st Jan. 1972-30 June 1975	114	4,10,63,276	4,05,22,381	360204.18	99%	1.68
3.	1st July 1975-30 June 1981	247*	52,93,77,694	48,89,17,651	2143229.53	92%	21.72
4.	1st July 1981-30 June 1991	125**	126,33,19,190	99,64,12,927	10106553.52	79%	51.83
5.	1st July 1991 -	6	60,14,61,528	58,08,87,814	100243588.00	96.5%	24.67
	Total	505	243,76,08,813	210,91,27,898	4826948.15	86.5%	100

\* 16 industries were given back to the original Bangladeshi owners free of cost.

\* 5 industries were taken back by the govt. for nonpayment of the dues by the buyers.

\*\* 6 industries were taken back by the govt. for nonpayment of the dues by the buyers.

Source: Board of Investment

TABLE 3

### SIZE DISTRIBUTION OF PRIVATISED UNITS

	1	2	3	4	5	6	7	8
No.	Sale by value (Tk.)	Number of enterprises	Value of Sale (Tk.)	Unit value (Tk.)	Amount Recovered (Tk.)	Balance (Tk.)	Dispersal by sale value	5 as % of 3
1.	Below Tk. 25 lakh	384	16,23,58,655	4,22,809	15,44,30,076	79,28,579	7%	95%
2.	Tk. 25 lakh - Tk. 1 crore	77	39,45,57,004	51,24,117	35,98,85,169	3,46,71,835	16%	91%
3.	Tk. 1 crore - 5 crore	32	71,51,86,779	2,23,49,586	58,24,34,598	13,27,57,181	29%	81%
4.	Tk. 5 crore - 10 crore	9	54,90,40,028	6,10,04,448	46,49,65,379	8,40,74,648	23%	85%
5.	Tk. 10 crore +	3	61,21,77,350	20,40,59,117	54,31,23,651	6,90,53,699	25%	89%
	Total	505	243,76,08,813	210,91,27,898	32,84,80,915	100%	86.5%	

Source: Board of Investment

There was some discussion in the later years of the Zia regime, over returning those jute and textile mills once owned by Bangladeshis, which had been nationalised under P.O. 27. At one stage around 1979/80 it was reported that the jute mills nationalised from the Bengalis in March 1972 would be returned to their owners. However this position was reversed when the units under the Bangladesh Jute Mills Corporation (BJMC) turned in a net profit of Tk. 1062 million in 1979/80 and Tk. 338 million in 1980/81. It was argued that there was no grounds for divestment since the BJMC had established the potential for earning profits from its SOEs in the jute sector.

By inference, the implicit premise of the Zia regime's, privatisation policy appears to have been to leave the SOEs which were making profits with the Corporations. Under such an approach, SOEs in

all sectors, even jute, indicated that, with the right support and market opportunities they could become profitable. In such a policy milieu it was not surprising that privatisation did not assume any significant momentum. Thus, following the assassination of President Zia when the BNP party was removed from power by a military coup in March 1982, virtually all the SOEs inherited by this regime from the period of Awami League rule remained within the state sector. Similarly, all these banks and insurance companies taken over in 1972 also remained under state ownership. The preservation of the status of the SOEs had however gone hand in hand with a rapid extension of private enterprises in industry, the emergence of some privately owned banks and insurance companies. These initiatives to support private enterprise still left the state sector as the paramount entrepreneur in 1982 both in modern industry and in the financial sector.

In the agricultural sector, aid conditionalities applied by the World Bank and U.S. Aid during the late 1970's, pressured the GOB to privatise the distribution of agricultural inputs hitherto monopolised by the state owned *Bangladesh Agricultural Development Corporation* (BADC). Up to the early 1980s there was no significant pressure from within Bangladesh's private sector to accelerate the process of privatisation. Those who were engaged in private enterprise were sufficiently preoccupied with the opportunities for investment in *greenfield* enterprises, provided through the liberal lending policies of the DFIs. Whilst the erstwhile Bangali jute and textile mill owners never gave up on seeking the return of their nationalised enterprises most of them had moved into other areas of business and did not appear to be excessively preoccupied with the privatisation of their mills.

### ***From divestment to privatisation***

Table 2 gives the dispersal of sales over different time periods. Table 3 establishes that in numerical terms the bulk of the units to be divested were small units but in value terms the top 121 units, with assets above Tk. 2.5 million contributed 97% of the total sale value, 44 units with assets above Tk. 10 million accounted for 77% of the sale value of the privatised units.

Table 2 shows that beginning from 1975, to June 1981, which covers the Zia era, 247 abandoned enterprises had been privatised with a sale value of Tk. 529 million. The unit value of these sales comes to Tk. 2.1 million which suggests that a large size of enterprise was now being privatised. The larger units however, remained with the Sector corporations throughout the Zia era. The acceleration of the divestiture process thus really dates from the period when General Ershad took over power through a military coup in March 1982. During the decade of 1982-91, which largely overlaps with the Ershad regime, only 125 enterprises were divested but these units were valued at Tk. 1.26 billion with a unit value of Tk. 10.1 million. This suggests that a much larger size of enterprise, mostly drawn from enterprises under the sector corporations, were put up for divestiture.

The process of privatisation in Bangladesh thus effectively dates from the Ershad era when, for the first time, enterprises which had been brought under the direct ownership of the GOB under P.O. 27 were released for sale to private buyers. Prior to this period the 361 enterprises so far privatised had not been classified in the SOE sector or had been incorrectly included and were thus released to their former owners. 1982 would thus serve as an appropriate dividing line between the phase of divestiture of abandoned units administered by the government and the actual privatisation of SOEs, under the juridical ownership of the state.

The decision by the Ershad government to initiate such a process of privatisation of units, hitherto under public management, did not however derive from any clear policy premise. The *New Industrial Policy (NIP)* of 1982, which was the first holistic policy statement of the GOB to embrace the World Bank *Structural Adjustment Reforms (SAR)*, spoke of a policy to promote private sector development but only made a passing reference to the privatisation of public enterprises. The NIP did not clearly spell out a policy indicating which areas will be exposed to privatisation and which would remain under public ownership. Each set of decisions to privatise a particular state enterprise tended to be an *ad hoc* decision originating in an executive order specific to the enterprise or to policy conditionality attached to a particular loan either from the World Bank or the ADB.

### ***Ethnic disinvestment***

The first big round of privatisation initiated in 1982 related to the return of the Bengali owned jute and textile mills covered by the Presidential Order of March 1972. The policy premise of these executive decisions remains obscure since it applied an ethnic premise to the privatisation process rather than an economic rationale which would have covered all the units nationalised under P.O. 27. The logical decision would have been to legislate the de-nationalisation of the jute and textile industry and to thereby put up all units in these two industries for private investment. In 1982, jute and textiles together accounted for around 60 of the value added in the manufacturing sector so that any decision to privatise these units would have initiated a major change in the ownership structure of the modern industrial sector. The GOB, however, took a decision to divest only the Bengali owned units to their former owners. The GOB's decision did not expose such a privatisation process to any form of competitive bidding or take into account whether the former owners were still in business, were keen to return to the management of their enterprise or were even alive.

A decision to restore the industry to their former owners would have involved inviting the former Pakistani owners to reassume the ownership of the same enterprises they had abandoned in December 1971. The Ershad regime presumed that such a decision, even in 1984, a decade after liberation, would have aroused some political furore in Bangladesh, even under a Martial Law regime. This proposition is, however, only a presumption since the then GOB never did spell out why they limited their privatisation decision only to those industries owned by Bengalis. Such a disinvestment decision is possibly rare around the world. The Malaysian policy of favouring divestiture of SOEs to Malays or *bhumiputras*, approximated the then GOB policy. Under the prevailing world order, however, issues of discrimination and human rights are attracting the attention of the World Trade Organisation (WTO). The validity of such an ethnic based disinvestment process, under the prevailing world norms, may, thus, not only be politically unsustainable but could even be legally challenged under the WTO for being discriminatory and hence hostile to fair trade. Fortunately for the GOB, no former Pakistani owner has challenged this ethnically-driven decision of the GOB or sought, through the courts, a restitution of their industries. Some Pakistanis did, however, in that period, visit Bangladesh to explore the possibility of a return of their enterprises. They were discretely advised by people of influence in Bangladesh that such a policy was politically unsaleable. It was, thus, hardly worth the investment of their money and effort to recover their erstwhile enterprises, particularly in industries which were already being categorised as *sunset* industries in Bangladesh.

### ***Policy-less privatisation***

It was around the time of the 1982 NIP that the GOB began to publicly embrace the world view propagated by Thatcher, Reagan and subsequently the World Bank that SOEs were inherently 'bad' and that 'bureaucrats' should get out of business. Under this anti-state world view it was taken for granted that bureaucrats' were pathologically incapable of running any industry. By a process of intellectual osmosis all managers of SOEs were ascribed with the pejorative term of *bureaucrat*. This political shift in the rhetoric of the GOB was however never translated into policy doctrine. To this day there is no policy decision spelling out which industries or even sectors of the economy will be retained under public ownership and how many will be privatised. What we have is a series of loose re-statements of popular clichés that the business of the government is not business. But no categorical statement of what actually is the *business* of the government, has been forthcoming from successive GOBs.

The conceptualization of these rhetorical positions by successive GOBs was thus left to the World Bank in their various policy pronouncements offered through their annual *country economic memorandums (CEM)* presented every year to the *Bangladesh Aid Consortium* meeting in Paris. The donor's own policy positions on privatisation were more explicitly stated in particular policy loan documents and finally in a *grey cover* report prepared in the World Bank's *South Asia department* (World Bank 1994a).

In the years preceding the publication of the World Bank's Bangladesh privatisation report and subsequent to it, the World Bank had attempted to move the issue of privatisation in Bangladesh from the realm of philosophy to that of policy. The World Bank sought some categorical commitments from the GOB to privatise particular activities. Thus, for example, a number of policy loans, dating back to the end of the 1970s, committed the GOB to privatise and desubsidise fertilizer distribution and to sell off irrigation equipment held with various public agencies. These policy commitments sought from the GOB, reached their culmination in the *Food Crop Sector Loan (FCSL)* signed by the GOB in 1989 with the ADB. The FCSL, committed the GOB to a time bound agenda to sell off all irrigation equipment under the ownership or control of public agencies and to privatise fertiliser distribution at all levels, including imports. The GOB's role was to be limited to producing nitrogenous and phosphatic fertiliser in a number of SOEs under the *Bangladesh Chemical Industries Corporation (BCIC)* and to sell this product at the factory gate to private traders. Failure to meet these disinvestment targets, at least for the sale of irrigation equipment, exposed the GOB to suspension of aid to the agricultural sector not only from the ADB but from the World Bank and other donors under *cross conditionality* clauses. Indeed failure to meet the schedules to the ADB under the FCSL exposed the GOB to *cross conditionalities* in other loans outside the agriculture sector, on offer by ADB, which demanded commitments by the GOB to divest themselves of irrigation equipment.

The World Bank, as in 1990, introduced conditionalities to privatise those jute mills, formerly owned by Pakistanis, but still under the *Bangladesh Jute Mills Corporation*. This was part of a wider set of conditionalities imposed by the World Bank on the GOB. These, involved closure of some publicly owned mills and privatisation of the remainder. Similar provisions to privatise particular textile mills still held with the *Bangladesh Textile Mills Corporation*, other units under the Sector Corporation and certain Nationalised Commercial Banks (NCBs), found their way into particular policy loans to the GOB from the ADB and World Bank.

The GOB had, as part of its implicit policy of ethnically driven privatisation process, also returned two NCB's, *Uttara* and *Pubali Bank*, to their former Bengali owners and had also returned Bengali owned insurance companies to their former owners. None of these actions of the GOB had any policy cover since ethnic disinvestment still had not been recognised as official policy.

Table 2 indicates that the GOB eventually disinvested 486 enterprises between 1972 and 1996, valued at Tk. 2.4 billion and in that time value added from manufacturing SOEs, in relation to GDP, had been more than halved. This is quite an achievement by Third World standards and hard to match, outside Chile and Eastern Europe. However, notwithstanding this impressive record, successive GOBs, to date, have not yet placed a policy statement before parliament, on privatisation policy. This has not prevented these regimes from making eloquent protestations about their desire to privatise large parts of the state sector without spelling out what, why, to what extent and how rapidly this process will be carried through.

### ***Privatisation in the contemporary era***

As of today, private enterprise has moved ahead to establish private schools, universities and hospitals. Private and public enterprise thus co-exist in areas hitherto under the public domain. In the absence of clear policy guidance, academics from state universities and quasi-government research institutes, along with doctors attached to various government hospitals, moonlight quite openly in the service of these private institutions whilst drawing their salaries from the public purse.

In recent years the area of public utilities has also been opened up to private enterprise. In the case of telecommunications, private firms have been given franchises for cellular phones, which are interlinked to the lines of the state owned telecom system. The lead in this area has been taken by the world-renowned *Grameen Bank*, which has entered into a business collaboration with Norway's state owned telecom company to introduce cellular phone services to the rural areas. *Grameen Telecom* are now negotiating to use the idle capacity of the fibre-optic telecommunications links of the *Bangladesh Railways* to reduce the costs of their services.

The GOB has now also committed itself to induct private foreign investors into power generation. As of May 1997, contracts, both for fixed and barge mounted installations have been signed by particular foreign companies and the *Power Development Board*, who are committed to buy the output of these private producers at an agreed price. Power distribution still remains in the public domain but in some areas, on an experimental basis, power distribution has been privatised into the hands of either some private agents or a collective of *Power Board* employees. In other areas of service delivery, private security firms market services to private commercial establishments and the houses of the elite.

In the prevailing milieu there is no area of economic activity which has been left as exclusive to the public domain. Each encroachment by the private sector into public space is viewed by the GOB on its merits rather than as part of any clear policy. In all these areas opened up to private enterprise the state still remains the major provider so that an admixture of public and private enterprises co-exists within a state of permanent evolution. This has exposed, what today constitutes the public sector, to total uncertainty as to their future since there is no activity under the control of the state which is not open to privatisation.

## POST-PRIVATISATION PERFORMANCE

### *The invisible privateers*

In the absence of any clear guidelines defining the division of labours between the public and private sector, the stars remain the limit for what may be undertaken by the private sector. However within this open ended environment for private enterprise much less is known about the performance of the private sector, particularly in areas which were once under the public sector. Unfortunately, for a country, where the argument for privatisation has been at the forefront of the agenda of donor driven policy reforms and where three successive regimes have committed themselves to privatisation, a veil appears to have been drawn over the performance of Bangladesh's privatised enterprises who seem to have become invisible. In the remainder of this paper we thus attempt to give more visibility to the performance of the privatised units. This exercise draws upon the limited evidence at hand from the few attempts made so far to provide some information on the privatised enterprises of Bangladesh.

Up to March 1991, even though 505 enterprises had been privatised no piece of paper was available with the GOB indicating what may have transpired within these units since their privatisation. Nor did the aid agencies who had so enthusiastically pushed the privatisation agenda initiate any major empirical investigation of the fate of the privatised enterprises to establish the validity of their now axiomatic advice to the GOB, that privatisation would lead to improved economic performance both at the enterprise level and for the economy at large. Thus, considering that by 1991 nearly 500 SOEs had been privatised and the GOB was under pressure from donors to divest itself of the remainder of the SOEs still under the Sector Corporations, or in the form of NCBs, some indication of how these privatised units had fared would have been of enormous help to policymakers in seeing how far and fast they may persevere along the road to privatisation.

The GOB appears to have been moved by the general belief that once a unit had been privatised there was no further need for them to lose any sleep about what happened to the unit. This position was however rendered somewhat untenable by virtue of the fact that all units so divested had assumed their ownership by making a down payment on the contracted cost of the privatised unit. Thus the GOB retained an ongoing responsibility to collect the outstanding balance of the sale price from the buyers of the SOEs. Whilst most of the amount due from the SOEs divested upto 1981 had been repaid (8% of Tk. 40 million of the sale value was overdue), 21% of Tk. 267 million of the sale proceeds of SOEs sold between 1981 and 1991 still remained to be collected. Thus, as of 30 June 1996, 14.5% or Tk. 328 million of SOE sale proceeds still remain to be collected. Whilst this is not a big figure in relation to the diverse obligations owing to the state, the GOB could not remain indifferent to the fate of these privatised enterprises, even though they are now in private hands.

However, of more serious concern to the GOB than its sales dues was the fact that most, if not all, privatised SOEs inherited overdrafts to the NCBs, accumulated prior to their disinvestment. The sub-market price set by the GOB as the privatisation price of the SOE owed largely to the liabilities passed on to the private buyer. Thus the state, through its NCBs and DFIs, retained an ongoing relation with most of these divested enterprises until they discharged their debt liabilities owing to the public financial institutions. There is some casual evidence, now under empirical investigation,

that many of these liabilities carried over by the disinvested SOEs and further compounded during their tenure in private hands, remain outstanding to the NCBs. Thus the GOB retains a stake in the post-privatisation performance of the SOEs both to be able to collect on its dues as well as to confirm if their assumptions about more efficient management under private ownership, have been realised. Over the last decade only a few papers, largely using secondary data, had attempted a review of the impact of privatisation and this has been limited to a small range of industries (Sobhan 1993). Thus evidence on the performance of privatised units is far from conclusive because of the limitations of methodology and coverage, as well as the absence of basic data, due to the lack of any empirical work, based on contact on the ground, with the privatised enterprise.

### **THE BOI SURVEY OF PRIVATISED ENTERPRISES - 1991**

The very first attempt to generate primary information through contact with the disinvested SOEs was carried out in early 1991 by the *Board of Investment* (BOI) at the be request of the *Executive Committee of the National Economic Council* (ECNEC) during the tenure of the interim government under President Shahabuddin Ahmed. This was indeed the very first ever attempt by the GOB to contact the privatised enterprises. The BOI field exercise was based on a rough and ready and hence rather superficial survey, because of the limited time available to the BOI. The BOI report submitted to ECNEC in March 1971 indicated that out of 290 enterprises for which information had been collected, only 47% remained in operation and 75 or 52% had closed down (Sobhan 1991). Of those closed, half had ceased to function as industries and were using the premises for alternative purposes.

It was expected that more in-depth work would be initiated by the incoming GOB, elected to office in February 1991 or that the World Bank would initiate an in-depth review of the outcome of privatisation. But no such work was forthcoming during the entire 5 year tenure of the BNP regime from 1991 to 1996. Whilst the BOI survey provided far from conclusive evidence about the performance of the privatised units, the fact that around 50% of these units had closed down suggested that the post-privatisation performance of these units had not been a universal success. This *prima face* evidence did, therefore, suggest a need for more intensive investigation as to why so many units were closed and how efficiently those that remained in operation, were doing their job. This information would have enabled the GOB to calibrate its ongoing privatisation policy to the experience on the ground registered over at least the last decade. Unfortunately the GOB remained, along with the World Bank, indifferent to the fate of the privatised units whilst persisting with its policy to accelerate the privatisation process.

#### ***The slow down in privatisation***

Notwithstanding the lack of any evidence on the fruits of privatisation, pressure from the donors on the GOB intensified to press on regardless. The fact that only six units were privatised by the BNP government between 1991 and 1996, inspite of a commitment to accelerate the process, provoked the belief amongst the donors that the newly elected regime of the BNP under Khaleda Zia had weakened in its resolve to push ahead with privatisation. This unsubstantiated perception of the GOB's intentions invited further pressures from the World Bank to accelerate the privatisation of the remaining SOEs under the sector cooperations as well as the NCB. Specific units were targeted by the World Bank for privatisation within a defined time period.

The failure of the GOB during the 1990s to match the performance of the Ershad regime's rather robust approach to privatisation during the 1980's remained something of an enigma to Bangladesh's donors. Again, without investigating the circumstances underlying the slow sown in the privatisation process in the 1990's, the Bank argued that the Privatisation Board (PB), chaired by a retired bureaucrat, was too weak to push ahead with privatisation. The belief was then propagated that a private sector chief executive of the PB may privatise the SOEs more expeditiously.

Thus the new Awami League-led government elected to office in June 1996, appointed a well known businessman, to become chairman of the Privatisation Board. This gentleman, was uniquely for a statutory body, given the rank of a *State Minister* and permitted to continue with his own business operations, whilst serving as *Honorary* Chairman of the Privatisation Board. The new Chairman has committed himself to accelerate the process of privatisation and has immediately advertised the sale of a large number of units now under the sector corporations, a number of which are profit-making enterprises.

This approach by successive GOBs, both acting under donor pressure, takes the view that the pace of the privatisation process is entirely supply-driven and is hence dictated by the seriousness of intent of the respective GOBs. Little attention is given about the intensity of demand by prospective buyers of the divested SOEs. Little thought is given to the possibility that such private buyers may be few in number because of the limited pool of business talent in the country and the scarcity of investible resources at hand. Indeed if such resources were at hand why would prospective private investor not invest this in a *greenfield* enterprise rather than on an old unit, with obsolete equipment, saddled with both debts and problems. Lack of any such reflection on the demand-side constraint appears to have pushed donors to suggest that the GOB reduce the price of the divested units or absolve their liabilities. The failure of an elected government to make such non-transparent decisions, so as to expedite the privatisation process is then interpreted as a failure of intent. This unidimensional approach to privatisation is now driving on the present GOB, again under donor pressure, to be rid of the SOEs at any cost.

### **THE BIDS SURVEY ON PRIVATISATION OUTCOMES - 1997**

The new GOB as well as the *Privatisation Board* still remain in deep ignorance about the fate of the privatised units who demonstrate little, if any transparency to either the GOB, their bankers or researchers on their post-privatisation performance. Visits to these companies, rarely yield any quantitative information. A recent study commissioned by the incumbent Minister of Finance, was carried out at the *Bangladesh Institute of Development Studies* (BIDS), under the direction of *Binayak Sen*. This study, constrained again by time, is far from insightful into what is going on in these privatised units, but does provide some crude primary information on their current status. Sen's study, based on the BIDS survey, could only provide some first hand information to indicate whether units were operational or not and could elicit some qualitative observations from workers and those of the management who agreed to talk to the investigators, about the profitability of their enterprises. Since Sen's data is yet to be fully analysed and published, I will, with due acknowledgement to his pioneering effort, make only limited use of his survey.

The BIDS survey covered 205 enterprises privatised from 1979 onward. This excluded around 300 units privatised prior to 1979 and listed in the BOI surveys. Of the 205 units surveyed by BIDS, only 112 (54.6%) were found operational, 83 (40.5%) were closed and 10 (4.9%) were proved to be non-

existent. The fact that 54.6% of the units, as of April 1997, were operational, compared to 47% which were found operational in March 1991 in the BOI survey, may perhaps reflect the fact that the BIDS survey restricted itself to units privatised since 1979 since the smaller older units may be expected to have a higher casualty rate. However both surveys indicate that around half of the disinvested units have indeed closed down. It is to be noted from the BIDS survey that of these units in operation some had remained closed for around 5.5% of the time as between their privatisation and the date of the BIDS survey. Of those units that were currently closed, at the time of the BIDS survey, they had, since divestiture remained closed for 47.5% of the time. 31% of these units had closed down in the last four years. It would appear that such privatised enterprises step in and out of operation as their circumstances change so that continuity of operations of such units, including those in operation today, should not be taken for granted.

### ***Performance estimates***

Of the 112 units found to be operational, 8% were deemed to be operating at 100% capacity, 56.3% at 75-99% capacity, 25% at 50-74% capacity and 10.8% at below 50% capacity. Here again, the survey estimates remain impressionistic, originating from people interviewed at the enterprise, and is not based on quantitative evidence. Nor does the survey indicate if estimates of capacity use are based on single or multiple shift capacity use. Casual empiricisms indicates that a number of enterprises have the potential to operate at double and some even at triple shift capacity. Thus estimates based on a single shift would provide an estimate of capacity use at well below the potential of many of the privatised enterprises.

Similarly impressionistic evidence about enterprise profitability reports that of the 195 enterprises for which information is available only 5.6% termed themselves to be *highly profitable*, 33.8% as *profitable*, 6.7% as *breaking even*, 16.3% as *loss making* and 43.6% as sustaining *high losses*. Since 83 of the 205 reporting units were reported to be closed and may be presumed to have been *losing concerns*, but 122 units were reported as *making losses*, it may again be presumed that 39 of the 112 units (35%), which are reported as operational, appear to be *making losses*.

How far did privatisation help to improve the performance of enterprises compared to their pre-sale position? If we compare the divested units, pre-and post divestiture, it may be observed that prior to divestiture, 9 units were highly profitable in contrast to 11 units becoming profitable after divestiture. Thus another 2 of 11 units which were profitable improved their profitability after divestiture but in the 9 other cases, units which were highly profitable as SOEs continued to be highly profitable when privatised. A positive outcome of privatisation appears in evidence from the fact that the number of units reporting to be *profitable* increased in number from 38 to 66 after divestiture. This implies that of the 26 units reported as breaking even prior to divestiture, 13 units became *profitable* after divestiture whilst of 105 units reported as sustaining *losses* prior to divestiture, 15 units became *profitable*. In contrast, where only 17 units reported *high losses* prior to privatisation, now 85 units reported *high losses*. Thus, of the 105 units reporting *losses* prior to privatisation, 15 units became *profitable*, 20 units continued to make *losses* but 70 units moved into the category of *high losers*.

This picture emerging from the BIDS survey, may well be a statistical artifact demanding fuller analysis as well as more in-depth investigation of the situation prevailing in each enterprise. In the

absence of any balance sheet information, investigation could be made with the commercial banks to ascertain whether the surveyed units today, reported to be profitable, are in default to the banks. In the absence of such investigation, which will hopefully be forthcoming at a later stage of the Sen study, an impression may be drawn that privatisation may have helped to make some *break even* and *loss making* units profitable but may have also contributed to the *aggravation of losses* and eventual closure of a number of *loss making* units. In between, we have the added problem of 35% of the operating units surveyed by BIDS, reporting that they are making losses today.

This picture suggests that privatisation has its positive and negative aspects. Though, if one takes the view that closure of loss making units is also a positive feature of privatisation, then the Bangladesh experience may well be more promising than is apparent from the proportion of units reported to be closed. Another interesting point about the closed units is that 28 of the 83 closed units restructured themselves. Of these renovated enterprises only 10 moved into alternative production activities, whilst 18 used the land to open shops, hotels, storage facilities or used it for residential purposes. Of the 112 operating units, 39% reported some product diversification which suggests a capacity for resilience amongst units which have made themselves more profitable. It is possible that these units which graduated from loss to profits may have achieved this through some effort at product diversification.

These observations about the positive impact of privatisation must remain qualified until evidence about enterprise profitability is backed by more categorical quantitative evidence, including information on the credit status of these profitable enterprises available with the banks. Thus a more focused exercise would need to examine how far the privatised SOEs, both closed and operating, are in default of their debt repayments to the commercial banks as well as the DFIs, and whether they have increased or reduced their bank liabilities since their privatisation. Another area of objective and independently assembled source of evidence would be to ascertain information about tax payments, both direct and indirect, by each enterprises before and after privatisation. This would enable us to ascertain whether the operating as well as closed enterprises have passed on some of their liabilities to the banks and the *Board of Revenue* and whether those units reporting their profitability, can do so by virtue of defaulting on their fiscal obligations.

### ***Disemployment after divestiture***

More objective information elicited from the BIDS surveyed enterprises indicate that one of the end products of privatisation has been the reduction in levels of employment in the surveyed operating enterprises by 24.2% from 108,645 to 82,354. It is also to be noted that within the down-sized operating units, of the 82,354 now employed, 32,813 or 40% were new recruits. Thus, only 49,541 (47%) of the 108,645 originally employed in the operating units retained their jobs which indicates that in these operating units, 59,104 (53%) people lost their jobs after the privatisation. If we taken into account that 39,007 out of 40,319 workers in the closed enterprises have also lost their jobs, then the disemployment effect of privatisation may be measured by observing that of the 148,964 in employment prior to privatisation, 98,111 or *two-thirds* of the labour force, have lost their jobs either through enterprise closure or through dismissal from the now operating enterprises.

This job loss of 98,111 has been only partially compensated by provision of new employment to 32,813 workers, implying a net loss in employment of 44% in the post-privatised units. It is feasible

that this downsizing in the operating enterprises as well as in restructuring of their labour force has helped to transform loss making units into profitable units. How many of the 98,000 disemployed SOE employees have since found gainful employment also remains unclear. The social costs of privatisation would thus appear to be quite severe and have to be adjusted against the positive impact of improved profitability in some privatised enterprises.

### ***The balance sheet of privatisation***

The available evidence on the experience with privatisation suggests that enterprise closure, disemployment, possible accumulation of liabilities with the banks and possible revenue loss may have to be taken into account as part of the price we pay to improve profitability and reduce claims on the public exchequer. However the positive macro-economic impact of privatisation appears to be far from evident. Reports on the profit and loss accounts of the Sector Corporations from which SOEs are being divested, indicate that in the four years, 1979/80-1982/83, prior to the great wave of privatisation under President Ershad, total profits for 6 sector corporations added up to Tk. 1.5 billion and net profits were earned by the SOEs in three out of these 4 years (World Bank, 1985). In 1982/83, the last year prior to the big privatisations, SOE *profits* amounted to Tk. 912 million. This does not suggest that SOEs in Bangladesh were always a net drain on the public purse. In 1995/96, at the end of the BNP regime and the privatisation of 131 enterprises with a selling value of Tk. 1.8 billion, corporation losses increased to Tk. 3.2 billion (IRBD 1996). This suggests that a central argument for SOE privatisation, the reduction of macro-economic imbalances, appears to be invalid, at least in the context of Bangladesh.

### ***Some outcomes of bank privatisation***

During this period of divestiture, the volume of bank defaults to the commercial banks has also increased. This suggests that reduction of the size of the state sector and expansion of the private sector have brought no relief to the banking system just as it has brought no relief to the exchequer.

Nor has the process of bank privatisation improved banking discipline or ensured that private banks will operate in a more disciplined way than the NCBs. In 1996 *classified* loans as a proportion of total loans from all commercial banks stood at 31.5%. However whilst 32.6% of NCB loans were *classified*, 34.8% of the loans of private commercial banks were classified. If we look at the portfolio of two privatised banks, in 1996, *Pubali Bank* reported 53.6% of its loans as classified and *Uttara Bank* reported 34.9% of its loan portfolio as classified. Amongst the new private banks, *City Bank* reported a loan classification ratio of 50.8%, *Eastern Bank* of 49.6% and *Al-Baraka Bank* of 41.8%. Most of these private banks reported a high proportion of their classified loans as *bad* or uncollectable.

The evidence at hand suggest that much of the adverse loan classification of the private banks was due to *insider lending*, where private bank directors have been illegally appropriating bank advances, contrary to existing banking laws, and then defaulting on their obligations to their own banks. This does not condone the massive crisis of the NCBs due to malfeasant and politicised lending and weak loan recovery. Nor does it excuse the delinquency of the Central Bank in discharging its function as a regulator of the banking system. But what is clear is that Bangladesh's experience with bank privatisation contributed towards aggravating the crisis of the banking system. The fact that a third of the commercial bank's loan portfolios remain classified and that 90% of the

borrowers to the DFIs are in default (Sobhan, 1993), suggest that in the post- privatisation era after 1982, the private sector has emerged as a massive defaulter to the banking system and that the era of privatisation has becoming synonymous with what is now termed as the *default culture* in Bangladesh. The practice of rescheduling of loans to habitual defaulters has if anything reinvigorated the defaulters to compound their default in the expectation of a fresh rescheduling of their loans.

## **CONCLUSION: POLICY IMPLICATIONS**

### ***The new privatisation agenda***

On the basis of the available evidence, a decade and a half of exposure to a vigorous and donor assisted programme of privatisation has yielded few benefits to the Bangladesh economy. With a few exceptions, privatised units have not significantly improved performance but have contributed to enterprise closures and disemployment. Private sector default to the banks has increased exponentially whilst private banks have been characterised by more adverse loan portfolios than the NCBs and have been maledicted to large scale insider trading. In such circumstances, prudence amongst the policymakers and even amongst the ideologically committed donors would have dictated some caution in the current drive to privatise both the SOEs as well as the NCBs. This pause would have benefited from a more careful analysis of what has happened to the private sector, as to enterprise closure, profitability, efficiency, employment, revenue generation, bank default as well as the quality of bank portfolios. More to the point, this evidence would have permitted for a better understanding of why privatisation has not been as fruitful as was predicted and what steps might be taken to make both past and future privatisation more productive.

The privatisation agenda of the incumbent regime, under the Awami League, appears to have committed the GOB to an aggressive drive for privatisation without any attempt to evaluate the outcome from earlier privatisations undertaken by their predecessors. The declared philosophy of the newly constituted *Privatisation Board* is to get rid of SOEs from the public domain as fast as possible. This approach indicates some indifference as to whether such units, once privatised, are closed down and their land sold off for use in commercial or real estate ventures. Nor is there any indication that these units will have to account for their accumulated liabilities to the banking system.

### ***Implications for Bangladesh's future development options***

Such an approach to privatisation implies a certain innocence of vision in charting Bangladesh's future development landscape and the industrial strategy to be located within this design. In the prevailing policy vacuum, the current approach to privatisation thus appears to have introduced an entirely new logic to the divestiture process. Official policy no longer appears to be driven by the concern to ensure improvement, through privatisation, in enterprise performance along with improved outcomes at the level of the macro-economy in the way of fiscal balances, higher growth and employment. The goal today appears to be to get the state out of any 'business' ventures in which it is involved, whatever be the cost in terms of profits, employment or efficiency. This reflects a policy shift from a pragmatic, efficiency driven policy for privatisation to an ideologically driven agenda. Such a drastic change in the goals of privatisation policy would at the least appear to demand a clear definition of such a policy, its discussion and support in parliament and perhaps even a public referendum, where popular support can be mobilised behind an ideologically driven agenda

for promoting privatisation and public disownership.

In the current climate where SOE's, even those which are profitmaking, are being threatened with privatisation, no serious effort is now made to diagnose the problems of the SOEs or to improve their performances. Thus, there is little incentive for those units still under public ownership, to make the effort to improve themselves. Indeed there is now some inducement for employees to increase their predation on SOE resources before they are finally sold-off. There is some indication from ongoing research at the *Centre for Policy Dialogue*, that the exponential increase in SOE losses has coincided with the move towards a more aggressive privatisation policy in the mid-1980s. Enterprise level information on SOEs indicates a rapid deterioration in performance once they have been listed for privatisation. It is arguable that such an outcome is no accident of fate, but inherent in a policy-less approach to privatisation. Since the privatisation process may be more protracted than was once contemplated, a policy of indiscriminate privatisation could thus not only lead to mounting claims on the exchequer but would accentuate the disincentives for any prospective buyers.

A further hazard to Bangladesh's development prospects arises from the implications of a policy which envisages no future role for *public enterprise* in the manufacturing sector. In an earlier era, public intervention through SOE was designed to fill an entrepreneurial vacuum in areas deemed of strategic value in a development strategy designed to accelerate and diversify the economy. If the private sector was not forthcoming in these areas, the state was expected to come forward as a risk taking entrepreneur, whether as a SOE or as a partner in a joint-venture with the private sector, where it could step out when private enterprise was ready to assume or widen its equity and/or management stake (Hexner). Donors were once quite willing to underwrite such a strategy. Today such an option is no longer available to the GOB since donors have not only cut off all aid to finance public enterprise in the manufacturing sector but aid conditionalities forbid the GOB from setting up any new SOE. This means that in a whole range of manufacturing activities, which may be critical to the growth of the economy, where private enterprise is not forthcoming or is coming in at a very slow pace, Bangladesh is denied the scope for initiating public action. This has, over the last decade, left Bangladesh with a narrow manufacturing base where very little diversification has taken place outside of the RMG which is Bangladesh's leading industry and exporter (IRBD, 1996, Ch. 8).

By the time of the expiry of the *Multi Fibre Agreement* (MFA) in 2005, Bangladesh will have to establish backward linkages with a modernised textile industry which can produce the yarn and fabric needed to service Bangladesh's RMG sector. Unless Bangladesh can convert its RMG sector from a two-stage processing industry to a three-stage enterprise, after 2005, the *rules of origin* clause in the WTO could deny Bangladesh's RMG exports entry to a large part of their traditional markets in Europe and North America. This involves putting in place, within Bangladesh, a domestic manufacturing capacity to produce 2 billion metres of fabric. This involves setting up around 375 new weaving mills and 290 new spinning mills, involving an investment of around US \$ 5 billion. On all counts, making the most optimistic assumptions, Bangladesh's private entrepreneurs expect to mobilise only a fraction of such resources for which they will need to assume the risk taking burden for realising such a volume of investment. In such circumstances should the state sector remain idle and make no attempt to put any productive capacity in place, even if this means a loss of RMG markets to India and China who already preside over large integrated textile industries and are planning major investments for the post-MFA era? The failure to address this dilemma provides the source of the present contradictions inherent in Bangladesh's privatisation policy. This could have potentially fatal implications for Bangladesh's future development.

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