

PUBLIC ENTERPRISE INEFFICIENCY AND THE ROAD TO PRIVATIZATION IN BANGLADESH

Tanweer Akram

Abstract

This essay provides an overview of public enterprises inefficiency and discusses the main issues concerning the privatization program in Bangladesh. The paper points out how the country's privatization program can be improved. Keywords: Privatization, Public Enterprises, Bangladesh.

The Scope of this Essay

This essay provides an overview of public enterprise inefficiency in Bangladesh and issues related to the problem of privatization of public enterprises in Bangladesh. The main argument of this essay is that there is ample scope for improving the country's privatization program. The terms and conditions of sale must be well defined and upheld. The potential buyers must have access to material information about the firms. The financial sector must be disciplined. In order to show the importance of financial sector discipline, empirical findings on the debt-default status of privatized enterprises in Bangladesh are presented. The proceeds from privatization can be used for workers' compensation and labor training since in the short-run labor retrenchment due to dismissal of excess workforce may lead to social and political problems unless alternative arrangements are available for workers. Prudential regulatory environment is required to protect the interests of the consumers when public monopolies are transferred to the private sector. Privatization program needs to be carried out within a defined time frame. The effectiveness of the privatization program has to be assessed on the basis of (a) microeconomic results in terms of improved firm-level productive efficiency and allocative efficiency, and (b) macro-economic results in terms of reduced fiscal burden and improved asset quality of the banking sector. This essay concludes by pointing out that privatization should be regarded not an end in itself but as a mean towards improving economic growth and development in Bangladesh.

Literature Review

Despite the importance of public enterprises to Bangladesh's economy, the literature on public enterprises is quite limited. The major study of the public enterprises in Bangladesh is Sobhan and Ahmad (1982). It discusses the problems of public enterprises in the 1970s from the planners' viewpoint. Islam (1975); Yusuf (1985); and Ahmad (1987) give an overview of the nationalization and the performance of public enterprises.

Although there is no comprehensive study of privatization of public enterprises, there has been a growing research interest in privatization. A number of policy makers have written on privatization focussing on the evolution of policy changes and the process of privatization (Ahmad 1991; Chowdhury 1987; and Muhith 1993). Humphrey (1992 [1990]) provides a detailed inside account of the origins privatization program, its implementation and scope. Its main focus is the privatization program of early 1980s during the Ersahd regime. It does not evaluate the post-privatization efficiency of firms. Mallon and Stern (1991) present the background to the reform of industrial and commercial policies in the early 1980s. In particular they dissect the changing role of various interest groups and how policies are formulated in Bangladesh.

Sobhan and Mahmood (1980) analyze and compare the performance of nationalized and privatized firms in the jute and the textile sector. They do not find convincing evidence of superior performance of privatized firms. Lorch (1991) studies the post-privatization operation of the textile industry. He also does not detect any indication of improved productivity,

profitability, or performance. Bhaskhar (1993) relates the Bangladesh experience of privatization to some policy problems of privatization in developing countries. Bhaskar and Khan (1995) analyze the post-privatization employment patterns of white-collar and blue-collar workers. Sen (1997) reports the results of a useful survey of privatized firms in Bangladesh. Dolwah (1997), a World Bank sponsored case study of firms privatized between 1991 to 1996, claims that privatization has been successful. Akram (1998a) reinterprets Sen's (1997) survey results. Akram (1998b and 1998c) investigates the tax registration and the debt-default status of privatized firms. As part of its research program on governance and development, the Centre for Policy Dialogue (CPD) has recently initiated a research project on privatization. Akram (1999) provides a review of the literature on the political economy of privatization in Bangladesh.

The international experience in the privatization of public enterprises is diverse. While there are many examples of successful privatization, it is by no means established that the change of ownership will necessarily improve performance, particularly when other institutions and policies remain unchanged. Privatization is not a substitute for the growth of the private sector and the emergence of new firms. A number of lessons can be drawn from the international experience of privatization (Kikeri *et al* 1992). Favorable macroeconomic circumstances, liberal economic policies, competitive markets, and prudential regulatory framework are conducive to successful privatization. The authorities can address the social cost of unemployment due to privatization through severance payments, retraining, and employment assistance. Successful privatization depends on well-defined objectives, sound preparation for sale, appropriate pricing and valuation, and transparency in transactions.

However, contrary to Galal *et al* (1994) case studies, which suggest that privatization generally brings great benefits, it is not clear that the impact of privatization on welfare is always positive or that the potential gains are realized. Enterprise performance, productivity, and profitability may not improve. The impact on fiscal burden may not reduce if the authorities continue to subsidize privatized firms. The experience in former Soviet Union and low-income countries show little evidence of higher growth even after several years of liberalization, privatization, and macroeconomic stabilization and structural adjustment. The varied experience of privatization provides impetus for a strategic privatization policy in Bangladesh designed to ensure the realization of maximum gains from the transfer of ownership.

I. Public Enterprise Inefficiency

The profit-loss time series of public sector corporations in Bangladesh given in Table 1 below covers from 1982-83 to 1996-97 and includes the projected figures for the financial year 1997-98. All figures are in nominal Taka terms. The public enterprises have proved to be unsuccessful firms as their financial performance demonstrates. Public enterprises incur chronic losses and continue to rely on state funded equity injections and credit from the banking system. Losses and reliance on the state for equity injections and credit are symptoms of the weakness of the public enterprise regime in Bangladesh. Since public enterprises are unable to secure profits, there is no surplus generated from capital invested in public enterprises to be used for social expenditure. Public enterprises receive direct state subsidies (transfers), as shown in Table 2. Public enterprises, except for the gas and petroleum extraction and distribution companies, do not pay much dividends, as shown in Table 3.

Table 1

Name of the Sector Corporation		Profit and Loss of Public Enterprises																	
		1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998		
<i>Manufacturing</i>																			
B Steel & Engineering Corp	-273	-202	-135	-85	-49	-62	-78	-365	-861	-1,078	-1,292	-903	-650	-645	-694	-442			
B Sugar & Food Industries Corp	218	189	-234	-336	-315	-125	-237	170	-121	-722	-862	-150	78	-378	-679	-644			
B Chemical Industries Corp	158	121	131	105	-86	198	374	455	-343	-554	206	255	-754	-1,214	-2,305	238			
B Textile Mills Corp	23	112	42	-566	-245	-354	-22	-188	-584	-434	-1,355	-1,359	-1,142	-1,344	-1,248	-882			
B Jute Mills Corp	184	-310	-1,462	-1,583	-420	-1,431	-1,882	-3,709	-2,473	-3,175	-5,233	-640	-314	-962	-1,005	-480			
B Forest Industries Development Corp	33	34	48	28	10	-16	17	-39	-62	-142	-132	-113	12	301	124	130			
Subtotal	343	-56	-1,610	-2,437	-1,105	-1,790	-1,828	-3,676	-4,444	-6,105	-8,668	-3,090	-2,770	-4,242	-5,807	-2,080			
<i>Utilities</i>																			
Power Development Board	417	453	199	-285	172	-89	-363	-3,375	-2,802	-7,482	-4,262	-3,892	-6,469	-765	-3,196	-1,085			
Dhaka Electric Supply Authority	0	0	0	0	0	0	0	0	0	-853	-988	-1,851	-1,985	-1,392	-1,574	-1,622			
Dhaka WASA	-11	-20	0	-10	20	14	19	16	-4	5	11	36	-20	-67	14	28			
Chittagong WASA	-3	6	5	-2	6	-2	-31	-63	-64	-57	-38	-27	-26	-33	-43	-30			
B Oil Gas & Mineral Corp	72	122	89	-27	-155	100	-159	-265	288	510	709	986	1,170	1,436	1,088	1,052			
Subtotal	475	561	293	-324	43	23	-534	-3,687	-2,582	-7,877	-4,568	-4,748	-7,330	-821	-3,711	-1,657			
<i>Transport and Communication</i>																			
B Shipping Corp	24	4	6	-117	-101	37	-244	-245	-527	-542	-172	-158	-129	-149	57	110			
BIMAN	123	163	-23	-57	-352	-266	33	117	-249	348	679	714	719	496	408	925			
B Inland Water Transport Corp	-20	-5	-11	-45	-55	-53	-73	-37	-37	-69	-30	-25	-7	17	100	109			
Mongla Port Authority	-18	-36	67	74	118	216	191	197	193	230	220	154	203	204	123	129			
Chittagong Port Authority	239	132	242	207	366	431	392	468	508	486	441	484	640	924	491	467			
B Road Transport Corp	-126	-123	-143	-174	-183	-214	-235	-259	-246	-221	-241	-113	-88	-54	-49	-23			
Subtotal	597	2,000	1,835	1,044	1,410	840	1,236	387	2,488	3,512	3,800	4,600	1,017	757	-4,481	-4,940			
<i>Trading</i>																			
B Petroleum Corp	-271	-148	-444	-1,623	-118	-1,841	-1,477	-1,324	-142	-1,657	-2,038	-75	-63	-19	-18	-16			
Trading Corp of Bangladesh	18	28	11	24	47	41	45	34	7	22	-94	179	16	-14	23	43			
Subtotal	1	2	4	-4	28	42	89	53	49	20	19	31	39	38	17	52			
<i>Construction</i>																			
RAJUK	48	78	78	92	134	110	126	79	75	138	143	200	191	164	47	50			
Khulna Development Authority	8	7	20	2	4	-1	15	11	13	7	6	20	68	42	26	17			
Subtotal	56	85	98	94	138	111	141	90	88	145	149	220	207	182	73	67			
<i>Agriculture</i>																			
Bangladesh Fisheries Development Corp	2	-2	-25	-27	-1	-18	-26	-11	-20	-9	-11	-1	-9	9	-27	-7			
B Agriculture Development Corp	-34	-130	-113	-439	-525	78	152	133	78	-105	-112	-129	-118	-134	-234	-227			
Subtotal	-32	-132	-138	-466	-526	66	126	122	58	-114	-123	-130	-127	-125	-261	-234			
<i>Services/Miscellaneous</i>																			
B Freedom Fighters Welfare Trust	2	5	6	-5	-11	-28	20	24	35	5	-8	1	22	48	68	112			
B Film Development Corp	2	2	1	2	2	2	2	1	-20	-16	10	17	25	22	10	12			
B Export Processing Zone Authority	0	0	-9	-10	-8	1	3	-12	-2	-1	23	29	52	90	72	48			
B Small & Cottage Industries Corp	-4	-3	-5	0	0	0	0	0	1	-6	-4	-34	-7	-19	-31	-34			
B Inland Water Transport Authority	-11	-13	19	-52	-48	-5	-1	-21	-31	-31	-6	-51	-166	-215	-9	-16			
Rural Electrification Board	0	0	0	0	-3	-26	-35	31	79	84	175	166	223	239	192	218			
B Parijaton Corp	1	3	19	16	-5	13	13	13	10	9	19	113	24	8	36	57			
B Sericulture Board	0	0	-1	-2	-2	0	-1	-1	-2	-2	-2	-14	-1	-14	-14	-14			
B Handloom Board	0	0	0	9	2	0	0	0	-4	-3	0	2	3	-2	0	0			
Subtotal	581	1,964	1,534	-1,085	699	-641	225	-361	2,256	2,231	2,780	6,110	2,654	2,438	-3,193	-2,928			
Total	1,399	2,469	217	-3,846	-363	-2,408	-2,137	-7,724	-4,770	-11,751	-10,456	-1,728	-7,446	-2,625	-12,711	-6,665			

Source: Monitoring Cell, Ministry of Finance, GoB

Table 2

Public Enterprise Subsidy										
<i>In million Taka</i>										
Corporation	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98		
B Chemica Industries Corp	21.7	30.0	30.0	30.0	30.0	30.0	30.0	30.0		
B Sugar & Engineering Corp	12.0	8.0	3.0	1.0	1.0	1.0	1.0	1.0		
B Jute Mills Corp	473.1	392.7	2,536.0	2,498.6	2,352.0	2,272.0	0.0	0.0		
B Inland Water Transport Corp	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0		
Rajshahi Development Authority	0.5	0.5	0.7	0.7	0.7	0.7	0.7	0.7		
B Freedom Fighters Welfare Trust	5.0	55.0	60.0	66.3	78.1	66.0	66.0	66.0		
B Inland Water Transport Authority	107.5	125.0	140.3	126.0	133.0	138.0	138.0	138.0		
B Small & Cottage Industries Corp	86.7	99.5	117.5	120.0	142.6	137.0	138.0	138.0		
Rural Electrification Board	114.4	170.0	173.0	170.0	170.0	150.0	180.0	180.0		
B Handloom Board	14.8	17.5	20.5	25.2	30.0	30.0	30.0	30.0		
B Sericulture Board	13.4	15.1	18.1	17.2	21.0	20.4	21.8	21.8		
Total	854.1	918.3	3,104.1	3,060.0	2,963.4	2,850.1	610.5	634.0		

Source: Bangladesh Economic Review, various years

Table 3

Dividends from Public Enterprises								
<i>In million Taka</i>								
Sector	Corporation	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Manufacturing								
	BSFIC	10.0	0.0	0.0	0.0	3.7	0.0	10.0
	BCIC	0.0	100.0	100.0	0.0	0.0	3.8	0.0
	BFIDC	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Utilities								
	BOGMC	150.0	300.0	300.0	600.0	700.0	956.8	1,020.0
	CWASA	1.0	1.0	1.0	1.0	1.2	15.0	3.0
	DWASA	2.0	5.0	5.0	6.0	5.6	0.0	15.0
Transport								
	Biman	10.0	10.0	15.0	20.0	20.0	0.0	0.0
	CPA	150.0	200.0	50.0	200.0	200.0	200.0	350.0
	MPA	50.0	60.0	60.0	60.0	65.0	65.0	90.0
Trade								
	BPC	3,000.0	3,250.0	4,000.0	1,000.0	660.0	600.0	68.0
	TCB	21.0	2.5	20.0	10.0	10.0	0.0	5.0
Agriculture								
	BFDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction								
	Rajuk	10.0	10.0	10.0	10.0	0.0	5.0	20.0
	CDA	1.5	1.7	2.0	2.0	2.0	2.5	3.0
	KDA	0.5	0.5	0.5	0.5	1.0	0.8	0.8
	RDA	0.1	0.3	0.3	0.3	0.3	0.4	0.5
Services								
	BFilmDC	0.5	0.0	0.0	1.0	1.5	1.5	4.0
	BPRC	1.0	4.0	5.0	4.0	0.0	5.0	5.0
	CAA	10.0	15.0	11.3	30.0	15.0	35.0	45.0
	BEPZ	0.0	0.0	0.0	0.0	0.0	1.0	2.5
	BTeaBoard	4.0	4.0	0.0	0.0	0.0	1.0	2.0
Total		3,421.6	3,964.0	4,580.1	1,944.8	1,685.3	1,892.8	1,645.8

Source: *Bangladesh Economic Review*, various years.

The Manufacturing Sector

The public enterprises engaged in manufacturing have been losing money consistently since 1983-84. The jute sector public enterprises and steel & engineering public enterprises have been incurring losses. From the mid-1980s, the textile enterprises began losing money as well. Enterprises in the sugar & food sector and the chemical sector have lost considerable amount of money from time to time. Table 4, provides a summary of the main production and financial data of the manufacturing public enterprises in recent years.

Utilities

Public utilities have been losing money since the late 1980s. The loss of public utilities in Bangladesh arise not because public utilities are forced by regulation to produce a level of output which cannot cover its long-run average cost. The public utilities incur losses but due to “system loss,” corruption, excess employment, and inefficient management. The Power Development Board (PDB) has been losing money since mid-1980. Its losses in the 1990s are quite substantial. Dhaka Electric Supply Authority (DESA) has been unprofitable since its inception. Dhaka and Chittagong Water Supply Authorities (DWASA & CWASA) have often earned profits and often made losses as well. The Bangladesh Oil, Gas, and Mineral Corporation (BOGMC) is profitable, owing to its market dominance.

Other Enterprises

Among other public enterprises, Bangladesh Petroleum Corporation (BPC) is the most important one. It earned profits until 1995-1996 but incurred losses in the last financial year. It expects to lose money again in the

present financial year. Bangladesh Jute Corporation (BJC) used to be a big money-loser until its shutdown the early 1990s. Bangladesh Road Transport Corporation (BRTC) continues to lose money although the high number of entries in this sector suggests that transport is a profitable sector. The two Port Authorities, in Chittagong and in Mongla, earn profits. The performances of the other public enterprises vary from year to year.

Assessment of the Direct Cost of Inefficiency

Persistent financial losses of public enterprises in Bangladesh suggest that these firms have severe management problems. The heavy losses are a symptom of the malaise that affects public enterprises. Besides losing money and earning low rates of return, every year most public enterprises in Bangladesh obtain equity injections from the state and substantial amount of loans from the nationalized banking sector. Table 5 provides the stock of the outstanding and the overdue loans owned by the public enterprises to the nationalized commercial banks. As of December 1997, 35 cent of these loans were overdue. The share of outstanding loans as a proportion of national income diverted to the public enterprises have declined from 4.6 percent of GDP in 1982 to less than 2 percent of GDP in 1996. Nevertheless, public enterprise borrowing is a major part of public sector debt. Public enterprises are also responsible for a large share of the public sector’s loan default: The public enterprises’ outstanding and overdue loans amounted to respectively 81 percent and 78 percent of public sector’s outstanding and overdue loans. Table 6 provides June 1997 figures for the stocks of overdue and outstanding loans of the public enterprises amongst overall public borrowing. Public enterprises’ debt-servicing profile is also very poor, as Table 7 shows.

Table 4

Production and Financial Position of Public Enterprises										
Corporation		1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98		
BCIC										
	Production									
	Urea (million MT)	1.475	2.059	2.185	1.981	2.134	1.648	1.915		
	TSP (million MT)	0.136	0.16	0.177	0.158	0.107	0.132	0.15		
	Newsprint (million MT)	0.049	0.049	0.047	0.043	0.04	0.028	0.027		
	Paper (million MT)	0.041	0.043	0.046	0.04	0.042	0.04	0.04		
	Cement (million MT)	0.273	0.051	0.121	1.1	0.18	0.168	0.17		
	Sales (million Tk)	12,621.10	14,502.80	14,820.70	14,285.50	13,449.30	11,609	14,183.50		
	Cost (million Tk)	12,115.70	13,078.20	13,816.40	14,303.90	14,192.60	13,615.80	14,500.90		
	Operating Profit (million Tk)	505.3	1424.6	1000.4	-18.5	-743.3	-2006.8	-317.4		
	Net Profit (million Tk)	-553.7	205.7	254.8	-754.8	-1213.5	-2379.2	-1050.2		
BTMC										
	Production									
	Thread (million Kg)	42.179	34.006	17.088	17.003	14.903	6.777	15.317		
	Cloth (million Kg)	47.816	33.765	14.139	5.17	3.103	0.865	na		
	Sales (million Tk)	3,179.3	3,189.6	2,361.8	2,412.2	1,689.5	815.7	896.2		
	Cost (million Tk)	3,264.8	4,053.4	3,494.8	3,234.8	2,722.2	2,118.0	1,481.6		
	Operating Profit (million Tk)	-85.4	-863.8	-1133.1	-822.6	-1032.27	-1302.3	-585.4		
	Net Profit (million Tk)	-553.8	-1446.5	-1538.7	-1170.4	-1343.7	-1632.6	-825.5		
BSFIC										
	Production									
	Sugar (million MT)	0.196	0.187	0.222	0.207	0.184	0.135	0.165		
	Spirit (million MT)	0.219	2.0161	3.199	3.649	2.197	2.711	2.4		
	Sales (million Tk)	5,512.8	5,411.8	5,133.3	4,840.6	7,304.6	3,560.7	4,325.9		
	Cost (million Tk)	5,781.6	5,955.1	5,107.7	4,576.7	7,469.6	4,105.3	4,593.7		
	Operating Profit (million Tk)	-268.8	-543.4	25.5	263.9	-165	544.6	-267.8		
	Net Profit (million Tk)	-722	-867.6	-196	25.3	-377.6	-652.9	-397.6		

Table 4 (Cont'd.)

BJMC																					
	Production (volume)																				
	Hessain ('000' MT)	69.9	73.0	86.4	88.4	81.3	78.8	71.9													
	Sacking ('000' MT)	118.4	154.1	173.8	142.5	156.9	146.0	160.8													
	CBC ('000' MT)	40.1	36.9	32.2	34.4	31.6	22.9	31.1													
	Revenue (million Tk)	6,761.4	5,775.4	8,205.6	8,528.5	9,161.9	6,633.1	6,836.1													
	Cost (million Tk)	9,040.0	8,976.8	8,585.5	8,639.2	9,918.8	8,627.6	8,289.3													
	Operating Profit (million Tk)	-2,278.6	-3,201.4	-379.9	-110.7	-757.0	-1,994.5	1,453.2													
	Net Profit (million Tk)	-3,175.0	-5,233.5	-640.5	-314.3	-962.0	-2,517.1	-2,246.4													
BSEC																					
	Production																				
	Bus, Truck, Car (No)	1,207	530	606	1,102	1,232	1,234	1,200													
	Motor Cycle (No)	7,978	8,165	6,108	5,646	7,200	7,009	7,000													
	Disel Engine (No)	343	102	490	520	600	525	600													
	Sales (million Tk)	2,589.1	3,061.0	2,866.0	3,488.8	3,444.6	2,840.3	3,764.6													
	Cost (million Tk)	3,097.0	3,454.5	3,210.6	3,657.0	3,346.6	2,963.1	3,823.9													
	Operating Profit (million Tk)	-507.1	-399.5	-344.4	-78.2	98.0	-122.8	-59.3													
	Net Profit (million Tk)	-1,077.9	-1,292.0	-1,102.2	-683.6	-645.1	-1,032.8	-984.6													
Source: <i>Bangladesh Economic Review</i> , various years.																					

Table 5

NCB Overdue & Outstanding Loans				
Stock (December 1997)				
<i>In million Taka</i>				
Sector	Corporation	Outstanding Loan	Overdue Loan	Ratio
<i>Manufacturing</i>				
	BTMC	6,341.2	5,503.3	86.8
	BSEC	7,986.5	4,779.5	59.8
	BSFIC	1,942.9	294.6	15.2
	BCIC	1,408.0	370.3	26.3
	BFIDC	0.0	0.0	na
	BJMC	16,237.6	772.7	4.8
		33,916.2	11,720.4	34.6
<i>Utilities</i>				
	BOGMC	0.1	0.1	100.0
	PDB	315.3	14.8	4.7
	DESA	0.0	0.0	na
	CWASA	0.0	0.0	na
	DWASA	0.0	0.0	na
		315.4	14.9	4.7
<i>Transport</i>				
	BSC	1,174.2	769.1	65.5
	BIWTC	1.0	0.1	10.0
	Biman	0.0	0.0	na
	BRTC	120.8	120.8	100.0
	CPA	0.0	0.0	na
	MPA	0.0	0.0	na
		1,296.0	890.0	68.7
<i>Commercial</i>				
	BPC	4,922.5	1.9	0.0
	BJC	0.0	0.0	na
	TCD	0.0	0.0	na
		4,922.5	1.9	0.0
<i>Agriculture</i>				
	BADC	1,934.3	1,933.8	100.0
	BFDC	4.8	0.0	0.0
		1,939.1	1,933.8	99.7
<i>Services</i>				
	BSCIC	133.2	133.2	100.0
	BIFDC	354.0	307.6	86.9
	BWD	39.9	4.2	10.5
	BTB	50.7	50.7	100.0
	BPC	15.1	0.0	0.0
	BFDC	0.6	0.6	100.0
	BSB	2.5	0.0	0.0
	REB	2.7	0.0	0.0
		598.7	496.3	82.9
Total		42,987.0	15,057.3	35.0
Source: Bangladesh Bank (December 1997)				

Table 6

<i>In million Taka</i>						
	Outstanding	% Outstanding	Overdue	% of Overdue	Ratio (%)	
Government Departments	2,395.5	5.1	1,669.7	8.4	40.5	
Autonomous Bodies	2,113.2	4.5	1,946.3	9.8	92.1	
Non-Financial Nationalized Corporations	38,376.7	81.5	15,560.0	78.6	40.6	
Non-Financial Entities (others)	1,976.9	4.2	498.8	2.5	25.2	
Financial Entities	1,326.3	2.8	12.6	0.1	1.0	
Local Authorities	917.0	1.9	109.6	0.6	12.0	
Total	47,105.6	100.0	19,797.0	100.0	42.0	
Source: Bangladesh Bank, GoB, 1998						

Table 7

NCB's Debt Service Liabilities									
<i>In million Taka</i>									
Sector	Corporation	1994-95	1995-96	1995-96	1995-96	1996-97	1996-97	1997-98	1997-98
		Due	Paid	Due	Paid	Due	Paid	Due	Paid
Manufacturing									
	BTMC	970.9	100.8	971.0	0.0	1,357.4	0.0	999.6	0.0
	BSEC	553.4	26.0	545.8	31.9	1,887.4	28.7	2,440.1	0.0
	BSFIC	245.7	0.0	253.2	14.3	405.9	9.0	417.7	10.0
	BCIC	5,625.8	2,862.9	3,807.4	2,322.2	9,655.8	1,813.4	12,153.8	639.3
	BFADC	82.1	1.1	995.6	0.5	382.4	1.0	182.2	0.0
	BJMC	1,076.7	0.0	1,123.2	50.0	1,123.2	0.0	1,123.3	0.0
Utilities									
	BOGMC	3,837.8	2,462.0	3,906.1	2,636.6	7,551.2	2,892.3	10,970.3	2,053.8
	PDB	10,458.3	1,472.3	10,501.6	1,513.7	13,916.1	2,500.0	16,553.7	250.0
	DESA	0.0	0.0	0.0	0.0	0.0	0.0	34.5	0.0
	CWASA	274.5	3.8	279.5	8.7	21.2	3.6	527.4	12.7
	DWASA	509.4	56.8	547.6	100.0	60.8	50.0	620.4	75.0
Transport									
	BSC	661.7	0.0	724.1	0.0	1,375.9	0.0	2,089.8	0.0
	BIWTC	256.4	0.0	275.8	11.8	604.2	10.0	963.8	11.0
	Biman	81.4	0.0	82.9	0.0	104.2	0.0	125.5	0.0
	BRTC	552.9	0.0	527.3	0.0	1,020.0	0.0	1,515.6	0.0
	CPA	835.1	0.0	980.7	228.7	618.8	224.0	749.4	109.1
	MPA	88.0	0.0	88.0	0.0	88.0	0.0	88.0	0.0
Commercial									
	BPC	700.9	515.7	651.3	1,135.8	722.4	660.4	363.8	321.1
	BJC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	TCB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture									
	BADC	325.3	0.0	325.3	0.5	1,619.9	0.0	1,042.9	0.0
	BFDC	818.3	1.0	815.8	0.0	1,134.3	4.0	1,530.8	5.0
Construction									
	RAJUK	53.6	0.0	51.0	0.8	51.0	0.0	0.0	0.0
	CDA	1.7	1.7	1.4	1.4	12.0	7.5	31.3	0.0
	KDA	10.4	3.5	9.9	0.0	10.2	0.0	267.9	0.0
	RDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services									
	BFFWT	105.6	0.0	113.8	0.0	6.7	10.0	166.0	0.0
	BFilmDC	149.3	15.0	147.8	1.4	162.4	19.4	192.4	15.0
	BPRC	173.7	10.0	173.7	1.0	198.5	19.1	145.4	4.8
	CAA	48.6	0.0	48.6	0.0	58.2	0.0	67.9	0.0
	BIWTA	139.1	24.3	141.2	2.5	387.1	50.0	601.9	13.3
	BSCIC	10.9	2.7	15.7	1.7	6.7	15.0	11.8	124.5
	BEPZ	68.6	8.8	11.3	0.0	21.7	12.5	146.9	0.0
	BWDB	663.6	363.3	675.1	379.5	1,021.6	543.8	1,780.7	0.0
	REB	1,064.4	254.0	386.2	386.2	108.7	434.7	106.4	320.8
	BTB	137.0	0.0	139.1	0.0	139.1	0.0	139.1	0.0
	BHB	38.4	0.0	39.2	0.0	0.2	0.0	45.1	0.0
	BSB	12.3	0.0	12.3	1.1	12.5	0.0	12.5	0.0
Total		30,631.8	8,185.7	29,368.5	8,830.3	45,845.7	9,308.4	58,207.9	3,965.4

Source: Bangladesh Economic Review, various years.

Costs of Public Sector Inefficiency

Public sector inefficiency has also indirect adverse effects on the economy. Firstly, public sector's excessive wage bill exerts upward pressure on private sector remuneration. Although the public enterprises' wages and salaries are not high, the excess number of workers raises the wage bill. Secondly, since the social security of public enterprise workers is a "pay-as-you-go" pure transfer scheme, it not only puts pressure on the exchequer but also *Indirect* slows the rate of capital accumulation while reducing the steady state capital stock. Thirdly, public sector inefficiency can reduce the competitiveness of the private sector because it raises capital costs (machinery, building materials) and input costs of raw materials (such as chemicals, and steel), utility services (such as electricity, water, and telecommunication costs), and transport. If the public enterprise does not face a hard budget constraint, its output prices are unrelated to its production costs. Thus, the private firm in the same industry that is constrained by its budget cannot price its commodities at par with the public enterprise and is at a competitive disadvantage. In essence, the inefficiency of the public sector has substantial negative spillovers on the economy.

Non-viable Public Enterprises

The record of heavy losses, continued injection of equity of public enterprises, and borrowing from the banking sector suggests that some of public sector firms may not be economically viable even under commercially motivated management whether public or private. Those enterprises that are not viable, determined on the basis of economic calculation, would be closed down and liquidated. Closure and liquidation of non-viable enterprises is much better than continued subsidization, at the expenses of the public exchequer, of inefficient use of labor and capital in the production of commodities that consumers are unwilling to purchase and those in which the country has no comparative advantage. The sooner non-viable enterprises are shut down and liquidated the better it is in terms of social welfare: Resources currently used to subsidize them can be used in

more productive endeavors. The same argument applies for privatized and private firms. The argument for eliminating subsidies for non-viable private firms is stronger since subsidies given to private firms benefit a few at the cost of the public.

II. The Question of Privatization

There are several objectives of privatization of commercial public enterprises. Firstly, to eliminate the fiscal burden of subsidies and the banking system's support to the public enterprises; secondly, to improve productive efficiency of these firms; and thirdly, to increase the social and the private rate of return to capital.

In Bangladesh, the losses of public enterprises, political consensus in favor of market-oriented economic policy among the major political parties, and donor pressure have placed privatization of public enterprises high on the policy agenda. Neither past attempts to reform public enterprises nor continued equity injections and new loans provided to public enterprises has been able to improve performance of public enterprises and mitigate public sector's overall losses. However, sectors in which Bangladesh is regarded as having had some measure of success, namely the ready-made garment textile industry, agriculture, and non-government organizations' micro-credit schemes, have been mainly driven by private initiatives. Presumably, then, private sector management of enterprises currently under public management has the *potential* to increase productivity and performance if private initiative can replicate its success elsewhere in industrial management. However, can privatization *actually* improve firm efficiency? More specifically, what are *policy steps* that the authorities can take to ensure that privatization improves firm efficiency?

The failure of the public enterprise regime does not imply that transfer of ownership from public sector to the private sector will in itself turn loss-making and inefficient enterprises into profitable and productive ones. Obviously there is no alternative to shutting down economically non-

viable enterprise. The country's economic policy regime and institutions must clearly convey right signals to entrepreneurs since in an highly interventionist economic regime where it is more profitable to engage in rent-seeking behavior than productive endeavors, private agents shall devote resource to capturing rents. Privatization program *can* be successful as an element in the set of prudential economic policies that includes enforcement of the rule of law, stable fiscal and monetary regimes, discipline in the banking and financial sectors, competition and export-oriented trade policies, proper regulation of monopolies, and sound exit policies. The transfer of ownership from public sector to private sector will create the incentives for improving performance if and only if there are strict and well enforced impartial rules and institutional mechanism based on competition and the equality of opportunity.

At present the authorities in Bangladesh are contemplating a comprehensive privatization program to overcome public enterprise inefficiency. The authorities have an official privatization policy (Government of Bangladesh, 1996). But the privatization program in Bangladesh is beset with problems. This section discusses some of the main challenges of the privatization program in Bangladesh.

Access to Data and Material Information

The authorities should provide not only potential buyers but also researchers with reliable economic and accounting time series and cross section data, and material information about the firm to be sold. Past annual reports and corporate level studies should also be accessible. The authorities have not yet made available brochures with considerable information to attract buyers. Relevant and detailed information about privatized firms and firms to be privatized are not readily available. To properly evaluate corporate performance in Bangladesh, researchers will be obliged to develop independent and reliable data.

Methods of Privatization

The policy states that the enterprises can be sold either by international tender or public offer of

shares. The authorities have declared that they would prefer to use Employee Stock Option Program (ESOP) if the workers of the enterprise are willing to buy it. According to the authorities, an ESOP shall be attempted in the textile sector. If workers choose not to exercise ESOP, then other means of privatization shall be sought.

ESOP, Small Savers, and Privatization

The policy of attempting to apply ESOP is probably motivated by political expediency because it suggests that the authorities are eager to serve the interest of workers. However, the application of ESOP may be limited to few firms due to several reasons. Firstly, workers may not have the resources and savings to buy enterprises or access to working capital or the expertise to operate and manage an enterprise. Secondly, workers may not be interested in putting a bulk of their wealth and savings in one asset. Workers may want to hold a diversified set of portfolio. Thirdly, ESOP may not be universally applicable. Only where workers have fairly well developed organizations, sophisticated knowledge base to operate firm effectively, and so forth, would ESOP prove useful. ESOP is appropriate for sectors where most of the value added originates from simple, semi-skilled, direct labor and the level of technology and capital required is low and the scale of operation relatively small. Where ESOP is not applicable, the authorities may reserve some shares of enterprises to be divested for workers', selling such shares at a discount, to make the privatization program more palatable to workers' organizations.

At present various non-government organizations have been able to pool the savings of lower income social groups through micro-credit schemes and income-generating activities. Some of these non-government organizations have developed managerial expertise and have gained experience in operating commercial ventures. These organizations might be encouraged to participate in the privatization program and develop institutional mechanisms that will enable employees and small savers to purchase equities in a diverse range of privatized

and private firms. The micro-lending organizations can bring in better management and commercial expertise, and good surveillance over privatized corporations. They may be able provide useful feedback to shareholders and improved quality of shareholder services.

Terms and Conditions of the Sale

Short-term and long-term liabilities have to be clearly defined prior to privatization. A clear and consistent demarcation of liabilities needs to be established and upheld. If, however, the state does write-off long-term debt following privatization, it will be a transfer to the buyer of the firm. The policy also states the buyer shall assume full legal responsibility for all pending court cases against the enterprise.

There should be absolutely no scope for renegotiating the terms and the conditions of privatization *after* the sale. Scope for renegotiating creates opportunities for rent seeking and gives advantages to privatized firms over other firms in the sector.

Foreign Investors

The authorities have been trying, without much success, to attract foreign investors. Despite increased interest of multinational companies in the hydrocarbon sector, the volume of actual foreign direct investment in Bangladesh remains unimpressive and the state management of joint ventures and collaboration is poor. The authorities should take a more sophisticated and pragmatic approach to foreign investment. Political volatility and the complexity of dealing with maze of bureaucracy are the main deterrents to attracting investment despite potentially high rates of return from investment in Bangladesh. Foreign investors will remain reluctant to buy and run public enterprises until and unless domestic investors take an active interest. Earning the confidence of local investors is necessary prerequisite for attracting foreign investors.

Bank Guarantees

When the price for the public enterprise to be purchased by an entrepreneur is not paid in cash, the buyer is required to provide a bank guarantee. But a guarantee from a bank with poor asset quality, low profitability, and poor management is worth very little. If the bank guarantee is issued by a nationalized commercial bank, then ultimately it is the state that assumes the responsibility for the buyer's credit. Such guarantees can have adverse effects by creating an incentive to default. Indeed, state bank's guarantee may be contrary to the objective of privatization as the public ends up assuming the burden if the buyer defaults. If bank guarantees are issued by private commercial banks with a record and propensity for insider loans, such guarantee would be of little value. Bank guarantees would be acceptable when the bank can assume the responsibility for default and has the financial ability to meet its obligations without recourse to the state exchequer. Only guarantees from financially solvent banks are reliable and trustworthy. If the authorities sell enterprises partly on credit, a strong mechanism for credit collection is required. Discipline in the banking and the non-banking financial system is necessary for the success of the privatization policy because otherwise there will be both incentives and means for rent-seeking. Without proper incentives, buyers may borrow from banks against collateral of little value, refuse to repay bank loans, try to delay payments to the state, and so on.

The Importance of Financial Sector Discipline

The debt-default status of privatized firms, using the list in Sen's (1997) survey¹ and information provided by the central bank, unequivocally demonstrates the importance of discipline in financial sector if the benefits of privatization are to be at all obtained. The attached tables reveal some striking information about privatized firms' persistent dependence on state credits and *de facto* state subsidies.

Table 8

Loan Profile of Privatized Firms		
	# of Firms	Amount
<i>In million Taka</i>		
Total number of firms	201	
Firms for which information is unavailable	73	
Firms for which information is available	128	
Firms with overdue loans	77	12,652.0
Firms with outstanding but no overdue loans	33	2,697.8
Firms with neither overdue nor outstanding loans	18	
Firms with overdue and outstanding loans	110	15,349.8
Source: Bangladesh Bank (1998)		

Table 9

Outstanding Loans of Privatized Firms		
Range	Amount of Outstanding Loans	No of Enterprise
<i>In million Taka</i>		
1.0 - 5.0	28.2	13
5.1 - 10.0	29.4	4
10.1 - 20.0	164.8	11
20.1 - 50.0	49.7	15
50.1 - 100.0	1,495.7	19
100.1 - 500.0	10,522.4	44
500.1 - 1,000.0	2,611.6	4
Total	15,349.8	110
Source: Bangladesh Bank (1998)		

Table 10

Overdue Loans of Privatized Firms		
Range	Amount of Overdue Loan	No of Enterprises
<i>In million Taka</i>		
Up to 5.0	26.3	10
5.1 - 10.0	79.2	11
10.1 - 20.0	105.8	7
20.1 - 50.0	720.4	20
50.1 -100.0	1,057.30	15
100.1 -500.0	3,707.50	14
Total	5,696.90	77
Source: Bangladesh Bank (1998)		

As Table 8 shows, out of the 201 privatized firms, 77 firms have overdue (classified) and outstanding loans, 33 firms have outstanding but no overdue loans, and only 18 firms have neither outstanding nor overdue loans. The total volume of outstanding loan amounts to Taka 15.35 billion (US\$326 million) of which Taka 12.65 billion (US\$270 million) is owed by the 77 firms that have overdue loans. Table 9 shows the distribution of outstanding loans and Table 10 shows the distribution of overdue loans. The average (mean) amount of outstanding loan is nearly Taka 140 million (US\$3 million) per firm, while the average (mean) amount of overdue loan is nearly Taka 74 million (US\$1.6 million) per firm. Table 9 and Table 10 also reveal have substantial amount of overdue and outstanding loans is highly concentrated among few privatized firms. The amount of overdue and outstanding loans is quite high. The classification of non-performing debt in Bangladesh does not meet conservative and prudential standards generally accepted among international banks. How much of the outstanding loans owed by the defaulting firms shall be repaid remains to be seen; if past experience of debt recovery is any guide, then one may assume that very little will be recovered.

The accumulation of overdue loans indicates the inability and/or the unwillingness of the management of the firms to service their loans. These firms are unwilling or unable to service their loans due to either the failure to realize profits, or managerial inefficiency or, perhaps, diversion of profits for personal gains rather than serving debts.

If the management of the privatized firm expects that the bank will not eventually force it to repay, then it has no incentive to repay its debt. The authorities have been either unwilling or unable to retrieve debts from firms that have borrowed heavily and exceeded the time limit to repay. The failure to recover loans has ruined the reputation of the bank authorities. The absence of credible threats prompts the firm to default loans because the management knows

that such default will impose little or no penalty. If the owner of the privatized firm bought public enterprises with public funds, it can be regarded as publicly sponsored leveraged privatization or publicly subsidized privatization.

The inability to repay loans within a specified period of time indicates either deliberate ploy for non-repayment, or managerial incompetence. In either case, the appropriate action on the part of the authorities would be to compel the firm to meet its obligations to its creditors, its employees, and its customers in accordance with the provisions of the law. If the firm is unable to meet its obligations, then it should be sold off to (a) pay its creditors and employees; and (b) transferred to new buyers who expect to provide the firm a more effective management and, thus, realize positive profits. Such action can be regarded as “re-privatization.”² The imposition of financial discipline on firms is a natural and necessary process for efficient management, capital accumulation, and growth in a market economy.³ Without imposing financial discipline and enforcing strict adherence to prudential banking standards, privatization in Bangladesh will not and cannot succeed. Given the country’s experience with debt-default, it is perfectly justified to disqualify identified defaulters from buying public enterprises.

The authorities should allow buyers to sell “privatization bonds” in the capital market to raise funds to buy enterprise, provided capital market regulations are well enforced. However, the state, the nationalized commercial banks, and state owned non-bank financial institutions must not underwrite or purchase bonds issued to finance the leveraged buyout of the public enterprise. In essence, there should not be any state subsidy to the buyer of the enterprise. The private sector must assume full financial and economic responsibility for running the enterprise.

Labor Retrenchment

Owing to the widespread preponderance of client-patron relationships in Bangladesh, public

enterprises employ excess number of workers (Bhaskar and Khan, 1995). As firms downsize under private ownership, many jobs will be abolished and some workers will be replaced. As a result, after privatization there will be, at least in the short run, an increase in unemployment in the country because not all dismissed workers will be able to find jobs.

The working class will oppose privatization unless its losses are compensated. To mitigate the circumstances of unemployment workers, reduce workers' opposition to privatization, and placate trade union resistance, the authorities may use funds obtained from privatization of public enterprises for (a) workers' compensation, and (b) labor training and relocation programs. Labor retraining program shall improve labor productivity and enable retrenched workers find employment in other firms. At present, there are only a limited number of vocational training institutes in Bangladesh. State policies should support vocational training and skill development programs. Such steps are required not only to address the problems of workers in the short-run but also because the country needs trained and productive workers in many sectors with potential for growth. In the long run, if privatized firms are successful, new jobs will be created as output increases and additional investment is made from higher profits under better management.

Transformation Dynamics of Enterprises

Some of manufacturing public enterprises are in poor financial condition, face adverse market demand for their products, possess old and decrepit machinery, employ unmotivated workers, staff, and officers and have accumulated so much liabilities that no one would be interested in purchasing these firms. The authorities may have to completely write off or assume all liabilities to attract buyers. Those enterprises beyond redemption must be shut down and immediately liquidated. Despite many unattractive features, many public enterprises are located in prime industrial sites, and have good real estate market values and fixed assets (buildings, machinery, and utility

connections), established brand names, ties with buyers, suppliers, skilled workforce and knowledgeable managers which will make them attractive to investors. Some of potential buyers of privatized enterprises would be able to transform unprofitable enterprises into profitable ones by putting in additional investment, new technology, and better management. Some of the buyers will switch the firm from one line of products or industry to another to obtain higher profits and growth. Some of the buyers shall shutdown the existing firm to convert the property into ventures that they expect to yield higher profits, such as construction, retail, or service activities. Some privatized firms will incur losses, fail, become bankrupt, close, and eventually liquidate themselves and exit. Such transformations should not be regarded as faults of privatization or be misconstrued as specters of de-industrialization. The conversion of manufacturing establishments into non-manufacturing ventures and vice versa, the exit and elimination of inefficient firms, and the entry and emergence of new firms are cardinal features of market mediation that enables an economy to evolve in accordance with changing tastes and technology. The effective operation of a market economy requires constant transformation, new investment and entries, and bankruptcies and exits.

Capital Market and Privatization

The lack of a well established, robust, and thriving capital market dampers the prospect of a successful privatization program in Bangladesh. The equity market in Bangladesh is still quite small in terms of both market capitalization, the number of listed securities, actively traded securities, and the number of individual and institutional traders. The authorities' regulatory framework, capacity and enforcement is fragile. Public enthusiasm in the capital markets was sharply curtailed after the steep decline in asset prices following the speculative frenzy, euphoria, and punting from mid 1996 till early 1997 in the virtually unregulated "over the counter" stock market. The speculative bubble was unsustainable because the rise in prices was not warranted by increases in corporate net income, operating income, profit, or growth.

The capital market must be adeptly regulated for investors' confidence to be reestablished.

Regulatory Framework for Privatized Monopolies and Oligopolies

The present policy framework does not contain any mechanism for creating and enforcing regulatory and competition policies. If the authorities carry forth the privatization program, then the state would eventually also transfer public monopolies in infrastructure, utilities, telecommunication, and transport to the private sector. However, in order to ensure gains from privatizing in non-competitive sectors, industry regulations must be in place and be implemented rigorously to protect consumer interests and social objectives. Properly regulated monopolies transferred to the private sector would have limited ability to abuse market power and would be governed by a good set of incentives that promote improvement of productivity and service. For Bangladesh, privatization and private sector entry in the provision of utilities should be accompanied with a strong, credible, and transparent regulatory framework that limits the scope for abusing market power and appropriating rents. The authorities should ensure that privatized oligopoly firms conform to agreements, maintain standards, do not engage in collusive practices, and refrain from outright fraud.

Speed, Time Framework, and Program Effectiveness

Although the authorities have announced that 54 firms are to be privatized within the financial year 1997-98, this target was not met. The pace of the program is slow even though the authorities are determined to privatize a large number of enterprises within two or three years. The parameters and scope of privatization has not yet been agreed upon at the highest executive level. The policy does not provide a time framework for the completion of the privatization program in Bangladesh. An indicative timetable for privatization with set goals for each stage of privatization would send strong signals to investors and create confidence

in the authorities commitment to an effective and goal-oriented privatization program.

A slow and/or ill planned privatization program can demoralize workers and managers in the public sector. The management of enterprises may engage in capital depletion if they have no stake in the privatization process. At present, they fear that they will lose their job security after the transfer of ownership from the public sector to the private sector. Privatization should be carried out quickly, retaining the loyalty and morale of the firm's workforce, and reducing the scope for asset depletion.

According to the policy, the state shall ensure that the transfer of the privatized enterprises is complete within 90 days of signing of the agreement. But the authorities have had problems adhering to such deadlines. The less delay there is in the transfer process, the better it is for corporate management.

Privatization Act

The authorities should make the forthcoming Privatization Act available for generating public discussion before sending it to National Parliament for approval. The goal of Privatization Act would be to strengthen the country's privatization program. This gives the authorities an opportunity to clearly state the objectives of the country's privatization program, and set in motion a smooth and transparent institutional mechanism(s) for transferring enterprises from the public sector to the private sector.

The Act ought to ensure the transparency and the credibility of the privatization process. In order to achieve credibility, the authorities should be able to give sound justification for the valuation of firms to be sold and the mechanism for transfer of ownership. The Privatization Board's decisions will be credible if it is subject to independent analysis and scrutiny.

Analysis of Post-Privatization Performance

The privatization of commercial public enterprises in Bangladesh has several objectives.

Firstly, to eliminate the fiscal burden of subsidies and the banking system's support to the public enterprises. Secondly, to improve productive efficiency of these firms. Thirdly, to increase the social and the private rate of return to capital. To determine whether privatization program has been successful, the authorities and the firm's management should provide independent researchers access to firm-level production and financial data, and macroeconomic data from the tax agencies, the central bank, and the line ministries. Such analysis will be valuable not only to the authorities but also to the general public, the corporations, banks, and potential investors.

Corporate Governance and the Production Environment

For effective corporate governance a strategic buyer or group needs to establish effective managerial control on the firm's operations, strategy, and plans. Privatization will be beneficial if it brings about better management of the firm's capital and human resources. There has to be a pool of potential entrepreneurs ready to take over and manage the privatized firm. This implies that there must be a competitive market for corporate control. Sound management and improved corporate performance depends not only on the managers but also on the surveillance of shareholders, banks and other financial institutions, regulatory bodies, and good accounting, auditing and legal practices and standards. Bangladesh's production environment is characterized by rampant corruption, political tensions between the party in power and the parties out of power, frequent strikes, natural disasters, and poor infrastructure. The lack of a favorable production environment in Bangladesh do not bode well for privatization and probably explains why privatization and other policy changes have not yet generated higher levels of investment and growth. The production conditions in Bangladesh can drastically improve if there is a visionary and able political leadership, change in the incentive regime, and strictly and impartial enforcement of the rules of the game.

Conclusion

This paper underscores the importance of a balanced and non-dogmatic approach to privatization in Bangladesh. Bangladesh will continue to be mixed economy in which the state-owned enterprises and financial institutions retain a vital role, even as more firms emerge in the private sector and some firms are privatized. If firms fail to repay debts then their assets and collateral must be seized, sold, and transferred to more efficient management, in accordance with the normal functioning of the market process. Without discipline in the financial sector, there shall be no gains from privatization. Irrespective of the status of their ownership, inefficient and loss-making firms cannot continue to be indefinite drain on the state budget. As for the remaining public enterprises, Their pricing structures should be adjusted, the scope of activities redefined, employment policy reassessed, and equity injection program rationalized. Inefficient and loss-making firms will have to be shutdown.

The goals of privatization must be clearly defined. The process of privatization must be transparent, and carried out rapidly and efficiently. The authorities should address the problem associated with labor retrenchment by providing a reasonable amount of termination payments and investing in labor retraining and redeployment schemes. Privatized monopolies and oligopoly firms shall have to be well regulated.

A proper set of incentives for the privatized firm is required to obtain the benefits that private management of the firm is supposed to bring about. Mallon and Stern (1991) observe that many business groups in Bangladesh are more eager to perpetuate the privileges rather than press for the relaxation of controls. If an economy is distorted and/or the state authorities are unable to enforce impartial rules, privatized firms can profit more from directly unproductive profit-seeking activities rather than productive and welfare-enhancing activities. For instance, analysis of the tax registration profile of privatized firms in Bangladesh (Akram 1998b) illustrates that privatized firms may be engaged

in tax evasion because the state's tax surveillance and administrative capacity is weak, inefficient, and ineffective. The low probability of detection and the low penalty cost if detected allows a large number of privatized firms failing to meet the minimum tax registration requirement. Privatization would improve revenue generation if under private management (a) the firm increases sales and profits, and (b) pays its due tax. But if a privatized firm does not comply with the *minimum* requirement of tax registration(s) and slips out of the tax net, then revenue shall not rise.

Successful privatization and private sector development require institutions and institutional practices that promote activity and support the smooth operation of markets and production processes. Proper execution of privatization and implementation of complementary policy steps (such as the strengthening of tax administration, discipline in the financial sector, and so on) is required to secure the presumed gains from the privatization of public enterprises. Businesspersons, domestic and foreign, have been less than enthusiastic about investing in Bangladesh because of perceived political instability and frequent strikes, highly politicized labor market and union problems, the absence of conducive business environment, rampant corruption and lawlessness, excessive regulations and bureaucratic interference, poor infrastructure, and natural disasters.

In general, privatization should be implemented as integrated part of an authentic liberal economic order that incorporates fair laws and their strict enforcement, fiscal and monetary discipline, competition, and prudential microeconomic regulations, and rewards productive endeavors. Privatization of public enterprises in Bangladesh would have to be accompanied by a set of policies that ensure that entrepreneurs profit from productive endeavors, not at the expense of the public. Privatization is *not* an end in itself but merely a *means* towards increasing efficiency, and fostering economic growth and development.

REFERENCES

1. Ahmad, Muzaffer (1987). *State and Development: Essays on Public Enterprise*. Dhaka, Bangladesh: University Press Ltd.
2. Ahmad, Sultan (1991). "Trends of Privatization in the Asian-Pacific Region with particular reference to Bangladesh," *Asian Affairs* 3: (July-September) 35-80.
3. Akram, Tanweer (1998a). "Entry, Exit, Efficiency, & The Question of Privatization," *Centre for Policy Dialogue Working Paper*.
4. Akram, Tanweer (1998b). "Tax Registration Profile of Privatized Firms," *Centre for Policy Dialogue Working Paper*.
5. Akram, Tanweer (1998c). "Publicly Subsidized Privatization: A Simple Model of Dysfunctional Privatization," *Centre for Policy Dialogue Working Paper*.
6. Akram, Tanweer (1999). "The Political Economy of Privatization of Public Enterprises in Bangladesh: A Critical Review of the Literature," unpublished manuscript.
7. Bangladesh Bank, various years. *Bangladesh Bank Bulletin*. Dhaka, Bangladesh: Bangladesh Bank.
8. Bhaskar, Venkataraman (1993). "Privatization in Developing Countries: Theoretical Issues and the Experience of Bangladesh," *UNCTAD Review* 0(4): 83-98.
9. Bhaskar, Venkataraman and Mushtaq Khan (1995). "Privatization and Employment: A Study of the Jute Industry in Bangladesh," *American Economic Review* 85(1): 267-273.
10. Chowdhury, Tawfiq Elahi (1987). "Privatization of State Enterprises in Bangladesh 1976-84," in Georffrey Lamb and Rachel Weavings, eds., *Managing Policy Reform in the Real World: Asian Experience*. Washington DC: The World Bank, 1992.
11. Dowlah, C. A. F., (1997). "Privatization Experience in Bangladesh: 1991-96." Dhaka, Bangladesh: The World Bank.
12. Galal, Ahmed; Leroy Jones; Pankaj Tandon; and Ingo Vogelsang (1994). *Welfare Consequences of Selling Public Enterprises: An Empirical Analysis*. Washington DC: Oxford University Press for the World Bank.

13. Government of Bangladesh, various years. *Bangladesh Economic Review*. Dhaka, Bangladesh: Ministry of Finance, Government of Bangladesh.
14. Government of Bangladesh (1996). *Privatization Policy*. Dhaka, Bangladesh: Privatization Board, Government of Bangladesh.
15. Humphrey, Clare (1992 [1990]). *Privatization in Bangladesh: Economic Transition in a Poor Country*, Asian Edition. Dhaka, Bangladesh: University Press Ltd.
16. Islam, Shamsul (1975). *Public Corporation in Bangladesh*. Dhaka, Bangladesh: Local Government Institute.
17. Kikeri, Sunita; John Nellis; and Mary Shirley (1992). *Privatization: The Lessons of Experience*. Washington DC: The World Bank.
18. Lorch, Klaus (1991). "Privatization Through Private Sale: The Bangladesh Textile Industry," in Ravi Ramamurti and Raymond Vernon, ed., *Privatization and Control of State-owned Enterprises*, Washington DC: The World Bank, 1991.
19. Mallon, Richard D., and Joseph J. Stern (1991). "The Political Economy of Trade and Industrial Policy Reform in Bangladesh," in Dwight H. Perkins and Michael Romer, ed., *Reforming Economic Systems in Developing Countries*. Cambridge, Massachusetts: Harvard Institute for International Development, 1991.
20. Sen, Binayak (1997). "Whither Privatization: Results of an Exploratory Survey of the Disinvested Industries in Bangladesh." Dhaka, Bangladesh: Ministry of Finance, Government of Bangladesh.
21. Sobhan, Rehman and Muzaffer Ahmad (1982). *Public Enterprise in an Intermediate Regime: A Study in the Political Economy of Bangladesh*. Dhaka, Bangladesh: Bangladesh Institute of Development Studies.
22. Sobhan, Rehman and Syed Akhtar Mahmood (1991). "The Economic Performance of Denationalized Industries in Bangladesh: The Case of the Jute and Cotton Textile Industries," *BIDS Research Report New Series* 129 (June).
23. Yusuf, Fazlul Hassan (1985). *Nationalization of Industries in Bangladesh*. Dhaka, Bangladesh: National Institute of Local Government.

¹ Akram (1998a) provides a critical review of the results in Sen's (1997) survey of privatized firms.

² Professor Rehman Sobhan has coined the term "re-privatization" and has articulated its importance.

³ Akram (1998a) discusses this point at length.

ACKNOWLEDGEMENTS

The author benefited from discussions with officials from the Privatization Board, the National Board of Revenue, Bangladesh Bank, financial institutions, and scholars and participants at a Privatization Board seminar. The author is grateful to Mr. S. M. Akram, Member of Parliament (Chairman, Public Accounts Committee, National Parliament); Dr. Syed Saad Andaleeb (Editor, Journal of Bangladesh Studies); Professor Rehman Sobhan (Executive Chairman, Centre for Policy Dialogue); and two anonymous referees for their thoughtful comments on earlier drafts of this paper. The research was supported by Visiting Research Fellowship at the Centre for Policy Dialogue, Dhaka, Bangladesh. The standard disclaimer applies.