

# "Partial Privatization Strategy: A Case Study of Bangladesh Railway"

Thesis submitted in partial fulfillment of the  
requirements for the Degree of Master of Philosophy



By

A. M. Shawkat Osman

Examination Roll-08

Registration No.-174

Session: 1999-2000

Department of Management Studies

University of Dhaka

Supervisor : Prof. Dr. Md. Nazmul Karim Chowdhury

Department of Management Studies

University of Dhaka.

RB

338.925

OSP

M.P.L.

M.

428204

ঢাকা  
বিশ্ববিদ্যালয়  
গ্রন্থাগার

১১/১১/১১

# "Partial Privatization Strategy: A Case Study of Bangladesh Railway"

Thesis submitted in partial fulfillment of the  
requirements for the Degree of Master of Philosophy



428204

By

A. M. Shawkat Osman

Examination Roll-08

Registration No.-174

Session: 1999-2000

Department of Management Studies

University of Dhaka

11-11-2007

Dhaka University Library



428204

Supervisor : Prof. Dr. Md. Nazmul Karim Chowdhury

Department of Management Studies

University of Dhaka.

"Partial Privatization Strategy:  
A Case Study of Bangladesh Railway"

428204

ঢাকা  
বিশ্ববিদ্যালয়  
গ্রন্থাগার

DECLARATION

I do here by declare that the thesis under the title “**Partial Privatization Strategy : A case study of Bangladesh Railway**” prepared and presented by me to the Dhaka University, Bangladesh in partial fulfillment of the requirements for the Degree of Master of philosophy (M. Phil) is an original work of mine during the study period. The thesis has not been presented earlier either wholly or partially to any other academic institution for any degree or any other gain.

  
10.11.2007

A. M. SHAWKAT OSMAN

Examination Roll-08

Registration No.-174

Session: 1999-2000

Department of Management Studies

University of Dhaka.

428204

ঢাকা  
বিশ্ববিদ্যালয়  
গ্রন্থাগার

CERTIFICATE

I have the pleasure to certify that A. M. Shawkat Osman, a registered M. Phil student of the Department of Management Studies, University of Dhaka who conducted the research study on "Partial Privatization Strategy : A case study of Bangladesh Railway" under my direct supervision. He has completed the study in Partial fulfillment of the M. Phil degree requirements in Management through his research work during the period from March 2005 to February 2006.

The research findings on the topic are the candidate's own work. It does not contain any conjoint research work



(PROF. DR. MD. NAZMUL KARIM CHOWDHURY)

Department of Management Studies  
University of Dhaka.

### ACKNOWLEDGMENT

It is a great pleasure and privilege to record my deepest gratitude and indebtedness to my supervisor and guide Professor. **Dr. Md. Nazmul Karim Chowdhury**, Department of Management Studies, University of Dhaka, whose constant support and encouragement has made it possible to complete the present study. It would have been quite impossible to carry on the research work and it a final shape of thesis without his able guidance and sympathetic motivation.

I have no word to express my gratitude to **Professor Kaji Md. Nurul Islam Faruky** for favorable consideration and heartiest co-operation about my study.

I must also express my profound respect and sincere gratitude to Dr. A.S.M Wbaidullah, Professor, Department of Zoology, Dhaka University and Professor Dr. Md. Aaluddin, Department of Management, Government Azizul Hoque College for the keen interest they expressed in my research and their valuable advice from which I immensely benefited during the preparing stage of the thesis.

**I am extremely grateful to SSRC, Planning Commission, Government of Bangladesh for providing financial assistance (Scholarship) to complete this study.**

I would like to take this opportunity to express my grateful thanks to **Engr. Mr. Habib Ahmed**, Chief Engineer, and Mr. Md. Shahadat Ali, D.C.O Bangladesh Railway, Dhaka for his help regarding valuable information and data in making thesis more acceptable.

I am extremely grateful to my colleagues Mr. Md. Elias, Associate Professor, Mr. Bishnu-Pada Banik, Mr. Saidul hasan, Asstt. Professor, Statistics Dept. Dhaka Commerce College for valuable academic help.

I would like to express my grateful thanks to the authorities of Privatization Commission, Board of Investment, World Bank Library, Midas Library, B.I.D.S, B.I.B.M Library, Bureau of Business research D.U, Dhaka University Library, Ministry of Industries, **Bangladesh Railway**,

for providing me with valuable data, documents and relevant information's for purpose of the study.

The teachers of the Department of Management Studies deserve my thanks. I am indeed grateful for their inspiration and support and all the discussants who expressed their valuable opinions to improve the Programme. I have also benefited from a large number of well wishers who are to numerous to be individually cited here. My sincere apologies to all of them. I shall however, be failing in my duty if I do not express my indebt ness and gratitude to my parents Mrs. **Safia Khair**, (mother) and late **Al-Haj Md. Abul Khair**, father who randomly insisted me for this study.

Lastly I would like to express my heartiest thanks and gratitude to my wife **Mrs. Nayer Sultana (Munni)** for her kind co-operation and encouragement during the long tenure of my study.

February, 2007,

**A. M. Shawkat Osman**



## Table of Contents

	Page
Abstract	8
<b>1. CHAPTER-1.Introduction</b>	<b>10</b>
1.1 Statement of the Problem	10
1.2 Need for the Study	11
1.3 Scope of the Study	12
1.4 Objectives of the Study	14
1.5 Research Methodology	15
1.6 Limitations of the Study	18
<b>2. CHAPTER-2. Review of Literature:</b>	<b>19</b>
2.1 Introduction	19
2.2 Literature review of privatization	19
2.3 Literature review of Partial Privatization in Railway and Other communication sector	21
2.4 Analysis of Major Findings of the Review of literature	29
<b>3. CHAPTER-3.Conceptual Framework of Partial Privatization</b>	<b>32</b>
3.1 Introduction	32
3.2 Features and Strength	32
3.3 Methods of Partial Privatization	33
3.4 Conclusion	34
<b>4. CHAPTER-4. Public Sector Performance &amp; Privatization Scenario of Bangladesh :</b>	<b>35</b>
4.1 Meaning of Public Sector	35
4.2 Historical Perspective of Public Sector in Bangladesh.	35
4.3 Objectives of State Enterprise.	36
4.4 Size of Public Enterprise.	37
4.5 Performance and Financial Position of Public sector in Bangladesh	38
4.6 Financial Analysis of Government sector in Bangladesh	45
4.7 Evaluations of Public sector in Bangladesh	47
4.8 Background of Privatization in Bangladesh.	48
4.9 Assessment of Privatization Programme in Bangladesh	49
4.10 Conclusion	55

<b>5. CHAPTER- 5.Rationale of Partial Privatization Programme:</b>	<b>57</b>
5.1 Introduction	57
5.2 Partial Privatization Programme used in Various Sectors in Bangladesh	58
5.3 Rationale of Partial Privatization Programme in Bangladesh Railway	59
5.3.1 Bangladesh Railway and its Scenario	59
5.3.2 The network of BR at present	59
5.3.3 Number of Stations	60
5.3.4 Passenger Traffic	60
5.3.5 Freight Traffic	61
5.3.6 Operational Problems	62
5.3.7 Social Cost and Compensation	62
5.3.8 Financial information's of BR in the year 2003-04	63
5.3.9 Issues related with financial loss of BR	65
5.3.10 Conclusion	66
<b>6. CHAPTER-6.Partial Privatization Programme in Bangladesh Railway</b>	<b>67</b>
6.1 Introduction	67
6.2 Reform Process and Private Sector Involvement	68
6.3 Area of Privatized Operation in B.R	68
6.4 Contract Nature	72
6.4.1 Area of License Operations	72
6.4.2 Duties of Private Operator	73
6.4.3 Duties & Powers of Railway Authority	73
6.4.4 Analysis of Partial Privatization Programme in B.R	
<b>7. CHAPTER-7.Impact of Partial Privatization Programme in BR:</b>	<b>76</b>
7.1 Introduction	76
7.2 Nature of Partial Privatization Programme(PPP) in BR	76
7.3 Description of the facilities	77
7.4 Benefits of Partial Privatization Programme (PPP) in BR	79
7.5 Problems of Partial Privatization Programme (PPP) in BR	80
7.6 Financial earnings	81
7.7 Statistical analysis in relation with financial earnings	82

7.8 Test of performance of partially privatized trains with Government trains	85
7.9 Causes in favour of private operator	90
7.10 Comparison	91
<b>8.CHAPTER-8.Summary &amp; Recommendations:</b>	<b>95</b>
8.1 Summary and findings	95
8.2 Recommendations	99
Appendix	
References	

## ABSTRACT

The economy of Bangladesh was severely blasted during the liberation war of 1971. After that massive destruction, Bangladesh took a bold initiative to nationalize its industries and other financial institutions left off by Pakistani owner to boost up and strengthen its economy. But unfortunately, it could not achieve its goal, and thereafter, it thinks over Privatization Programme. Like the nationalization Programme, Privatization Programme also frustrates it. Therefore, the Partial Privatization Programme rushes to rescue it--- a modern concept suggested by the donor organizations and even the analysts. The Government heeds their suggestions, and does attempt to implement this Programme stated. This study aims at finding out the feasibility and pedience of Partial Privatization Programme. To give it a success, this study specifies some objectives which are as under:

- Analysis and assessment of Privatization Programme in Bangladesh.
- To identify the background of Partial Privatization Programme.
- To identify the nature, benefits, problems of partial privatization Programme.
- Findout the financial aspect of Partial Privatization Programme in Bangladesh.
- Identify the changes of quality of services and other facilities after adopting Partial Privatization Programme.
- To find out success and failures of Partial Privatization Programme

In order to achieve above mentioned objectives this study has chosen the field of Bangladesh Railway. Methodology is designed with statistical analysis. Data has been collected from both sources, primary and secondary. Respondents of all concerned sources have been conducted to collect necessary information. The thesis has been divided into eight chapters, which are:

- Introduction**
- Review of Literature**
- Conceptual Framework**
- Public sector performance and Privatization Scenario of Bangladesh**
- Rationale of Partial Privatization Programme**
- Partial Privatization Programme in Bangladesh Railway**
- Impact of partial privatization programme in BR**
- Summary & recommendations**

Chapter seven is the important one which consists of description and impact of this Programme in B. R. In this chapter nature, area, duties of both authorities (private & public) of Partial Privatization Programme have been discussed. The benefits, financial earnings, problems service, facilities and other necessary characteristics have been specified in this chapter. Financial viability and service standard of this Programme have been tested by paired "t" test and  $\chi^2$  test.

This study has identified some findings that include the involvement of private entrepreneurs in public organizations, easiness for implementation, and no obstacles by staff of parent organization, positive economic viability proved to be satisfactory with paired "t" test and finally the improvement of the service standard including other facilities tested by  $\chi^2$  test.

This study has recommended this Programme to the government to implement largely. In order to overcome or reduce financial losses of public organizations, Partial Privatization Programme may be introduced as strategic Programme so as to our public organizations can establish economic strength and improve service standard. On the other hand, universities, research organizations are highly encouraged to study on partial privatization Programme.

## INTRODUCTION

**1.1 Statement of the Problem:**

The decade 1960's and '70s were attributed to the last growth and development of public enterprises all over the world and it was considered a dominant phase of the economy. But, after '70s the wind of public enterprises phenomenon began to change because of haggling performance of the State Owned Enterprises (SOE). A large number of State Owned Enterprises proved as economically unviable and inefficient which incurred heavy losses and created heavy pressure on public budget. As a consequence, since 1980, the economic reforms through privatization gained momentum all over the world and reached the highest popularity by '90s. In this decade, more than 2000 State Owned Enterprises (SOEs) were privatized in the developing countries and altogether 6800 (SOEs) all over the world. (Sunita,k 1992) Further, the intellectual debate on privatization and restructuring of the economy created interest in the privatization Programme.

The rapid growth of public sector in Bangladesh during the post liberation period (1971-1975) was the outcome of some incidental and political reasons. The war of liberation left the country's infrastructure totally devastated. Industrial and Commercial enterprises were closed down. Under these circumstances the government took over the derelict business and industries, left off by the Pakistani entrepreneurs. This 85 percent of industrial assets were nationalized in 1972. (Industrial Investment Policy 1973) But the government failed to run the state owned Enterprises profitably and efficiently for a variety of reasons of which include mismanagement, corruption and lack of accountability (Siddiqui G.A 1990). The ever increasing losses of these SOEs created heavy pressure on the country's fiscal situation and consequently lead to think of Privatization.

In 1976, the new government, understanding the failure of the public sector in the economy, adopted a new policy of privatization of state owned enterprises. Since the successive governments in Bangladesh have privatized many industrial enterprises, banks, commercial business, textiles, Steel Engineering, Chemicals, Sugar, Shares of Multinational Companies and many other approaches have so far been introduced in privatizing state owned Enterprises (SOEs), like Sale of Equity, Sale of Assets, Management Contracts, Sale by Tender, Sale by Public Offer of Shares, Partial Privatization, Employee Ownership Plan (ESOP) etc. Each approach has inspirations in the implementation of privatization Programme. Partial Privatization is also suitable in some areas of privatization. So the GOB is trying to apply these

approaches in many areas like DESCO in PDB, Land phone in T & T, Parjatan Motel in Bangladesh Parjatan Corporation, Bangladesh Railway, Toll collection and Fency Programme of Roads in Communication Sector.

The present Study is the serious endeavor to analyze the appropriateness & suitability of partial privatization approach that are followed in some areas in Bangladesh.

## **1.2 Need for the Study:**

In Bangladesh 'Partial Privatization' has been regarded as an important policy to achieve efficiency and competitiveness for public enterprises. In this context partial privatization has become a major research topic in the literature of our economy. This concept is needed to be assessed widely to find out the effectiveness and applicability in public enterprises. Quantitative analysis on the basis of official statistics has not yet been conducted extensively. In considering the applicability of 'Partial Privatization' to the SOEs, it is important to specify when this system emerges and becomes effective. This study aims at specifying the condition for the emergence, existence and evolution of partial privatization system. Since "Partial Privatization Programme" is a recent concept in Bangladesh, almost no research work has been done on it. This system has been recommended by World Bank study also. But there is no research work, done after introducing implementing 'Partial Privatization Programme.

I hope the proposed research work on 'Partial Privatization Strategy' will extensively help the Bangladesh Railway Authority, Privatization Commission, Government of Bangladesh and Researchers to a great extent.

### 1.3 Scope of the Study.

This study aims at finding out the overall impact of Partial Privatization Strategy, mainly in Bangladesh Railway. In the early 1990's the Government of Bangladesh embarked on a macroeconomic stabilization programme supported by donor organizations that focused on restructuring selected State Owned Enterprise including Bangladesh Railway, as one of the largest loss incurring state owned enterprises and representing a major source of financial inefficiency. Therefore, Bangladesh government has switched their decision to partial privatization, considered as the way out strategy from gradual financial degradation towards financially viable condition to improve both economic and service stability.

That is why, this study has been designed to cover the overall position of **public sector organizations, privatization status as well as partial privatization programme** of Bangladesh Railway.

Bangladesh Railway has introduced this modern programme since 1997 to enhance efficiency and its service standard and revenue earning. Under this adoption (PP) they involved private operator in:

- 1) Commercial operation of 30 passenger trains.
- 2) Computerized ticketing and reservation system in some stations.
- 3) On-board service
- 4) Cleaning and beautification works of the station in selective areas.
- 5) Using of fiber optic telecom facility, and so-on.

Among these areas commercial operation of 30 trains is the biggest concern of this programme. Therefore, this study concentrates over this 'commercial operation' through partial privatization programme of Bangladesh Railway.

This study aims to find out involvement procedure of private operator, financial transaction mode, risk and liability sharing, tariff fixation, responsibility of both parent organization and private operator, time table, maintenance, merits & demerits of the programme etc.

After this involvement of partial privatization programme our concentration moves to examine the impact of this programme in Railway. That is why, this study covers to find out the financial impact & service standard due to this programme. Present study also covers an evaluation of the efficiency of partially privatized train with government control train.

Apart from that, this study also includes the over all status of public sector organizations and their performance as well as privatization status of Bangladesh. Because the goal of this study is



to implement 'partial privatization programme' in our other public sector organizations widely to improve the over all position specially financial condition and service standard, if it is found effective in this study .So we can specify the ultimate scope of the study as under:

- A) **Public sector organizations and their performance in Bangladesh.**
- b) **Privatization and assessment of post privatization status in Bangladesh.**
- C) **Partial Privatization Programe and its impact in Bangladesh Railway.**

#### **1.4 Objectives of the Study:**

Our large public sector organizations have been suffering from huge amount of financial loss and mismanagement. Day by day the position of SOE's are deteriorating. In this regard Government has implemented partial privatization programme to overcome the position gradually. The goal of this study is to examine and find out the effectiveness of partial privatization programme implemented by Bangladesh Railway---a strategic programme to reduce the financial loss and improve service standard. In order to achieve this goal this study has designed with the following specific objectives:

- i) To identify the size & present condition of State Owned Enterprise (SOEs).**
- ii) To identify the background of Privatization Programme in Bangladesh.**
- iii) Assessment of Privatization in Bangladesh.**
- iv) To identify the background of Partial Privatization Programme.**
- v) To identify the Partial Privatization Programme and its present status**
- vi) To examine Financial earnings and service standard as well as existing problems of Partial Privatization Programme of Bangladesh Railway.**
- vii) To compare the Service Standard and other facilities of Partial Privatization Programme with previous status.**
- viii) To find out success and failures of Partial Privatization Programme in BR**

The ultimate objective of this study is to find out the effectiveness and applicability of Partial Privatization programme of Bangladesh Railway.

### 1.5 Research Methodology:

This study is 'Inductive Statistical Research' which is concerned with the development of some criteria that can be used to derive information about the nature of the members of total groups (also called population or universe) from the nature of the small portion (also called sample) of the given group. This study worked on a random sample of size 8 trains to reach a decision about 30 trains which are partially privatized.

Inductive statistics includes the methods like probability & probability distribution; sampling and sampling distribution; various methods of testing hypothesis, correlation, regression, factor analysis; time series analysis. This study is designed with hypothesis which is tested by paired  $t$  test and  $\chi^2$  test.

The study has been conducted with the help of the survey method, key information method and participation observation method as-well.

**Selection of the Study Area:** Bangladesh Railway has been introduced private operator with its some sectors since 1997. These are:

- 1) **Commercial operation of 30 trains.**
- 2) **On board service of 10 trains.**
- 3) **Computerized ticketing and reservation of 30 stations.**
- 4) **Using of fiber optic telecom facility.**

The activities mentioned above are partially privatized. Commercial operations of train are very much important according to the subject of the study. The ultimate goal of the study is to find out the effectiveness of partial privatization programme in B.R. which will contribute to reduce financial losses of state owned enterprise (SOE) in Bangladesh.

Therefore, the study has selected private operation of commercial activity of the trains of Bangladesh Railway under partial privatization programme. These 30 trains (which are partially privatized) will constitute the population of the study. Additionally public sector organizations and privatization performance have also been selected as relative field for the study.

**Sample Selection:** Samples were selected by the method of Simple Random Sampling (S.R.S). Simple Random Sampling is a common and very well-known sampling method of selecting a Sample for making decision about any population. This is very much effective way to select sample in homogenous data. S.R.S is used on some special reasons which are given below:

- 1) Here every sampling unit has equal chance of being selected in the sample.

2) There is no bias towards any sampling units.

3) Here sampling estimator is unbiased estimator of population parameter.

As for example,

$\bar{x}$  = Sample mean

$\mu$  = Population mean

$$E(\bar{x}) = \mu$$

4) Here data used in this study are more or less homogenous

5) Here data is selected by S.R.S using lottery method

Therefore, it is appropriate to use Simple Random Sampling for this study.

Railway authority has privatized 30 trains. Among them 8 are selected randomly. Reservations and ticketing system applied in 16 stations. 4 stations have been selected for sample. The other partial privatization work and sample has been selected as per system.

#### **Statistical Method:**

Statistical method has been applied in this study. Frequencal Distribution, paired  $t$  test,  $\chi^2$  test are applied to find out various objectives, Financial viability of the partial privatization Programme with government period has been analyzed by paired  $t$  test.

#### **Hypotheses for paired 't' test are:**

**$H_0$ :  $\mu_x - \mu_y = 0$  i.e., there is no significant difference in the daily income of passengers train before and after the partial privatization**

**$H_A$ :  $\mu_x < \mu_y$ . Means partial privatization results in an increase in daily income.**

We can test these two variables by using paired  $t$  test.

This study also examined the performance of partial privatization with government period. In this stage,  $\chi^2$  test has been applied

#### **Hypotheses for ' $\chi^2$ ' test are**

**$H_0$ : There is no significant association between the efficiency, service and facility under railway operation and after partial privatization.**

**$H_1$ : There is significant association between the efficiency, service and facility under railway operation and after partial privatization.**

Above mentioned techniques have been applied to find out the financial or commercial viability and qualitative changes of the partial privatization Programme of Bangladesh Railway.

**Data Sources :** Information for the purpose of the study has been collected from both primary & secondary sources.

- a) Primary data: Primary data has been collected through questionnaire and discussion schedule from leasing co./Private entrepreneur, Railway authority, passengers, Staffs of private operator, Analyst etc.
- b) Secondary data : Secondary data for the study has been collected from annual report of Railway, Economic survey report, Statistical Year book, Progress report of Privatization Commission, Divisional Commercial Officer, Railway, Dhaka, Station Master B. Baria, Journals of B.I.D.S, Report of C.P.D, Report of World Bank, Journals, B.I.B.M library, MIDAS, ADB, Internet, Periodicals would help to gain a better research output.

The collected data has been analyzed manually and with the aid of computer to reach a concrete decision about partial privatization programme. MS-Word is used for writing the hole document paper, MS- Excel is used for graphical presentation of the comparison of different periods. Some statistical methods especially SPSS has also been applied to make sure the final comment more accurate. Different tables such as comparison tables and contingency table have been used as well.

## 1.6 Limitations of the Study:

This study suffers from certain limitation due to its wide scope of study materials and multi type nature. These limitations were beyond the control of the researcher.

- a) There is no particular point or place where this Programme is co-ordinated or operated centrally.
- b) The published secondary data are very limited. As a recent concept, data is not available in Privatization Commission, Bureau of statistics, Ministry of Finance, Ministry of Communications and Railway etc.
- c) In interviewing period a significant amount of non-co-operation and avoiding attitude observed from respondents. Some railway officials showed avoiding tendency and some others refused to give answers to certain questions on partial privatization of Bangladesh Railway.
- d) It has been found that some high executives of Railway authority and senior journalists hold suspicious attitude towards this sort of academic research exercise. As a result, they often hesitate to co-operate in providing the needed research information.
- e) Some of the personnel's of relevant field of selected sampled units were very hard nut to crack. However, efforts were made to persuade them though it was troublesome and costly as I conducted with them, in some cases, it took ten times to collect the information.
- f) As a recent concept partial privatization is not well known to related organizations. So they were very much strict in supplying information's.

Inspite of these problems and limitations the study has however, fulfilled its objectives. It indicates future trend and recommendations of partial privatizations. Utmost emphasis has also been laid in this respect.

## C H A P T E R – 2

### Review of Literature

#### **2.1 Introduction:**

Privatization is considered and thought to be the key to economic development of a developing country like Bangladesh. The pace of privatization depends on a large number of factors, e.g., bureaucratic complexity, political commitment, restraint from CBA, etc., but recent experience shows 'partial privatization' is the main determinant or strategy of privatization over the world. Over the last fifteen years, governments around the world pursued policies to involve the private sector, to better contribution in the delivery and financing of infrastructure services. Adoption of **Private Participation** in infrastructure can reduce high cost and poor performance of state owned enterprises. This reading list includes papers reviewing experiences with private participation in transport (railways, roads, and seaports) and the impact on service provision. In Bangladesh, the development of the public sector organizations has been one of the most important objectives of the government's economic policies. To this end in view, the government pursued partial privatization policy right from the beginning of the 90's. A large literature on the subject has been developed over the recent years on the various fields of privatization as well as partial privatization.

In this section, an extended analysis of the contents of available literature on different aspects of privatization and partial privatization have been reviewed. The whole review of literature for the present study has been segmented into three parts which are as follows:

- a) **Literature available of privatization.**
- b) **Literature review of partial privatization in railway and communication sector**
- c) **Findings of the review of literature.**

#### **2.2 Review of literature of privatization.**

Privatization is only one element - and an overall strategy of private sector development and public sector reform. Experience is a range of countries, from industrial to low income, indicates that privatization is most effectively advanced when it is of a broader macro economic reform

Programme that creates an enabling environment for efficient Private enterprises and that states us ambiguously the scope and methods of reform. **(Sunita John Nelli 1997)**

Government initiatives in the area of privatization of state owned enterprises (SOEs) and assets have increased substantially in recent years. Many governments have effectively privatized (SOEs). And even larger number have announced privatization Programmes but are only at the earliest stages of implementing them in any substantial way. In at least 83 countries privatization is an inherent part of efforts to rationalize the SOE sector as a whole, in most cases to reduce their burden on the national budget, to improve the efficiency of individual enterprises, to assure wider distribution of business of ownership or to achieve a combination of objectives. **(Vuylstake, Charles 1991)**

Privatization may be an element of a broader economic policy comprising deregulation and liberalization with the emphasis generally as much on improving the efficiency of retained SOEs as on efforts on divest, even when governments intend to continue state ownership various measures can still be implemented to improve efficiency and reduce cost, **(Mary Shirley 1997)**

"Private Sector Development in low income Countries" has shown some of the importance regarding privatization that poorly performing public enterprises are a drain on the budget, a destroyer of banks and an obstacle to private business. If low income countries in Africa are to make a significant and rapid back through higher growth rates, if South Asian countries are to consolidate the gain they have made in liberalization if China is to maintain its rapid growth, they will all have to move further and faster in solving the problem of public enterprises especially the largest firms. The choice is not a simple one between privatizing all public enterprises and reforming them without changing ownership. **(Sharly, Mary 1985)**

"Privatization issue in recent years, generated world wide interest which reflects the reduction of state role in national economy by a balanced participation of both public and private sector.

**( Khan, M. Ameruz Zaman World Bank 1995)**

The concept of Privatization has been understood to mean the transfer of economic authority of an enterprise out of governments has been transferred into private hands. Its ultimate

Objective is to achieve economic benefit by exposing the enterprises to market forces. **(Khawaja Amjad Saeed, 1994.)**

**Literature Review of Privatization in Bangladesh.**



After independence, the industrial enterprises of the country were initially brought under the control of the government. Very soon it was realized that the nationalized sector was not performing as desired. Since then the country has been going through denationalization process. (Dr. Sayedd Jamal Uddin & Mr. Ali Ahsan, 1996 1996)

Privatization has become perhaps the most influential liveliest concept of business and economics in the penultimate decade of the 20<sup>th</sup> century (Baquer 1989).

Bangladesh economy which started in a lukewarm way in 1974 -75, gathered momentum in 1976-77 but the fundamental policy change came in June 1982 with the announcement of The new industrial policy which opened up. Bangladesh has been pursuing an extensive Privatization Programme which is one of the largest in the LDC' (Uddin, SayedZamal.1996)

"Privatization policy has been suffering consisting of purposes." The objectives cannot be achieved unless the aspects adversely affecting the Programme are properly identified and treated accordingly. (Mohiuddin 1996)

"The Year 1981 was a year of political change for Bangladesh. But, relatively a good year economically, GDP increased by 7 percent which was significantly more than earlier years. Industrial production is increased by 8 percent. But the draught in 1982 again deemed the agricultural growth and budgetary strain compelled cutting down of public sector expenditures. This resulted in a review of the performances of public sector enterprises and the government decision makers realized the SOEs (State Owned Enterprises) were not capable of leading a rapid industrial expansion due to existence of too many bureaucrat and inefficient officials who were lacking accountability and dedication for achieving social and commercial goods. The head of the then government was familiar with the success of private sector in Korea, Japan, Taiwan, Hong Kong". (M. Amceruz Zaman 1994)

### 2.3 Review of literature on Partial Privatization in railway and communication sector.

This reading list includes papers reviewing experiences with partial privatization in railways, and other communications mode of transport:

Privatization has been used to describe an array of action designed to broaden the scope of private operator activity. It usually refers to the process of establishment of private ownership for the state enterprises. It entails not only transfer of ownership but also reinstates individual rights to performing economic activity freely. (Muhammad Mahiuddin 1996)

A recent world Bank Study conducted in Bangladesh (which reviewed two thirds of 20 cases) shows-- Management contracts improved performance (**World Bank 1995**)

According to **African transport sector's** study is in response to questions regarding perceived unrestrained monopolistic behaviour by private sector operators in the port and rail sectors in Sub Saharan Africa(SSA). Indeed,prima facie, and for historical reasons, much of SSA.s transport network is organized in multiple port/railway corridors that appear to favor potential monopolistic behaviour.During the course of the analysis, it became evident that other equally important issues related to financial performance and attractiveness of concessions design needed to be addressed. Since the quantity and availability of data was found to be limited for port concessions, it was decided early in the process to concentrate the analysis on existing planned railway concessions. (**African transport sector,2006**)

In many countries the private sector has been involved in financing infrastructure through concessions under a public – private partnership (PPP) programme, are some what underutilized in transition economies, where the potential financing gaps are significant and growing, and there seems to be an enormous potential for more private sector involvement in the financing and operation of highway assets in these countries(**Cesar Queiroz,2005**)

The performance of concessioned railways in sub Saharan Africa since 1993, thirteen railways were concession in the region and with another seven in progress by 2005.The study concludes that African railways that have been concessioned operate more efficiently and more competitive. In those concession, investment have been largely funded by multilateral and bilateral loans at concessional rates. Although concessions have revitalized many railways systems in Africa , they may not ensure long term survival without further injections of public investments.(**Richard Bullock,2005**)

Over a decade since rail concessioning began in the region , the over all assessment of its result is positive, particularly freight railways. Measure of productive efficiency show post concession improvements in cargo while effects on tariffs and service levels have been positive. Evidence is less extensive in passenger services. A main objective of these concessions. Relieve the public debt burden that over-staffed and under performing public railways imposes, was achieved perhaps too well. While private sector investment increased, public sector investment plummeted. Consequently investment in surface transport infrastructure in the region is far below levels in the 1980's. (**Richard Sharp,WB2005**)

This study focuses the role of private concessions in developing urban mass rapid transit (MRT) systems in East Asian cities. It is primarily founded on the experiences of Kuala Lumpur , Bangkok and Manila.

**Group LimitedWB-2004)**

A study conducted by ADB on **Commercialization and privatization** refers, A key dimension of effective public governance relates to the efficient deployment of public funds. Reform of public resource management requires actions to improve efficiency of state owned enterprises and relieve budgetary pressures from their subsidy and investment needs. This typically involves commercialization as a first step, followed by restructuring the entity into a corporation and finally privatization. Privatization does not always mean divestment of government ownership to the private sector, it can also be done by contracting out enterprise operations, partly or wholly, to the **private sector through management contract, asset leasing, or concession.** (ADB study 2007)

The Chilean experience of involving private firms in upgrading about 2000km of express ways- with in an overall investment in excess of US\$3 billion. The report focuses on the regulatory framework established the bidding process used and the distribution of risks in the final schemes adopted by private concessionaires. The findings provide lessons that are relevant for policy makers and private investors alike. (Cruz Lorenzen, 2004)

A lesson that can be drawn from Juan Foxley, 2000 and Jose Luis's study, the objective of Chile's port reform is to encourage investment in better port equipment, in the hope that this will lead to more efficient service, in part by attracting larger more modern ships. The first four major concessions, under which integrated terminals are run exclusively by private companies, started operations in January 2000. The integrated approach to port services replaces system of free entry of multiple stevedoring companies. This Note reviews how the concessions were designed: the criteria for the winding bids, the rules to prevent concessionaires abusing their monopoly power. The rules to encourage investment, and the Provisions for redundant workers. (Juan Foxley and Jose Luis, 2000)

An early contribution on partial privatization is by Paul Amos, (2000) who describes the impact of private participation in ports. He observed that ports have become increasingly capital intensive. Economies of scale have led to larger, more specialized ships. And competition between ports has started to grow. As a result, governments are reorganizing the way ports are run and permitting more private ownership and service delivery. Because ports provide multiple services, if governments are to design an efficient legal and regulatory framework for private participation it is important to study all these activities to evaluate the best approach (Lourdes Trujillo and Gustavo N, 2000).

In early 1995 the Rio De Janeiro state government began reforms aimed at selling concessioning to private sector loss-making state owned enterprises. This notes describes the concessioning of Rio's subway, the Metro in December 1997 and its commuter rail service, Flumitrens, in July 1998. The reforms were expected to eliminate subsidies for the metro and reduce them by

two thirds for Flumitrens, to improve service, and to clear the back log of maintenance and investment.(**Jorge M. Rebelo WB -1990**).

Each country has approached its problem differently, and each provide different insights into what can be achieved with concessions. But all the cases show that restructuring and substantial government investment in the design of a concession pay off. Concessionaires can do exactly what is expected- increase traffic, improve service, and enhance labour and asset efficiency- if they are allowed to do so(**Luis S Thompson and Karim- Jacques Budin1997**).

In 1989,Mexico initiated a private toll road programme of fifty –three concessions involving an investment of about US\$13 billion in limited resource financing over the period 1989-1994. The programme more than doubled the size of the national toll road network, but miscalculations of investment costs and overoptimistic forecasts of operating income undermined the viability of the toll roads . An already bad situation was made worse by the Mexican currency crisis of December 1994, and the private toll road initiative came to a virtual standstill. Local commercial banks were saddled with nonperforming loans estimated at US\$4.5billion toUS\$5.5 billion. Concessionaires and their affiliates have been faced with writing off Large portions of their investments. And users were left with some of the highest tolls in the world. The author diagnoses the flaws in the design of the programme and shows how the failure was manifested in the implementation of different phases of the projects(**Jeff Ruster:1997**).

Governments that privatize state industries often retain control over key distribution Assets. While there are many examples of this form of partial privatization, to our knowledge. There are no substantial quantitative studies of how governments use their control under These circumstances. In this paper we argue that the Russian government privatization of the oil sector during 1994-2003 is a useful case study because the federal government privatized oil production but retained monopoly control rights over the transport of crude onto world markets. Based on a simple analysis of the costs and benefits of control and ownership, we argue that that in these circumstances the federal government would use its control over transport capacity to provide privileged access to those companies over which it has influence. We find that in 2003 this is indeed the case and that this system detracted from economic efficiency. In particular, private and regionally owned companies had to be much more productive than companies over which the federal government (the state) had influence to receive comparable access to world markets; state-influence companies had preferential access to routes with more capacity; and, the allocation of route capacity was sensitive to transport costs only in the state-influence sector.(**University of Pittsburgh -2006**)

The economic transition of socialist economies and the trend toward privatization within both developing and industrial market economies have generated a large empirical literature on the effects of ownership on firm performance. Most of these studies find that privatization has a positive impact on firms' profitability and efficiency. Most of the assets of the firms in these studies have been privatized and control rights have been transferred from the government to private owners. Surprisingly, little is known about the effects of partial privatization, in which control rights are not transferred, even though most privatization transactions of a significant size are partial sales of equity, often through the stock market. This paper uses information on the fraction of equity sold through partial privatizations in India to investigate whether the sale of minority stakes affects the performance of government-owned firms. (Nandini Gupta, wdi 2001)

It is possible that national services may sub-contract or out-source functions to private enterprises. A notable example of this is in the United Kingdom, where many municipalities have contracted out their garbage collection or administration of parking fines by tender to private companies. In addition, the British government is debating the possibility of involving the private sector more in the workings of the National Health Service, principally by referring patients to private surgeries to ease the load on existing NHS human resources, and covering the cost of this. An enterprise may be privatized, with a number of shares in the company being retained by the state. This is a particularly notable phenomenon in France, where the state often retains a "blocking stake" in private industries. In Germany, the state privatized Deutsche Telekom in small tranches, and still retains about a third of the company. As of 2005, the state of North Rhine-Westphalia is also planning to buy shares in the energy company E.ON in what is claimed to be an attempt to control spiralling costs. **Whilst partial privatization could be an alternative, it is more often a stepping stone to full privatization. It can offer the business a smoother transition period during which it can gradually adjust to market competition. Some state-owned companies are so large that there is the risk of sucking liquidity from the rest of the market, even in the most liquid marketplaces, and thus must be sold off bit by bit. The first *tranche* of a multi-step privatization would also in the first instance establish a valuation for the enterprise to mitigate complaints of under-pricing.** (Wikipedia)

Ministry of transport 2007 stressed their study on **Rail way restructure, Results to detain Germany**, the process steps for implementing the railway reform were defined as part of the Railway Restructuring Act. Following the merger between the railway of the former German Democratic Republic and the German Federal Railway, and the foundation of private law-based Deutsche Bahn (DB) AG, in an initial step on 1 January 1994, the second step, splitting DB AG

into individual public limited companies under the common umbrella of a holding company, was completed on 1 January 1999, thereby meeting the legal requirements. Over the past 12 years, the railway reform has led to positive developments on the whole. DB AG's Group turnover, transport services and productivity have been increased. The Group generated a profit in 2004. Improvements in quality have particularly been achieved in those market segments in which competition on the rail network has emerged. Only railways that are modern and efficient will have a promising future in our transport system. Being modern means running on time, offering reasonably priced fares and attractive services, in other words meeting customer requirements. But it also means being able economically to meet the challenges of the future. DB AG's efforts to make the company economically efficient are therefore a logical consequence of the reform of the railways. With their policy of growth and consolidation, the railways are on the right track. **(Ministry of Transport, Germany, 2007)**

An effective consultative mechanism can help to promote and sustain public-private partnerships in the DMCs to balance social and development goals with commercial interests. ADB will embark on a much more proactive set of initiatives aimed at promoting and brokering such partnerships, particularly in infrastructure development, and advising governments on ways to develop substantive partnerships with the private sector. ADB will also tap into the extensive pool of private sector resources available regionally and globally, and develop networks and relationships with key PSD stakeholders. Respected business leaders from DMCs and countries providing bilateral aid will be invited periodically to a forum to provide ADB with feedback on trends and developments in the private sector and exchange ideas on promoting pro-poor growth. **(ADB study 2007)**

Railway sector reforms program will help restructure Bangladesh Railway so that it can improve its commercial and customer focus. A corporatized Bangladesh Railway would operate like a *'line of business organization'*, while remaining fully government-owned. The adoption of a modern and transparent financial management system, as well as better human resource planning and incentives, are other key outputs expected from this modernization. **(Rehnu Amin & Rezwanul Alam, 2007)**

The public and private sectors should complement each other in the overall development effort. Government efforts to form partnerships with the private sector will lower the risks and costs associated with investments, particularly for infrastructure projects. ADB can help identify the risks and costs associated with the present business environment, and support the development of workable public-private partnerships. The role of government in risk mitigation is crucial for

early projects in a sector newly opened to private investment. Care must be exercised, however, in judging where the government's development function should cease and market mechanisms and institutions can take on the usual project risks, and when continued support to encourage project financing is still warranted. (ADB study 2007)

Partial Privatization of Railways: Railway Concessions, Congo Observation has shown that the results achieved by Sub-Saharan railway enterprises engaged in restructuring with the use of programme contracts, have proven to be inadequate, at financial level as well as in terms of competitiveness with other means of transport, particularly road transport.

With a view to ensuring the sustainable development of railways, from 1995, the World Bank introduced the option of private sector involvement in the management of railway activities through concessions. This entails partial privatization since the infrastructure remains State property.

There are two forms:

**Leasing;**

**Concession.**

The fundamental difference between these two forms of privatization resides in the level of financial risks taken. In leasing, it is the State that takes the financial risks for the realization of investments while in concessions, the contract-holder bears all the risks. In each concession, a body representing the contractor was established to monitor the implementation of the concession agreement: estate company, railway activity technical monitoring unit under the Ministry of Transport. (African Union Conference, 2006)

, Friends, the good news for us in the private sector about this huge investment plan of the Railways is that a significant part of it would be implemented through Public Private Partnership and this throws up huge business opportunities for all of us. Let me mention few of the areas where private sector can explore new opportunities. These are:

- Construction of Freight Corridors
- Construction of Logistics parks and warehouses
- Cargo handling at terminals
- Port connectivity works
- Modernization and up gradation of passenger terminals
- Hospitality and catering

Commercial Utilization of surplus land where private sector can invest in public utilities like food plazas, cyber café, rest rooms. Henceforth the Railways would focus on their core business of moving goods and passengers and hiving off non-core businesses to the private sector. This is how it should be. Many countries have achieved beneficial results from such reorganization of their Railways. What is encouraging is that even in movement of goods and passengers, Lalu Ji is looking forward to leveraging the competencies and capabilities available with the private sector wherever possible in the true spirit of public private partnership. ( **Saroj Kumar Poddar, New Delhi, 2006,**)

Between 1988 and 1994, International Development Agency(IDA) supported 23 operations to privatize management, most of which have been Privatized in the past few years. Sectors countries in attuned airlines, (Cameron-Chad) telecommunication (Guinea), power (Mali),railways (Banking Faso Cameron, India, Tanzania). In Guyana a management contract dramatically improved the performance of a major “bauximining” operations.<sup>14</sup> We can find a positive report from Bangladesh Privatization and adjustment that Bangladesh must place priority on achieving striking improvements in the performance of basic economic infrastructure as the crucial underpinning of the privatization effort. This means that GOB (Government of Bangladesh) must effectively need a greater private sector role in the provision of infrastructure through operations and administration and determine what services to provide to generally captive markets. But the conditions that generated this model no longer exist in most countries forcing governments to consider fundamental restructuring of the railroad industry and its relationship with the state. Such restructuring has sought to introduce more innovative and efficient management, reduce railway deficits and public subsidies increase competition with other transport modes and make railroads more responsive to the needs of emerging private enterprises ( **Thompson 2003**)

Significant gains might be made by bringing in aggressive private managers and allowing the enterprise to operate like a private firm even if ownership of assets is not transferred. Management contracts, lease and concession arrangement ( **BOO/BOT**) are a step in the right direction and can facilitate later sale, particularly in Bangladesh where management contracts, leasing out arrangements, concession awards and the like. ( **World Bank, 1995**)

Partial Privatization (Subcontracting) is also very popular and recognized in Japan. In the Japanese economy subcontracting has been regarded as an important source of efficiency and competitiveness for industries such as textiles, general machinery, electric machinery and automobiles. ( **University of Fukunary 1997**)



Commercial Utilization of surplus land where private sector can invest in public utilities like food plazas, cyber café, rest rooms. Henceforth the Railways would focus on their core business of moving goods and passengers and hiving off non-core businesses to the private sector. This is how it should be. Many countries have achieved beneficial results from such reorganization of their Railways. What is encouraging is that even in movement of goods and passengers, Lalu Ji is looking forward to leveraging the competencies and capabilities available with the private sector wherever possible in the true spirit of public private partnership. (Saroj Kumar Poddar, New Delhi, 2006.)

Between 1988 and 1994, International Development Agency (IDA) supported 23 operations to privatize management, most of which have been Privatized in the past few years. Sectors countries in attuned airlines, (Cameron-Chad) telecommunication (Guinea), power (Mali), railways (Banking Faso Cameron, India, Tanzania). In Guyana a management contract dramatically improved the performance of a major "bauximining" operations.<sup>14</sup> We can find a positive report from Bangladesh Privatization and adjustment that Bangladesh must place priority on achieving striking improvements in the performance of basic economic infrastructure as the crucial underpinning of the privatization effort. This means that GOB (Government of Bangladesh) must effectively need a greater private sector role in the provision of infrastructure through operations and administration and determine what services to provide to generally captive markets. But the conditions that generated this model no longer exist in most countries forcing governments to consider fundamental restructuring of the railroad industry and its relationship with the state. Such restructuring has sought to introduce more innovative and efficient management, reduce railway deficits and public subsidies increase competition with other transport modes and make railroads more responsive to the needs of emerging private enterprises (Thompson 2003)

Significant gains might be made by bringing in aggressive private managers and allowing the enterprise to operate like a private firm even if ownership of assets is not transferred. Management contracts, lease and concession arrangement (BOO/BOT) are a step in the right direction and can facilitate later sale, particularly in Bangladesh where management contracts, leasing out arrangements, concession awards and the like. (World Bank, 1995)

Partial Privatization (Subcontracting) is also very popular and recognized in Japan. In the Japanese economy subcontracting has been regarded as an important source of efficiency and competitiveness for industries such as textiles, general machinery, electric machinery and automobiles. (University of Fukunary 1997)

Thomson has shown a significant report regarding partial privatization of railway. He wrote in 20<sup>th</sup> century most rail roads in developing and transition economies were run by monolithic state owned organization that controlled all facilities.

- a) Capital markets and the domestic private sectors are weak.
  - b) Unfavorable enabling environment makes private investors reluctant to take on ownership of large assets in need of modernization (railways, water, power).
  - c) Capacity to regulate is poor or problematic.
- (Bangladesh privatization and Adjustment 1994)

#### **2.4 Major findings of the review of literature:**

From the highlighted review of literature it has been observed that privatization is one of the important economic reform works not only in the developing countries but it also contributes immensely to the developed countries to a considerable state. But, Privatization such a scope which needs much more concentration and efficiency to implement in state owned enterprises. But from this review it has come to light privatization is being hampered by the bureaucratic complexity, restrain from CBA, weak planning and other reasons. From this stunt point partly privatization, the idea '**partial privatization**' has recently been taken under concern. With the

implementation of this scope many of the countries have reached at the certain and stable state of economic growth as gradually it may cause a rapid and massive development in economy.

**Some of the reviewed thought about the needs of further study are given below:**

1. Privatization is the only strategy of private sector development and public sector reform.
2. Privatization is found an inherent step of efforts to rationalize public sector. It helps to reduce their burden on national budget and can improve the efficiency.
3. Privatization is a technique to solve the problems of public enterprises.
4. Privatization is a world wide issue which states/affects balanced participation of both public and private sector.
5. Bangladesh after independence in 1971, privatization was the crying need to stop the mismanagement of public enterprises.
6. Privatization is the liveliest concept of 20<sup>th</sup> century.

7. Reviewed literature stressed the point about the problem of privatization that means this Programme has been suffering consisting of some problems.
8. Though privatization is a very important reform work but it is too tough to regulate properly due to some factors. These unavoidable factors create problems and privatization Programme becomes a cool down project, especially in Bangladesh.
9. 'Partial Privatization' a modern concept may be taken as a strategic concept to enhance rapid improvement of State owned Enterprises.
10. A World Bank Publication in 1995 shows a report regarding 'Partial Privatization'. This was made on 20 cases which of them two third performance improved dramatically.
11. It is found that partial privatization is strongly supported by many researchers. Specially the infrastructure development may be taken under this proposed Programme.
12. Nandi Gupta mentioned in his study that a little is known about the effect of partial privatization. So it is needed to be assessed that to find-out the effect and result of the subject.
13. African Transport sector study (2005) recommended about the performance of this program should be designed. The study asked about the expression of the system.
14. Rehnu Amin and Rezwanul Alam strongly recommended about railway reform which can help to improve service and financial viability of Bangladesh railway. But they did not make any comment regarding the effect of partial privatization.

**Conclusion:** Reviewed literature shows that, numerous research works have been done about privatization and partial privatization in the world. Either developed or developing countries, everywhere it has been taken as economic reform work. So far these literatures have been reviewed and observed it shows that though other countries of the world specially developed countries have the experience of this scope, Bangladesh is one of the youngest in this area. This is because, though we have several experience of research in privatization but the recent concept 'partial privatization' has not been broadly focused yet for the study. But in international arena partial privatization is not a new concept rather it has been being adopted for last tow or three decades and they have a huge experience of research in this field and work with that scope. Therefore, this study aimed to verify about Partial Privatization Programme implemented by Bangladesh Railway, Bangladesh.

## Chapter: 3

### Conceptual Framework of Partial Privatization Programme.

#### 3.1 Introduction:

Partial Privatization is a sort of new concept which covers one of the reforming ideas about privatization. Normally privatization denotes sale of enterprise by tender or offload of public shares. Partial Privatization denotes private entrepreneur is allowed to operate any selective or weak part of the public enterprise in order to enhance efficiency or profitability without changing ownership of the asset or violating the rules of the parent organization. Partial Privatization is not total or complete privatization of the enterprise rather it is a part of privatization, applied to improve the weaker portion of the enterprise. Our public sector enterprises have been suffering from financial loss and affected by mismanagement due to various reasons. In these circumstances partial privatization is a way to improve the deteriorating position of the public enterprises. 'Partial Privatization' is a joint management system between private operator and parent organization. Under this system - the asset, manpower and other establishments are kept under government ownership and a portion or a part of the enterprise is transferred to the private entrepreneur to handle efficiently. Partial Privatization is not sell of the whole SOE as an entity, but to dispose of just one or more activities of subsidiaries. Partial Privatization does not actually sell its existing holdings in the SOE but open scope of private participation. (World Bank 1992). Partial Privatization ensures the strength in public sector organization. It also provides the opportunity to share risks and in time of rapidly changing economic environment to respond quickly to market demands and opportunities.

#### 3.2 Features and Strength

The potential strengths of the partial privatization include:

- A. A much stronger management capability due to its ability to recruit and compensate in managing sector and technical division at the market rate.
- B. Partial Privatization ensures freedom of working due to no political and bureaucratic interference on the management.
- C. Better labour management relationship can be established because of the absence of the CBA.

- D. Potentially greater experience in developing facilities and providing services attuned to the competitive world of global trade;
- E. Access to no traditional resources for investment in the infrastructure.

These attributes of the private sector involvement enable it to respond rapidly to market changes and reduces mismanagement with earning satisfactory financial profit through immediate decision making and investment. (CPD, 2001) Government encounters problems when it attempts to sale the whole organization. In these cases consideration can go to privatize management without fully or immediately privatizing ownership. This solution is most appropriate for infrastructure firms operating in monopolistic markets.

### 3.3 Methods of partial privatization:

The methods of Partial privatization include

- (i) Management contract
- (ii) Leasing
- (iii) Sub Contracting
- (iv) On Board service
- (v) Public offering shares (Full or partial) and so on.

**1. Management Contract:** The management contractor (normally a company in the same line of business as the enterprise) assumes responsibility under a contract to management services or technical assistance.

**2. Leases:** Lease contract is an agreement whereby private sector management, technology or skills are provided under contract with the SOEs in respect of state owned assets for an agreed period and compensation. While there is normally no transfer of ownership and therefore no divestiture of state assets, these arrangements can be used to “Privatize” management and operations and thereby possibly increase the efficiency and effective use of state assets. The main underlying features are normally the conduct of the business by the lessee in its own name mentioning with the right to use specified facilities for a fixed period and the obligation to pay the owner (government or SOE) a fee to use of the assets.

If either a lease or management contract agreement is continued for long periods of time (there are examples of management contracts expanding for fifteen years), the state may presumably decide that the arrangement is convenient and profitable and that privatization should be limited to management and operations.

**3. Subcontracting:** Subcontracting is a way of partial privatization--- a contractual agreement between a firm and 'parent' firm with larger capital or larger number of employees. The former firm is commissioned to produce products, parts, attachment materials or components used as inputs in the present firm's production or to produce or repair facilities, equipment, tools and others which the parent firm uses in production. When a firm purchases non customized parts, components, and the like through a usual marketing channel, it is not regarded as subcontracting. In subcontracting, a parent firm orders the work directly to a subcontractor with assigning a planned quality, specific form, design or others.

**4. On Board Service:** On Board Service is a system to include private activity to perform specific task mainly service oriented task which is more attractive to the consumer or client or passenger, given to the private operator under some condition with paying fee. On Board Service system is effective due to two reasons mainly. These are quality of work which can be ensured and helped to avoid long term employee liabilities, which is financially viable for the parent organization.

**5. Public offering shares (Full or Partial):** Under this transaction, the state sells shares to the general public all or large blocks of stock it holds in a wholly or partly owned SOE, which is assumed to be a going concern set up as a public limited company. Technically this transaction refers to a secondary distribution of shares when government decides to sell only a portion of its holdings, the result is joint state/private ownership of the enterprise. The government may pursue this approach as a deliberate policy to maintain its presence or as first step toward full privatization. Where there is already private share holding, the transaction may simply be a further privatization.

Partial privatization usually results in a joint state private company. With mixed state private enterprises initiative can be earned success which are necessary for profit, quality service, proper maintenance of the national assets.

**3.4 Conclusion:** There are many reasons which are liable for making obstacles to smooth privatization. The performance of privatized organizations is not much satisfactory. In this context, partial privatization system can be analyzed to find out its effectiveness. Some analysts opine it as pre-stage of privatization. That is, under partial privatization, the weak position, of the sick public organizations may be improved. After overcoming the weak position, a public organization can easily be privatized. However, currently it needs to be assessed the viability, efficiency, suitability of partial privatization as a strategy of the SOE.

## CHAPTER-4

### Public Sector Performance & Privatization Scenario of Bangladesh:

#### 4.1. Meaning of Public sector:

Public enterprise is an undertaking that is owned by a national, state or local Government, supplies, services or goods at a price and is operated on a more or less self supporting basis. (Encyclopedia Britannica) Normally the government organizations (SOE) is known as public organization or public sector. This is because, all kinds of organizations belonging to this sector are initiated and operated by the government. However, the public sector in Bangladesh includes the following organizations:

- Central government departments, agencies and services such as defense, education, health and social security.
- Local government departments and services such as education, social services housing and so on.
- Nationalized industries-such as BJMC, BTMC, BCIC, BFIDC, BTTB, PDB, etc.
- The organization formed by the special act of parliament or Presidential order for the welfare of the people.

#### 4.2: Historical Perspective of public Sector in Bangladesh.

Bangladesh was the part of the then British India till 14 August 1947 and before 16 December 1971 it was the part of Pakistan. So the evolution of public sector in Bangladesh is viewed as historical process. The public sector functions were limited in administrative and regulatory works. The partial involvement shares education, communication, health, broadcasting, telegraph, telephone, roads and railways, postal are found in public organizations. During the period of Pakistan this sector covered the communication network, power, irrigation and other development works, social service, facilities in education, health, housing and defense etc. In 1948, the first industrial policy was declared by the Pakistan government. Public sector was reformed as follows

1. Arms and ammunition
2. Generation of hydroelectric power
3. Railway, Telephone, Telegraph and Wireless

The Pakistan Government also reserved the right to form essential and vital industries. The government also decided to establish Pakistan Industrial Development Corporation (PIDC) for



necessary industrialization in the country, because the private entrepreneur's participation was not satisfactory. However, PIDC selected some industries which are as follows :

- |                      |                             |             |
|----------------------|-----------------------------|-------------|
| a) Jute              | e) Shipbuilding             |             |
| b) Paper             | f) Fertilizers              |             |
| c) Heavy chemicals   | g) Cement                   |             |
| d) Heavy engineering | h) Sugar and iron and steel | i) Textiles |

In 1962, PIDC turned into EPIDC that tried to take necessary steps for industrialization in East Pakistan. The Pakistan Central Government also tried to develop private entrepreneurship in this region. However, it is an irony of fate that Bangladesh witnessed a destructive war of liberation in 1971 which resulted separation of Bangladesh from Pakistan as an independent country. At that time, industries were ruined on account of prolonged war, as well as mass exodus of Pakistani managers, entrepreneurs, owners and skilled labour. There was a question before the newly established Bangladesh Government as to how to recover the war devastated economy. It was the background that Bangladesh Government declared nationalization policy in 1972 and nationalized the industries. This decision was the milestone for development of public sector in Bangladesh.

#### **4.3 : Objectives of State Enterprise :**

State enterprises are established for the greater welfare of the nation. In some cases, such as sensitive & confidential units of Government are to be run by public enterprise due to public interest and state security mainly. However, the main objectives in favor of state enterprises are pointed as:

- i) Abolition of monopoly business.
- ii) Proper distribution of wealth.
- iii) Ensuring public interest.
- iv) Creation of Employment Opportunity.
- v) Establishment of Basic and heavy Industries.
- vi) Planned Economic Development.
- vii) Proper use of Natural resources.
- viii) Establish public Accountability.

Public sector is strong alternative to resist bad impact of private sector. whereas Public sector is more of concerned with public interest but Private Sector mainly performs to earn profit. But the actual scenario is far beyond, weak and think. In Bangladesh Public sector have failed to contribute to the national economy of the country ( Mohiuddin 1996).Due to various reasons

public sector has become a big burden to national budget, a big field of granting subsidy and, a big defaulter of Bank credit (Mohiuddin 1996)

#### 4.4 : Size of Public Enterprises :

State owned Enterprises of Bangladesh have been playing a significant role in economic development, industrial growth and other social services. Though the changed economic environment required to include privatization and other reform work, till now SOE is very important regarding GDP, employment generation and revenue earning. (Economic survey report of Bangladesh – 2004).In Bangladesh, 44 SOEs (non financial) are existing under 7 (seven) sectors. These are pointed as in the table given below:

**Table-1, Size of Public Enterprises in Bangladesh**

Sl. No.	Sector	Number of Enterprises	Name of Enterprises
1	Industry	6 Nos	Bangladesh Textile Industries Corporation, Bangladesh Steel & Engineering Corporation, Bangladesh Sugar & Food Industries Corporation, Bangladesh Chemical Industries Corporation, Bangladesh Forest Industries Dev. Corporation Bangladesh Jute Mills Corporation
2	Power Gas & Water	5 Nos.	Bangladesh Oil, Gas & Mineral Resources Corporation. Bangladesh power development Board. Dhaka Electric supply Authority. Dhaka Wasa, Chittagong Wasa.
3	Transport and Communication	10	Bangladesh Shipping Corporation. Bangladesh Inland water Transport Corporation. Bangladesh Biman Corporation. Bangladesh Road Transport Corporation. Chittagong Port Authority. Chittagong Port, Dock Directing Board. Mongla Port Authority. Mongla Port Dock Directing Board. Bangladesh Land Port Authority, Jamuna Multipurpose Bridge Authority.
4	Commerce	3	Bangladesh Petroleum Corporation, Bangladesh Jute Corporation (Under dissolution) Bangladesh Commerce Corporation
5	Agriculture	2	Bangladesh Development Corporation, Bangladesh Agriculture Development Corporation
6	Construction	4	Chittagong Development Authority, Rajdhani Unnayan Kartipakha, Khulna Development Authority, Rajshahi Development Authority.
7	Service	14	Bangladesh Muktijuddha Kalyan Trust. Bangladesh Film Development Corporation. Bangladesh Inland Water Transport Authority. Rural Electrification Board. Bangladesh Export Processing Zone Authority. Bangladesh Powerloom Board, Bangladesh Rashom Board, Bangladesh Water Development Board. Bangladesh Export Promotion Bureau. Bangladesh Tele Communication Regulatory Commission, Bangladesh Tea Board.

Source: Economic Survey Report -2007

Out of 44 enterprises mentioned above there are some mere organizations in Bangladesh. These Departmental Government organizations which are given below:

**Table-2 Departmental Government organizations**

No.	Name
1	Bangladesh Railway
2	Telephone & Telegraph
3	Postal (Nationalized)
4	Bank & Insurance
5	Other Financial Institutions

Source: Bangladesh Economic Survey Report -2007

#### **4.5: Performance & Financial Position of Public Sector in Bangladesh.**

Public sector organizations are operated to provide necessary services in the society for the greater welfare of the inhabitant of the country. It was our long awaited expectation that a strong public sector would be established in our country in order to raise economic strength. The welfare of mass in a country strongly depends on public sector. But the economic position of public sector has been suffering for long time. During the time of reconstruction of war-stricken Bangladesh it was too tough to operate the nationalized industries and other public organizations efficiently and properly. As a result the nationalized industries could not profit eventually. Day by day they sank into losses. (Financial Express, 2000 )

The public sector organizations are economically very weak due to fragile governance, and lack of accountability mainly. These organizations are incurring a huge loss every year (Jugantor 2002). Government has to allocate a big amount of subsidy to the public sector in every financial budget. Public organizations receive other facilities from the government. Due to the failure of Governments inability to afford in financing the SOE's, they frequently depend on the other nongovernmental financial institutions and sources.

Therefore, at the certain stage Government organizations burdened with huge credits that leads them to be defaulter. As for an example, following concerning tables manifest the over all financial positions including loss, credit, profit, subsidy, default of SOE's:

**Table 3. Financial Loss of major 16 public Organizations (02-03=06-07) crore**

No	Name of sectors	02-03	03-04	04-05	05-06	06-07
1.	B.T.MC	52.99	24.07	21.09	36.19	43.76
2.	B.S.F.I.C	96.65	58.59	17.57	-----	90.64
3.	B.C.I.C	203.97	135.34	173.57	254.54	350.99
4.	B.J.M.C	204.64	211.57	173.54	320.51	394.17
5.	DESA	259.67	167.24	33.72	5.69	19.41
6	BPDB	---	14.26	618.30	938.09	1358.54
8	B.R.T.C	32.88	41.46	35.31	38.92	53.05
9	B.P.C	2792.48	1157.68	2792.40	3704.87	3175.19
10	B.A.D.C	26.45	21.34	11.16	1.87	0.11
11.	Ctg.Wasa	-----	-----	-----	0.26	5.21
12	B.F.F.W.T		1.74	5.59	8.86	6.95
13	B.I.W.T.A	18.43	36.34	19.01	17.31	24.17
14	B.B.C	61.12		249.51	453.26	536.00
15	M.P.A	10.87	12.56	15.51	17.20	18.62
16	M.D.W.M.B	2.51	14.22	0.60	0.21	1.05
		3502.01	1896.41			
				4166.88	5797.78	6077.86

Source: Economic Survey Report -2007

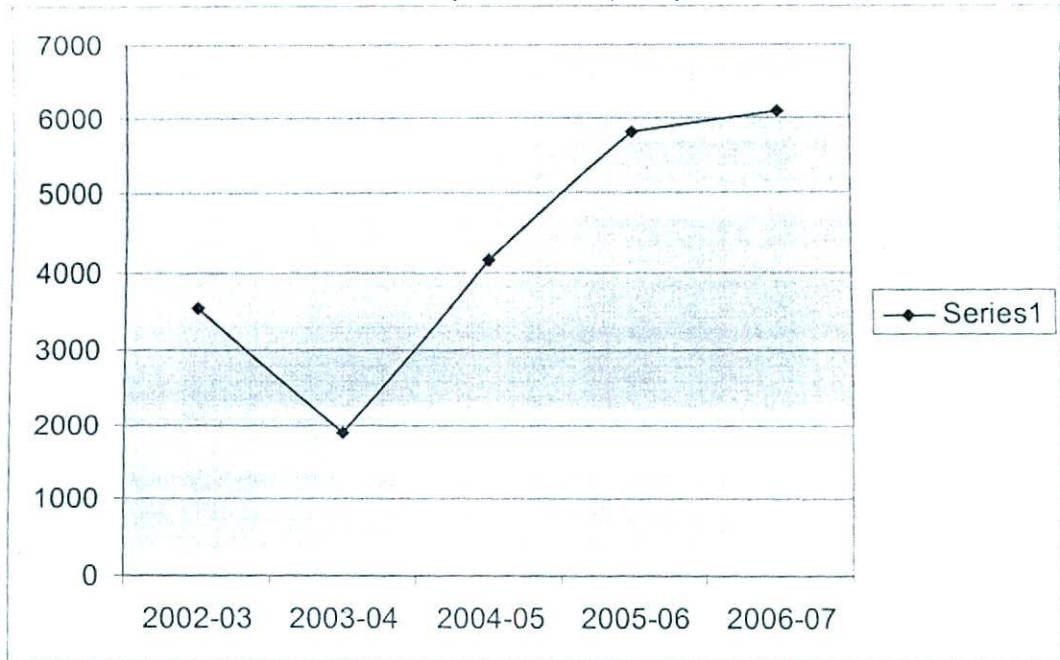


Fig: Total loss of major 16 SOE's in Bangladesh during the period of 2002-03 to 2006-07

Series-1, Curve line representing the financial loss

From this table we have come to understand how SOE's are bearing losses consistently and this consistent loss of SOEs hampers the financial position of national economy. Though several organizations have the scope to be profitable, they for their lack of mismanagement and other drawbacks remain sick organization for long time. With this table we have witnessed 16 public sector organization have incurred loss of TK. 3502.01. Even BTTB, BRTC, also incurring loss having a better financial prospect in Bangladesh.

**Table-4. Profit earned by public organizations (Crore Tk)**

No.	Name of SOE's	Profit in the year 02-03	Profit in the Year 03-04
1.	Dhaka WASA	8.06	35.26
2.	B.I.T.C	18.58	22.76
3.	C.D.A	1.94	8.64
4.	C.P.A	101.91	108.39
5.	B.J.M.C (Reduced loss)	205.56	154.11
6.	B.S.F.I.C(Reduced loss)	98.07	41.83
7.	B. O. G. M. R. C	349.19	316.97

Source: Daily Prothom Alo, 13<sup>th</sup> June -2004

These organizations profit a very poor amount then what they could earn. But it is positive in comparison with the other loss bearing SOE's. Some of the mentioned organizations in table 4 have reduced their losses and become profitable. So it is predictable that the other SOE's can upgrade their position by means of reform agenda.

**Table-5. Government grant/subsidy to major corporations in Bangladesh**

Name of corporation	2002-03	2003-04	2004-05	2005-06	06-07 (Revised)
B.J.M.C	26.04	33.03	29.57	100.00	100.00
BIWTC	0.50	0.50	0.50	0.50	0.50
R.D.A	0.09	0.10	0.09	0.12	0.13
B.F.F.W.T	16.25	16.25	16.44	18.19	18.19
BIWTA	23.40	27.86	31.88	52.19	52.45
B.S.C.I.C	19.04	21.50	22.51	26.5	35.65
R.I.E.B	8.00	8.00	8.00	8.00	8.00
B.H.B	4.05	4.50	4.61	7.99	6.95
B.S.B	4.62	4.30	4.26	3.97	4.31
E.P.B	3.00	4.00	10.00	12.00	11.00
B.A.D.C	35.00	35.00	42.00	58.62	66.50
B.W.D.B	191.69	230.80	251.83	279.01	329.08
Total :	331.68	391.01	421.69	514.98	581.31

Source : Monitoring cell, Ministry of finance, GOB

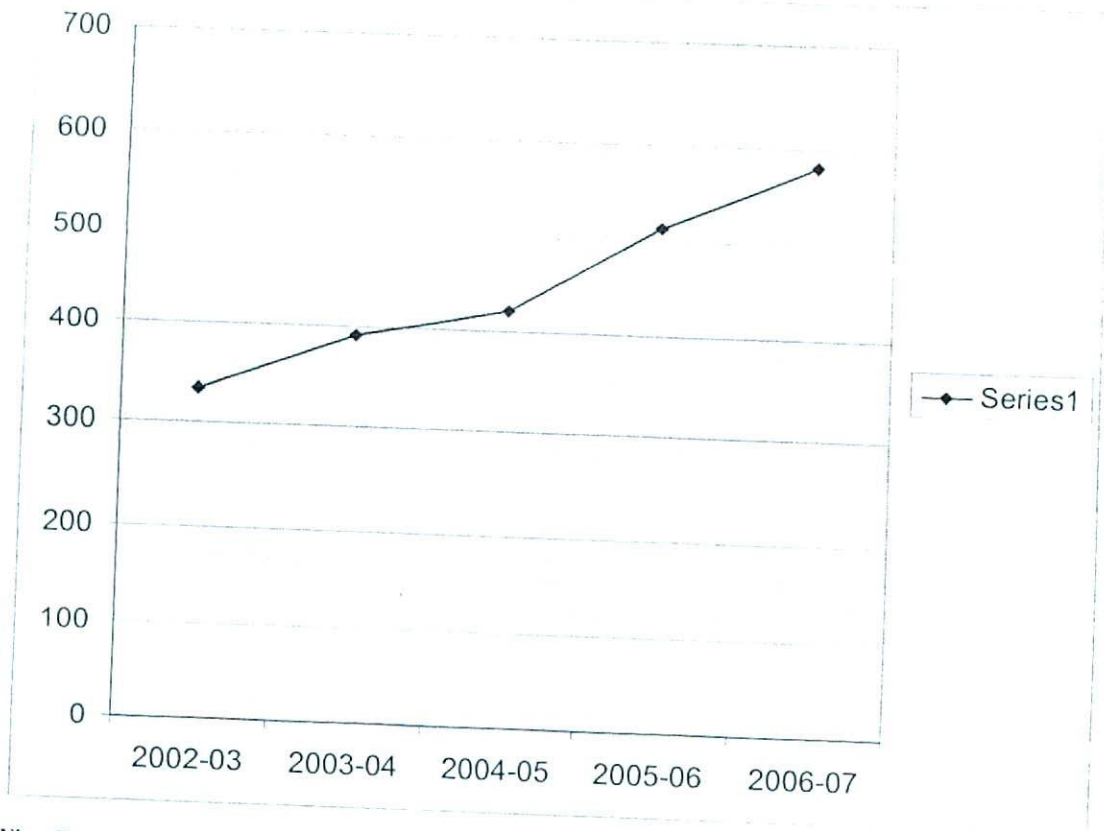


Fig: Government subsidy /grant to the major sick SOE's during the period 2002-03 to 2006-07  
Series-1, Curve line representing the subsidy/grant given by the Government.

Table-6, Total loss of 44 SOE's in the year 2004-05 ---2006-07.

year	Total loss	% of increase than previous
2004-05	2682.64 crore tk	
2005-06	2848.55 crore tk	6.18
2006-07	4228.20 crore tk	48.43

Sources: Monitoring cell, Ministry of finance. GOB.



Total loss

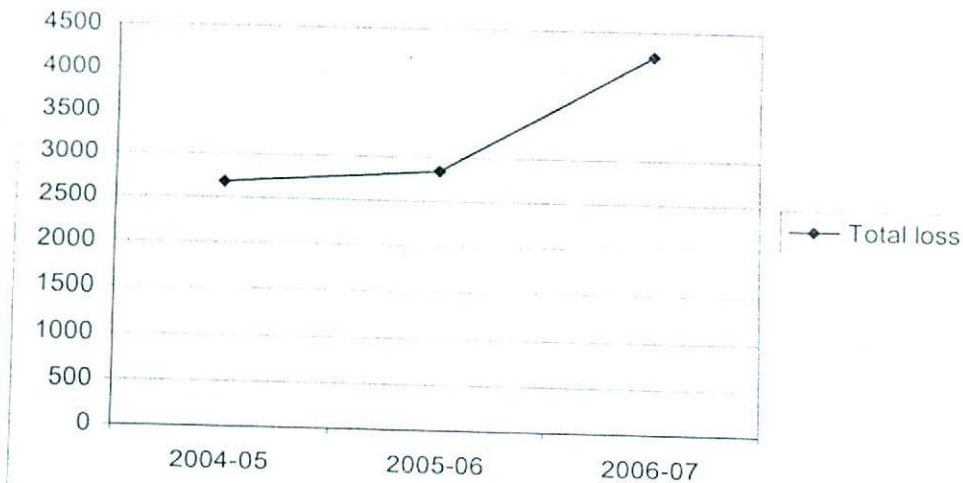


Fig: Total loss of 44 SOE's during the period of 2004-05 to 2006-07  
(O-X, indicate the year and OY indicate loss of tk. In crore)

Total loss

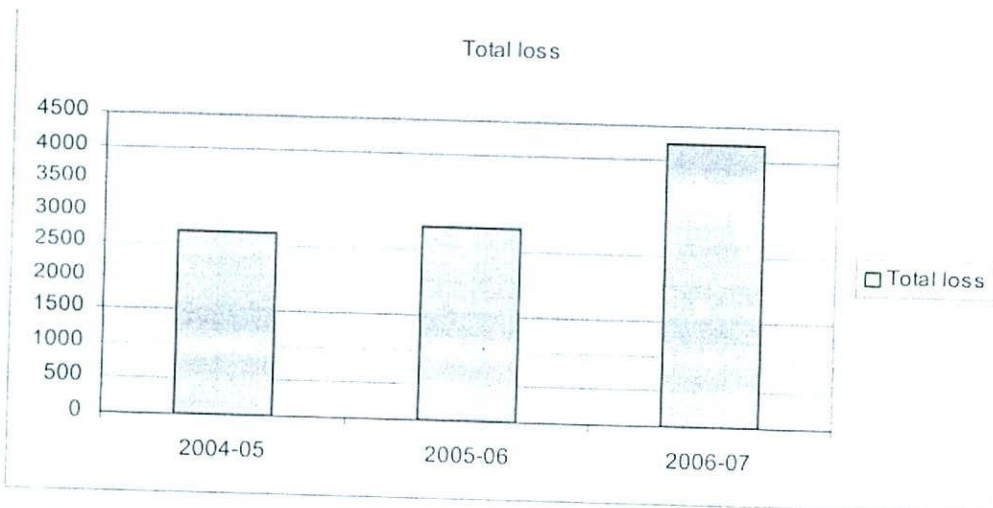


Fig: Total loss of 44 SOE's during the period of 2004-05 to 2006-07  
(O-X, indicate the year and OY indicate loss of tk. In crore)

The data in table -5, shows financial grant or subsidy given by the government to the SOE's. In the year 2003-04 about 391.01 crore taka allotted as geant or subsidy to survive the SOE'

Table 7. Loss by Bangladesh Petroleum Corporation (BPC)

Crore Tk

Year	B.P.C	Loss
1999-2000	Fuel Import & Sale	1169.19
2000-01	"	1311.23
2001-02	"	870.16
2002-03	"	522.22
2003-04	"	1157.68
2004-05	"	2792.40
2005-06	"	3704.87
2005-07		3175.19 (Estimated May-2007)

Source : Monitoring cell, Ministry of finance, GOB

Table-7 uncovers BPC as the biggest loosing concern among the SOEs. In the year 2004-05 BPC has incurred around 2792.40 crore tk which is 74.61% of total loss incurred by the SOEs in Bangladesh. This is very horrible condition that is also alarming for us.

#### 4.6) Financial analysis of Government Sector in Bangladesh.

With these following tables we have tried to show financial analysis of the SOE's from the economic stand point. This table shows a comparative study of financial statement during (2001-2004)

Table: 8. The rate of Operating profit or government owned asset,  
Margin on operating revenue, Return on equity and Asset turnover etc.

	2001 (Actual)	2002 (Actual)	2003 (Actual)	2004 (Actual)	2005 (Actual)	Growth Rate
1) Operating revenue	25594	27464	30500	32541	35390	8.25
2) Operating surplus	(1773)	(506)	354	87	(3088)	1.73
3) Surplus outside operating revenue	571	449	1153	675	586	5.68
4) Employee own fund	24	24	32	39	9	17.38
5) Subsidy direct	0.10	8	8	8	9	324.64
6) Interest	1232	1141	1151	966	936	(8.03)
7) Prior to tax (Net profit)/Loss) 2+3+5)-(4+6)	(2458)	(1214)	332	(235)	(3438)	(53.91)
8) Tax	183	208	255	343	134	23.04
9) Post tax Net profit/loss) 7-8	(2641)	(1422)	77	578	(4374)	39.43
10) Dividends retained earning	156	180	188	224	594	12.68
Total investment/fund	89921	96848	113068	129447	124985	12.78
Equity	22493	25066	33401	50811	20954	30.86
Operating profit rate on total asset (2÷12)	(1.97)	(0.52)	0.31	0.07	(2.47)	
Net profit rate on operating revenue	(10.28)	5.18	0.25	(1.78)	(12.36)	
Dividend rate on Equity (2÷12)	0.69	0.72	0.56	0.44	2.83	
Turnover of total asset	0.28	0.28	0.27	0.25	0.28	

Source: Economic survey report of Bangladesh 2004

The ROA of Government Sector is almost negative for all years. But after (2000-2001) fiscal year, the negative ROA has decreased and in (2002-2003) fiscal year increased 0.31 percent. The margin of net loss or operating revenue has decreased for the last two years. The return on equity in (1999-2000) fiscal year was 0.73 percent which decreased 0.56 percent in 2002-2003 fiscal year. This return, or equity in government sector is less than any index. After analysis of the asset turnover it is found that the efficiency of utilizing asset in (2002-2003) fiscal year was the same as the prior year.

#### **4.7 Evaluation of Public Sector Performance in Bangladesh :**

The effective management of the public enterprises can only be guaranteed under planned management system, which can ensure the effective utilization of the invested resources in the production process maintaining a normal profit for smooth functioning on a commercial footing. As, this has not been running satisfactorily, the question of effectiveness or evaluation of performance of public sector came to be a matter of discussion. It is almost clear that we are supposed to measure the performance of public sector enterprises since performance refers to the economic activities done by public enterprise with some socio-economic objectives.

The ability of state enterprises to perform productivity is affected when they are manipulated for political reasons to weaken on political opposition or payoff political cronies (for instance after independence ) or for the purpose of personal gain. A state enterprise offers enormous possibilities for internal corruptions, another reason some "Public servants" resist move toward Privatization. Many observers have come to wonder, the government sector is after all the champion of the general welfare. (Shaha, 1980)

It has become obvious that state enterprise systems were inefficient, unimaginative, overblown bureaucracies, unable to understand and respond to the economic forces of national and international market places. They were obviously incapable of providing the dynamic leadership and operational performance required for the growth and progress, the nation wanted. Though some government enterprises were well managed and operated at a profit, most lost money (some heavily); and the entire state controlled system created a tremendous and ever-increasing drain on an already tight national budget and strained resources (Humprey 1992). The ultimate result of our public sector enterprises is not well to do. They are very weak in economic performance. Apparently the cause of weak governance and lack of accountability in public sector are liable for huge amount of financial loss every year. Public Sector is overwhelmed by manpower also. About 20% of total manpower of the state (Government) are engaged in State Owned Enterprises.

Though they are producing goods and delivering services in the society, economically they are loosing much more. Recently the contribution of public sector to GDP reduce from 2<sup>o</sup> to 1<sup>o</sup>. (Jugantor 2002)

#### **4.8 : Background of Privatization In Bangladesh :**

The past situation of Bangladesh in 1971, the role of the state, especially in the economic and industrial sphere expanded dramatically. But there was no ready made Bengali entrepreneur's class at hand to fill the economic space left off by the 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 of medium scale manufacturing activities (Subhan,Rehman 2002). Unfortunately the public sector industries have failed to contribute positively to the economy of the country. Rather they became a burden on the national budget due to continual huge amounts of financial loss and subsidy. They became a synonym of mismanagement, inefficiency and corruption and a fertile ground of industrial unrest (Subhan,Rehman 2002). In that situation the policy makers thought about privatization in order to improve the economic position of the public sectors. There have been pressures from aid group also. However, this scenario seems that the following reasons have convinced the government to take decision for a massive privatization Programme in Bangladesh.

- (i) To relieve the already burdened national budget from the huge amount of subsidies generally provided for loss-making state enterprises to keep them operational.
- (ii) To divert the 'subsidy' to other priority areas of the economy (health, education, poverty alleviation, human resource development etc.)
- (iii) To motivate private entrepreneurs for participation in public sector reform.
- (iv) To ensure managerial efficiency and profitability of the loss making public Enterprises.
- (v) To encourage investment from both resources, home and abroad in order to Improve industrial sector.
- (vi) Establish competition among public and private sector.
- (vii) To motivate employees to implement their maximum ability..
- (viii) Create atmosphere for employment of the huge unemployed workers.

Between 1971 to 1975 in Bangladesh the Public sector expanded rapidly. The main causes of this enlargement were historical events and the political decision taken by the government. The number of the state owned enterprises rose to 350. But due to various reasons the operating standard of public enterprises decreased highly. The public sector became a fertile place of criticism due to corruption, nepotism & mismanagement. Especially the financial position was the worst side of public sectors. That is why, the governments after 75 declared to follow privatization process

#### **Privatization of State Owned Industries and Privatization Commission**

The laws prevailing for privatization of the government sector industrial, mills and factories should be followed with due importance( Industrial Policy 2005).

- A State investment will be limited to "Preserved sector". In future state hold investment in industrial sector would be considered as residual investment.
- B Autonomous rights should be given to the existing public industries to be run smoothly through correct policies of trade.
- C Capital will gradually be taken away from the industries under corporations except from those under public authority.
- D Cent percent shares should be sold if necessary. Even the distribution of shares and security should be released to public, and those of public industries may be sold among them.
- E People living in abroad will be encouraged to buy these shares with the foreign currency that they earn.
- F If privatization commission fails to privatize the industries run by the government, the concerned ministry will sell/transfer/lease them.

#### **4.9: Assessment of Privatization :**

Privatization in Bangladesh is a long time process which actually was started in 1973. After a few years' of Nationalization the Programme result not healthy condition of the prevailing industries. Therefore, Government consequently took steps to overcome the alarming situation. The then privatization started as Denationalization & Disinvestment form. Up to 1982 about 217 units were transferred through DI or DN. (Subhan,Rehman 1984). From 1976 privatization started functioning as specialized work which is till to date. Privatization is an important subject to the national economy. But in this sector the assessment or research study is very limited.As we know that the result of privatization is not satisfactory it is strongly needed to be assessed privatization performance in Bangladesh. To comment on privatization, we have to find out the actual output of this sector. Though we have long history of privatization we could not reduced

the losses of public sector or decreased the size of public enterprises. So we should take the steps which are necessary to reduce financial losses of our public sectors.

However, the ultimate result or output of privatization is not much satisfactory. There are many problems involved with pre & post privatization Programme. Privatized public enterprises are not being operated well. They are not making profit better than previous. Private enterprises are not paying the dues as per rule. The sales volume is not satisfactory. A few numbers of public enterprises became success to continue profit. The employee condition of these privatized organizations is not satisfactory. Many employees lost their job due to transfer of the organizations from public to private. However, there is no government assessment of privatized organizations in Bangladesh totally. Partially some works have been done by renowned economist Prof. Rehman Sobhan in early stage of privatization as disinvestment and denationalization form and later Ministry of Industries conducted a survey in mid 80's. In this stage we can mention the description of privatized/the nationalized or returned enterprise. It can be shown separately. That means first phase in 1976-1982 which was actually done before established privatization board. Another phase is after established privatization authority, board and at last commission that is 1993 to till date

**TABLE : 9, Number of Disinvested/Denationalized units by corporations, 82**

Section & Corporation	Units Owned	Total DI	Under process of Partial DI	Returned to ex owner DDN	B/DN Total
BCIC	88	51	5	7	63
BSFIC	68	35	6	5	46
BSEC	64	22	8	5	35
BFIDC	22	3	0	0	3
BJMC	79	5	0	32	37
BTMC	60	4	0	28	32
All Corporation	381	120	20	77	217

Source: Ministry of Industries & Commerce & the Sector Corporation.(Quoted by R.Sobhan)

**TABLE 10, AVERAGE ANNUAL PRODUCTION PERFORMANCE-PRE & POST DE-INVESTMENTS CHANGES**

Departments and Corporations	Sample No. of Units	Rise	Fall	At present Layer off	Post Data not Reported	Sample No. of Units in (3) & (4)	Unit Which has Stopped Producing one or more item	Units Which now Produces New Item
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Tannery	7	4	1	1	1	5	4	3
Rubber	5	1	2	2	0	3	7	1
Paper	1	0	0	0	1	0	N.A.	N.A.
Synthetic	1	0	1	0	0	1	0	0
Match	3	2	1	0	0	3	0	0
BCIC (Total)	17 (100)	7 (41.2)	5 (29.4)	3 (17.6)	2 (11.8)	12	7	4
Oil	4	2	1	1	0	3	1	0
Tobacco	6	5	1	0	0	6	0	0
BSFIC(Total)	10 (100)	7 (70)	2 (20)	1 (10)	0	9	1	0
Aluminum	2	0	2	0	0	2	1	0
Metal	5	2	1	1	1	3	1	0
Eng.	1	0	0	0	1	0	0	0
BSEC (Total)	8 (100)	2 (25)	3 (37.5)	1 (12.5)	2 (25)	5	2	0
BJMC	3 (100)	2 (66.7)	1 (33.3)	0	0	3	0	0
BTMC	1 (100)	1 (100)	0	0	0	1	0	0
Total	39 (100)	19 (48.7)	11 (28.2)	5 (12.8)	4 (10.3)	30 (100)	10 (33.3)	4 (13.3)
Total (Excluding P. R. (Data	35 (100)	19 (54.3)	11 (31.4)	5 (14.3)				

Source: Ministry of Industries and Commerce.(Quoted by R. Sobhan)



1. Figures in brackets indicate percentages in this table and all the following tables.
2. Information on units shut down has been obtained from the Ministry of Industries and Commerce & the National Board of Revenue Revenue Records.
3. Columns (8) & (9) may overlap and will not add to column (7).

Source : Derived from the data collected for the Ministry of Industries & Commerce and the Sector Corporations

TABLE 11 : EMPLOYMENT-PRE AND POST DISINVESTMENT CHANGES (NO. OF UNITS)

Sectors and corporations	Sample No of Units	E M P L O Y M E N T					
		A. Including Casual Labourers			B. Excluding Casual Labourers		
		Rise	Fall	Same	Rise	Fall	Same
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Tannery	8	4	4	0	2	6	0
Rubber	3	1 <sup>1/</sup>	1	1	1	1	1
Paper	1	1	0	0	1	0	0
Synthetic	1	1	0	0	1	0	0
Matches	1	0	1	0	0	1	0
Bsic (Total)	14 (100)	7 (50)	6 (42.9)	1 (7.1)	5 (37.5)	8 (57.1)	1 (7.1)
Oil	3	0	3	0	0	3	0
Tobacco	4	2	2	0	1	3	0
Bstic (Total)	7 (100)	2 (28.6)	5 (71.4)	0	1 (14.3)	6 (85.7)	0
Aluminium	2	0	2	0	0	2	0
Metal	4	2	2 <sup>2/</sup>	0	1	3	0
Eng.	1	0	1	0	0	1	0
Bsec (Total)	7 (100)	2 (28.4)	5 (71.4)	0	1 (14.3)	6 (85.7)	0
Bjmc	2 (100)	2 (100)	0	0	2	0	0
Blmc	1 (100)	0	1 (100)	0	0	1	0
Total	31 (100)	13 (48.7)	17 (28.2)	1 (3.2)	9 (29)	21 (67.7)	1 (3.2)

Notes : 1. These units have been closed down ultimately

2. One of these have been closed down ultimately.

Source : Sector Corporations and Ministry of Industries and Commerce

**Employment position:** Employment position is one of the important subject matters involved with privatization. Table 11 contains the analytical scenario of employees in pre and post privatized industries. In this table out of 31 sample units number of employees raised in 13 fall in 17 (54.8%) which was harmful from the stand point of job security.

TABLE : 12 .PROFIT MAKING AND TAX PAYMENTS UNITS DISINVESTED BEFORE AND AFTER JUNE 82

corporations	Until June '82		After June '82		Until After June '82 June '82		After June '82	
	Sample No. of Di Units	No. Making Profits Last Year Before Di	Sample No. of Di Units	No. Making Profits Last Year Before Di	% of profit (3)+(2) %	Earning Units (5)+(4)	Total Profits Earned by Units Making Profits in Last Year	Total Taxes Paid by Units in Last Year-
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Bcic	35	9	11	6	25.7	54.5	83.43	741.33
Bsfic	17	4	21	17	23.5	90.5	352.16	842.35
Bsec	14	9	14	11	64.3	78.6	165.14	363.02
Bjmc	2 <sup>1</sup>	0	-	-	0	0	N. A.	N. A.
Btmc	1 <sup>1</sup>	0	-	-	0	0	N. A.	N. A.
All Corporations Total	69	22	46	36	31.9	78.3	600.73	1946.70

Notes : 1. For BCIC and BSEC last year refers to 84/82. For BSFIC, however, this refers to 80/81.

2. In this case last year refers to 1980/81 for BCIC & BSFIC & 1981/82 for BSEC.
3. The BJMC and BTMC units shown are those, which have been disinvested previously. And to not belong to the package of the recently denationalized mills.

Source : Sector Corporations.(Quoted by Sobhan,R)

In this stage of assessment here it can be mentioned that the survey conducted by Board of Investment in the year 1991 as under:

## UP TO DATE STATUS OF PRIVATIZATION

(Privatized under Privatization Board, Authority & Commission.)

### (1993-96) 2<sup>nd</sup> Phases:

Since the period of the Privatization Board in 1993, **12** enterprises were privatized up to June, 1996. Among 12 Enterprises, 7 were privatized through outright sale and 5 were privatized through sale of shares. (Sources: Privatization Progress Report-2005)

### (1996-2001)

During the period of 1996 to 2001, **28** enterprises were privatized in different forms. Among them 10 were privatized as enterprise (handed over), 8 have been privatized through handing over to workers/employees and 10 were privatized through selling of Government shares.

### (2001-2005)

During the period of 2001 to 2005, **32** enterprises were privatized under the Privatization Commission. Among these 19 were privatized as enterprise (handed over), 4 organizations were privatized through off-loading of shares and 9 enterprises were under process for handing over.

**THE BOI SURVEY OF PRIVATIZED ENTERPRISES-1991:** The primary attempt to generate information through contact with the disinvested SOE's was carried out in early 1991 by the Board of Investment (BOI) at the request of the Executive Committee of the National Economic Council (ECNEC) during the tenure of interim period. This was in deed the very first ever attempt by the GOB to contact the privatized enterprise. The BOI field exercise was based on a rough and ready and hence rather superficial survey, because of the limited time available of the BOI. The BOI report submitted to ECNEC in March 1991 indicated that out of 290 enterprises for which information had been collected, **only 47% remained in operation and 75 or 52% had closed down**. Of those closed, half had ceased to function as industries and were using the premises for alternative purpose.

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 initiated an in-depth review of the outcome of privatization. But no such work was forthcoming during the entire tenure from 1991-1996. Whilst the BOI survey provided far from conclusive evidence about the performance of the privatized units, **the fact that around 50% of these units had closed down** suggested that the post privatization performance of this 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 privatization policy to the experience on the ground registered over at least the last decade. Unfortunately the GOB

remained, along with the World Bank, in different to the fate of the privatized units whilst persisting with its policy to accelerate the privatization process.

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

The new GOB as well as the Privatization Board still remains in deep ignorance about the fate of the privatized units who demonstrate little, if any transparency to either the GOB, their bankers or researches on their post privatization performance. Visits to this companies, rarely yield any

Quantitative information. A recent study commissioned by the incumbent Minister of Finance, has been 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 insight full into what is going on in these privatized 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 information's.

**The BIDS** survey covered 205 enterprises privatized from 1979 onward. This excluded around 300 units privatized prior to 1979 and listed in the BOI surveys. Of the 205 units surveyed by BIDS, only **112(54.6%) were found operational, 83(40.50%) 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 privatized 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 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 privatization and the date of the BIDS survey. Of those units that were currently closed, at the time of the BIDS survey, they had since divesture 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 privatized 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.

#### **4.10 CONCLUSION:**

Privatization progress report on october20, 2005 manifests about 72 organizations have been privatized or going to be privatized in different form. But this performance is not satisfactory (Privatization Progress report 2005).Because privatization is limited to small area in our large public sector. By means of privatization national economy would not be influenced at a large

scale. Privatization progress report 2001 mentioned that from 1992-93 to 1999/2000 in eight financial year, 40 enterprises of 7 sectors had incurred a loss amounted Tk. 6,723.46 crore. Bangladesh Railway, T & T, postal department, nationalized Banks, Insurance and other financial institutions are out of this account. In 1999/2000 financial year the net loss of mentioned organization of 7 sectors was Tk. 2197.26 crore. It rose in 2000/2001, on Tk. 3310.60. In the financial year 2000-2001, the petroleum corporation of commerce sector incurred highest amount of loss which was Tk. 1946.88 crore. The loss of our utility sector was amount of Tk. 924.99 crore. B.P.D.B has incurred Tk. 729.74 crore and Industrial sector Tk. 525.38 crore. The progress report of 2001 also mentioned the privatization work is limited to 5 corporations of Industrial sectors mainly. In 2000-01 Privatization activities were limited to 5 corporations of ministry of Industry which are pointed as below :

- a) B.T.MC
- b) BSEC
- c) BSFIC
- d) BCIC
- e) BJMC

In this concern other important sectors are to be privatized urgently which may include **telephone, Railway, Biman, Transport & communication, Commerce, Construction and service oriented organizations**. Among several public organizations these sectors are incurring huge amount of losses in every financial year. Due to some reasons privatization commission cannot privatize the important public organizations which are earning maximum financial losses. These are:

- 1) **Bureaucratic complexity/Administrative Lengthiness**
- 2) **Restrain from interested group**
- 3) **Long term credit**
- 4) **Few numbers of entrepreneur**
- 5) **Problem in making inventory**
- 6) **Delayed payment by the purchaser**
- 7) **Judicial complexity**
- 8) **Lack of integrated performance for privatization.**

At this stage, we have to realize about the problems and outcome of privatization in Bangladesh. It is needed to implement integrated initiatives for privatizing the concerned public sectors/organizations which are still at the stage of loss bearing institutions. This is because; private sectors should be gear-up for playing significant role in productive and commercial activities of the state.

## CAPTER-5

### Rationale of Partial Privatization Programme

#### 5.1) Introduction :

This study aims to find out the effectiveness of partial privatization as a strategic technique in Bangladesh. We have started privatization Programme in 1976 at first. This long history of privatization could not fulfill the expectation of the people of Bangladesh accordingly. Because Privatization Programme is limited to a few number of enterprises under ministry of Industry mainly. Instead of decreasing gradual loss the public sector organizations still have been incurring financial loss with increasing ratio. Public or private no sectors performing well in order to achieve sufficient standard to mitigate the challenges arised by globalization and free market economy. In this context, government thought of partial privatization Programme as a strategic step. This Programme is a new venture which is thought to be effective & applicable in sick SOE's. This Programme is seemed to able reducing financial losses of public enterprises. Partial Privatization Programme refers to no transfer of property and it does not require huge amount of investment. Because under this system, government property remains to the government and the week or important part of the organization transferred to the private entrepreneur or operator to handle in order to establish positive and effective operational standard. Our public enterprises have been suffering from mismanagement, Corruption, nepotism and below standard of operation which are liable for financial loss and below standard of service. Partial Privatization Programme creates liability to private operator. Therefore; both parent and private operator share the liabilities of the organization. This Programme is a unique system which provides huge amount of revenue that reduces financial losses of public enterprises. On the other hand, private operator is able to provide efficient service which is the demand of globalization and free market economy. In the international sphere business environment has dramatically changed. Bangladesh has an impact on the context of global and regional economy. We have to gear up private sector led growth. Partial Privatization Programme is a very suitable Programme at our present economic condition. As a consequence Bangladesh Government has taken this Programme and implemented in various sectors with limited range. Pajatan Motel, Desco in P.D.B, Bill collection of Titas Gas,electricity bill, Some services of Railway are mentionable Partial Privatization Programme of Bangladesh government. (Choudhury & Osman 1409)

5.2 Partial Privatization Programme using in various organizations: In Bangladesh many organizations under various ministries are using P.P.P (Partial Privatization Programme). Some of the mentionable examples are :

**Table : 13, Partial Privatization Programme using by the Public Sector Organizations in Bangladesh:**

Name of the Ministry	Programme Functioning
Education	<ul style="list-style-type: none"> <li>* Writing, Printing &amp; Marketing of text books in SSC &amp; H.S.C level.</li> <li>* Printing of books primary level.</li> <li>* Independent Inspection Authority (Private organization engaged for inspection of school and colleges due to recommendation for MPO)</li> <li>* Higher education system has been privatized under the guidance of government.</li> </ul>
Finance	Management contract of Agrani Bank Rupalibank (under processing) Sonali Bank, Janata Bank, Agrani Bank (Proposed)
Energy and mineral resources	Electricity supply, Bill delivery & collection. Bill delivery & collection (Dhaka City) Power generating authority (50 M W)
Ministry of Forest	Social forestation (Govt. and Public jointly operates this Programme)
Civil Aviation & Tourism Ministry	<ol style="list-style-type: none"> <li>1) International routes operation are partially privatized</li> <li>2) Commercial operation of Parjatan motels</li> <li>3) Ground Operation of Shah Amanat International Airport has given to Thai Airways.</li> <li>4) Partial security of Zia International Airport has been privatized.</li> </ol>
Ministry of Postal & Telecommunication	<ol style="list-style-type: none"> <li>1) Private operator allowed to postal service</li> <li>2) Mobile phone service</li> <li>3) Land phone service</li> </ol>
Ministry of Communication	<ul style="list-style-type: none"> <li>* 30 passenger train handed over to private operator for Commercial operation.</li> <li>* Ticketing and Reservation works of intercity train has been privatized.</li> <li>* Some stations handed over to private operator for cleaning and beautification programme.</li> <li>* Toll collection of highway Bridges.</li> <li>* Hati Kamrul-Banpara Highway given to private operator for management.</li> </ul>
Ministry of shipping	Container handling work, chittagong port

### **5.3 Rational of Partial Privatization Programme in Bangladesh Railway:**

#### **Background:**

In mid 90's intellectuals, political leaders, technocrats, renowned economist, and analyst had meet on several seminars, symposium to recover the heritage of Bangladesh Railway Which has all ready been lost. Asian development Bank suggested to Railway at that time to take the **Railway Recovery Programme**. This Programme taken by the Government for Railway department is thought to be key strategy to upgrade the financial position and service standard of Bangladesh Railway. This **Recovery Programme** was divided into five categories. Partial Privatization is one of them. This Programme seems to be effectual because of its continuation since 1997 in Bangladesh Railway. This study aims to comprehensive analysis of Partial Privatization Programme of Bangladesh Railway.

**5.3.1. Bangladesh Railway and its Scenario:** Bangladesh Railway is one of the most suitable means of transport for moving large volumes over long distances, and are particularly suitable for transporting goods to or from landlocked cities in the country. Railway can indeed constitute the backbone of inter modal transport and the logistics chain. More than an instrument of economic development, the railway is a "link", a "connection" between the different cities it crosses, thus it promotes mutual understanding and the mixing of cultures and cooperation. The railway is also an instrument for territorial development. By comparison with air transport, the railway is the most reliable form of transport. It is economical in energy and produces little pollution. These advantages make the railway the preferred method of transport for the integration and the economic and social development of Bangladesh.

Bangladesh Railway, covering a length of **2855** route kilometers managed by **34,168** regular staff, is Government -owned and Government managed transportation agency of the country. Bangladesh Railway has started its operation by Construction of 53.11 Km. of Broad Gauge line between Darsana and Jagati of Kushtia district by Eastern Bengal Railway. (**Annual report 2005**).

**5.3.2. The network of BR at present:** Bangladesh Railway has a total of 2,855 route kilometers of MG, track only and West Zone has **553** route kilometers of MG **660** route kilometers of BG and 365 route kilometers of DG track. The total length of running track including track on double line, in the yards and sidings is 4,443 kilometers. (**Annual report 2005**.)



Table : 14 Table showing the track description of B.R

Year July June	MG			BG			DG			Total System		
	East Zone	West Zone	Total	E / W Zone	W Zone	Total	E / W Zone	Total	E Zone	West Zone	Total	
1969-70	-	-	1,935.16	-	923.07	923.07	-	-	-	-	-	2,858.23
1995-96	1,279.09	543.03	1,822.12	-	883.89	883.89	-	-	-	1,279.90	1,426.92	2,706.01
1996-97	1,279.09	543.03	1,822.12	-	883.89	883.89	-	-	-	1,279.90	1,426.92	2,706.01
1997-98	1,279.09	533.03	1,832.12	-	901.39	901.39	-	-	-	1,279.90	1,454.42	2,733.51
1998-99	1,279.09	533.03	1,832.12	-	901.39	901.39	-	-	-	1,279.90	1,454.42	2,733.51
1999-2000	1,279.09	533.03	1,832.12	-	936.25	936.25	-	-	-	1,279.90	1,489.28	2,768.37
2000-01	1,279.09	533.03	1,832.12	-	936.25	936.25	-	-	-	1,279.90	1,489.28	2,768.37
2001-02	1,301.82	533.03	1,854.85	-	936.25	936.25	-	-	-	1,301.82	1,489.28	2,791.10
2002-03	1,301.82	533.03	1,854.85	-	660.22	660.22	-	365	365	1,301.82	1,578.25	2,880.07
2003-04	1,276.71	533.03	1,829.85	-	660.22	660.22	-	365	365	1,276.71	1,578.25	2,854.96

Source: Railway information book 2004

**5.3.3 Number of Stations :** Bangladesh Railway had a total of 459 stations at the end of the year 2006-2007. These include one block hut, thirteen train halts and four goods booking points.

**5.3.4 Passenger Traffic :** Bangladesh Railway is the principal mode of transportation in the country, with the development of road transport facilities there has been a shift in the trend of passenger traffic with short distance passengers preferring road transport, because of their frequent and point to point services. During 2003-2004, about 43 million passengers were transported by Bangladesh Railway against about 39 million during 2002-2003. In order to render better services to the passengers, Bangladesh Railway introduced Intercity Train services in 1985. At present there are 54 Nos. of Intercity Trains running. Around 39% of the total passengers of Bangladesh Railway are being carried by the Intercity trains which contribute approximate 75.5% of the total earning of passenger traffic. (Annual report 2004). However detail income of passengers and freight are shown in Table No. 15

Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
from	Per	Per	from	Per tonne	Per tonne
Passanger	Passenger	Passengers	freight	(Taka)	Kilometre
Carried	Taka	Kilometre	Tonnes		(Poisha)
Thousand		(Poisha)	carried		
Taka			(Thousand		
			Taka)		

Year: July-June-2004

**Table :15 Showing the earnings from per passenger and per ton.(BR)**

1969-70	10.17.11	1.38	3.04	16.38.31	33.54	12.7
1995-96	86.12.25	26.33	25.35	110.44.10	433.01	140.5
1996-97	100.36.34	26.77	26.29	103.85.36	353.74	123.6
1997-98	112.04.08	29.25	28.61	118.08.32	388.69	138.8
1998-99	131.28.84	36.23	34.63	134.67.50	394.00	142.4
1999-00	145.82.23	37.74	35.79	118.35.30	409.69	147.0
2000-01	156.57.16	37.99	35.93	130.72.77	377.28	138.1
2001-02	158.91.63	41.05	38.65	145.91.62	397.92	147.5
2002-03	161.10.62	41.14	38.54	144.32.46	393.68	146.2
2003-04	173.24.35	39.89	38.20	133.98.65	385.79	144.8

Source: Annual report Bangladesh Railway-2004

**5.3.5 Freight Traffic :** The railway has been facing tough competition with other modes of transport for the high rated traffic, which pay more revenue. On the other hand, the railway is called upon to carry traditional low rated essentials. **As a national carrier, BR has obligation to carry essential commodities like food grains, fertilizer, jute, cement, coal, iron and steel,**

**stone & boulders, petroleum products, salt, sugar etc. to the remote corners of the country at a cheaper rate.** The freight traffic during 2003-2004 was 3,473 thousand Metric Tons against 3,666 Thousand Metric Tons during 2002-2003.

**5.3.6 Operational Problems:** Bangladesh Railway has been suffering from various operational bottlenecks. The Railway system comprises two gauges, Broad and Meter which involves transshipments of traffic at the break of gauge points. Similarly transshipments are also involved at river points. The railway link over the Jamuna Multipurpose Bridge connecting the East and West zones through the construction of 99 km new dual gauge line and rehabilitation and conversion of 245 km Broad Gauge line from Jamtoil to Parbatipur to Dual Gauge. Further improvement has been achieved after completing of the following work, viz.9 (a) railway link between western side of Jamuna Bridge to Bogra, (b) railway link between eastern side of Jamuna Bridge to Tarakandi, and (c) conversion of MG track to DG Track from Joydebpur to Dhaka.

### **5.3.7 Social Cost & Compensation**

BR is one of the largest Govt. enterprises in the country, playing a vital role in the socio-economic development & industrialization of the country. BR is expected to serve both as a commercial enterprise and as a public utility service. As a commercial enterprise **BR** has an obligation to generate sufficient revenue to meet its cost and as a public utility service it has a special responsibility to provide transport facilities to large number of passengers and movement of essential commodities for mass consumption. BR is also required to provide transport facilities in emergent situations like flood, cyclone, Draught etc. In addition, the Railway has to contribute some costs in the matter of education and medical care of railway employees and their wards, deployment of police forces in railway premises etc. In discharging all these social obligations, BR has to bear certain cost burdens namely '**Social Cost**'. Some important items of social cost are noted below.

- ▣ **carrying essential commodities and rendering transport facilities to Passengers**
- ▣ **At lower prices than cost of services.**
- ▣ **Operation of un-economic branch lines :**
- ▣ **Carrying Relief Materials at concessional rates :**
- ▣ **Carrying military traffic at less than normal tariff.**

**Compensation for Social Cost:** BR is compensated under "Public Service Obligation (PSO)" system for operating specific services which are not commercially viable but socially necessary. This concept has been accepted by the Govt. which are being reflected in the Revenue Budget

since 1993-94. This replaced the open-ended subsidy and BR has been able to cover its operating expenses.

### 5.3.8 Financial Information's of Bangladesh Railway during the year 2003-2004:

The total operating revenue without considering the effect of Public Service Obligation (PSO) and Welfare Grant of Bangladesh Railway for the year 2003-2004 amounted to Tk. 3,941.72 million. After meeting the total operating expenses of Tk. 6,394.06 million the net operating income for the year came to (-) Tk. 2,452.34 million.

On the other hand, Government paid an amount of Tk. 860.00 million and Tk. 174.08 million as PSO compensation and Welfare Grant respectively. As a result, the total operating revenue duly considering the effect of PSO and Welfare Grant for the year 2003-2004 amounted to Tk. 4,975.79 million. So, after meeting the total operating expenses of Tk. 6,394.06 million, the net operating income for the year came to (-) Tk. 1,418.27 million.

The interest and installments on foreign loans taken on replacement account amounted to Tk. 227.8 million and Tk. 238.0 million respectively. During 2003-2004 average revenue per passenger as well as revenue per passenger-kilometer decreased as compared to those of 2002-2003. Revenue per passenger decreased from Tk. 41.14 to Tk. 39.89 i. e. by 3.04% and revenue per passenger kilometer decreased from 38.54 Tk to 38.20 Tk i. e. 0.88%. Average Distance traveled by passenger from 102.8 kilometers in 2002-2003 to 100.0 kilometers in 2003-2004. In goods traffic there was decrease in revenue per tonne and decrease in revenue per tonne kilometre. Average revenue per tonne decreased by 2.00% from Tk. 393.68 in 2002-2003 to Tk. 385.79 in 2003-2004 and revenue per tonne-kilometre decreased by .096 % i. e. from 146.2 Tk in 2002-2003 to 144.8 Tk in 2003-2004. The average haul of freight traffic decreased from 259.7 kilometers in 2002-2003 to 257.9 kilometers in 2003-2004.

The total operating revenue without considering PSO and welfare grant for the year 2003-2004 amounted to Tk. 3,941.72 million as compared to Tk. 4,200.98 million in 2002-2003 representing a decrease of 6.17%. Passenger earnings in 2003-2004 amounted to Tk. 1,732.44 million showing an increase of 7.53 % as compared to the earning of 2002-2003 amounting to Tk. 1,611.06 million. Other coaching (Parcel and Luggage) earnings in 2003-2004 representing an increase of Tk. 4.09%. Miscellaneous earnings also showed a decrease of 26.8% from Tk. 1,040.17 million in 2002-2003 to Tk. 761.38 million in 2003-2004.

The total operating expenses for the year 2003-2004 amounting to Tk. 6,394.06 million, exhibits an increase of 8.98% as compared to the working expenses of 2002-2003 amounting to Tk.

5.867.13 million. The operating ratio increased over the previous year from 139.7 in 2002-2003 to 162.2 in 2003-2004 without considering the effect of PSO and Welfare Grant. The Operation Ratio becomes 128.5% in the year 2003-2004 if the effect PSO and Welfare Grant is considered. During the year 2003-2004, net operating income of Bangladesh Railway amounted to a deficit Tk. 245.23.

**Table: 16, (Year July-June) Revenue income of Bangladesh Railway since 1969 to 2004:**

Year	Total operating revenue	Total operating expenses(tk.cror)		Net operating Income(tk,crore)
1969-70	30.30	25.27	(+)	5.03
1995-96	284.09	401.58	(-)	117.49
1996-97	330.64	414.17	(-)	83.52
1997-98	350.91	433.36	(-)	82.45
1998-99	374.27	461.15	(-)	86.88
1999-00	341.49	469.86	(-)	128.36
2000-01	366.39	523.87	(-)	157.48
2001-02	388.40	535.48	(-)	147.08
2002-03	420.10	586.71	(-)	166.61
2003-04	394.20	639.41	(-)	245.23
2004-05	445.62	695.09	(-)	193.79
2005-06	448.87	960.17	(-)	511.3

Source: Bangladesh Railway-Ministry of Communication.(+ = profit,- = loss)

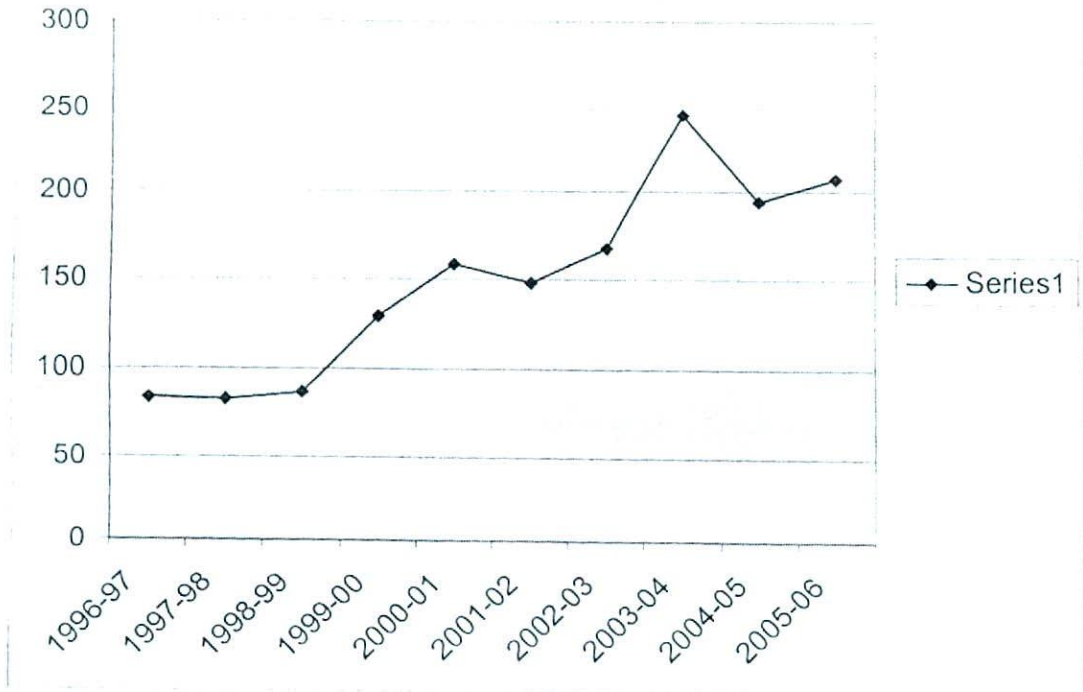


Fig: Total loss of Bangladesh Railway during the period of 1996-97 to 2005-06

Series -1, Curve line showing the financial loss of BR

### 5.3.9 Issues related with financial loss of Bangladesh Railway

According to financial summary of B.R last profited in 1970. After 1970 Bangladesh Railway gradually became loosing concern. From 1995-2004 each and every year Railway incurred loss. There are some reasons which are related with financial loss of B.R. These are as follows:

1. Transport policy, during the post- independent period was not favorable For railway development.
2. Lack of appropriate technological upgrading and modernization of B.R.
3. Misallocation of resources to both fixed and rolling stock.
4. Lack of investment in key areas such as passengers coaches, freight services etc.
5. Investments in engines and electrification of lines were not made properly.
6. Poor maintenance of the Railways with minimum allocation of fund.
7. Functional organizational structure and operational system.
8. Delay and low quality of service(in 1990/91 it took on average between 13 to 18 days to complete a wagon journey of about -260 k.m.)
9. Wide spread corruption.

10. Revenue leakage and ticket less travel.
11. Decision both policy and investment considered with political priority rather than economic viability.(top heavy management, division of B.R into two separate zones)
12. Dramatic development of road transportation vehicles.

### 5.3.10 Conclusion:

Bangladesh Railway is considered as one of the 'most suitable means' of transport for moving large volumes over long distance and are particularly suitable for transporting goods around the country. Railway can indeed constitute the backbone of internal transport and the logistics chain. The Railway is the most reliable form of transport. It is economical in energy and produces little pollution. These advantages make the railway the preferred mode of transport for the integration and the economic and social development of Bangladesh. Having these opportunities Bangladesh Railway becomes one of the biggest losing concerns among SOE's. Service standard and facilities have also been decreased gradually.

As the best mode of transport once Bangladesh Railway was run profitably and it can once again run as a commercially viable organization. According to analyst, policymakers, donor organizations, Bangladesh Railway can only survive by achieving commercial viability and this could only be earned by a well planned reform agenda (CPD 1994), which includes up gradation of services and modernization of Railway to make it a profitable organization. In the process of reform effort Bangladesh Railway has taken decision, '**Association of Private Sector**' in different activities which is partial privatization strategy of Bangladesh Railway. In order to attain aforementioned objectives **Bangladesh Railway has introduced private operator in its different weak sectors since 1997.**

## CHAPTE-6.

### Partial Privatization Programme in B. R.

#### 6.1 Introduction:

**Bangladesh Railway** is the oldest institution in the communication sector which still can play an important role in accelerating the pace of trade and commerce along side carrying passengers. But **Bangladesh Railway** has been limping along on the continued financial loss and shortage of staffs in huge areas. As a gigantic public organization BR has been burdened with a loss of around Tk.15000 crore accumulated during the last 33 years (Daily star 2004). The amount of loss in 2003-04 fiscal year is Tk. 2452341000/= Once **BR** was run profitably and it can once again run as a commercially viable entity. **BR** can only survive by attaining commercial viability and this could only be achieved by a well planned and well implemented reform agenda (CPD,1994). Everybody has been thinking of positive approach, up gradation services and modernization of railway to make it a profitable organization. In order to attain commercial viability of B.R it appeared that the targets of financial reorganization should be set out in definite phases:

- a) Reducing current level of subsidy (short term objectives)
- b) Achieving break even cost plus starter (medium term objectives.)
- c) Full financial viability i.e. generating real profit and return on investment (long-term objectives).

Source ( C.P.D Report-7, 1994)

In order to achieve aforementioned objectives, it is needed to gradual transformation of B.R into a commercially oriented organization. Due to that Bangladesh Railway has embarked upon a comprehensive **Railway Recovery Programme (RRP)** in order to improve its financial performance through increase efficiency and cost reduction. The key elements of **RRP** are-

- ⊕ Improving labour productivity primarily by reducing surplus employees;
- ⊕ Reducing losses on passenger services by closing money losing services and sections;
- ⊕ Replacing open ended subsidy with compensation under Public Service Obligation (PSO) system;
- ⊕ Improving operational efficiency through optimizing the use of assets;



- ⊕ Asking the Railway more responsive to market needs through organizational reform incorporating structural changes and sound business practices;
- ⊕ Exploiting commercially surplus land and other capacities of Railway.

## **6.2 Reform Process and Private sector involvement :**

The principles of the reform process aim to operate BR as a more commercial viable organization. This would result in a sustainable and financially viable carrier and ensure less government interference in respect of organizational and commercial decisions of BR. This would mean progressive independence of BR from the Gatemen.

### **In the process of reform efforts, major achievements are**

- ⊕ Reduction of workforce from 58000 to 38000 (through voluntary separation & natural attrition).
- ⊕ Closure of a number of money losing branch lines, stations sheds, depots etc. and withdrawal of some non profitable passenger train services.
- ⊕ Adoption of PSO principle for compensation by the Government for running services on social consideration, in place of open subsidy.
- ⊕ Tariff fixation on commercial principle.
- ⊕ **Association of private sectors in different activities.**

(Development Review Meeting at Rail Bhaban conference room on 29.9.04)

## **6.3 Area of Privatized Operation in BR:**

BR started private sector involvement for commercial operation and other activities from 1997. As in June 2004, 'Commercial Activities' of 30 Mail, Express & Local trains and 'On Board' services of 10 Intercity trains were licensed out. These are as follows:

a) Table : 17. No, Name &amp; Date of Licensing of Privatized trains in Bangladesh Railway.

Tram Number	Section	Date of Licensing
3/4	Dhaka-Chittagong	11-01-02
7/8	Dinajpur-Balashighat	21-10-02
11/12	Noakhali-Dhaka	10-05-03
15/16	Khulna-Chapai Nawabgonj	03-03-03
17/18	Akhaura-Sylhet	20-11-03
19/20	Santahar-Timohoni	21-10-02
21/22	Santahar-Trimohoni	19-11-03
23/24	Khulna-Parbatipur	13-11-03
25/26	Khulna-Goalanda Ghat	07-05-03
27/28	Parbatipur-Chilahati	13-11-03
31/32	Rajshahi-Parbatipur	05-05-04
33/36	Dhaka-Mymensingh	29-08-02
45/46	Noakhali-Akhaura	10-05-03
47/48	Mymensingh-Dewangonj Bazar	21-06-04
49/50	Dhaka-Mymensingh	31-10-02
51/52	Dhaka-Jamalpur	25-11-02
53/54	Khulna-Benapol	05-05-04
221/240	Dhaka-Narayangonj	01-02-03
411/412	Lalmonirhat-Parbatipur	07-05-03
431/434	Parbatipur-Lalmonirhat	05-05-04
453/454	Lalmonirhat-Burimari	16-09-03
455/456	Lalmonirhat-Burimari	07-05-03
461/462	Lalmonirhat-Parbatipur	19-11-03
481/482	Santahar-Lalmonirhat	19-11-03
491/492	Santahar-Parbatipur	11-11-03

Source: Annual Reprt Bangladesh Railway-2004

**Table : 18, On Board Services of the train of Bangladesh Railway.**

701/702	Chittagong-Dhaka-Chittagong	01-05-04
09/710	Dhaka-Sylhet-Dhaka	01-11-02
737/738	Dhaka-Kishorgonj-Dhaka	18-12-02
742/703	Chittagong-Dhaka-Chittagong	07-12-02
749/750	Dhaka-Kishorgonj-Dhaka	18-12-02

Source: Annual Reprt Bangladesh Railway-2004

### **b)Computerized ticketing system:**

Computerized Seat Reservation and Ticketing System have been introduced since December, 1994 on Built, Operate & Transfer (BOT) basis, a strategic attempt of Partial privatization Programme in Bangladesh Railway.

Ticketing system of Bangladesh Railway is partially privatized since 1992-93. About 30 stations of Eastern zones have been covered under computerized ticketing. Intercity Train ticketing is almost operated by computerized ticketing system. Primarily this system had some problems as dueling, numberless ticket, etc. At present intercity passengers are getting unique service. There are some problems consisting with the system. Due to that 'black marketing' has not come under full control. In this situation some extra information may include in ticket, as name, age, sex etc. After all it can be easily said that this computerized system rendering very efficient service to the passengers. Gradually the area of ticketing (Computerized) may be increased throughout the country. Indian Railway is one of the biggest railways in the world and their ticketing system fully computerized and connected with internet.

Railway department may take lesson from Indian Railway to improve further development of ticketing system of B.R. An interview was conducted with passengers, station masters, railway officials, engineer and private operating firm in various railway stations and everybody pointed out the positive side of modern ticketing system. Due to this system Passengers will be satisfied and benefited as well. Ticket black marketing is not widely possible in this system. Under this concern staffs of Railway can operate the system. It is a technological development of Bangladesh Railway which has been facilitating both the sectors and passengers at the same time. As all transaction is computing with document under computerized system, there is no possibility for financial mismanagement at a large scale. The main features of this system are:

- a) Reservation and ticketing system is modern.
- b) Passengers are getting better service
- c) Forward ticketing is possible in this system. (From Dhaka purchasing for Comilla to Chittagong)
- d) Blank seats can be fulfilled by selling ticket. (During the train incoming time, computer shows the blank seat of previous station which can be sold in due time). It is quite impossible in manual system.
- e) Passenger become aware of the blank seats of the train on monitor. So operator has no scope to conceal the real picture of seats.
- f) Error probability of seat reservation can be reduced in this system.

Computerized seat reservation and Ticketing is a unique introduction of Bangladesh Railway. Without using modern technology no development can be achieved. 'Computerized seat reservation and ticketing' is a modern technological involvement which is an achievement of Railway. It is the symbol of efficient service as well. It becomes possible in railway with the help of private sector involvement. Day by day the area of this sector is increasing rapidly.

**e)Using of fiber optic Telecom System of BR** (A Partial Privatization Strategy of B.R):Bangladesh Railway has a strong and wide range of Fiber Optic Telecom system for internal communication. But the large portion of this system is not under use rather Bangladesh Railway has been using this network partially and rest of the capacity by agreement handed over Grameen Phone for telecommunication service. Now Grameen Phone has been using the railway fibre optic system and broaden their network to the furthest corner of the country. As a result people from both urban and remote areas are getting modern telecommunication service impartially. This huge service leads GP to make the biggest subscribers which is presently more than 14 millions. And BR consequently getting revenue.

Private operators have also been associated in the fields of repair of passenger coaches, cleaning of Locomotives & passenger carriages and conversion of non-AC coaches into AC coaches on BOT basis. (Annual report 2004)

Railway includes private operator under specific contract given by license. The commercial operation of thirty trains has been privatized according to Railway information book 2004. Here we can show the terms & conditions of the contract regarding involvement of private operator as the part of partial privatization strategy. (Annual report 2004)

#### **6.4 Contact Nature of Commercial Operation of Partially Privatized train:**

Private operator is introduced with BR to operate the specific service under contract. This contract includes the major and fundamental concerns of both BR and private operator. Under this contract BR and Private operator togetherly perform their duties respectively. Our next discussion covers the main aspect of contracts which has been being implemented Brahmanbaria-Dhaka named Titas Commuter:

##### **6.4.1 Area of License Operation: (Partial Privatization Programme in BR)**

In this following guide to operate the commercial operation of the train has been discussed as :

- i) Lessee will operate 'Titas Commuter' train under own supervision from B. Baria to Dhaka to B. Baria. Lessee will collect passenger fair.
- ii) Lessee will receive a rack from Railway Department consisting of 10 second class passenger coach, one guard break, and one power car. Number of coaches and categories may be increased but not to be decrease .
- iii) Total responsibility of the train operation will be kept to Railway Authority. Drivers and guards will do the job under direct control of Railway Authority
- iv) Trains will run on specific time table. But the time table may be changed with the consent of both parties (Railway & Lessee.)
- v) Lessee will pay the fair according to per coach of the train which will count trip
- vi) The train will run 33/34 and 35/36 no. named Titas Commuter.
- vii) The train and engine maintenance will be performed by Railway.
- viii) Concerned Railway station masters will operate this train with other trains of Railway.
- ix) The stoppage of the train is specified. These are :
  - Ashuganj
  - Vairab Bazar
  - Methikanda
  - Narshingdi
  - Tangi
  - Biman Bandar

#### 6.4.2 Duties and powers of License holder (Private Operator)

According to the contract the duties and power of the private operator are:

- i) The rights of ticket checking would be kept to license holder.
- ii) The train fair will be fixed up by the Railway Authority.
- iii) The License holder entitled to sell the ticket of the specific train, which is given to him only.
- iv) The travel of the passengers with the aspect of Railway rules will be ensured by private operator. They are liable about roof, foot stand, baker, hanging journey of the passengers, specially lost of goods.
- v) License holder is bound to pay trip money according to condition- That is three installments 20<sup>th</sup>, 30<sup>th</sup> & 10<sup>th</sup> date of the month. If license holder becomes failure to pay two installments just after the date of last payment the contract will be void.
- vi) License holder will pay the equivalent money of 45 days fair as performance guarantee to the Railway authority, which is refundable.
- vii) License holder is liable about:
  - a) Portion of Station Building which is given to him for use.
  - b) Cleaning of railway coaches, specially toilet, floor, seat, door, window, internal & external sides of coaches.
- viii) The gentle behavior and manner with the passenger should be ensured by private operator.
- ix) After the handing over of the train to private operator, all security would be kept by license holder until the return to the Railway Authority.
- x) The responsibility for the lost of parts, or any losses, would be compensated by private operator.

#### 6.4.3 Duties and Powers of Railway Authority.

Under this contract Railway authority has some certain duties & power to perform which are to be pointed as:

- i) The train will run according to railway time table.
- ii) Bangladesh Railway will supply specific number of coaches and engines.
- iii) The maintenance of the train will be maintained by Railway.
- iv) The Railway authority is liable for accident & Compensation.
- v) In Dhaka & B. Baria station, Railway authority will issue fitness certificate for operation of the train.
- vi) The Rail authority will issue pass for army/ BDR/Police/ Cte /Pte, that would be useable inside this trains.

vii) Train operation will be performed according to Railway Act.

viii) In case of Railway emergency, tool van may be included with this train without paying fair. Railway officials are also permitted to travel by tool van.

#### **6.4.4. Analysis of Partial Privatization Programme in B.R :**

Bangladesh Railway is one of the biggest government organizations among the other SOE's. According to financial summary of BR it earned profit in the year 1969-70. But after that railway could not continue earning profit till to date. This constant loss made BR as one of the biggest losing concerns in Bangladesh. In this regard BR has taken '**Recovery Programme**' to reduce the financial loss and upgrade the service standard by introducing Partial privatization strategy. Partial Privatization includes a number of strategic policy which have been considered very sensitive in BR, and commercial operation is one of them. In this study we have chosen commercial operation of a sample train named 'Titas Commuter' to discuss elaborately its contract, area of operation, duties, responsibility and so on.

- 1) **The private operator does not need to invest huge amount of money.**
- 2) **Ownership of the Government properties remains to the government. But it would be handed over to the private operator for rendering service.**
- 3) **Some responsibilities are kept to the private operator which is not maintained by Railway. Such as financial/commercial responsibility.**
- 4) **Private operator is operating the train under specific financial and other terms and conditions.**
- 5) **Private operator is paying fair according to contract. Thus' there is no scope to show any financial claim to reduce payment.**
- 6) **Service standard increases.**
- 7) **The possible time table is maintained.**
- 8) **State property is being used safely.**
- 9) **Labour unrest does not take place.**
- 10) **Accidental ratio does not increase.**
- 11) **Operational problem has been reduced to a considerable stage.**
- 12) **Government earns comparatively more revenue than earlier stage.**

From aforementioned discussion it can be said that partial privatization Programme in Railway manifests three features:

- a) Service standard has increased.
- b) Step to complete privatization.
- c) Financial loss is reducing.



## CHAPTER-7

## Impact of Partial Privatization Programme in Bangladesh Railway.

### 7.1. Introduction.

Partial Privatization is a unique reform work which has create a new era and added a new phase in Bangladesh Railway. The main objective of this programme is to reduce financial loss with ensuring service standard of Bangladesh Railway. By this time it seems that the financial aspect of this programme is very much positive. In this chapter we have a comparative picture between after and before partial privatization of BR. This analysis has been examined with paired 't' test which shows positive economic viability. Private entrepreneur is providing better services which influence passenger to travel by train and it has resulted raising the number of the passengers. A survey has been conducted among passengers, workers, staffs and private entrepreneur about service condition of the trains. In this chapter a statistical analysis,  $\chi^2$  test has been implemented in order to verify the performance of private entrepreneur. The benefits and drawbacks of partial privatization programme have been mentioned in this chapter also. Some of the problems are identified in the study which are very nominal and possible to solve gradually. The ultimate goal of this chapter is to express all the impact or effect of partial privatization programme in Bangladesh Railway.

### 7.2 Nature of Partial Privatization Programme in BR:

Partial Privatization Programme is a technique to involve private operator in public organization in-order to enhance efficiency. Our public organizations have been suffering from various reasons which are liable for financial loss and other defaults. Partial Privatization is an initiative to rescue the position. We have many problems regarding complete privatization. Specially labour unemployment is very important issue involved with privatization. Partial Privatization is very unique step in this context. **Because total enterprise and labour strength remain unchanged in Partial Privatization.** In Bangladesh Railway private operator is allowed to join with joint management system. For example, private operator is engaged to operate the train under the whole operation of Bangladesh Railway. Driver, Guard, Signaller are from railway department, but ticket checker, supervisor, ticket seller, attendant are from private operator. Everybody performs their duty respectively. Under Partial Privatization system the assets are kept under government control but it is utilized by the private operator. Partial

Privatization Programme is a step to transfer the weak part or portion to private entrepreneur so that this part of the enterprise can be improved.

In railway the commercial operation of the train has been handed over to private operator. The private operator is paying the definite sum of money in lieu of using the assets. The private operator is operating trains with specific guidelines and directions given by the railway.

Partial Privatization has established a stronger management capability in Railway. Private operator is enjoying freedom to operate without political and bureaucratic constraints. Partial Privatization Programme also provides the opportunity to share risk with parent organization. This is why, private operator becomes serious about financial operation of the programme.

### **7.3 Description of the facilities:**

Bangladesh Railway engaged private operator in some of the weak parts or activities of railway department in order to improve performance. After implementing this programme it seems that this programme is running satisfactorily. Facilities and services, timetable, ticket less travelling, financial earnings, maintenance and cleaning of railway have been improved. These can be discussed by the following way:

**7.3.1 Services & Facilities** Passengers of the partially privatized train are enjoying standard services and facilities. Passengers can purchase tickets from separate booking counter without hassle with other passengers of others train. Attendants are sincere about their duties in every compartment. Passengers may ask for help from them. Sanitation facilities are very nice. Water supply in toilets are available, cleaners do clean the toilets everyday and use air freshener frequently. Fan & Light is active in the compartment. Windows & shutters are active to open and close.

**7.3.2. Time table:** The time table is maintained by the private operator. Actually timetable maintenance depends on railway authority. But the private operator ensures timetable maintaining with communicating and pursuing railway authority. One of the major factors of goodwill is maintenance of timetable which is a sensitive issue. In this area private operator is more efficient than the government managed railway.

**7.3.3. Ticketless traveling:** One of the important achievements of partially privatized train is reducing ticket less traveling. According to **D.C.O** Bangladesh Railway(Dhaka), about 15% non ticket passengers are traveling in passengers train under railway operation. But it is below 3% in private operators train. Ticket checking system of partially privatized trains very much fair and strict. Checkers work under separate supervision. That indicates the accountability of the employees of privatized train is more strict than government controlled train.

Table-19. Non ticket passengers

Train	% of f non ticket passengers
Government train	10%-15%
Partially privatized train	3-5%

Source: DCO, Railbhaban, Dhaka.

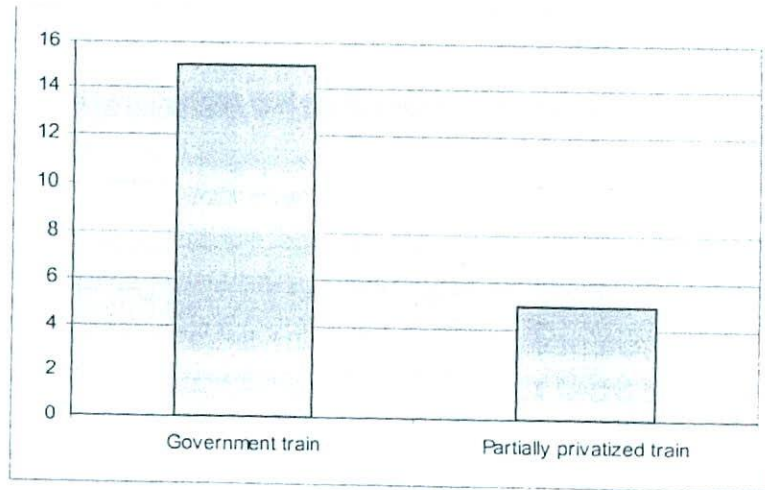


Fig: Number of the passengers of non ticket travelers in Gov't and P.P train

### 7.3.4 Financial earnings:

Financial loss of the government run train was the main issue to involve private operator. After liberation war Railway could not earned profit in any fiscal year. But in partial privatization system financial side is very locative. Private operator is paying the amount of 10 days fair at a time. That means every 10 days is an installment period for private operator. If the private operator fails to pay two installments then the contract will no longer be continued. Here we can show the average daily income of 8 sample trains in the government period amount Tk.135268/= and monthly income is Tk.4058040/=. But the income of that trains in partially privatized period is respectively Tk.261623/= and Tk.7848690(Source:DCO,Bangladesh Railway, Dhaka.). According to Economic Survey Report 2005 the revenue income of Bangladesh Railway has increased 6% due to involvement of private operator. So it can be said undoubtedly that the financial impact of partial privatization programme in Bangladesh railway is positive or economically viable.

**7.3.5 Maintenance & Cleaning (Non technical):** Maintenance & Cleaning work are done by private operator. Private operator is very much serious about maintenance. Because without proper maintenance the train will not run smoothly. As a result financial loss may arise to private operator. Private operator is personally liable for smooth functioning of the train. Because private operator has to bear the risk of financial loss. In this context private operator is sincere about proper maintenance of the train which is given to him.

The cleaning task of the train also performed by the private operator. The passengers are highly conscious about the hygienic environment of the train, specially the toilet system. The private operator concerns about cleaned & hygienic atmosphere of the train. According to passengers' view the cleaning and maintenance standard of the private operator is unique.

#### **7.4. Benefits of Partial Privatization Programme in B.R :**

Partial Privatization Programme has been introduced by Railway in 1997. Many fields of Railway are being operated by private entrepreneurs. Commercial operation, Onboard service, Reservation and ticketing system, using of fiber optic are mentionable fields of this Programme. The main objective of this Programme is to earn profit and reduce loss. Though there are another objectives remaining with this Programme. Commercial operation of the 30 trains are operating by private operator. In this short period (97-2005) Partial privatization Programm in Railway is found very effective. Some of the important benefits of Partial Privatization Programme in Railway have been pointed as:

- 1) Partial Privatization Programme is easier than privatization. Because the involvement of private operator does not need inter ministerial involvement. It is not sale of the state property. Legal formalities are easier than privatization.
- 2) Huge number of entrepreneurs are interested in this Programme. Due to minimum investment, running project, involvement of SOE, Government support, minimum risk etc are the main causes of interest of this method.
- 3) No major investment is required for the Programme. Only a specific amount has to be paid to the parent organization for operating the property or facilities under specified period.
- 4) Partial privatization Programme is run under direct supervision of the Railway authority. This opportunity helps much more. All the operational facility, logistic support, accidental risk bearing guarantee are kept to the railway authority.

- 5) Partial privatization is a reform work which requires no compulsory retirement of labours. Under this programme no retirement and unemployment is necessary for this programme. Some of the employees are engaged with operation of private operator.
- 6) Private operator has become successful to improve service.
- 7) Financial impact is very much positive. Railway is getting huge quantity of revenue.
- 8) No loss or damage of state property under the private operator's supervision.
- 9) By means of partial privatization some loosing lines or services have been recovered. In absence of this Programme railway may close that routes and services.
- 10) Partial Privatization Programme is helpful to coordinate or adjust the employees. Partial Privatization creates some unemployment but they can employ themselves in the vacant or shortage post of railway.
- 11) P.P.P is helpful to use modern technology. By means of P.P.P Railway is using computerized reservation and ticketing system.
- 12) Partial Privatization Programme is helpful for maximum utilization of resources. Say unused fiber given to Grameen Phone.

#### **7.5 Problems involved with partial Privatization Programme :**

It is well known to all that each and every system has some problems with benefits. Partial Privatization Programme is not out of this reality. According to journalists, passengers, analysts and railway officers, staffs, private, entrepreneurs there are some problems in P.P.P. These are gradually decreasing. A few numbers of problems caused by social and political culture of the country. Here are some of the important problems:

- 1) Contract duration is short. Better service and standard management require sufficient time to establish by private entrepreneur. One year is very shot period. (Private operator 2005)
- 2) License giving procedure is not totally fair because of political pressure or interference.
- 3) A few number of private entrepreneurs have become failure to operate the train successfully in early stage.
- 4) Railway department does not arrange good type of coach. (Private operator 2005)
- 5) Railway authority couldn't arrange sufficient and extra coaches as per demand of private operator.
- 6) Maintenance works are not properly maintained by railway authority as per contract.
- 7) Commercial operation is not totally given to private operator. Say luggage booking performed by private operator but Purcell work is operated by Railway.

8) Some national important works are not given to private operator. Private operator is not interested also. Say public examination answer scripts carrying. (DCO 2005)

9) Signaling system is not good.

10) Running time is long. Say B. Baria to Dhaka fixed time for the travel is 3hours45 minutes, where road time travel needs 2 hours only. Railway time should be reduced.

11) Private operation is profit oriented mainly, because they have no public service obligation and they have to pay duely.

**7.6 Financial Earnings: Financial Earnings of B.R during the year 2005:**

**Table: 20 Financial earnings of sample trains during the period of Partially privatized.**

No. of Trains	Name of the Train	Year	Daily income	Monthly income
49/50	Balaka Express	2005	35100/=	1053000/=
11/12	Noakhali Express	2005	10900/=	3270000/=
¼	Karnaphuli Express	2005	34126/=	1023780/-
17/18	Kushiara Express	2005	18500/=	555000/=
51/52	Zamalpur Commuter	2005	45200/=	1356000/=
48/48	Dewangang Express	2005	11850/=	355500/=
	Dhaka - Narayanganj	2006	28000/=	940000/=
33, 34, 35, 36	Titas Commuter	2005	77979/=	2339370/=

Source: Divisional Commercial Office Rail Bhaban, Bangladesh Railway Kamalapur, Dhaka.

**Table 21 Daily & Monthly income of the train in govt period before p.p**

No. of train	Name of the train	Daily income of Govt. period	Monthly income of Govt. period
49/50	Balaka Express	22943	688290
11/12	Noakhali Express	7375	221250
¼	Karnaphuli	22943	688290
17/18	Kushiara	9142	274260
51/52	Zamalpur Commuter	27547	826410
47/48	Dewangang Express	5698	170940
—	Dhaka N.gang Express	25000	750000
33/34,35/36	Titas Commuter	14620	438600

Source: I. Divisional Commercial Office Rail Bhaban, Bangladesh Railway, Kamalapur, Dhaka.

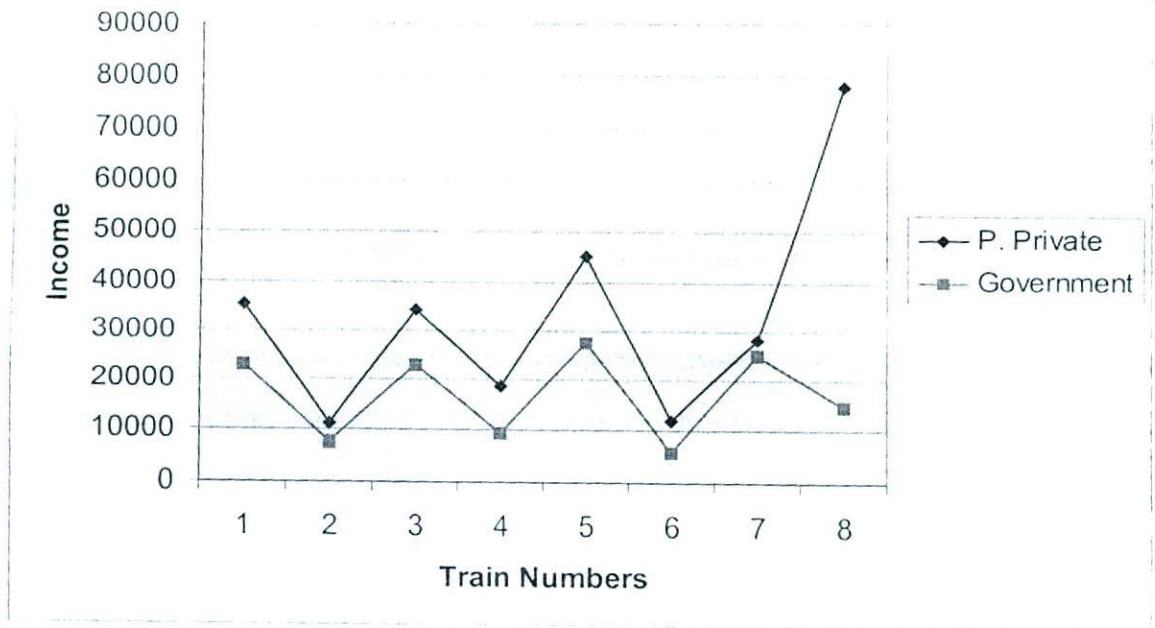


Fig: Daily income of Government train and partially privatized train in the year 2005

### 7.7 Statistical Analysis in relation with financial earnings:

In this study the feasibility of the Partial Privatization Programme has been analyzed with statistical method. The financial earnings of Pre & Post Partial Privatization Period of Bangladesh Railway (government) is tested by 'Paired  $t$ ' test. The detailed method has been discussed below:

$$H_0: \mu_x = \mu_y$$

$$\mu_x - \mu_y = 0$$

$$H_A: \mu_x < \mu_y$$

Here  $H_0: \mu_x - \mu_y = 0$  means there is no significant difference in the daily income of passengers train before and after the partial privatization.

$H_A: \mu_x < \mu_y$  Means partial privatization results in an increase in daily income.

We can test this two variables by using 'Paired  $t$ ' test. Where

$$t = \frac{\bar{d}}{Sd / \sqrt{n}} \sim t_{n-1} \quad [t \text{ distribution with } n-1 \text{ d.f.}]$$

$$Sd = \sqrt{\frac{\sum (d_i - \bar{d})^2}{n-1}}$$

$$\bar{d} = \frac{\sum d_i}{n}$$

Here  $\mu_x$  = Average daily income of passenger trains (sample) before the partial privatization period.

$\mu_y$  = Average daily income of passenger trains after the partial privatization period

**Table: 22 Daily income of the passenger's train before and after Partial Privatization**

No. of train	Name of the train	$\mu_x$ = daily income of Govt. period	$\mu_y$ = daily income of P.P. period
49/50	Balaka Express	22943	35100
11/12	Noakhali Express	7375	10900
3/4	Karnaphuli	22943	34126
17/18	Kushiara	9142	18500
51/52	Zamalpur Commuter	27547	45200
47/48	Dewangang Express	5698	11850
—	DhakaN.gang Express	25000	28000
33/34,35/36	Titas Commuter	14620	77974

Source: 1. Divisional Commercial Office, Rail Bhaban, Bangladesh Railway Kamalapur, Dhaka

**Table: 23 Calculation for the value of test statistic:**

Govt. daily income 'x'	P.P. daily income 'y'	$d_i =  x - y $	$d_i^2$
22943	35100	12157	147792649
7375	10900	3525	12425625
22943	34126	11183	125059489
9142	18500	9358	87572164
27547	45200	17653	311628409
5698	11850	6152	37847104
25000	28000	3000	9000000
14620	77979	63359	4014362881
		$\sum d_i = 126387$	$\sum d_i^2 = 4745688321$

Source: 1. Divisional Commercial Office, Rail Bhaban, Bangladesh Railway Kamalapur, Dhaka



$$\frac{\sum d_i^2 - \frac{(\sum d)^2}{n}}{n-1}$$

$$Sd^2 = \frac{4745688321 - \frac{(126387)^2}{8}}{7}$$

$$Sd^2 = 392711300$$

$$Sd = 19915.94$$

$$t \text{ cal} = \frac{-15798.37}{19915.94/2.83}$$

$$|t \text{ cal}| = 2.26$$

From  $t$ -table with 5% level of significant we have  $|t \text{ tab}| = 1.90$

### Conclusion:

Since  $|t \text{ cal}| > |t \text{ Tab}|$ ,  $H_0$  is rejected at 5% level of significance. Here we conclude that partial privatization of passenger train may increase the daily income. That is, the financial earnings from partial privatized passenger train are probably higher than government period.

From above discussion and financial analysis it is proved that the income of the privatized train is higher than that of government period. The income of these sample trains is higher because the number of the passengers is raised at present or privatized period. There are many reasons behind increasing passenger quantity. Mainly services and facilities of these trains have been improved. Passenger gets better services and other facilities in these trains. This is why a huge number of passengers are choosing privatized train to travel.

However, in this context a survey has been conducted among passengers, railway staffs and officials, private operator to find out the actual performance standard of services and facilities of privatized trains. This survey helps the study to test the performance by using ' $\chi^2$ ' test. The ' $\chi^2$ ' test also provides the positive result of services and facilities of this privatized train.

### 7.8 Test of performance of partially privatized train with government train :

$H_0$  : There is no significant difference between the efficiency of government and partial privatized train.

$H_1$  : Partial privatized train is more effective than government operated one.

$$\alpha = 0.05$$

The test statistic

$$\chi^2 = \sum \sum \frac{O_{ij}^2}{E_{ij}} - N$$

Where  $O_{ij}$  = observed frequency of  $i$ th row &  $j$  th column

$E_{ij}$  = Expected frequency  $i$ th row &  $j$  th column

$$N = \sum \sum O_{ij} = \sum \sum E_{ij}$$

Observed frequencies are given. Expected frequencies can be calculated by the formula  $E_{ij} =$

$$\frac{R_i \times c_j}{N}$$

$R_i = i^{th}$  Row total

$c_j = j^{th}$  column total

Table for calculation of Expected frequency:- Expected frequencies are shown in the parenthesis.

**Table: 24 Table for calculation of expected frequency:**

	S	O	R	I	S	J	Total
P	(23.17) 27	(23.17) 30	(23.17) 18	(23.17) 22	(23.17) 24	(23.17) 18	139
N	(6.83) 3	(6.83) 0	(6.83) 12	(6.83) 8	(6.83) 6	(6.83) 12	41
Total	30	30	30	30	30	30	180

Where, S = service improvement.

O = operational efficiency.

R = reduced non-tickets.

I = improved financial earnings.

S = safety of state property.

J = job security hampered.

and,

**P** indicates positive answer

**N** indicates negative answer

Table: 25 Table for calculation for  $\chi^2$ .

<i>Observed frequency</i> $O_{ij}$	<i>Expected Frequency</i> $E_{ij}$	$O_{ij}^2/E_{ij}$
27	23.17	31.46
30	23.17	38.87
18	23.17	13.98
22	23.17	20.89
24	23.17	24.86
18	23.17	13.98
3	6.83	1.32
0	6.83	0
12	6.83	21.08
8	6.83	9.37
6	6.83	5.27
12	6.83	21.08
		$\sum \sum O_{ij}^2/E_{ij} = 202.16$

$\chi^2 = \sum \sum \frac{O_{ij}^2}{E_{ij}} - N$  follows  $\chi^2$  (chi square) distribution with  $(r-1)(c-1)$  d.f.(degrees of freedom)

$$d.f = (2-1)(6-1) = 1*5 = 5$$

$$\begin{aligned} \text{So, } \chi^2 &= (202.16 - 180) \\ &= 22.16 \sim \chi^2 \text{ with 5.d.f} \end{aligned}$$

Tabulated value of  $\chi^2$  with 5.d.f at 5% level of significance is 11.070 since tabulated value is less than calculated value. So the null hypothesis may be rejected.

Therefore, Partial privatization in Bangladesh Railway is more effective than Government (Railway) period.

In this test some criterion have been identified to verify the performance, which named S.O, R, I,S,J as sample. These represent the main features of partial privatization programme. An interview was conducted for it by using questionnaire. On the other hand the concerned persons for the study also expressed their comment about the performance and management standard of the study field. However, the outcome of the study about performance can be discussed by the following way:

**a)Service Standard:** Service standard of BR after involvement of private operator primarily refers to facilities of the privatized train which are improved according to 90% of the respondent in the study. In this system passengers are getting better facilities and services. There is separate ticket purchasing facility, fans and lights ,toilet facilities, better supervision are provided by the private operator. But in government period the condition of these facilities were very poor. The number of the passengers are increasing gradually due to improvement of services after private sector involvement.

**b)Operational Efficiency:** Operational efficiency is the important factor to the passenger. Now a days train service is in competition with road transport. In Bangladesh road transport is very comfortable and unique. In this context train operation must be efficient and perfect. Time table maintenance, accidental ratio, supervision, rapid clearance show, are the main elements of Operational efficiency. The condition of the efficiency was below standard during government operation. In this study 100% respondent told infavour of Operational efficiency under private management.

**c) Ticket less travelling:** Ticketless traveling is the main cause of financial loss of Bangladesh Railway. There are two types of train in B.R. Mail or intercity train& local or passenger train. Ticket less traveling in the intercity train is very nominal but in passengers train it is very high.Becauce ticket checking, supervision, and other necessary arrangement are very poor in government train. Railway officials who are engaged in ticket less traveling they have no accountability. But in partially privatized train ticket checking, supervision are very much perfect and strict. Thus they are reducing ticket less traveling, and the ratio is very few now. According to private operatør the number of non ticket traveling is less than 5%.

**d) Financial earnings:** Financial earning is one of the major issues of financial loss and involvement of private operator in Railway. Railway is a large public sector loosing concern Railway earned profit in 1970 last. After 1970 railway couldn't earned profit. Now Bangladesh Railway is a sick organization. Bangladesh Railway is a public organization which has been burdened with a loss of around tk.15000 crore accumulated during the last 33years.The amount

of loss in 2005-06 fiscal year is tk.511.3 crore. In order to overcome this position Railway took **Reform process**. One of the major parts of reform process is to involve private operator. After involvement private operator the financial aspect is positive and satisfactory. The private operator is paying fixed amount which is far higher than what government income. Private operator is also earning profit with ensuring better service. Day by day the area of partial privatization in B.R is increasing. Here we can show the monthly income of sample trains of this study, during the period of government and partial privatization:

**Table-26: Monthly income of govt. train & partially privatized train**

Year	Name of the operator	Monthly income(TK)
2004	Bangladesh Railway	4058040(Jan.2006)
2005	Private Operator	7849500(Dec-2006)

Source: D C O, Bangladesh Railway ,Dhaka.

In this system this income is not total effect of partial privatization. There are other indirect effects of this programme which save financial loss of Bangladesh Railway. For example about 28staffs are not engaged in train under partial privatization system. So Railway can save their salaries and other benefits.According to Economic Survey Report 2004 revenue income of B.R has increased 6% due to involvement of private operator. This study has come to the point finally that the economic aspect of this programme is positive according to data and other evidence. But some of the respondent who are engaged in Railway told the financial earnings of this programme is not good. But they become failure to show any evidence.

**e) Job security:** It is the most sensitive issue of this programme .Luckily this issue did not raised due to some positive decision taken by Railway authority. The unemployed staffs and workers are transferred to another vacant posts in Railway. On the other hand retired or sacked officials are getting scope to involve themselves in partially privatized trains and other operations. This programme did not face any labour unrest from Railway dept.

In this study performance is identified with six criteria. This study made a comprehensive search about these six elements. Interview, Personal observation, Questionnaire, Data collection and other necessary steps has been taken to find out the actual performance standard of partially privatized trains. In this study it is found that the programme is effective and economically viable. This programme is expanding day by day. Majority of the concerned persons in this study agreed that performance of partially privatized trains has been improved.

Railway within the area, which ensured a planned management system. Private operator is succeeding in effective utilization of the assets of BR. Some of the assets were unused in Railway, such as fiber optic telecom system. Partial Privatization Programme has established a free management and operation system without any political or bureaucratic complexity or interference. Here everybody performs their duties independently. Under this system several routes are being operated now in Bangladesh Railway where previously these routes were taken under closed down programme due to huge loss. The number of ticket less passenger is gradually decreasing. According to a private operator at this moment the percentage of ticketless passenger are 3 %-5%. But in government train the percentage of ticket less passenger is

10-15 %,( source –DCO, Railway).

The revenue earning of this programme is very positive for parent organization. Every private operator pays a definite sum of money to Railway authority. After assessing the cost and predicts profit the estimated amount is offered to bidder of this programme. The highest bidder gets the contract or allow for the programme. So there is less financial risk about partial privatization programme in Bangladesh Railway. In primary stage a very few number of mismanagement occurred but at present this programme is continuing without any major trouble. For example Titas Commuter Train is paying tk.77974 per trip. Suddenly this train was surrendered after duration to railway authority. It was January-February 2005. The then the earning of this train fall down less than 50% of private operators income. In that period (two month) the titas commuter train operated by Railway.(source .Station Master ,B.Baria).However it can be said that the total impact of this programme is very positive. In this study it is found that the financial impact of this programme is viable. Because the service and facilities, maintenance of the assets, management standard and other important side is high standard under partial privatization.

### 7.9 Causes in favor of Private operator:

In this study it is observed and proved that involvement of private operator improves service standard as well as financial earnings which are not satisfactory under Railway authority. In this regard question might be raised about what are the causes in favor of private operator. The observations and experience of this study about the performance of private operator are:

- a) Private operator is mainly profit oriented activity. This is why **private operator needs not to think about PSO and welfare grant.**
- b) Private operator recruits staff on the basis of efficiency and quality. They are private staff and they will no longer if they are found inefficient.
- c) Private operator makes target which lead the total activity. **Due to target everybody is serious about how to achieve the target.**
- d) Span of MGT is very much effective. Every body is working under strict supervision.
- e) **Number of ticket less passenger has been decreased from 15% to 3-%**
- f) Ticket corruption is not happening in this system. **That means there is a very few chance of financial mismanagement.**
- g) Service standard has been improved. Cleaner, waiter, carriage attendant, perform their respective duty accordingly.
- h) Due to any uncertain environment private operator does not operate the train.
- i) Private operator can adjust the number of coaches as per requirement.
- j) Private operator does not carry the necessary goods with lower rate.
- k) There is no scope to travel with pass.

## 7.10 Comparison: SOE's, Privatization and partial Privatization

### Programme.

Introduction: As the study broadly concentrates over three concerning areas' it is needed to clarify each of them with great potential from both subjective and objective stand point. Therefore, this study has been conducted in order to have the comprehensive analysis largely of partial privatization and partly of SOE's and privatization as well. As our research is about partial privatization strategy in BR, it brings the extensive study of both BR and the strategy itself. Again, it may include a comparative study between the SOE's Privatization and Partial Privatization.

**SOE's:**SOE's refers to the organization , owned , controlled and governed by the government of the country.In Bangladesh 44 SOE's are existing under 7 sectors. These are **Industry, Power&Energy, WaterResource,Transport&Communication,Commwerce,Agriculture, Construction and Services**. Some other departmental organization as BR, T&T, Postal, Bank& Insurance etc are also state owned enterprise. This study finds out some considerable evaluation of SOE's as under:

- a)**Weak governance.**
- b)**Corruptions.**
- c)**Nepotism.**
- d)**Lack of accountability.**
- e)**Miss management.**
- f)**Lack of proper planning and so on.**

Owing to these drawbacks,SOE's cannot perform well. According to Economic Survey Report 2004,major 16 public organizations have incurred a loss of about tk.1833 crore.In the year 2003-2004Government had to allocate about tk.391.01crore as subsidy to 7 organizations.There



are some other SOE's which are under huge financial loss incurring every financial year. Say

BPC has incurred TK.2792.40 crore in the year 2004-05.

In this circumstance SOE's are still concerned to rendering service; but they are at the same time

suffering from operational instability which cause a huge amount of financial loss. To consider this' such organizations cannot sustain economically viable for long time and gradually collups.

In this predicament, to develop the existing situation for the sake of national economy,an effective and applicable reform should be introduced as soon as possible.

**Privatization:**Privatization is a specialized programme' introduced in Bangladesh during the period of 70's.The objective of the programme was to pull through national economy from the devastated economic problem of the country. But later on it could not cause a massive change in the economic environment and srill its influence and out put is not at satisfactory level. Due to the following reasons Privatization and its status is not as we desired **as satisfactory:**

- 1) **Privatization procedure is bureaucratically very much complex.**
- 2) **Sale price of the proposed SOE's to be privatized is not realistic.**
- 3) **Privatized Public Organizations are not being operated well.**
- 4) **Privatization is hampered due to some restrain from CBA and other labour organizations.**
- 5) **Lack of strong political commitment.**
- 6) **Lack of efficient and honest entrepreneur class in Bangladesh.**

However, the performance of privatization during the last three decades shows its dissatisfactory and undesirable state in Bangladesh. According to a research conducted by Rehman Sobhan which reflects the three related concerning areas of privatization performance including production status and employment situations.

**Production analysis:** Out of 35 industries Production raised -19, fall-11, laid off-5' That is 45% industries became failure to raise their production than previous.(Ministry of Industries and commerce quoted by R.Sobhan)

**Employment position:** Out of 31 sample units number of employees raised in 13, fall in 17(54.8%). Beside' Privatization Progress report 2001 manifests that Privatization work is limited to 5 corporations of ministry of industries only. These five sectors have incurred 15% of total loss of SOE's (Privatization Progress Report -2001). On the other hand some other important organizations are also needed to be privatized urgently which are incurring large amount of financial loss every year. But privatization commission cannot privatize these sectors for some unavoidable reasons.

**Profit earning ratio:** Out of 24 sample units quantity of profit raised in 8, decreased in 16

**Partial Privatization Programme:** In order to over come the financial and managerial instability of the SOE's govt had taken Privatization programme. But the result of privatization Programme was not satisfactory. In comparison with public sector Privatization could not make optimum result as we desired. In this context a new experimental approach (ppp) has been adapted in some SOE's in Bangladesh. Bangladesh Railway is one of them which has been under this programme. This study covers to identify the impact of this programme in BR. Some of the observations in this study are as follows:

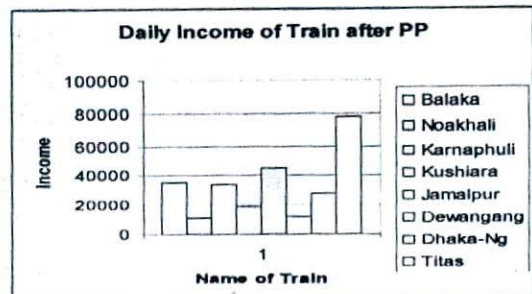
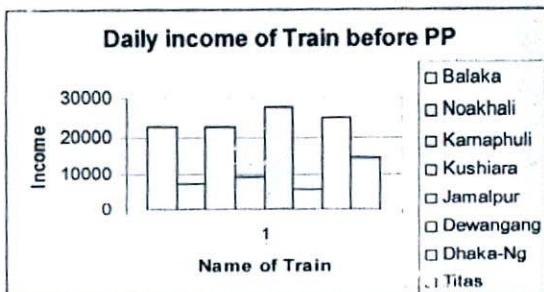
- 1) **This programme is partial in nature and it does not share anything utterly of the concerning areas. Therefore, without violating the ownership and management of the SOE's it works towards the set goal to enhance the efficiency and make the organizations economically viable.**
- 2) **Economically, Partial Privatization Programme is much better than Railway(SOE's) operation. By applying paired 't' test it has been proved to be commercially viable programme.**

428204

- 3) With the adaption of private entrepreneur the service standard of Railway(SOE's) has been improved.
- 4) Operational efficiency of the concerning areas are also found to be positive and effective.
- 5) This reform programme doesn't hamper job security, movement of other operations and so on.

**Comparison between Daily income of the passenger's train before and after Partial Privatization**

Name of the train	$\mu_v$ daily income of Govt. period	$\mu_{v'}'$ daily income of P.P. period
Balaka Express	22943	35100
Noakhali Express	7375	10900
Karnaphuli	22943	34126
Kushiara	9142	18500
Zamalpur Commuter	27547	45200
Dewangang Express	5698	11850
DhakaN.gang Express	25000	28000
Titas Commuter	14620	77974



From the graph it is clear that financial performance is better at Partial Privatization period than at government period. Financial efficiency depends on better services. So, from the view point of comparative efficiency, partial privatization is more efficient than government period.

## CHAPTER-8

### Summary & Recommendations:

#### 8.1 Summary of Findings:

This study has emphasized on explorative and inductive statistical search for finding an acceptable decision. Despite having so many obstacles and problems, this study tries its best to do that. Finally the result came out by conducting this study, and some of the important and specific findings are pointed as:

I) In this study it is observed that State Enterprise Systems were inefficient unimaginative, unable to understand and respond to the economic forces to national and international marketplaces. The ultimate result of our public sector enterprises are not well to do. They are not performing well. Recent contribution of public sector in GDP has reduced from **2%** to **1%**. Our public sector organizations have failed to contribute to the national economy of the country to a desirable extent. Rather they have become a burden on the national budget. As a result the total loss of our SOE's in 2006-07 is about **Tk.4228,20,00000**(four thousand two hundred twenty eight crore twenty lac). (Monitoring cell, Ministry of Finance, Bangladesh)

II) The available evidence on the experience with privatization 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 profitably and reduce claims on the public exchequer. This study observes that without a few exceptions, privatized units have not significantly improved performance but have contributed to enterprise closures and misemployment. On the other hand, **Privatization Programme is limited to 5 corporations of industrial sectors mainly**, which covers **15% of total loss of the SOE's**

(Privatization Commission-2005).Privatized after 1979, 205 enterprises, only 112(54.6%) were found operational,83(40.5%)were closed and 10(4.9%) were proved to be nonexistence. (BIDS-1997).Privatized enterprises are not functioning well. They are not making profit better than previous. They did not produce better than past; consequently sales volume is not satisfactory, many employees lost their jobs due to transfer of the organization from public to private. In that situation important sectors are to be privatized in different forms urgently which might be I&T, Railway, Biman, Transport and Communications, Commerce etc.

**III) Bangladesh Railway** has been limping with continued financial loss and other operational problems. This study observes that once BR was run profitably and it can once again run as a commercially viable entity. This could only be achieved by a well planned reform agenda **which needs association of private sectors in different activities of BR.**

**IV) According hypothesis-1,** Partial privatization Programme is found and proved economically viable programme. A statistical method named paired 't' test has been applied to find out economic viability of the programme which has shown a positive result. Paired 't' test has examined the daily income of the sample trains before and after partial privatization. The study examined that the income of the sample trains are much higher than government operation due to overall improvement of the train service. According to **hypothesis-2,** Service and facilities of the trains have been developed after partial privatization programme has been introduced, which are not satisfactory level under Railway operation .In this study it is found that profitability depends on some factors. These are service oriented mainly. We used 'χ' test to compare the performance between partially privatized train with government controlled train in the **hypothesis 2,** which representing improvement of the service and facilities in favour of partially privatized operation.These are as follows:

**a) Service improvement:** About 90% of the respondent gave positive answer in favor of the service improvement under partial privatization system. The elements of service

are seat arrangement and condition, sanitation facilities (toilet, water supply), lights, fans, clean environment etc.

**b) Operational efficiency:** This study also finds that the operational efficiency is much more better than government period. Timetable, waiting time, signaling, supervision, ticket checking etc are far better than government period. 100% respondent opine in favor of the service standard during the period of partially privatized.

**c) Ticketless traveling:** This study identifies the decreasing trend of non ticket traveling under partial privatization period. About 60% respondent agreed with this mentioned statement. Railway high official source said about reducing ticketless traveling as a great achievement. According to DCO of Railway, rate of non ticket traveler in private train is 3% while it is 5-10% in government train.

**d) Safety of the state property:** Under partial privatization programme the trains are being operated by the private operator. But till now no major security problem or damage, destroy, has been occurred by the private operator.

**e) Job security:** The findings of this parameter are opposite to another. About 40% respondent think 'no major effect on the employees due to the implementation of this programme'. But rest of the 60% respondent told negative though railway high official source said there is no effect on the employees due to this programme. Surplus workers are re-adjusted with the vacant posts of another trains or divisions. Though it is a sensitive issue and workers are worried in some cases, still it has not created any major problems as it manages such issue with great concentration.

**V)** The study has found out some of the problems which are shown by the private operator mainly.

a) **Contract duration:** Contract duration is very much short. Better service and standard management require sufficient time to establish a quality performance by the private operator.

b) **Quality compartment:** Railway authority could not arrange good type of compartment and sufficient number of coaches as required by the private operator.

c) **Nature of operation:** Commercial operation is not totally given to private operator which creates some operational problems.

d) **Running time:** Running time to travel the train is very long which is not competitive in modern age. For example, B,Baria-Dhaka travel time fixed by railway is 3 hours 45 minutes while it is only two hours in bus service.

vi) Partial Privatization Programme has been functioning without mentionable disturbance by the workers of parent (Railway) organization.

vii) Partial Privatization Programme is a unique system under which Government and Private operators perform their duty jointly to enhance efficiency.

viii) Partial Privatization Programme is more easy and effective to implement than complete privatization. Thus, organization to be under this programme will not face much complexity.

IX) The ownership still remains with BR for long term decision.

Finally it can be said that Partial Privatization Programme is an effective, suitable and feasible Programme of Bangladesh Government which has been implemented in several organizations like in Bangladesh Railway. Due to Partial Privatization, Bangladesh Railway has been benefited financially and passengers are getting better services. Other services in which private operators involved are also rendering a good performance. The efficiency

which has been improved, these are not satisfactory level under government control. That means Partial Privatization Programme of Bangladesh Rail-way is an effective, profitable and suitable Programme which has been found in this study.

## 8.2 Recommendations:

This study has been conducted to search about the effectiveness of Partial Privatization Programme in Bangladesh Railway. Some of the recommendations have been observed at present study. These recommendations are very much important which should be emphasized with great care. These recommendations may be mentioned as follows:

- i) A separate cell or division can be established to operate and facilitate Partial Privatization Programme independently and efficiently. Efficient human resource may be appointed through this cell or division. They must be trained locally, regionally and internationally.
- ii) License giving procedure should be free, fair and impartial. No political considerations, pressure group, will be allowed in lieu of experienced and efficient private operator.
- iii) Total (commercial) operation might be given to the private operator in order to ensure smooth operation of the train. In a train one or more operations if continued by Railway authority, will not facilitate smooth operation of the programme. Say for example luggage booking and parcel booking work should be given to the private operator for proper coordination.
- iv) Contract duration should be extended. One year is not sufficient time to establish better management and service standard. Therefore, sufficient time might be allowed to the private operator in order to attain mentioned objectives. It may be 3-4 year.
- v) Railway authority will have to take care about some important issues which are mentioned below:



- a) Railway authority should manage standard coaches or compartments according to desire of the passengers. At present private operators are not getting quality coaches.
- b) Private operator should be given sufficient number of coaches as per contract between Railway and private operator .But practically Private operators are not getting more coaches when they show extra demand. This problem should be solved to mitigate high demand of the passengers.
- c) Signaling preference should be given to the private operator also. At present private operator is not enjoying any preference from signal department to run fast. This is why waiting time creates problem to reach destination in due time and consequently it wastes many working hour of both authority and passengers.
- d) Maintenance(technical) work should be performed in due time. According to the contract Railway authority is liable for maintenance. Proper maintenance is the important precondition for smooth operation of the train.
- e) In comparison with the other mode of transport running time should be reduced to a competitive range. Say for example Brahmanbaria to Dhaka running time for 'Titas Commuter' has been fixed 3hours 45 minutes, while it is only 2hours 30 minutes in bus service. In that case passengers who have urgency will choose bus service and railway everyday loses a huge amount of money.
- vi) Estimated rate for the private operator to run the train should be fixed sincerely and reasonably. In some cases private operator has become failure and surrendered the train to the Railway authority. So the estimated rate which is the standard basis might be fixed after assessing the real value.

vii) In case of political unrest, natural calamity, labour unrest and other reasons the conditions and rate of payment and other responsibilities should be clearly defined in the contract.

viii) Private operators should reduce their over consciousness of profit. They should avoid the tendency of carrying huge number of passengers rather they must concern the quality service.

IX) Some of the employees in railway who have been declared surplus and become unemployed, private operator may appoint them and use their relevant experience and knowledge to enhance the quality operation. But here they should be trained shortly and demonstrate the worth concerning responsibilities.

On the other hand, this study also finds out that service standard and other facilities have been improved after the adoption of partial privatization in Bangladesh Railway. This is evident in the words of all concerned officials of Bangladesh Railway also. As this strategy has been proved as economically beneficiary and thus effective, Government may decide to implement it in the other sick, loss bearing and service oriented **SOEs** like **Parjatan, Communication(BRTC),Health service ,T & T** and so on. Again, after being implemented this programme there must be a mutual co-operation between the parent organization and private operator.

This study has recommended all concerned for further study. It is a wide field of prosperity. We have been suffering for a long time due to weak public sector. We are closing so many organizations, services due to economic un-viability. Government may continue these organizations, services by means of involving private operator.

## References

*Ali, Sardar Shahadat* 2005, D. C. O. Railway, Dec.

*Ali, Sardar Shahadat* 2005, DCO, Bangladesh Railway November.

A report on a National policy Dialogue C.P.D-1994, no. 7, Bangladesh.

ADB, 2007, 'Private Sector Development Strategy', ADB

ADB 2007, Private sector development strategy, Cruz Lorezen, Mary Eles, Barrientos Suman

Babeau 2000, discussion paper World Bank.

ADB 2004, Private Sector Development Strategy, ADB.

Africa Transport Sector, 2006, The World Bank.

African Union conference 2006, Ministry of Transport, Congo.

*Amin, Rehnul & Alam Rezwanaul-* ADB, World Bank, 2007. DFID, Japan to help revamp railway systems.  
World Bank.

*Amos, Poul* 2005, Transport paper t-4, World Bank, Private Sector Development in Low Income  
Countries. A World Bank Publication. Page – 93

Annual Report, Bangladesh Railway 2004

Annual Report, Bangladesh Railway 2004

Bangladesh Railway, Annual report 2004

Bangladesh Railway Annual report 2004

Bangladesh Railway, Annual report 2004

*Bullock, Richard* 2005, Transport paper t-8. The World Bank.

*Cesar, Quiroz* 2005, Transport paper t-9, The World Bank.

*Charles, Vuylstek* 1991, Techniques of Privatization of state owned Enterprises Vol-1, World  
Bank.

চৌধুরী, নাজমুল করিম ড. ও ওসমান, সওকত ১৪০৯ “কৌশলগত বেসরকারী করণ” রাষ্ট্রায়ত্ত্ব খাতে দুর্বলতা নিরসনে কার্যকর  
ভাবনা। (বি.আই.ডি.এস ১৪০৯ বর্ষ সংখ্যা)

Daily Jugantor 13-11-2002, Bangladesh

Daily Star 23-06-04, Bangladesh.

Davidson Institute,2006,University of Pitsburg,paper 826.

Deed of Contract between Bangladesh Railway & Rayhan Engineering 2004, Bangladesh.

Developing a policy Agenda for Bangladesh2001. Civil society in taskforce Report-2001CPD.

Economic survey report of Bangladesh– 2005.

Encyclopedia Britannica

Economic survey report of Bangladesh-2007

*Engel, Eduardu & Galetovic, Fischan Ronald Alexander* 1997, Public policy journal-  
112, World Bank .

Financial Express, 8.4.2000.Page-5, Bangladesh

*Fukunani, Kimune* 1997, Keis University, Subcontracting and the performance of small and  
medium firms in Japan.

*Foxley, Juan and Luis,Jose Mardones*,2000 ‘Public policy journal’-23,World Bank.

*Gupta, Nandini* 2001,working paper 426, World Bank .

Halcrow group ltd,2004, East asia and pacific infrastructure study ADB, JBIC WB.

Halcrow Group,2004,(MRT)World Bank.

*Humphrey* 1992 , Privatization – An Over view, Bangladesh.

Industrial Investment policy 1972-1973, January-8, Bangladesh.

*Jeff, Ruslerl* 1997 ‘Public policy journal’-125, World Bank.

*Khan, M. Ameruz Zaman Dr*, 1994,Privatization of Public Sector Enterprises in Select Saarc  
countries,Bangladesh.

- Kimara, Fukunary* 1997, Subcontracting and the performance of small and medium firm in Japan KeioUniversity
- Khan, M. Amiruzzaman Dr*,1994– Privatization of Public sector enterprises in selected SAARC countries. Management of Change in South Asia .
- Mohiuddin, M.* - 1996 D.U. Journal.
- Ministry of Transport-2007, 'Capital Privatization of DBA'Zermany.
- Mohiuddin ,Mohanmad* 1996 "Privatization:Bangladesh Experience"volume-17, D.U journal.
- Mohiuddin, Md* 1996 DU Journal
- Mohiuddin, Md* 1996 DU Journal.
- Nellis, Sunita Johan, Shirlyay, Mary* 1992, Privatization, The lessons of Experience.World Bank,paper.
- National Industrial Policy (Bangladesh) 1982
- National Industrial Policy,2005, Ministry of Industries, Government of Bangladesh.
- National Industrial Policy,2005 Ministry of Industries, Government of Bangladesh.
- Privatization Act- 2000 (Bangladesh)
- Privatization Commision, Privatization progress report 2005, Bangladesh.
- Privatization Policy-2001 (Bangladesh)
- Puddar, S. K.* Conference on Public Private Partnership in Indian Railway,New Delhi- 2006.
- Rebelo, Jorge M* 2000 'Public Policy Journal'-222, World Bank .
- Ripon, Md* 2005 Private operator, Titas Commuter, at present November
- Ripon, Md* Private operator,2005 Titas Commuter.
- Richard, Sharp* 2005, Trans port paper T-6,World Bank.
- Siddiqui G.A. Hafiz*,1990 "Privatization and Policies towards Improvement of public Enterprises performance Fourth Five year plan perspective" Journal of Business Administration Vol-16 no.& , Dhaka,Bangladesh.

*Shaha, Saroj Kumar* 1980 "Performance Criteria for Public Sector of Banglade",v-1,no-2, D.U journal,

*Shirly, Mary* 1945, Managing State Owned Enterprises, World Bank .

*Sobhan, Rehman* –2002 'Privatization in Bangladesh: An Agenda in Search of a Policy'CPD occasional paper. – 16. Bangladesh

*Sobhan, Rehman* – 'Privatization in Bangladesh: An Agenda in Search of a Policy' CPD occasional paper. – 16.2002. Bangladesh.

*Sobhan, Rehman*, 1984' De nationalization and Disinvestment of profile and performance', BIDS research report . Bangladesh.

*Sumita, John Nellis Mary Shirlyay* 1997, Privatization, The lessons of Experience. World Bank.

*Trujillo, Lourdes and Nombela, Gustavo* 2000 'Public Policy journal'-222 World Bank.

The BIDS survey on Privatization out comes -1997

The Daily Jugantor-13.11.02, Bangladesh.

*Thompson Luis S, Karim & Budin Jacques-* 'Public policy journal'-134World Bank 1997.

*Thompson* World Bank 2003.

*Uddin, Sayeed Jamal Dr & Ahsan, Ali* 1996, .Industrial Policy and Privatization in Bangladesh: Some issues and Challenges,v-17 no-2, D.U Journal of Business studies.

WB,2004, Techniques of privatization of state owned Enterprise Vol-1, World Bank Technical paper no. 88

WB,1995 private Sector Development in low- income conventions, A world Bank Publication, page15.

Wiki pedia-Encyclopedia.

appendix

**Questionnaire for Railway High Official**

Partial Privatization Strategy : A case study of Bangladesh Railway

Name of the Respondent .....

Address.....

This study is for academic purpose only

[Information will be preserved strictly confidential]

---

1. Do you support Partial Privatization Programme of Bangladesh Railway?

yes

No

No Comment

2. Do you think P.P.P is difficult to implement?

Very Tough

Tough

Indifferent

Easy

Very Easy

3. What is the impact of this Programme (P.P.P) on employees currently engaged in Railway?

Bad

No Effect

4. What kind of effect may be created by P.P.P on job security?

6. Do you think P.P.P has improved better service ?

Yes

No

7. Do you think the maintenance condition has been improved by private

entrepreneur?

8. Do you think private entrepreneur is reducing ticketless travelling?

Yes

No

9. What are the financial aspect's of P.P.P

10. Do you think this Programme can be financially profitable.

11. Can you identify any financial irregularity involved with this Programme?

Yes

No

12. Do you think P.P.P has established efficient and effective management standard?

Yes

No

13. According to your assessment do you think this Programme will continue?

Yes

No



14. Do you think the ultimate impact of this Programme in Railway will be positive?
15. Do you think this 'Partial Privatization Strategy' may be implemented in other public sectors in order to enhance management standard and reduce financial loss?

Yes

No

16. What is your final comment about 'Partial Privatization Strategy' in B.R.

**Questionnaire for Railway Staff**

Partial Privatization Strategy : A case study of Bangladesh Railway

Name of the respondent : .....

Address : .....

This study is for academic purpose only.

[Information will be preserved strictly confidential]

1. Do you know about 'Partial Privatization Strategy' taken by Bangladesh Railway'

Yes

No

2. Do you support private operator in B.R

yes

No

No Comment

3. Do you think this Programme may create problem in Railway?

4. Do you think this Programme is harmful to the employees presently working in Railway?

Yes

No

5. Do you think passengers are getting better service?

Yes

No

6. What is your comment about working standard of private entrepreneurs?

Extra Ordinary

High Standard

Standard

Below the Standard

7. Do you think this Programme can be financially profit?

Yes

No

8. Is there any irregularity?

9. Have any special comment?

Partial Privatization Strategy : A case study of Bangladesh Railway

Name of the respondent : .....

Address : .....

This study is for academic purpose only.

[Information will be preserved strictly confidential]

1. Do you know what is 'Partial Privatization Strategy' in Bangladesh Railway?

Yes

No

2. Do you agree with association of private operator in B.R.?

yes

No

No Comment

3. Do you think this Programme is harmful for Railway?

4. Do you think this Programme is helpful to reduce ticket less travelling?

Yes

No

5. Do you think passengers are getting better service?

Yes

No

6. What is your comment about working standard of private entrepreneurs?

Extra Ordinary

High Standard

Standard

Below the Standard

7. Do you think this Programme can be financially profit?

Yes

No

8. Is there any problem?

9. Do you think this Programme is harmful for job security of Railway Staff?

Yes

No

11. Are you getting special services under computerized ticketing and reservation system ?

Yes

No

12. What is your final comment?