PRIVATIZATION OF STATE OWNED ENTERPRISES IN BANGLADESH: PERFORMANCE, STRATEGIES AND POSSIBILITIES

THESIS SUBMITTED TO THE UNIVERSITY OF DHAKA
FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY
IN MANAGEMENT

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Certified that the Work incorporated in the thesis entitled "Privatization of State Owned Enterprises in Bangladesh : Performance, Strategies and Possibilities" was undertaken by Mirza Md. Rabiul Hyder under our supervision.

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DECLARATION

The work presented in this thesis is original and has not been submitted by me to any University or Institution for the award of any degree or diploma. The thesis entitled "Privatization of State Owned Enterprises in Bangladesh: Performance, Strategies and Possibilities" submitted by me for the award of the Degree of Doctor of philosophy at the University of Dhaka is based upon my own work carried under the supervision of Professor Dr. Md. Serajul Islam, Department of Management and Professor Dr. Haripada Bhattacharjee, Department of Marketing, University of Dhaka, and that neither of this thesis nor any part of it has been submitted for the award of any degree or diploma anywhere.

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PREFACE

State-Owned Enterprises and State Control System were painstakingly constructed during 1950s, '60s and early '70s all over the world, mainly with a view to achieve commanding heights of the economy. In this process, the fulfillment of social objectives was top of the agenda. These decades, hence, were considered to be the period of mushroom growth and development of public enterprises. However, over the period of time it was realised that these enterprises were failing miserably to meet the socio-economic objectives set for them as majority of them, in most of the countries, were running into red. The reasons assigned to their lack-luster performance were gross inefficiency and ever declining overall factor productivity.

Hence, with the onset of the decade of '80s the wind of economic reforms began to blow all over the world, specially in the developed countries like, the United Kingdom and United States of America. These Countries, later on, played a pioneer role holding a forceful debate with regard to adoption of reform packages under the banner or liberalization and globalization. Market economy started gaining currency. It was here only that the privatization was recognized as a proper and effective tool for economic transformation and development. There is now consensus that the privatization generates forces for improvement in the economy. It improves efficiency of production, reduces the burden on their budget, lowers the debt burden and, on the whole, ameliorates the living standard by infusing spirit of competition.

Thus, the year 1990 ushered in unique kind of global revolution. The United Kingdom which championed embarking upon the privatization process in 1980s set an example for other many more countries to emulate by shifting their SOEs in one form or in other to the private sectors. The process of privatization gained requisite momentum and currency in 1990s pervading all over the world.

Bangladesh is no exception to this phenomenon. In Bangladesh too, the State- Owned Enterprises grew by leaps and bounds just after the war of liberation (1971) and introduction of socialistic approach to the economy. However, over the period of time the State Owned Enterprises failed to achieve their socio-economic objectives. More over they incurred huge losses exerting heavy pressure on the national exchequer and became unsustainable burden on the government.

It was in 1976 that the new government of president Ziaur Rahman brought about radical changes in the economic policy discarding the socialistic approach and announcing the adoption of denationalization policy. Since then, several changes have been made in the Industrial policies from time to time with a view to opening the door of economy for private participation. The privatization programme in Bangladesh was chalked out vigorously after the declaration of Industrial Policies of 1982, 1986 and 1991.

The present study regarding privatization in Bangladesh is designed to analyse the emerging issues in implementing the privatization programmes and policies. An endeavour has also been made in the present study to evolve some appropriate set of strategies to deal with upcoming issues for effective future privatization.

While conducting this research work, the researcher borrowed from innumerable articles and books for which due acknowledgement has been made. For any unintentional errors and oversights, the researcher assumes full responsibility. The endeavor of the researcher would be meaningful if the concerned organizations and people find it useful even to a very little extent.

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Praise and thanks to Allah, first and last. Bord and Cherisher of all the Worlds who taught human kind every thing they knew not.

The thesis entitled "Privatization of State Owned Enterprises in Bangladesh: Performance, Strategies and Possibilities" has been presented for the award of the degree of the Doctor of Philosophy in Management, University of Dhaka, Bangladesh. A study of this nature and magnitude requires contributions from many sources. Throughout the entire process, beginning from the idea generation to the submission of the present thesis, help was taken from numerous persons and organizations. I am indebted to those individuals and organizations who provided me with necessary information and were generous with their time and contributions. Indeed I owe a large debt of gratitude to many people. Certainly my present and former students have provided me with much insight and enthusiasm for this thesis. Also, many authors and business people who contributed their work deserve my thanks.

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I am thankful to the Chairman, Member, Secretary and other officials of Privatization Commission, Bangladesh to provide me necessary research materials and suggestions for the present study.

I am also thankful to the officials of Bangladesh jute Mills corporation (BJMC), Bangladesh Textile Mills Corporation (BTMC), Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Sugar and Food Industries Corporation (BSFIC), Bangladesh Steel and Engineering Corporation (BSEC), The Dhaka Chamber of Commerce and Industry for providing me with different research materials. Without their invaluable help it was impossible to complete this gigantic task.

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ABBREVIATIONS

ADB	=	Asian Development Bank
APT	=	Asset Privatization Trust
ASEAN	=	Association of South-East Asian Nations
BADC	=	Bangladesh Agriculture Development Corporation
BCIC	=	Bangladesh Chemical Industries Corporation
BFDC	=	Bangladesh Fisheries Development Corporation
BHB	=	Bangladesh Handloom Board
BIMAN	=	Bangladesh Biman
BIWTA	=	Bangladesh Inland Water Transport Authority
BIWTC	=	Bangladesh Inland Water Transport Corporation
BJC	=	Bangladesh Jute Corporation
BJMC	=	Bangladesh Jute Mills Corporation
BOGMC	=	Bangladesh Oil, Gas and Mineral Corporation
BOO	=	Build Operate Own
BOT	=	Build Operate Transfer
BPC	=	Bangladesh Petroleum Corporation
BPC	=	Bangladesh Parjatan Corporation
BPDB	=	Bangladesh Power Development Board
BRTC	=	Bangladesh Road Transport Corporation
BSB	=	Bangladesh Sericulture Board
BSC	=	Bangladesh Shipping Corporation
BSCIC	=	Bangladesh Small and Cottage Industries Corporation
BSEC	=	Bangladesh Steel and Engineering Corporation
BSFIC	=	Bangladesh Sugar and Food Industries Corporation
BTTB	=	Bangladesh Telegraph and Telephone Board
CCOP	=	Cabinet Committee on Privatization
CCPRAO	=	Cabinet Committee on Privatization Regulatory Affairs and Operations

CDA	=	Chittagong Development Authority
COPE	=	Committee on Public Enterprises
CSIS	=	Centre for Strategic and International Studies
CWASA	=	Chittagong Water Supply and Sewerage Authority
DESA	=	Dhaka Electricity Supply Authority
DFIs	=	Development Financial Institutions
DGI	=	Director General of Industries
DI	=	Disinvested
DN	=	Denationalized
DWASA	=	Dhaka Water Supply and Sewerage Authority
ECNEC	=	Executive Committee of National Economic Council
EPU	=	Economic Planning Unit
EPZA	=	Export Processing Zone Authority
ESOP	=	Employee Stock Ownership Plan
FBC	=	First Boston Corporation
FDI	=	Foreign Direct Investment
GATT	=	General Agreement on Trade and Tariff
GDP	=	Gross Domestic Product
GNP	=	Gross National Product
GOB	=	Government of Bangladesh
ICOP	=	Inter-Ministerial Committee on Privatization
IMF	=	International Monetary Fund
INI	=	National Institute of Industry
IP	=	Industrial Policy
IRI	=	Institute for Industrial Reconstruction
JNR	=	Japan National Railways
KDA	=	Khulna Development Authority
LDCs	=	Less Development Counties
MSE	=	Ministry of State Enterprise
NAFTA	=	North American Free Trade Area

NIP	=	New Industrial Policy
NTT	=	Nippon Telegraph and Telephone
OECD	=	Organization for Economic Co-operation and Development
OPRA	=	Office of Privatization and Regulatory Affairs
RAJUK	=	Rajdhani Unnayan Kartipakhya
REB	=	Rural Electrification Board
SAARC	=	South Asian Association of Regional Co-Operation
SOEs	=	State Owned Enterprises
SPA	=	State Property Agency
SSA	=	Sub-Shahara Africa
TCB	=	Trading Corporation of Bangladesh
UK	=	United Kingdom
USA	=	United States of America
USSR	=	Union of Soviet Socialist Republic
VDS	=	Voluntary Departure Scheme

CHAPTER – ONE

INTRODUCTION

PREFACE

The decades of 1960s and 1970s were attributed to the fast growth and development of public enterprises the world over and it was considered at that time- a dominant part of the economy. But after 1970s, the wind of public enterprises phenomenon began to change chiefly because of nagging performance of the State- Owned Enterprises (SOEs). A large number of State Owned Enterprises (SOEs) proved economically unviable, inefficient and unproductive incurring heavy losses and created heavy pressure on public budget. It became almost impossible for the government to run these loss making State-Owned Enterprises (SOEs). As a consequence, since 1980, the economic reforms through privatization gained credence all over the world and reached pinnacle of popularity by 1990s, specially with the decline of communism in Eastern and Central Europe as well as integration of German Democratic Republic (GDR) in 1989 (World Bank, 1992).

In this decade, more than 2000 State-Owned Enterprises (SOEs) were privatized in the developing countries and altogether 6,800 SOEs world over (Sunita, 1992). In the 1980s, the developed countries such as the United States and the United Kingdom exerted forceful ideological support to privatization. The intellectual debate on privatization and restructuring of the economy created interest in the privatization programme. The international agencies were also influenced by the opinions in favour of privatization and accordingly contributed towards it.

With this background, more and more states began shifting State-Owned Enterprises (SOEs) to the private sectors in both developed and developing countries. The spectacular 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. Th mass exodus of Pakistani entrepreneurs, managers and skilled manpower created a vacuum in the area of industrial and commercial management (Haque, 1985).

Under these circumstances, the government took over the abandoned business and at the same time, the government announced to socialise the country's means of production. Thus "85 per cent of industrial assets were nationalised in 1972" (Industrial Policy, 1972-1973). But the government failed to run the State- Owned Enterprises efficiently and profitably for a variety of reasons of which "mismanagement, corruption, and lack of accountability" (Siddiqui, 1990) were prominent.

The ever increasing losses of these SOEs exerted heavy pressure on the country's fiscal situation. In 1976, the new government, understanding the failure of the public sector in the economy, discarded the socialist approach and adopted new policy of denationalization or privatization of public enterprises. Since then the successive governments in Bangladesh have divested 609 industrial enterprises, 2 banks, and an estimated 465 commercial business for a grand total of 1076 units upto mid 1988 (Khan, 1994). The government has also adopted the policy of privatization of textiles, steel and engineering, chemicals, sugar and shares of multinational companies. In a few words, privatization in Bangladesh is the outcome of political and economic events (Fayzeuddin, 1986).

During 1971-1975, the political factors forced the State to nationalize enterprises abandoned by Pakistanis. The government undertook rehabilitation of all the closed industrial units. In the subsequent period, 1976-1981, the government initiated 'privatization' of these units for efficiency and commercial viability. Since 1982, the economy has been restrengthened to meet global competition. In a short span of 12 years, the economy has passed through sudden and swift changes. It has created all the problems of economic adjustment, adaptation and reorganization in fast changing global scenario. The present study is a serious endeavour to bring in focus in-depth analyses of all the issues arising from privatization in Bangladesh.

NEED FOR THE STUDY

The changing socio-economic milieu of the whole world has permeated to Bangladesh for economic reforms through privatization. The successive governments of Bangladesh introduced different policy packages on privatization and accordingly many enterprises have been privatized. However, the methods and techniques adopted for privatizing these SOEs have suffered from serious lacuna. Therefore the privatization programmes have not gained the required momentum as in many other developing countries, such as Malaysia, Argentina, Chile etc.

This topic hence deserves special importance to find out the practical problems of the privatization programmes in Bangladesh, arising out in the context of industrialization efforts. The findings and recommendations of the study will help the policy makers of Bangladesh to formulate the proper policies to enhance privatization in Bangladesh. It would also be helpful for the management of the privatized enterprises to overcome their existing difficulties in running their industries effectively.

SCOPE OF THE STUDY

Privatization of State Owned Enterprises (SOEs) is a crucial question now-a-days. Ideological argument continues between those who think privatization is good and those who think it is not good for the economy. There is no conclusive data to settle the issue, but privatization is a reality whether it is good or bad and this is the starting point of our study. Since Bangladesh has adopted a vigorous privatization programme, so, it is a good laboratory to do research about the successfulness of privatization in Bangladesh.

In Bangladesh, Privatization Programme has been implemented following the methods such as, return of earlier nationalised units to the original owners, sale of Sate Owred Enterprises (SOEs) through open tender, sale of shares in the capital markets, retaining limited portion as reserve for the employees etc. In the present study, effectiveness of all these methods followed in Bangladesh has been critically considered. Highlighting on the overall privatization programme adopted in Bangladesh, vital issue such as implementation of the programme has also been identified and accordingly strategies evolved for effective and better implementation of the programme in future have also been discussed.

OBJECTIVES OF THE STUDY

The objectives of the present study are to assess the available documents within the relevant policy frame and identify major issues that need to be taken into consideration in the design and implementation of privatization process in Bangladesh. The study is concerned with the problems and prospects of privatization in Bangladesh. Specific objectives of the study are as follows:

- To assess the performance of privatized enterprises in comparison to Sate Owred Enterprises (SOEs).
- To analyse policies regarding privatization adopted from time to time in Bangladesh.
- To pinpoint the problems associated with the implementation process of the privatization policies.
- To assess the practical implication of the privatization policies adopted by the government of Bangladesh.
- To determine the extent of success of privatization in Bangladesh.
- To focus on future prospects of privatization in Bangladesh.
- To suggest suitable strategies to cope up with issues in privatization process.

HYPOTHESES OF THE STUDY

On the basis of the conceptual framework and inferences drawn from the previous empirical findings the following hypotheses have been tested:

- That the private enterprises perform more efficiently than the public enterprises.
- That the State Owned Enterprises (SOEs) have considerably improved their performances after they were privatized.

RESEARCH METHODOLOGY

a) Study Approach

The present study is based mainly on secondary data gathered from published and unpublished materials. However, primary data have also been gathered in the form of informal interview with the concerned individuals and organizations in Bangladesh.

The research approach of this study entails a thoughtful analysis of previous researches and writings on privatization along with the analysis of collected historical data. It is to be accentuated that the nature of study is exploratory and descriptive in nature and then suggestive.

b) Data Collection

The data and relevant statistical information have been collected from different sources. These include:

- The Dhaka Chamber of Commerce and Industry, Dhaka.
- The World Bank Bangladesh Mission, Dhaka.
- The Board of Investment, Dhaka.
- The Bangladesh Institute of Development Studies (BIDS), Dhaka.
- The privatization Board, Dhaka.
- BJMC, BTMC, BSEC, BSFIC, BCIC, etc.
- The Ministry of Finance, Dhaka.
- The Ministry of Industries, Dhaka.
- The Planning Commission, Dhaka.
- The Dhaka Stock Exchange, Dhaka.
- MIDAS, Dhaka.
- The Investment Corporation of Bangladesh, Dhaka.

The articles published in various journals, periodicals and dailies in Bangladesh, India and Abroad have also been reviewed and found to be of great use.

C) Data Analysis And Interpretation

The study procedures and analysis entails the following steps:

1) Preparation Of Research Framework Involving
    - ❖ Reflective arrangement of research objective.
    - ❖ Introspective preparation of the contents of the proposed thesis (chapter outline).
    - ❖ Moving of a list of variables, sub-variables and indicators relating to privatization based on conceptual framework.
2. Review of literature materials in such a way that
    - ❖ Necessary statistical analysis of relevant secondary data and official data.
    - ❖ Contextual classification of available literature/ materials.
    - ❖ Analysis of all available literature/ materials in accordance with the variables, sub-variables and indicators identified the research frame work.
    - ❖ Synthesis of all relevant information's found and generated in the previous steps.

LIMITATIONS OF THE STUDY

The study can, at best, be considered evocative, explanatory and explorative. However, the data used for this study are subject to the following limitations:

- ❖ Official data are difficult to obtain, because officials are not often forthcoming with important information.
- ❖ More sophisticated statistical techniques could not be used due to non availability of relevant data in the desired format.
- ❖ Data were not available in a common format.

The above problems have no doubt impinged on the scope of the present study but then the inferences drawn and results obtained have in no way been otherwise affected. The interpretation and analysis of the available statistics are valid and have produced prolific result to evolve strategies for effective future privatization in Bangladesh.

CONCLUSION

It has been rightly realized by the planners, economists, policy makers and the governments alike the world over that privatization of State Owned Enterprise (SOEs) is now the key to success in attaining enhanced efficiency, increased profitability and improved productivity. Accordingly, many countries both developed and developing countries of the world have adopted reform programme of privatization of State Owned Enterprises (SOEs).

In order to sort out these issues, well researched, compact, prospective strategy package is the need of the hour to make the privatization programme in Bangladesh productive, growth- oriented and successful. To recapitulate, this chapter has highlighted the problems, the need, the scope, the objectives and hypothesis of the study. It substantiates the Research Scholar's view that privatization in Bangladesh is confronted with issues unique to its socio-economic make up which calls for proper strategy formulation.

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CHAPTER – TWO
REVIEW OF LITERATURE

PREFACE

With a view to achieving economic growth and social objectives-since 1945 most of the countries of the world started creating state Owned Enterprises (SOEs). The state Owned Enterprises (SOEs) phenomenon gained momentum in the decades of 1960s and 1970s. In these decades, the wind of development of SOEs was blowing in both the developed and developing countries. SOEs were considered as a vital source of progress and development. "For the last half-a-century, nationalization has been the fad-from the Fabian socialist to the communist, from Great Britain to India to Israel to the communist block covering USSR, China, Cuba, Vietnam, North Korea and Eastern Europe" (Bhaskaran, 1994). These countries sought to increase operational efficiency in the SOEs by command economy instead of market economy. However, with the advent of the decade of 1980s the concept of market economy began to assemble favour the world over. It gained currency as a good model of economic development.

PRIVATIZATION: CONCEPTUAL AND IDEOLOGICAL ANALYSIS

The decades of 1960s and 1970s were largely attributed to the era of fast growing public enterprises almost the world over. Public Enterprises were then considered the chief source of attaining socio-economic development. However, with the passage of time, this very concept has come under severe attack because of lack-lustre performance (physical and financial both). In the latter part of the decade of 1980's and with the onset of the decade of 1990's, the word competition has gained currency in every walk of business activities. Many countries of the world adopted vigorous reform programmes through liberalization, delicencing and privatization of public sector enterprises. Among them 'privatization' is the 'buzz' word every where in the world under the shade of competition and efficiency. In the succeeding paragraphs, an extensive analysis as regards the concept of privatization is presented.

There is no rigid concept of privatization rather it conveys a variety of ideas. It may differ from case to case and country to country. The concept of privatization is, in fact, far wider. It is to be understood not merely in the structural sense of who owns an enterprise, but in the substantive sense of how far the operations of an enterprise are brought within the discipline of market forces (Ramanadham, 1994). The concepts with regard to privatization may be studied with two approaches; Economic approach and Ideological approach. Economic approach is growth and efficiency- oriented. In this approach Privatization is defined as a means to increase output, improve quality and reduced unit costs (Momtazuddin, 1991).

It is believed further that Privatization reduces government debt, raises fund, develops private initiatives in the free competition of market. Privatization leads to open competitive market economies that produces higher incomes and more permanent jobs (McPherson, 1987). From the view point of the ideological approach, Privatization is a way to broaden the base of ownership and participation in a society encouraging larger numbers to feel that they have a stake in the economic system (Momtazuddin, 1991).

Privatization may be defined as a process by which the people of a country can participate in every phase of economic activities and play a vital role in the economic development of the country. In simple terms Privatization means off loading a portion of the government held equities in public sector undertakings to the numbers of the public to ensure wider ownership, greater accountability and providing the companies an access to domestic and international capital market (Fadnavis, 1994).

Privatization can generally be defined as any measure resulting in the transfer from the public to the private sector of ownership or control over assets or activities (Pierre, 1992). Commensurating different approaches underlying conceptualization of privatization, different people define privatization in different ways which are critically studied in the following paragraphs.

In their article (Corey and Michall, 1987) entitled "How well is employee ownership working", highlighted the employee ownership plans in privatization that on Employee Stock Ownership Plan (ESOP), companies, employees have gained financially and companies have grown much faster. Because ownership has provided a strong incentive for employees to work productively and opportunities for participation has enhanced productivity by providing channels for workers ideas and talents.

In his article (Baquer, 1989) titled "privatization of enterprises", viewed that privatization of public enterprise can be done in vairous ways like divestiture of government economic activities, individualization of economic activities, reprivatization, deregulation, contracting out and voucher system. The success of privatization policy depends on accurately identification of the impediments and their sources as well as the means to find the way around those impediments.

Timothy and Roffel (1990), highlighted on productivity of services among the public and private enterprises. They claimed that the shift from public to private provision of a service is no panacea for greater productivity. The best opportunity for improving productivity using privatization occurs when the service is easily measured and monitored, but productivity effects are more ambiguous when the situation is complex, as in such Fields as human services and education.

In his article (Momtazuddin, 1991) entitled "Privatization: present status and future potentials as policy options for development" presents a conceptual guide line regarding privatization. He expressed his opinion that privatization should be considered from both economic and ideological viewpoints. From economic point of view, privatization is identified as a means of increasing output, improvement of quality and minimization of cost. On the oilier hand, from the philosophical point of view, privatization broaden the base of ownerships that an individual has a stake in the economic system.

Lallen (1991) opined that public enterprises lack autonomy. It is bureaucracy, which takes major decisions for the organization. On the other hand, the private sector organization model has several elements, which ensure efficient management apart from market forces.

Duleep (1991) throws light on a basic issue that whether the new pattern of ownership leading to privatization of public sector undertakings results in greater efficiency or not. The resource factor and management factor are the two cardinal elements which need to be considered in any move on privatization.

Mohnot (1991) has made an attempt to conceptualize the enterprise models and their comparative advantage in the context of privatization. It brings into bold relief the criticality of transfer of management for privatization and considers that transfer of ownership is only a partial step towards the transformation.

Raja (1991) opines that the resource crunch is a crucial factor for government's decision making in the shift from public to private sector. There is a basic need for market descipline that can not lie wholly ensured under public enterprise.

John (1992) express that the success of privatization depends on Managerial performance that how and in what extent the management works for public interest. For successful privatization a competitive market should be there. Accountability and consonance with the public interest should be guiding light.

In his article Athreya (1991) entitled "Alternative Models for Privatization", examines the issue of privatization with the parallel concepts of people- isation, de-governmentalization and marketization. He also evaluates different types interventions towards privatization, like-government majority, government controlled joint sector and total privatization. He has examined all the four models and presented a cost- benefit analysis of these models from government point of view. He found each of the model is suitable for different types of product and services and national or regional sub-cultures.

Venugopal (1991) favours the development of the theory on privatization distinguishing the concept of macro from micro privatization. To operationalise the concept of relative efficiencies, the author presented a five-tier approach and outlines a process design for privatizing public enterprises.

Jones (1991) developed and suggested an analytical cost-benefit frame work which can be used here to answer the three basic questions relating to privatization process. These are (1) Should the State Owned Enterprises be sold? (2) To whom should it be sold? (3) At what price should it be sold? They also identified the misconception in society about the value of public enterprises as the government hesitates to sell profit making enterprises while private buyers are not interested to buy losing concern. By using the same cost-bend it frame work one can also evaluate the post privatization effect.

Jonathan and Stefan (1992) made the comparison between public and private sector that public sector firms have wider social objectives, wages are high because unions have a larger surplus over which to bargain, so they make losses. On the other hand, the private sector firms have purely commercial objectives. They restrict output and employment and unions obtain lower wages, so they make profits.

Guislain (1992) illustrates critical legal issues arising in the context of the transfer of public issues arising in the context of the transfer of public assets to the private sector focussing in particular on the sale of State-Owned Enterprises (SOEs). He underlines the importance of proper legal analysis and inputs at all stages of the divestiture process, legal constraints to divestiture need to be identified and then removed in order to divest successfully.

Heald (1992) notes that there should be extensive divestiture of public enterprises in competitive or potentially competitive sectors. He has also mentioned that divestiture should be viewed as either a policy objective or as an instrument for attaining efficiency.

Matthew and David (1992) advocate that change of ownership brings about he change in regulatory environment- which compels the organization to perform more effectively.

Lieberman (1993) states that privatization of State Owned Enterprises (SOEs) should be viewed as a critical elements of economic adjustment. He identifies the underlying rationale for privatization as it reduces the governments operating deficit, raises cash through State-Owned Enterprises (SOEs) sales, reduces external debt, increases productive and operating efficiency etc. and cautions against pitfalls to successful programmes implementation.

In an article Reddy (1993) entitled "Privatization as Development Strategy", observes that privatization by itself does not automatically lead to better efficiency but needs to accompany overall packages of employment, technology modernization productivity and professional management. It reduces government's budgetary commitments, political and bureaucratic interference and ensures overall economic development. So, the process of privatization may become an instrument of public enterprise reform and development of economy.

Matthew and White (1993) have examined the implication of two techniques of privatization viz, Build-Operate- Own and Build-Operate-Transfer. They have also focused on the success of Malaysian privatization programme following these techniques.

Schregle (1993) has highlighted on some of the major industrial relations problems arising from privatization. If privatization policies are to be carried through with a minimum of labour troubles and a maximum of economic, social and political stability and efficiency, it is required to promote a close, constructive dialogue between public authorities, employees organizations and trade unions.

Sunita (1994) in his research paper captioned, "Privatization: Lesson from Market Economies", examine the objectives of privatization and the strategies for achieving them in both competitive and non-competitive markets. The authors analyzed the various tactics that can be or have been employed in selection to scope, pace, sequencing and methods of implementation. The evidence shows that privatization produces benefits of efficiency if done fight.

Deogirikar (1994) concludes that the strategy of reform for the less developed countries should be improvement of efficiency. The success of privatization depends on economic political and social factor and managerial considerations.

Bhaskaran (1994) viewed that talking about privatization is easy but implementing it may not be so. The transition needs to be brought in very carefully and the impediments need to be tackled tactfully. There is need to do the homework in a systematic manner; only then can we bring about the desired change without pain, panic and trauma.

Chandra and Amarendra (1994) observed that privatization may improve efficiency and productivity but government must play a watchdog role for protecting the interest of consumers, poor sections of society and to ensure more benefits from privatization.

Fadnavis (1994) favours competition which in his opinion ensures efficiency. He strongly feels that privatization is not a panacea for all economic problems in any country. It should be identified that in what circumstances privatization can work better.

Sumit (1994) viewed that private sector participants should have the provision of fixing manpower wages, making job descriptions etc. Labour law should be reluctant inorder to employ managerial personnel from the market. The author further stated that tariff structure, corporate tax structure, interest rate should lie favourable to private owners.

Johnson (1987) defined privatization as the participation of the private sector in the production and or delivery of public services.

Agrawal (1992) viewed that privatization consists all those steps, taken by a government which are directed towards (i) helping and encouraging private sectors undertake more economic activities and become more efficient and competitive and (ii) effecting transfer partially or fully, of public enterprises to private sector with a view to achieving efficiency, productivity, profitability and simultaneously to ensure fair awareness towards social obligations.

It becomes clear from Agrawal's opinion -that the main themes of privatization are to attain efficiency, profitability and overall factor productivity. He also further argues that every privatization manifestation should be careful about fulfilling the social obligations along with achieving efficiency, profitability and productivity.

Hankeg (1987) gives an account of the objectives of privatization as follows:

- ❖ Improvement of the economic performance of assets or services functioned concerned.
- ❖ Depoliticization of economic decisions.

- Generation of public budget revenues through sale receipt.
- Reduction in public outlays, taxes and borrowing requirements and
- Promotion of popular capitalism through wider ownership of assets.

Almost similar view has been presented by Ronald (1989) that Privatization merely recognizes that what matters most is the quality and cost of product or services provided and not who provides it. However, he has segmented the process of privatization into four categories.

- Load shedding or Transfer of defaults.
- Limited Government Arrangements.
- User charges and
- Competition.

The first technique urges that if the objectives of the public enterprises are not achieved and justified, then the private sector should come ahead and take the responsibility of the state socio-economic systems and to satisfy the needs of the people by ensuring better performance in the form of higher profitability, improved productivity and efficiency. This technique is termed as load shedding or transfer by default technique.

Another technique is known as limited government arrangement technique that refers to make an uninstitutional arrangement where the government plays a crucial role in economic activities, but in a minimal way. This technique should be applied when the first technique i.e. load shedding technique is not possible to be applied.

The third technique, i.e. user charges refer to such arrangement that are taxed on all services provided, including private as well as government controlled agencies. Thus, user can compare between the cost and quality of services provided by the private and public enterprises.

The last technique is competition. There is a common belief that the competition is the key factor of achieving better performance of both the sectors i.e. private and public. Privatization makes a situation where both, the sectors compete with each other as a result, the services extended to the users become effective and qualitative.

In the words of Sengupta (1995) privatization in narrow sense, means the sale of state's equity holdings in an enterprise to private person. But in a broader sense, privatization comprises many more following developments:-

- Closure or liquidation of State Owned Enterprises (SOEs) and the sale of assets.
- Leasing of a state enterprise to a private party.
- Transition to private sector business, managerial principles and methods including an overwhelming concern for profits.
- Management contract of an enterprise to a private party.
- Permitting private sector to enter into certain industries exclusively reserved for the government.

According to Deogirikar (1994) Privatization, in broader spectrum includes:

- Closure or liquidation of any State Owned Enterprises (SOEs).
- Leasing of a State-Owned Enterprises (SOEs) to a private sector party.

- Transfer of management and control of SOEs to a Private Sector individual or agency.
- Divestiture.
- Denationalization.
- Relaxation in Industrial Policy Resolution.
- Abandoning or postponing the prospects of state, expand or diversify the activities of SOEs, and
- Farming out to private contractors or agencies the function of supplying various goods and services needed by the SOEs.

Vijaylakshmi (1994) defines privatization as a process which reduces the involvement of the state in the economic activities of a nation. In a broader sense, privatization will include the following:-

- Employing private contractors for supplying various goods and services needed by the public enterprises.
- The leasing of a public enterprise to the private sector.
- Cold privatization - any measrue which distances the public enterprise from the government.
- Franchise financing under which an infrastructural project is built and often operated by a private agency.
- Green field Privatization - any measure of economic policy which permits the entry of private sector in areas hiether to exclusively reserved for the public sector.
- Closure or liquidation of public enterprises.
- Restricting the expansion of diversification of the activities of any of the existing public enterprises.
- Managerial privatization under which persons with experience in management of private sector companies are included on the Board of Directors of public sector companies and
- Divestiture - Sale of shares and thereby transferring the controlling power from the public sector to the private sector.

According to Sammuel (1985) in country after country, unbridled state expansion has led to (i) economic inefficiency in production activities of the public sector, (ii) ineffectiveness in the provision of goods and services such as failure to meet intended objective, diversion of benefits to elite groups and political interference in the management of enterprises and (iii) rapid expansion of the bureaucracy severely straining the public budget causing problems of labour relations with the public sector, inefficiency in government and adverse effect on the whole economy. Sammuel's concept of privatization focuses on both physical and financial performance of an enterprise. He has stressed on the adoption of privatization process as this idea ensures benefits to the capital owners, to the consumers by providing efficient service to the public at large through a reduction in public sector deficits.

In the words of Mohnot (1991) Privatization is induction of management control, via transfer of ownership or otherwise, often both, in public owned, or managed enterprises.

Ramanadham (1988) has opined that the best answer to the issue of privatization is to take the necessary steps to improve the efficiency of public enterprises by making suitable changes in the management structure and their relationship with the government and parliament. Steps should be taken to replace the civil service culture by commercial culture in public enterprises.

One of the significant studies on privatization of Public Sector Enterprises has been conducted to fulfill various objectives, which are: (1) Fiscal objectives (reducing revenue deficits), (ii) Economic objectives (efficiency through competition) (iii) Semipolitical objectives (emphasising consumers in preference to worker) (iv) ideological objectives (strengthening and deepening industrialism, property rights (Financial express, Bombay, 1987). This study has, however, added some new dimensions-to the concept of privatization.

The policy makers in the developing economies favour privatization on the plea that the loss making public enterprises do not have any place in the economy (Financial express, Bombay, 1987).

A Pannel of economists suggested that public enterprises should not be allowed to become a burden on government finance. The public enterprises which can not be viable may be closed down or sold off or restarted as private enterprises (Northern indian Patrika, Allahabad, 1989).

Rajan (1988) identifies seven different forms of privatization:

- ❖ Deregulation or relaxing state monopolies which exposes individual public sector organizations to competition.
- ❖ Special assets sales, which can involve denationalization, the sale of public sector companies previously bought by the government, the sale of government holdings in private companies.
- ❖ Investment projects designed to encourage the private sector to invest in projects in deprived areas and extending private sector practices into the public sector, often involving the creation of special units within public sector organizations to secure a more commercial returns on assets.
- ❖ Reducing subsidies and increasing charges, particularly in relation to the welfare services, and
- ❖ Contracting out work previously done by direct labour in local government.
- ❖ The private provision of services, allowing the private sector to

provide services to the public.

- The sale of council houses as an important element of privatization, given that such sales has greatly reduced public sector housing provision and therefore the scope of public sector for housing. Elliot 1987, advocates that privatization has assumed increasing importance due to the reason that the government everywhere are looking for new ways to mobilise resources and ways to use the resources they have more effectively.

PRIVATIZATION : MICRO DIMENSIONS

The micro dimensions of privatization are as follows (Ramanadham, 1991):

A. **Ownership measures.**

B. **Organizational measures.**

C. **Operational measures.**

A. **Ownership Measures:** It is an important measure of privatizing the State Owned Enterprises (SOEs). Ownership measure implies denationalization, joint venture and liquidation. Denationalization may be legal or partial. Legal denationalization refers to the transfer of majority ownership rights and benefits along with control on management. Partial denationalization means transfer of ownership to private parties upto 49 per cent and thereby the majority ownership remain with the public sector enterprises maintaining control on the management. However, denationalization implies three categories as:

(1) Management Buy-out: It means that the sale of assets to the employee or management or to both of the organization i.e. managers or employees or both together buy the majority share holdings in a company.

(2) Co-operative: Co-operative means an organization which belongs to employees which must have distinctive legal features of a cooperative society that can buys the assets of the enterprise.

(3) Special Share: Here government retains some shares under the arrangements that it undertakes not to participate activity in the management process rather it holds a power to protect in case of undesirable share concentration dragging of companies property illegally or any other extreme circumstances.

(4) Joint Venture: Joint venture denotes that private capital may be introduced in a public enterprise either through a sale of some government equity or in the course of its expansion.

(5) Liquidation: Liquidation means sale of the assets to some one that uses them again in the same activity or moves them away from their erstwhile activity. This occurs in tlie financial failure of the enterprise.

B. **Organizational Measures:** Organizational measures have five dimensions which are:

(1) Changes in Holding Company Structure: It means government reduces its control to the operation of the

company and then a company is allowed to run its function under a high degree of market discipline.

(2) Changes Within Monolithic Structures: A monolithic organization can be changed into two forms: firstly, it may be broken into smaller units without loss of scale of economies; and secondly, the major product lines or regional operations may be converted into independent companies and they are also allowed to stay in tile same organization.

(3) Leasing: A public enterprise can be privatized gradually, by the method of leasing out large amount of its assets to the best bidders and the bidders will enjoy profits as per agreement.

(4) Competition: Promotion of competition is obvious importance in ensuring results of improved efficiency, lower cost structures and declining prices. This would be possible by three ways, such as:

- ❖ By deregulating the activities in a given sector, there by improving the prospects of entry and exit.
- ❖ By breaking big public enterprise into less big units which have a reasonable chance of competing with one another.
- ❖ By improving condition of internal competition within a large public enterprise organization.

(5) Restructuring: It means reforming of the organization. It may be done in two ways, as Financial restructuring and functional or basic restructuring.

C. **Operational Measure:** It is very important and meaningful measures of privatization which is appropriate for both planned and mixed economy. It has seven dimensions:

(1) Contracting out: Here the government bears the cost of providing the service and the right to produce and sell the service under contract with the government is given to a private firm selected on the basis of competitive bidding.

(2) Incentives: Incentives is the acceptance of one's best works. So, it helps to accelerate the improvement of efficiency of the organization. Both shop-floor employees and managerial personnel should be provided incentives.

(3) Investment Criteria: There should be the same investment criteria for both public and private enterprises.

(4) Pricing Principles: Every competitive industry uses to settle the price at the level of costs and trys to minimal the price discrimination. Private sector enterprises follows this way for long time with a view to capturing the monopoly situation. In case of public enterprise, the situation is reverse. So, pricing principles should be the same for both the public and private enterprises.

(5) Targets: Target setting is an alternative approach of privatization. There should be a target of manager's particular activities that must be attained and necessary incentive should also be provided to them for successful managers.

(6) Resort to Capital Market: A public enterprise should move to capital market for its capital funds as private sector does. It can be able to attract the funds if only the investors think that the purpose of the project will be worthwhile. This measure would make the public enterprise fittest in the market discipline which is a major virtue in the case of private enterprise.

(7) Rationalization of Government Control: There is a burning question of a reform of the system of government control over public enterprise. Government should rationalize its control over the public enterprise and should provide managerial autonomy. It should be considered as a fresh air, which can be breathed by the public enterprise's managers.

The micro economic measures of privatization is shown in chart - 1. Privatization is transfer of ownership and control of State Owned Enterprises (SOEs) to the private sector through sale of assets. The main objective of privatization is to transfer ownership and control of economic activities from the public sector to the private sector market. The market sector is based on competition, voluntary transactions, and private property rights (ICC, 1990).

Voluntary transactions or contracts, involve two or more parties engaging in economic activities without having to receive permission from someone else. Again, private property- the rights belonging to the possessor are usually defined as the rights of an individual to decide how to use an asset and to transfer his rights to some one else. So, privatization in its fullest sense, therefore, requires a change of ownership. But this may not be enough. Additional measures may be necessary to ensure that an activity which is transferred to the private sector changes its- behaviour accordingly. So transfer should be supplemented by other means which add to competition.

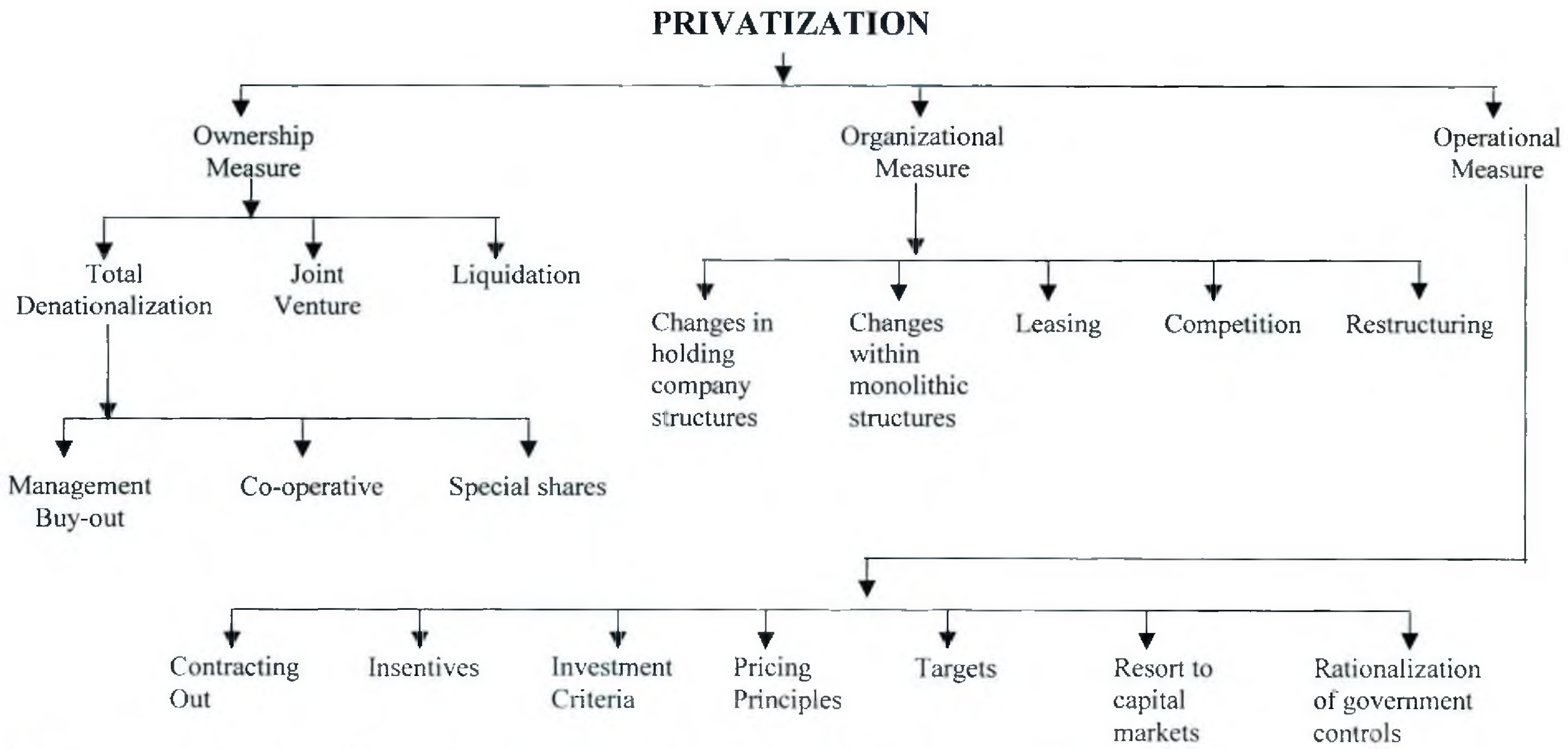
In the socialist countries or the centrally planned economies, it has come to the extent that in the individualization of economic activity- i.e. allowing individuals to own and control certain forms of economic activities China, Hungary are the best example of this form.

In the LDC's there have been a mixture of different techniques followed in privatization. There have been cases of divestitures of the type similar to that carried out in the industrialized countries. Singapore, Malaysia, Thailand, Japan are being privatized by the sale of stock to the public. Besides divestiture i.e. sale of equity there is a common form of privatization in the LDC's, i.e. reprivatization of the government owned enterprises. Bangladesh, Chile are the best example. At present Bangladesh is following two methods of privatizing SOEs.

- **Sale by International Tender:** Local, foreign private buyers may participate in all such tenders. Association of workers, employees and officers of the tendered enterprise may also offer bid for purchase of the enterprise.

- **Sale by Offer of Shares:** Government owned shares in different companies and shares of the SOEs converted into public limited company may be sold to the general public either directly or through the Stock Exchange.

Chart- 1
PRIVATIZATION IN MICRO DIMENSION



SOURCE: Ramanadham, V.V. (1994), "Privatization of Developing Countries", Routledge, London, p. 5.

Privatization : Macro Dimensions

Glade (1988) perceived four Macro dimensions of privatization, such as:

- Privatization of Denationalization: It is the most important and undisrupted form of privatization, which involves the selling of shares of Public Enterprises (PEs) partly or wholly to the private investors.
- Privatization of Financing: It entails the utilization of private funds to relieve the state enterprise from temporary budgetary problems.
- Privatization of Production: It includes the introduction of contract labour instead of directly employing labour force.
- Privatization by Liberalization of Trade and Business: Liberalization, in fact, is the distinguished form of privatization which may be in the form of relaxing or removing statutory constraints on completion or prices etc.

Athreya (1991) has conceptualized four alternative models for privatization, of these four, the first three models are for partial privatization-while the four one is for total privatization. These are as follows:

- Government Majority Enterprise (GME, 51% plus).
- Government Controlled Enterprise (GCE, 26%- 49%).
- Joint Sector Enterprise (26% + 25% + 49%) and
- Private Enterprise, (PE).

In the first step, it could be started with 20 to 30 per cent public as well as Financial Institutions leading to 51 per cent government holding or more. This may be called a Government Majority Enterprise (GME).

Secondly, even 51 per cent simple majority equity ownership for control is an outdated concept. There has been increasing divorce of " Professional Management" from "Control". When share holding is wide spread, 26 per cent of equity is quite adequate for control. Under the companies act, with 26 per cent equity, government can exercise veto on all special resolutions at any AGM. This maybe called a Government Controlled Enterprise (GCE).

Thirdly, this is partly similar to GCE, but only to the extent that the government holding here also is 26 per cent. But in the balance 74 per cent, 25 per cent may be given to one 'partner'. This partner could be a successful well-managed private firm. The operational management could be left with the Private Partner. Government will have control will benefit from the profitability and share value appreciation.

Fourthly, private sector- it would be inaccurate to call any of three previous alternatives - 51 per cent or 26 per cent- as privatization. The only situation which can be called Privatization is where 100 per cent of ownership is in non-governmental hands.

According to Mieyer (1986), there are different connotations on privatization, such as:

- Transfer of individual public supply tasks to private persons (e.g. contracting out), also functional privatization.
- Transition to private business management in the sense of profit oriented management.
- Extension of the margin of autonomy for the management of public enterprises.

- Debureaucratization, in the sense of freeing from formal provisions administrative instructions.
- Decentralization, in the sense of the delegation of authority to decide, plan and act.
- Transfer (sale) of public assets (firms, part of firms, partial privatization, or individual assets) to private persons.
- Transition to private law legal forms.
- Aligning the conditions under which public enterprises act on those which apply to private Firms.
- Promotion of competition by market processes (or market-like systems of incentives).
- Dismantling of such state monopolies as are justified by referring to the traditional argument of natural monopoly.
- Denationalization - Pressures of international competitions; increasing activity in foreign markets; take over a capital shares and rights of disposal by foreigners.
- Adaptation of wages and working and employment conditions to those applicable to the private sector: Privatization of Jobs.
- Unilateral reduction of the nature and scope of public services.
- Privatization of public resources.
- Privatization of public revenue: Conversion of revenues from public investments into private profits; or private access to public capital and its revenues.

The term privatization can be defined from two points of view - first, at the economy level (i.e. Macro view and second, at the enterprise level (i.e. Micro view). Privatization of economy level implies the following traits:

- The growth and development of Public Sector Enterprises in the economy is checked and thus allowed to expand at slower rate, and

- The expansion of public enterprise is discouraged.
- The activities of public enterprises in the economy is reduced so that the private sector may avail opportunity to expand.

STATE OWNED ENTERPRISES IN DEVELOPED COUNTRIES

Evidences suggest that the growth and development of SOEs in the developed countries started much earlier. For instances Australia's state holding company consisted of 198 enterprise (Elliot, 1987). In France the whole of fertilizer and telecommunication, 75 percent of steel, 50 percent mining, motor vehicles petrochemicals, Electronics and 25 percent of Textiles were in Public Sector" (Jonathan, 1992). Britain and the USA had also a significant number of state enterprises. By the end of the decade of 1970s, nearly half of the international monetary fund (IMF) member countries were seen spending over almost one third of their GDP in the public sector (Elliot 1987). These decades were ascribed to the hasty growth and evolution of public enterprises the world over.

But after 1970's this phenomenon began to change chiefly because of disappointing performances of SOEs. In many countries, SOEs became an unsustainable burden on the government budgets. However, reform programmes for improving the performance of SOEs were adopted in many countries but failed to attain the objectives.

The move of privatization started in the 1980s,. It was first started in Britain during Thrasher's regime. In France process also is started at the same time. Italy and Japan started privatization in the mid 1980s. The Privatization programme in Eastern Europe got impetus due to disintegration of USSR and unification of Germany in 1989. Thus the dominant role of public enterprises lessened, specially in the Eastern and Central Europe. Further, with creation of North American Free Trade Area (NAFTA) and singing of Uruguay Round Talk under GATT, all countries of the world became free to enter into world competition. Keeping this in view, almost all the countries of the world adopted vigorous reform programme of privatization.

STATE OWNED ENTERPRISES IN LESS DEVELOPED COUNTRIES

Less Developed Countries (LDCs) in mison with the developed countries, laid considerable emphasis on the growth of large sector State-Owned Enterprise (SOEs). "In fact there was a growing need for education, health care, roads and other infrastructure as well as for industrial diversification (Different routes to privatization, 1993). This compelled the government to spend huge money on creation of SOEs to operate industrial and other activities in the developing countries.

The decades of 1960s and 1980s were the rapidly growing SOEs in less developed countries. The number of SOEs in the developing countries increased manifold. In Mexico, the number of SOEs was 150 in 1960s which increased to 400 in 1980s an increment of about 166.67 per cent, while in case of Brazil, the growth trend in the establishment of SOEs accounted for about 166.67 per cent. India was the champion in establishing the public sector enterprises. The growth of SOEs in India grew phenomenally to the tune of whopping 4540 per cent during the period review. The other countries under reference also followed the similar increasing trend (Sunita, 1994).

In majority of the countries of the world, the State-Owned Enterprises (SOEs) came into being on priority basis with a view "to replaces weak private sectors, to produce higher investment ratios and extract a capital surplus for investment in the economy, to transfer technology to strategic sector, to generate employment and to make goods available at lower costs" (Sunita, 1992). The trend towards establishing SOEs was so rapid and wide spread that Elliot Berg (Elliot, 1987) termed it a "quiet revolution" that occurred in shifting of resources into the public sector.

After 1970s, the wind of public enterprises phenomenon began to change because of disappointing and dismal performance of SOEs: A large number of SOEs proved economically univiable and inefficient continuously incurring heavy losses and as a result created hard pressure on national budget instead of being able to generate new resources. Many countries were even unable to continue with existing financial losses of SOEs. In Britain, "the borrowings and losses of State Owned Enterprises (SOEs) were running about $ 3 billion a year (John, 1992). The SOEs losses as a percentage of GDP reached about 9 per cent in 1989 in Argentina and Poland, Yugoslvia and Sub-sahara African countries accounted for losses to the tune of 7 per cent and 5 per cent of GDP respectively in 1991 (World Bank, 1992).

"Through 1980s about half of Tanzania's 350 SOEs persistently ran into losses that had to be covered from public funds. In Ghana from 1985 to 1989, the annual outflow from government to fourteen major SOEs averaged 2 per cent of GDP (Sunita, 1992). SOEs Losses in Korea reached to the tune of 26570 million in 1990 and in the same year in China about 30 per cent of all SOEs incurred losses that absorbed a sixth of government budgetary expenditure.

Many countries suffered adversely from external debt problems also that led to negative growth: For example, in Malaysia there was a marked increase in the external debt from RM 7.3 billion (14.2 per cent of GNP) in 1980 to RM 16.9 billion (28 per cent of GNP) in 1982 and it peaked at RM 50.5 billion or 76 per cent of GNP in 1986 (Sawal, 1994). Again outstanding government's loans to SOEs increased from 500 million to 1.9 billion in Ghana in 1985 (William, 1988). The debt crisis was toxic in both the regions (Eastern and Latin America). These countries were running out of budgetary resources to continue feeding these enterprises in the interim, until they turned around (Lieberman, 1993).

It is observed that the government subsidies to SOEs accounted for more that 3 per cent GDP in Mexico, 4 per cent of GNP in Turkey and 9 per cent GDP in Poland between 1982 and 1990. In some of the west African countries like Benin, Ghana, Senegal etc, subsidies to SOEs ranged from 8 per cent to 14 per cent. 6 per cent increment in the subsidy provision during the period 1982-1990 was attributed to very poor performance of SOEs in these countries. In case of Bangladesh the trend in subsidy provision was almost the same as the subsidy ranged from 0.8 per cent to 3.2 per cent of GDP during the period under 1982-1990 (Sunita, 1994).

The reasons behind the nagging performance of the SOEs the world over are various such as, lack of skilled management, lack of clear sense of direction, lack of commercial autonomy, problem of overmanning in some cases, sacrifice of commercial and money making objectives to social obligation, lack of advanced technology and political commitment etc (Momtazuddin, 1991).

Since in most of the countries, SOEs had become crucial in both industrial and service sectors, so they always enjoyed monopoly. And therefore, their monopoly status in turn created inefficiency and lack of competitiveness that made enterprises unfit to sustain in the competitive world.

PRIVATIZATION: ALL OVER THE WORLD

It was in the decade of 1980s, the reform programme of privatization started and reached its highest peak of popularity in 1990s. In the current decade, more than 2000 SOEs have been privatized in developing countries and 6,800 the world over (Sunita, 1994).

During 1980-1991 out of the total countries German Democratic Republic (GDR) privatized 4500 SOEs representing about 66 per cent of the total units of the world wide privatization. Latin American and Caribbean countries privatized 804 SOEs registering 12 per cent of the total followed by Eastern European countries, Sub-Sahara African countries, OECD countries, Asia and Middle East and North Africa. It is quite prominent to note that the German Democratic Republic (GDR) has championed the cause of privatization. Latin American countries and Eastern European countries have also been pursuing the privatization programme vigorously.

With the decline of communism in Eastern and Central Europe in 1989, the SOEs dominant role drastically changed in the economy in favour of privatization process for economic reform process to create the basis for a market economy in almost all the LDCs under the banner that "reduce the role of government and expand the scope of private sector-led growth". The developed industrial countries such as the United States of America and the United Kingdom also made forceful ideological expression for privatization.

The intellectual debate on privatization and restructuring increased interest in this regard. Other well known cases such as "the reprivatization of the Rumasa group is Spain and the partial divestiture of holdings in the IRI Group in Italy served as demonstration cases for certain developing countries, particularly those in Latin America" (Nankani, 1988). The international agencies were also influenced by the opinions in favour of privatization and accordingly contributed towards it. "The international monetary fund (IMF) and the world Banks restructural adjustment loans inevitably, came with conditionally clauses promoting the sale of public enterprises" (World Bank, 1994).

Another influencing appeal of privatization is enhanced revenues of the government. "In mexico transfers and subsidies from government to SOEs declined by 50 per cent between 1982 and 1988" (Sunita, 1994). This potential gain worked as a motivating factor for policy makers in many countries to pursue a privatization policy. Revenue earning by selling SOEs in different countries during 1980-1991 shows that Mexico was on the top position which earned $ 8350 million i.e. 43.83 per cent of total 19049 $ million on sales proceeds among the eight countries, followed by chile with its earning to the tune of $ 3400 million, Brazil $ 3071 million representing 17.85 per cent and 16.12 per cent respectively. Malaysia, Argentina, Philippines and Jamaica, were also the top earners among the leading countries (World Bank, 1992).

The sales proceeds of the countries under reference for the period of the first half of 1994, it has been noticed that Peru has earned substantial amount of revenue to the tune of $ 2226 million that accounts for almost 32.22 per cent of the total sales proceeds. India has registered sales proceeds amounting to $ 1181 million representing 17.10 per cent, followed by Colombia, Cuba, Argentina with sales proceeds of $ 700 million and 605 million respectively. Ghana and Mexico have recorded the sales proceeds to the order of $

400 and $ 476 million representing 5.79 and 7.96 per cent of the total precedes receptively. China (Public enterprises dominated country) has also from privatization to the tune of $ 476 million which represents 6.89 per cent of the total proceeds amount the countries under review (Wold Bank, 1994).

The sum up, it may be inferred that most of the countries of the world have adopted vigorous reform programme of privatization with a view to obviating the causes of sluggish performance of SOEs and to make the economy fit for facing the hard and cut throat competition in the global market.

PRIVATIZATION: IN BANGLADESH

Global recognition of the free market economy and economic liberalization prompted the governments in Bangladesh to pursue a series of reforms under its structural adjustment programmes, promoting private sector development in various sectors of the economy. Accordingly the government of Bangladesh has adopted a comprehensive privatization policy along with a detailed procedure for effective implementation of privatization progrmme. The avowed policy of privatization is aimed at reducing the size and presence of the public sector in the economy thereby improving efficiency and productivity and also facilitating economic growth.

The industrial base of Bangladesh is small. "Its contribution to GDP stagnated around only 10 per cent during the last 18 years" (Siddiqui, 1990). The Industrial development of Bangladesh took the pattern of public sector since British rule. During partition of British India, the then East Pakistan (Now Bangladesh) inherited a little number (only 2 per cent of the total units) of enterprises. Among these, most of the enterprises were owned and run by Pakistanis. In 1971, there was a brutal civil war between East Pakistan (now Bangladesh) and West Pakistan. Bangladesh, however, won independence in 1971.

There was a magnificent growth of public enterprises after the post liberation period (1971-1975). At that time, industrial and commercial management faced a major problem because mass exodus of Pakistani owners, managers and entrepreneurs created a great vacuum. In order to fills this vacuum, "all abandoned properties including 725 industrial units were brought under the government control and management by declaring P.O. No. 1, dated January 3 1972" (Haque, 1989). Again the government promulgated on March 26, 1972 the ordinance that the government nationalized all abandoned enterprises with assets valued at Tk. 1.5 million and above along with the entire Jute, Textile and Sugar industries (Ministry of Establishment, government of Bangladesh, November, 1989). The eleven sector corporations were established. "These measures led to increase in public ownership of industrial fixed assets from 34 pre cent 92 per cent (Rashid, 1988). In 1976, under the amendment of presidential Order 27, some to the public corporations in the industrial sector were merged and constituted three corporations. These three public corporations along with BJMC, BTMC and BFIDC now constitute six manufacturing public corporations with 386 enterprises under them.

In the beginning of the decade of 1980s, it was realized that majority of the SOEs miserably failed to generate expected revenue rather they were incurring heavy losses so much so that they became a burden on the national exchequer. During 1990-91-1994-95, SOEs incurred losses amounting to Tk. 800 crore which jumped at Tk. 1600 crore in 1991-92 which is almost 100 per cent when compared with the previous year. The amount of losses incurred by the SOEs were the same in the year 1992-93 and 1993-94 i.c. Tk. 2000 crore each. In 1994-95 the losses were enormous to the tune of Tk, 2500 crore which recorded 25 per cent increase from the previous year i.e. 1993-1994. The causes of whopping losses by the SOEs over the period under review have been said to be created owing to mismanagement, corruption, lower productivity, labour unrest, strike and lock outs etc.

The government of Bangladesh adopted reform programme with the declaration of New Industrial Policy (NIP) in 1982. The door of privatization opened gaining momentum in the Industrial policy of 1986. Under this policy, various restrictive regulations were unleashed facilitating the process of privatization to go smoothly. The promulgation of Industrial Policy of 1991 further assured the continuance of the privatization policy making the provision of spreading out the ownership among the general public. The international agencies like, the International Monetary Fund (IMF), the World Bank the Asian Development Bank (ADB) have also been helping in various ways for making reform programme a successful.

Sobhan and Ahmed (1984) has analyzed the process of dis-investment of the formerly corporation managed units in Bangladesh and has reviewed the performance of the units which were transferred to private ownership from 1976 onwards. The study has noted no significant res4ilt from disinvested enterprises.

Clare (1988) explained the historical background of State Owned Enterprises (SOEs) as well as privatization programme and at the same time causes of failure of SOEs and different faults of privatization programme. He mentions, that there has been an enormous gap between policy statements and implementation of policy. The private sector was hindered by bureaucratic red tape and an adverse regulatory environment. He further opines that the success or failure of privatized firms depends not only on the managerial and marketing skills of the entrepreneur bur also on external forces and factors beyond the control of the enterprise. He has also made some vittal recommendations for successful privatization progamme in Bangladesh.

Miyan (1989) has traced the transition of the economic perspectives, the process involved and controversies aroused in effecting changes in the context of rebalancing between public and private sectors in Bangladesh. But he has not mentioned about the ultimate results of rebalancing policies adopted by the government from mid 1970s. In this regard, he has suggested for a primary level of investigation on different aspects of rebalancing policies, which would be helpful to have a total understanding of the policies in a changing socio-economic environment.

Sobhan (1990) has reviewed the role of state policy in the development of the private sector in Bangladesh examining those various policy initiatives impacting on the private sectors. The author found that Bangladesh has an active entrepreneurial class who is able to face any challenge. But policy makers should consider all the current circumstances.

Mohiuddin (1992) have made an analytical study on the productivity of some public and private sector steel mills in Chittagong. The study reveals that the productivity management from the view points of production, organization, production planning and control and production performance has been more efficient in the private sector as compared to the public sector mills because public sector mills have been suffering from some problems.

Siddiqui (1990) described the historical perspective of privatization and has also examined the effectiveness of policies of privatization in conjunction with policies towards improving the performances of public manufacturing enterprises. The author has thus concluded that privatization programme has achieved its goals partially and needed modification. He has also made some recommendations to make policies more effective and pragmatic.

Tawfiq (1992) has examined critically the transfer of state assets to the private sector that has been taking place in Bangladesh since the mid 1970s. He has presented a historical background of nationalization and a poor outcome of state ownership in general. He has further highlighted historical and political perspective of privatization initiated in mid 1970s. The author has also critically evaluated most of the policy changes and their immediate effect on national economy and finally has appraised the privatization of SOEs as a significant step towards establishment of a competitive market economy.

Saroj (1992) has analysed the performance of some privatized cotton mills and has observed that total average production of these mills has decreased in comparison to pre-disinvestment period, though average sales performance and profit performance have shown a tiny ray of progress. The author has suggested that the socio-economic realities of the country should be taken into proper consideration before formulation of any policy relating to privatization.

Mohiuddin (1992) has stated that disappointed performance of SOEs has compelled the government to adopt privatization policy with expectation that privatized enterprises would improve efficiency, but the performance of these privatized enterprises was poor and sluggish.

Khan (1992) has identified the causes of sluggish performance of jute manufacturing industries and has suggested the ways and means to remove those causes. At the same time, he has evaluated some aspects of the operational performances of the jute industry on a comparative basis of the- public and private sector jute mills and has found that the overall performance of private sector jute mills were better than the public sector because of better utilization of men, machines, materials and money.

Sadrel (1993) favoured the phase wise privatization. He also pointed out the various impediments to Private Sector led growth in Bangladesh like, technical issues, direct resistance to such programmes, gap between policies and their implementation, bureaucratic red-tapism, lack of proper financial discipline etc.

Khanam (1993) critically studied disinvestment of shares and its impact on management of a company named Kohinoor Chemical Company Limited and found that disinvestment of shares brought about a change in the financial structure, system of management, power distribution and control. The workers resisted the change, labour-management relationship has deteriorated. The authoress suggested that the policy makers must find out ways and means to deal with the resistance.

Ramachandran (1994) briefly described the rationale of privatization in Bangladesh highlighting the macro economic aspects. He explained about the bad effect to the economy due to incurring heavy losses of SOEs. The author also mentioned about the weakness of the regulatory environment and suggested to modify it for successful privatization.

Taher (1994) highlighted briefly the historical background of privatization in Bangladesh as well as its impact on industrial relations. He pointed out that the privatization policy pushed the workers in an unfavourable situation to confront retrenchment. So, they opposed privatization. The author suggested that the labour would not oppose privatization if their interests were protected and they should have the rights of collective bargaining which would ensure a congenial, labour-management relations.

Haque (1994) has reviewed the labour issues in privatization in Bangladesh. He has explained the characteristics of labour, causes of industrial disputes and its settlement, growth of trade union etc. He has also suggested for removing the labour problems arising out of privatization taking various programmes like VDS, training and retraining, credit based employment schemes etc.

CONCLUSION

From the foregoing analysis- concept of privatization may differ from case to case and country to country. The concept of privatization is, in fact, far wider. Privatization may be defined as a process by which the people of a country can participate in every phase of economic activities and play a vital role in the economic development of the country. In simple terms Privatization means off loading a portion of the government held equities in public sector undertakings to the numbers of the public to ensure wider ownership, greater accountability and providing the companies an access to domestic and international capital market (Fadnavis, 1994).

Commensurating different approaches underlying conceptualization of privatization- Various methods are being used for transferring state owned enterprises (SOEs) to private sector. However, the significant methods of privatization process are divestiture, denationalization, deregulation, dilution of public ownership, sale of public assets to private sector, sale of shares, transfer of management and control to the private party, management buy-out etc. **In Bangladesh, the privatization process which is currently followed includes denationalization, the sale of entire enterprise through tender to the local or foreign buyers, sale of shares to the general public, employees or workers directly or through stock exchange.**

Evidences suggest that the growth and development of SOEs in developed countries started much carlier than developing countries. It was in the decade of 1980s, the reform programme of privatization started and reached its highest peak of popularity in 1990s. In the current decade, more than 2000 SOEs have been privatized in developing countries and 6,800 the world over (Sunita, 1994).

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CHAPTER- THREE

MOVE OF PRIVATIZATION IN BANGLADESH

PREFACE

Bangladesh is a developing country with limited resources and with growing population (more than 2 per cent every year) with per capita income of US $ 460 only (World Bank, 2004). The economic growth of Bangladesh is hindered due to lack of food, cloth and shelter. According to the World Bank economic growth at the rate of 6 to 7 per cent in the medium to long run must be achieved just to sustain poverty alleviation. The rate of economic growth can only be achieved by increasing investment by 17 to 19 per cent of GDP from present rate of 11 to 12 per cent.

To achieve over all target growth rate of 6 to 7 per cent per annum, agricultural growth must increase, to 3 per cent per annum, while, manufacturing growth must reach 10 per cent per annum and must grow by 7 per cent per annum (World Bank, 1992). However, this condition seems to have aggravated due to continuous increasing rate of subsidy to the nationalized industries. However, to get rid of huge burden of subsidies and to sort out other economic reasons, the government adopted privatization programme in the country. The following are the significant considerations that influenced the government to initiate the privatization programme:

- It is now maxim that private business works more cheaply and efficiently than does the state sector (Ramachandran, 1994). So, privatization is a must to enhance managerial as well as production efficiency of public enterprises by disinvesting them.
- In sum as the World Bank experts noted that the rationale of privatization in Bangladesh is based on three inter- related classes of reasons: the positive effects on government's fiscal situation; improvement in the efficiency of enterprises following privatization; and signaling, effects that will promote greater investment, and consequently higher growth in the medium

term (World Bank, report No. 12318-BD).

- To change, the socialistic approach to market friendly approach to fall in line with the changes in global socio-economic milieu.
- The government has been burdened with the accumulated losses of the State Owned Enterprises.
- Privatization is only the way to stopping the hemorrhage in public finances in the form of subsidies and diverting more funds towards poverty alleviation and human resources development programmes.
- To attract foreign direct investment ensuring the sound environment of investment in order to make taster industrialization of the country.
- To bring about competition in the economy and increase productive efficiency of both public and private enterprises.
- To increase employment opportunities for the country's large number of unemployed labour force by attracting foreign investors through establishing free market and investment zone (Mohiuddin, 1992).
- To relieve from dependence from foreign aid by giving full play to free market forces by dis-investing costly State Owned Enterprises.
- One significant study revealed that accelerating privatization is particularly important from at least four angles;

  (1) It would provide a clear signal to the private sector that government's committed to leaving the task of manufacturing to private sector investors.

  (2) It would ensure that the playing field for public and private enterprises would be leveled henceforth.

  (3) Privatization would create fiscal space for the government to focus its relatively meagre resources on the provision of health, education, infrastructure rather than propping up

loss making SOEs.

(4) Besides, the very act of privatization expands the private sector and helps to build the necessary critical mass (Saddat, 1994).

PRIVATIZATION AND ITS EFFECTS ON SAVINGS AND INVESTMENT

Growth rate will increase when the same level of investment is retained. In privatization whether the investment level will either fall or increase. The answer of this specific issue can be observed from Table- 1, which represents rate of the savings and investments of both public and private sectors from the period 1994-1995 to 2003-2004. It is observed from the table that the public investment ratio was higher than the private investment ratio. Bur from mid 2000s onward the condition of savings and investments ratios have been reversed with the decline in public investments ratios. This situation has prevailed with the launching of privatization programme.

When more SOEs will be transferred into private hand, government can reduce its capital transfers for financing capital investments of SOEs. And these money can be invested in the social sectors particularly in health, population, nutrition and education for ensuring more social well-being. Progress in human development education, health, population and nutrition has been hampered by financial constraints as well as by institutional weakness. Public expenditures in these areas have not grown beyond a mere 2.5 per cent of GDP since the early 1980s.

With the decline of communism in Eastern and Central Europe in 1989, the dominant role of SOEs in the economy began to change. It has given new impetus to the privatization process for economic reform programmes to create the basis for a market economy. Further more, the programme of privatization in a few developing countries has also stimulated Bangladesh to adopt the idea in practice. Further, International Monetary Fund (IMF) and the World Bank's restructured adjustment loans also inevitably came with conditionally clauses promoting the dis-investment of public enterprises (World Bank, 2002).

Recently, with the signing of the Uruguay Round of Trade Talks under GATT, Bangladesh has entered into a highly competitive global market and will have to face competition from world wide. To face this competition, it requires technological modernization and quality improvement which is beyond expectation from SOEs. Hence for Bangladesh there is no options out but to resort to effective future privatization programme.

Table- 1
Savings and Investment of GDP During 1994-95 to 2003-04

Year	Consumption	Gross Domestic Investment		Total Investments	Gross Domestic Savings
		Public	Private		
1994-95	98.4	7.4	5.4	12.8	1.6
1995-96	97.0	6.7	6.0	12.7	3.0
1996-97	96.0	6.3	6.2	12.5	3.2
1997-98	97.4	5.6	6.4	12.0	2.6
1998-99	98.0	5.7	6.5	12.0	2.0
1999-00	98.0	5.7	6.4	12.1	2.0
2000-01	97.0	4.6	5.8	10.4	3.0
2001-02	94.16	5.49	6.63	12.12	3.8
2002-03	93.51	6.22	7.58	13.80	6.49
2003-04	94.0	6.3	7.9	14.2	7.5

Source: 1. Statistical Pocket Book, 2005, Bangladesh Bureau of Statistics, p. 224

2. Bangladesh Economic Review, 2005, Ministry of Finance, Government of Bangladesh, June, p. 17.

INDUSTRIAL POLICIES AND PRIVATIZATION

(1) **Industrial Policy of 1972:** Bangladesh achieved independence in 1971. The first industrial policy statements of Bangladesh was announced in 1972 (Industrial policy, 1972-1973), keeping in view the objectives of socializing (i.e. nationalizing) the country's means of production. The policy statement also allowed Private Foreign Investment to work only in collaboration with the government giving some conditional guarantee of repatriation of capital or compensation.

The industrial policy was then revised in July 1974, laying considerable emphasis on the ceiling for private investment which was raised to 30 lacs with the provisions of tax holiday ranging from five to seven years (Revised industrial policy, 1974). Private foreign investors were allowed to enter into partnership with domestic private investors but not exclusively in projects where technological and managerial gap existed.

(2) **Industrial Policy of 1975:** The Industrial Policy of 1972 revised in 1974 was again revised in December, 1975 (Revised industrial policy, 1975). Major changes were introduced in this industrial policy which remained unchanged until the policy of 1982. The highlights of the policy were as follows:

- The government would in all cases, hold at least 51 per cent of the equities.
- Tax holidays and oilier incentives were increased.
- The limit on private investment was raised to Tk. 10 crores from Tk. 30 lacs.
- The new policy maintained 18 reserved categories of industries and 10 of them to joint ventures between the public corporations and private investors.

- The Investment Corporation of Bangladesh was authorized to work again as it was closed since 1972.
- The Stock Exchange was reactivated which was closed since 1972.
- To divest the shares of those enterprises originally abandoned by their owners.

As a result of this policy the government embarked upon a dis-investment policy in 1976. The dis-investment policy was further strengthened with abolition of ceiling in 1978. To promote and protect foreign investment the "Foreign Private Investment Act" was also passed in 1980.

(3) The Industrial Policy of 1982: The President Zia was assassinated in 1981, as a result, a new government came into power. There was significant growth in the economy during Zia's regime. Unfortunately, drought broke out in 1982, which hindered the agricultural growth and subsequently food imports increased. Under these circumstances, the government had to reduce public sector expenditure which as result affected on the performance of SOEs. Further, a review of public sector enterprises convinced government leaders that SOEs were not capable of leading a rapid industrial expansion, SOEs were viewed as too bureaucratic and inefficient, lacking accountability, ambivalent about social and commercial goals, and most were consistently losing money (Humphrey, 1992).

The government decided to embark on an economic development effort in which the private sector would play a much more prominent role. This would necessitate a change in the relative roles of the private and public sectors, along with an improvement in the investment and regulatory environments that would permit the private sector to operate effectively. As a consequence, the new Industrial Policy was announced on June 1, 1982, with the main purpose to provide a new dimension and greater thrust to industrialization of the country (New Industrial Policy, 1982). The main objectives of the 1982 New Industrial Policy (NIP) are summarized as under:

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

  Six industries were listed for public sector, such as:

  1) Arm and ammunition.
  2) Atomic Energy.
  3) Air transport.
  4) Telecommunications.
  5) Electricity generation and distribution and
  6) Mechanized forest extraction.

In all, 12 industries were listed for both public and private investment and joint ventures. The New Industrial Policy (NIP) took a new step by stating that in order to stimulate the share market and raise additional funds, share upto 49 per cent of some enterprises managed by the sector corporations will be unloaded for public subscriptions or operation by the Investment Corporation of Bangladesh. The Industrial policy of 1982 also strongly advocated the policy to return the jute and textile mills, nationalized a decade earlier, to the original Bangladeshi owners. This decision was the first move towards the privatization. The move to privatize these two major industries was made, in order to create a favourable investment climate and confidence in the minds of prospective entrepreneurs. The emphasis was further laid by New Industrial Policy (NIP) for rehabilitation and reform of existing industries. The New Industrial Policy (NIP) also recommended sub-contraction of large companies into small companies.

Recognizing the importance and impact of privatization, the government decided to continue to pursue the following policies (Industrial Policy, 1986):

- Abandoned, vested and taken-over industrial enterprises and shares and other proprietary interest will continue to be dis-invested.
- Industries established with corporation's own resources may also be disinvested.
- Corporation may develop industries and then disinvest them or unload their shares.
- Shares will be Unloaded mainly through public subscription or through the Investment Corporation of Bangladesh.

(4) **Industrial Policy of 1986 And The 51-49 Plan:** The process of private investment promotion reached its peak in the Industrial policy of 1986. The IP-1986 was mainly a refinement of the NIP of 1982. Attention was paid to promotion of small and medium agro-based industries. The IP-1986 also broadened the scope of private sectors development. The industrial categories reserved for the public sector were raised from 6 to 7 with a view to including security printing and mining. The concurrent list was dropped replacing a statement that all industries not reserved for the public sector will be meant for the private sector.

The 1986 policy mentioned more prominently than the other earlier policies the possibility of joint public private ventures in industrial fields where the private sector lacked sufficient funds; the government would gradually bow out of these- ventures once they were functioning. Also, another attempt was made to streamline sanctioning and licensing procedures. The policy further announced that public sector enterprises would be converted into holding company by selling 49 per cent of shares to the employees and public and the rest would be kept in by the respective sector Corporation. To facilitate the private sectors, government established a Board of Investment in 1989.

(5) **Industrial Policy of 1991:** The declaration of Industrial policy in 1991 fully confirmed the continuation of the privatization policy (Industrial Policy, 1991). However, this industrial policy of 1991 was further revised in December, 1992 to extend a far more policy support with a package of incentives towards rapid privatization. One of the major goals of this policy was to increase efficiency and productivity in the- industrial sector by transferring public sector industries to the private sector. Recognizing the importance and impact of privatization, the government continued to pursue the following policies:

❖ Except industries in the reserved sector, capital will continue to be withdrawn gradually from industry under corporations.

- ❖ If required, hundred per cent shares of public enterprises will be sold.
- ❖ Abandoned, vested and taken over industrial enterprises and shares and other proprietary interests will continue to be dis-invested.
- ❖ Industries in the public sector will be sold through floating of tenders.
- ❖ In order to ensure widest possible distribution of shares and securities among the general public, and associate them in the management, shares will be unloaded mainly through public subscriptions; and
- ❖ Bangladeshis working abroad will lie encouraged to purchase these industrial units or shares in foreign currencies.

From the foregoing analysis of the industrial policy of 1991, it becomes clear that the main objective of this policy was to accelerate the private sector and to ensure the best use of resources invested in these sectors.

INSTITUTIONAL ARRANGEMENTS FOR PRIVATIZATION

The divestiture programme in Bangladesh was started through selling of small enterprises. The indicative wave of divestitures occured in 1982. But not much is known about the institutional set up for privatization between 1971 and 1982, though a large number of small industrial units were sold through tenders and that the procedures for these tenders were approved by the cabinet and implemented by the Disinvestment Board of Ministry of Industries (World Bank report No. 12318-BD). A large number of enterprises were also sold under this arrangements through auctions. But proper policies were not followed for effectiveness of the programme as a result the programme could not succeed.

In industrial policy of 1986, there was a provision for accelerating privatization programme. Keeping this view, two bodies were created to gear up the privatization programme, such as: an Executive Committee to supervise the activities of the Disinvestment Board; and a Working Committee to help in the review and implementation of divestiture. But the roles of these agencies were not clearly identified so they failed to revitalize the privatization programme.

In 1991, an attempt was again made to speed up the privatization programme. For this very purpose the Inter-Ministerial Committee on Privatization (ICOP) was formed by the government. The responsibility of that agency was for developing privatization policy as well as considering, approving and monitoring specific privatization proposals for the various administrative ministries. The process of divestiture under that agency was as follows:

The Ministry of Industries would submit a list of suitable enterprise for divestiture. ICOP approved list would then be forwarded to the Executive Committee of the National Economic Council (ECNEC) for final approval. The list would then be sent back to the Ministry of Industries through ICOP to the working group for purposes of valuation, pricing and preparation of bidding documents. The profile is sent back to ICOP for review and fixing of reserve prices. ICOP then instructs the Ministry of Industries to proceed with the sale and negotiate with potential buyers. ECNEC approved the final sale on the recommendation of ICOP.

However, this agency as mentioned above also failed to attain its objectives because of the following reasons:

- The process was lengthy and complicated.
- It had on staff of its own with the technical know how to implement the procedures as regards privatization; and
- It was also not given the mandate and autonomy to engage in privatization transactions- rather its role was limited to monitoring and approval functions.

So, the government was compelled to introduce a new structure for privatization to be more dynamic. The Privatization Board was established on 20th March, 1993, by the Ministry of Planning dissolving all agencies constituted before. However, the Board was placed under the Cabinet Division requiring it to report directly to the Cabinet Committee on Finance and Economic Affairs. But two items in the mandate of the Board were dropped, one of which was to facilitate private investment in the reserved sectors of electricity and telephones, and the other to facilitate the disinvestment of textiles industries. However, later on it was accorded the status of an autonomous body and was entrusted with necessary mandate to implement its programme. It is pertinent to point out here that this Board has already chalked out a programme of privatizing SOEs for 1994-1995 and 1995-1996. Some SOEs have already been privatized by the Board successfully.

EMERGING ISSUES PERTAINING TO PRIVATIZATION ROGRAMME

From the foregoing analysis as regards the ongoing implementation of privatization policy some burning issues have emerged which need to be critically examined in order to evolve strategies for effective future privatization in Bangladesh. These issues may be adumbrated as follows:

- Resistance from bureaucrats, management of SOEs, leaders of trade union etc.
- Labour opposition.
- Lack of preparations of transactions, such as incomplete identification of assets and liabilities, unrealistic valuation of enterprises (too high or too low).
- Privatization limited to only small and loss making enterprises.
- Lack of transparency in the procedure.
- Application of limited modality in privatizing SOEs.
- Lack of co-ordination with concerned Ministries.
- Lack of clear cut policy on privatization.
- Resistance to privatization from political parties.
- Lack of political commitment to privatization.
- Conceptual misunderstanding regarding; privatization.
- Problem on technical issues.
- Lack of proper Institution mechanism.
- Slow process of privatization.
- Lack of public education programme.
- Absence of post-privatization monitoring system.
- Lack of proper regulatory framework.
- External constraints to privatization.
- Absence of strong capital market.
- There was no proper selection procedure of proper buyers.
- Lack of sufficient foreign participation.
- Absence of privatization Master Plan.

Proper preparation of transactions for sale is an important precondition to the privatization of SOEs successfully. In most previous privatization programmes in Bangladesh, preparation for sale had not been properly carried out rather the business tended to be sold as is where is (World Bank, 1992). As a result, there, was a question regarding existence of quantity and equity of the privatization. Appropriate methods of valuation of assets and liabilities were not followed which resulted in unrealistic valuation of enterprises for privatization.

The procedures followed for privatizing SOEs in the past were not clear and justified. The tender procedures were faulty and corrupted. The valuation of assets were not proper and the workers were not paid off in case of closures of the enterprises. There was allegation that bidders were provided with inadequate or misleading information and new owners were often saddled with undisclosed obligations and nonexistent assets.

The past privatization processes were not in favour of creating an atmosphere for running the divested enterprises. Some times, stiff restrictions and conditions were imposed on the new owners which restricted product diversification and future expansion and under certain circumstances jeopardized the retention of ownership-ultimately undermining the viability of the enterprises. As a result, according to World Bank, more than 49 per cent of the divested units had to he closed down for one reason or the other (The Daily Star, 1993).

In the past, only a limited number of techniques for sale of assets were used for privatization of SOEs through closed or open bidding. Another effective method such as sale of shares, management contract, Employee buy-out, Boo-Bot etc. were not followed. Divestment was limited to small and loss making enterprises only, which could not attract potential buyers as a result, the programme was not successful as expected.

There was resistance to privatization from various corners like, bureaucrats of controlling ministries, management of SOEs and leaders of the respective trade unions, because privatization protected their vested interests from SOEs. It has-been observed that pilferage has been the major cause of losses of SOEs followed by mismanagement. Mismanagement has often existed not so much because of a lack of managerial capabilities, but rather as a convenient cover for pilferage. The bureaucrats of the controlling ministries often diverted resources from the SOEs, as a result, those enterprises suffered from shortage of funds. These allegations often resurface during the workers agitation's against the policy of disinvestment.

Labour issue is one of the most sensitive issues in privatization. There was a common feeling of fearfulness among the workers in the SOEs that they would lose their jobs due to privatization. Because everybody realises that those overstaffed will be rapidly retrenched under private ownership. So, labour opposition has been the second most significant impediment to privatization, and has in fact received wide publicity as the most powerful roadblock to the process. The major political parties in Bangladesh opposed to privatization policy and their negative attitude blocked the road for privatization in many ways.

There must be co-operation between the ministries concerned such as between the Ministry of Industries, the Ministry of Finance, the Ministry of Commerce and the Privatization Board. The Ministry of Industries would have to co-operate to get all the available information's regarding the SOEs to be privatized. The Finance Ministry is responsible for all types of budget of SOEs including the Privatization Board and Agencies. So, it can put the restrictions on any of the SOEs for its bidding or privatization. The role of Commerce Ministry is to being our all kinds of business rules and regulations including export and import in time. If these rules were not conducive to the private sector enterprises then the privatization move would fail.

It has also been found that the bureaucratic red-tapism often slows-down the process of privatization creating frustration among the potential entrepreneurs.

There was no clear-cut policy regarding privatization. No policy measure was taken to widen the ownership spectrum of the privatized industries and no attempt had been initiated to motivate workers and employees of the privatized industries to work diligently. There was policy anomalies also as a result of lack of coordination between the Ministries. In many areas a wide gap existed between announcement of policies and actual implementation (Ramachandran, 1994).

Privatization is an intensely political process and involves significant social engineering (Lieberman, 1993). So, without a clear political sanction, it is very much hard for a privatization programme to proceed on. In case of Bangladesh, there was lack of serious commitment from the government and political parties as well.

Institutional-backup is the important factor for successfully implementing the programmes of privatization, which was nor properly adhered to in Bangladesh.

The whole privatization process has not been smooth at all in Bangladesh. It has been much slow. According to World Bank, in Bangladesh it will take the private sector in excess of 40 years to read investment parity with the public sector (World Bank, 1992).

There is a misunderstanding of concept regarding privatization in the country, Many people still do not recognize that privatization does not have to be completed sale of SOE. A broad- based definition of privatization entails transfer of activities and functions of SOEs to the private sector. There are other standard forms of privatization also. The problem therefore lies as to how to decide the sequence and speed of introducing the reform programme of privatization in a country like Bangladesh.

Some technical issues are involved with the policy of privatization which need to be solved. For example, privatization raises a question on finance that what kind of financial strategy should be adopted to achieve a particular privatization objective. Tax structure is also an important factor in this connection. Legal aspect of personnel is another crucial element, which must be considered significantly. But these factors have not yet been restructured sufficiently in Bangladesh.

All appropriate regulatory frame work is essential in respect of market economy and to improve efficiency and productivity. The components of regulatory environment should entail the following (World Bank, 1992):

- Investment regulations,
- Foreign Exchange Management,
- Monetary and credit regulation, including interest rates,
- Commercial law in terms of debt enforcement and
- Management of companies competition and safety issues.

In Bangladesh, the regulatory framework in the above mentioned spheres is very weak creating impediment in the smooth conducting of privatization programme.

Investment regulatory functions are burdensome. Wage rates are becoming uncompetitive compared to other low income countries. High real interest rates, bureaucratic problems in State Banks, and extreme risk aversion in private Banks make credit very difficult to secure. The legal environment is ineffective. High corporate tax, wide spread tax evasion are common. The general infrastructure, in terms of energy, communications, transportation, water and waste, disposal ranges from barely adequate to very poor.

The government of Bangladesh did not chalk out any educational campaign highlighting the concept, merits, demerits, gains and concept of ownership etc. so that the people of this country could come forward in favour of privatization. A general concensus about privatization did not grow at all. This is one of the hindrances to privatization programme.

The government of Bangladesh has taken a mass privatization programme and a large number of SOEs have already been privatized. But post privatization monitoring system did not exist by which the functions and activities can be justified that whether their activities are really conducive, to the economic growth or not.

Successful privatization programme needs a well structured large capital market in which shares can be traded properly.

Accelerated privatization is a pro-requisite to the expansion of the capital market and privatization of the SOEs and government run utilities sectors will not only unload the burden of the exchequer but will also attract large investment in the capital market. On account of not sufficiently developed capital market, insufficient regulatory and enabling environment, lack of co-ordination between line Ministries etc. creating policy anomalies have adverse cumulative effect on the flow of Foreign Direct Investment (FDI) in Bangladesh.

In the pre-privatization programme, there was no any criterion by which the selection committee can determine whether the buyers can ensure professionalism in managing the enterprises to be sold to them. Many of the buyers were not the real entrepreneurs and they did not have experiences in managing industrial units. This was one of the major impediments, to successful privatization.

Privatization Master plan indicates the correct strategies and transparent action plans by identifying sector-wise SOEs for a time bound privatization programme. But in Bangladesh uptillnow the privatization programme has been followed without any such Master plan.

Presently, the Privatization Commission in Bangladesh is facing some obstacles to speed Up the privatization programme which are as follows (Ahsanul, 1995):

Firstly, the response of the prospective-buyers to the international tenders were poor. None of the established local entrepreneurs had participated in these bids. Even if valid bids were available, quotations for the highest bids were mostly below the net worth of the enterprise tendered for sale.

Secondly, the chartered accountant firms or consultants who were appointed to value, the asset and liabilities of the enterprises to be privatized, had to face resistance from the workers and often received very little co-operation from the mill management in collecting requisite information's and data. This had greatly delayed the tender process, affecting adversely the privatization move.

Thirdly, the enterprises that were selected for sale had mostly worn out machinery's and had also liabilities that were manifolds in comparison to the fixed assets. This also perhaps had kept away the established local entrepreneurs from participating in the tender bids of the SOEs.

EXTERNAL CONSTRAINTS TO PRIVATIZATION

Some external constraints are also working as hurdles to the process of privatization in the developing countries, like Bangladesh (Lieberman, 1993):

- Inadequate infrastructure;
- Unstable political systems and weak democracies;
- Highly concentrated industrial sectors;
- Limited access to equity financing;
- Unstable economic conditions;
- High and glowing unemployment levels;
- Professional sectors- lawyers, accountants, banks, etc. unprepared to cope with the process;
- Limited privatization, restructuring or merger and acquisition experience;

PROBLEMS OF STATE-OWNED ENTERPRISES IN BANGLADESH

There are so many wide - ranging problems in SOEs. Some of them are lack of autonomy, weak management, over-staffing, abuse of overtime, low prices and tariffs etc.

According to a study conducted by Asian Development Bank (ADB), the State Owned Enterprises (SOE) in Bangladesh are mainly confronted with following problems:

- Cost savings associated with eliminating these redundant employees are estimated to be Tk. 1.4 billion, enough to turn 12 loss making companies into profitable ones. This suggests flu tremendous scope for improvements in financial turn-around under private ownership or vigorous reform measures.
- There are no clear-cut patterns of overstaffing across corporations. They are all over-staffed. The worst overall case, including all employees (workers and officers) is die Bangladesh Steel and Engineering Corporation. In the case of BSEC, worker overstaffing is greater than 50 per cent for electronics and steel units while officer and staff redundancies approach 81 per cent in the case of transport.
- At least twenty per cent employees in the 'workers' category are redundant. More dramatically, 54 per cent of the employees in the officers and 'staffs' category are redundant.
- The study estimates 19 per cent over-staffing in textile sector. The world Bank estimates is 30 per cent. The comparisons with other countries are even more dramatic. The estimates for European textile mills are 18-20 kg of higher quality product per operator compared to 0.54 kg per operator hour in

Bangladesh. This means that European labour productivity is almost forty times higher than that of Bangladesh in textiles.

- The largest absolute numbers of redundant category of employees are the officers and staffs of the sugar producing SOEs. More than 8000 officers (53% of total) are redundant. Bringing this factor into control could potentially save the sugar Corporation TK. 0.3 million (ADB, 1985).

Better performance of an enterprise depends on human capital, skills and knowledge of management. But unfortunately, Bangladesh is impoverished of these resources. Many experts have come to the conclusion that the 'unsatisfactory performance of public enterprises is not only due to the lack of capital, technology, or other factors of production but also due to the lack of managerial competence and knowledge. One study reported that. Bangladesh suffers from the shortage of competent managerial manpower (Habibullah, 1974).

Historically most of the modern industries were owned and managed by the non-Bangali people migrated from India and Pakistan. Due to the changes in the Geo-political scenario of the subcontinent, most of them left Bangladesh and therefore a vacuum was created in tin- field of entrepreneurship and management in the industrial sector. Yet another significant study found that in Bangladesh a substantial number of persons holding managerial posts and performing managerial functions are without any management training (Haque, 1975).

According to an estimate, in 1974, in the nationalized corporations alone there were some 10,000 persons currently requiring some formal management training (Powell, 1977). A sample survey of 464 senior, mid level corporate managers suggested that many managers in industrial and other sectors suffer from inadequate preparation for the managerial position they now hold. Another study showed that 27.27 per cent, 33.94 per cent and 41 per cent of the upper, middle and lower level managers respectively do not posses any background of formal technical education and they have not participated in any formal technical training programme (Habibullah, 1974).

It is believed that organizational climate is the function of three things, viz. (a) the types of relationship in the organization, the basis of power and the extent of participation (b) the attitude and ideologies lie behind, such features and (c) the characteristics of the managers immediate environment (Haque, 1975). For the management development, the relationship between, the specific Ministry or Agencies of the government and the corporation, the corporation, and the enterprise, the power of various authorities and the extent of participation of employees in the decision making mils be cleared. Manager should have autonomy and freedom of decision making in their functional areas. Bur this kind of atmosphere is not present incase of Bangladesh SOEs. There are at least four layers in the administration of public enterprises. The Minister in charge, the Ministry, the sector corporation and the enterprises.

One study revealed that from the point of view of control, public enterprises are subject to three types of control namely political control, bureaucratic control and corporate control and subject to three types of decision viz-political, operational and control decision (Habibullah, 1974). There are various factors behind the non-autonomy and dependence of managers working in public enterprises, such as: (i) because of ambiguous relationship between specific ministry and the corporation and between corporation and the enterprises, (ii) Because of political pressures both from government

(Party in power) and opposition (through Labour Union) (iii) Because of the bureaucratic tapism (Haque, 1975).

Management by Result (MBR), Management by objectives (MBO), Management by exceptions (MBE), Operation Research, Linear Programming, Computers etc. are some of the popular techniques of modern management which help to increase managerial efficiency. At the State Owned Enterprises of Bangladesh, these techniques and tools are almost absent and there is no supportive atmosphere for applying these tools. After liberation, labour in discipline and ineffectiveness of supervisory position due to militant attitude of workers created an unfavourable atmosphere for application of modern management techniques.

It has also been observed that the young executive trained in the modern management techniques find it difficult to apply their knowledge because of lack of support and appreciation from their superiors who sometimes even oppose any introduction of modern techniques (Fayezuddin, 1986). All these factors have caused hindrances in managing the enterprises well. On the contrary these factors do not exist in private sector enterprises.

From the foregoing analysis, it has been observed that the performance of most of the SOEs are sluggish incurring heavy losses every year. Heavy subsidy from the government exchequer has added fuel to the fire. In fact the damaging effects on the economy due to financial losses of SOEs are four fold (Ramachandran, 1994): Firstly, it draws away resources from the highest priority poverty alleviation and human resources development programmes of the government of Bangladesh. Secondly: total State Enterprise debts to the State Owned Banks have grown at extremely high levels (Tk. 47 billion as at June

1993) that the financial viability of those banks is threatened. Thirdly: the quality of services provided by many SOEs is poor and inadequate because of increasing production cost, goods and services have become in-competitive in domestic as well as international markets. Fourthly: in sectors where SOEs co-exist with private enterprises, poor performance of SOEs has tended to depress performance of private enterprises as well. It has happened in the banking and jute sectors.

RATIONALE OF PRIVATIZING IN BANGLADESH

Free economic system in the current decade has been accepted widely for the best use of utilization and expansion of the world's scarce resources. Liberalization therefore has become the primary precondition to competing successfully in the global markets and as such growing reliance is laid on the private sector capabilities for national economic development.

Hence, against this back-drop, Bangladesh has been striving for higher levels of economic growth making a strong and capable private sector to play a dynamic role Under a free and vigorous economic system which is an imperative need of the day. But as ill luck would have it, the state sector is still predominant in the economy which could not bring any fruitful result due to a variety of reasons such as, recurring heavy losses, escalating costs, declining productivity etc. Under these circumstances, there is no way out except transformation of country's policy frameworks towards free economy by taking reform programme of privatization for arresting rampant dissipation of the nation's scarce resources by the public sector enterprises.

Public Sector's growth during the post liberation period (1971-1975) was spectacular. Two factors had been predominantly responsible for this. The government had to take possessions of business abandoned by the Pakistani owners, and the government itself had a political commitment towards creation of dominant public sectors in the country. The objectives of the public sector enterprises were as follows (Haque, 1985):

- All citizens are to be assured equal opportunity.
- Mobilization of resources through generation of surplus for expansion of investment for development.
- To create conditions to emancipate the toiling masses from all forces of exploitation.
- Every citizen is to enjoy the right to work.
- Reduction of inequitable distribution of income and opportunities, both interpersonal and interregional, through appropriate choice of product and technology by creation of productive employment and building of social overhead capital.
- Reduction of poverty.
- There will be limits Co private ownership of menus of production as prescribed by law.
- Achieving self reliance through proper mobilization of productive resources and balanced development of related sectors of the economy and
- Socialist transformation of the economy through increased ownership and control of the means of production and changes in the institutional framework etc.

But over the passage of time it was found that the performances or State Owned Enterprises (SOEs) were not satisfactory. They were continuously running into losses. The continued increased losses of these SOEs exerted heavy pressure on the country's fiscal situation which was cumulating over time. "In 1992- 1993 SOEs losses had swollen to TK. 20 billion (US$ 500 million) which represents about 45 per cent of annual project aid disbursement and 2 per cent of GDP (World Bank, 1994). If these losses would have been somehow stopped, Bangladesh could, for instance, finance from its own resources a Jamuna Multipurpose Bridge Project in every 18 months (World Bank, 1994).

In 1975 there was a political change by over-throwing the then government and this change brought about a change in the attitude towards public sector as well as nationalized industries i.e. State - Owned Enterprises (SOEs). In 1976, government realizing failure of the public sector in the economy, discarded the socialist approach and adopted new policy of denationalization of public enterprises. Since then, the policies of disinvestment and denationalization have been continuing.

During the period (1975-1981), the government decided to retain 18 categories of public sector undertakings under its control, where 10 categories had opportunity of 51 per cent government holding and 49 per cent private shares (Khan, 1994). The eight categories reserved for public sector were (Chisty, 1985):

- Jute (sacking, hessian and carpet backing).
- Textiles (excluding handlooms and specialized textiles).
- Arms, ammunition and allied defence equipment.
- Atomic energy.
- Sugar.
- Air transport.
- Telephone, telephone cables, telegraph and wireless apparatus.
- Generation and distribution of electricity.

At present Bangladesh has about 225 public enterprises in operation (World Bank, 1992). They range from manufacturing enterprises, such as, textile mills, steel and engineering mills, chemicals industries and jute mills to enterprises dealing with utility and infrastructure facilities, such as, power, gas, transport and telecommunication, and enterprises engaged in transportation, banking, construction and trade. However, the largest number of SOEs, i.e. 154 are in the manufacturing sector. There are also four large commercial banks, two insurance corporations, one agricultural bank and three, development financial institutions (DFIs) in the public sector.

Table-2, shows the profits and losses of some major manufacturing SOE.s during 1994-1995 to 2003-2004. It is discernible from the table that most of tin- SOEs have incurred losses continuously. Table further reveals that BSEC has incurred losses to the tune of TK 13.5 crore in 1994-1995 which increased to Tk. 100 crore in 2002-03 and then declined to Tk. 80.4 crore in 2003-2004. Same thing has occured incase of BSFIC, though it has earned profits of Tk. 16.4 crore in 1999-2000, however, it has incurred losses in all the years during the period under reference. BCIC has earned profits for two years i.e. from 1994-1995 to 1995-1996. Then it incurred losses to the tune of Tk. 8.6 crore in 1996-1997.

Right from 2001 the losses is prominent, Tk. 54.8 crore in 2001-2002 and TK 6.6 crore in 2002-2003 which increased to Tk. 22.7 crore in 2003-2004. The same situation is observed regarding BTMC and BJMC. Both are losing concern. Though BTMC earned profits for the financial year of 1994-1995, but after then it has been incurring losses continuously which was of the order of Tk. 56.6 crore in 1995-1996, Tk. 95.9 crore in 2002-2003 and Tk. 116.6 crore in 2003-2004. BJMC has incurred losses in all the year during the period under review, i.e. it incurred losses to the rune of Tk. 146.6 crore in 1994-1995 that reached Tk. 367.9 crore in 2002-2003 and then decreased in 2003-2004 to the amount of Tk. 58.7 crore.

Table- 2

Profits and Losses of Major State Owned Enterprises During 1994- 95 to 2003-04 (Tk. in Crore)

Corporations	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
BSEC	(-)13.5	(-)8.5	(-) 4.9	(-) 6.2	(-) 7.8	(-) 36.5	(-) 86.1	(-) 106.9	(-) 100.0	(-) 80.4
BSFIC	(-)23.4	(-)33.6	(-) 31.5	(-) 9.5	(-) 25.5	16.4	(-) 12.9	(-) 69.2	(-) 92.4	(-) 65.0
BCIC	13.1	10.5	(-) 8.6	19.8	37.4	45.5	34.3	(-) 54.8	(-) 54.8	(-) 22.7
BTMC	4.2	(-)56.6	(-) 24.5	(-) 35.4	(-) 2.2	(-) 17.5	(-) 57.4	(-) 43.4	(-) 43.4	(-) 116.6
BJMC	(-)146.2	(-)158.3	(-) 42.0	(-) 143.1	(-) 188.2	(-) 370.9	(-) 247.9	(-) 312.2	(-) 367.9	(-) 58.7

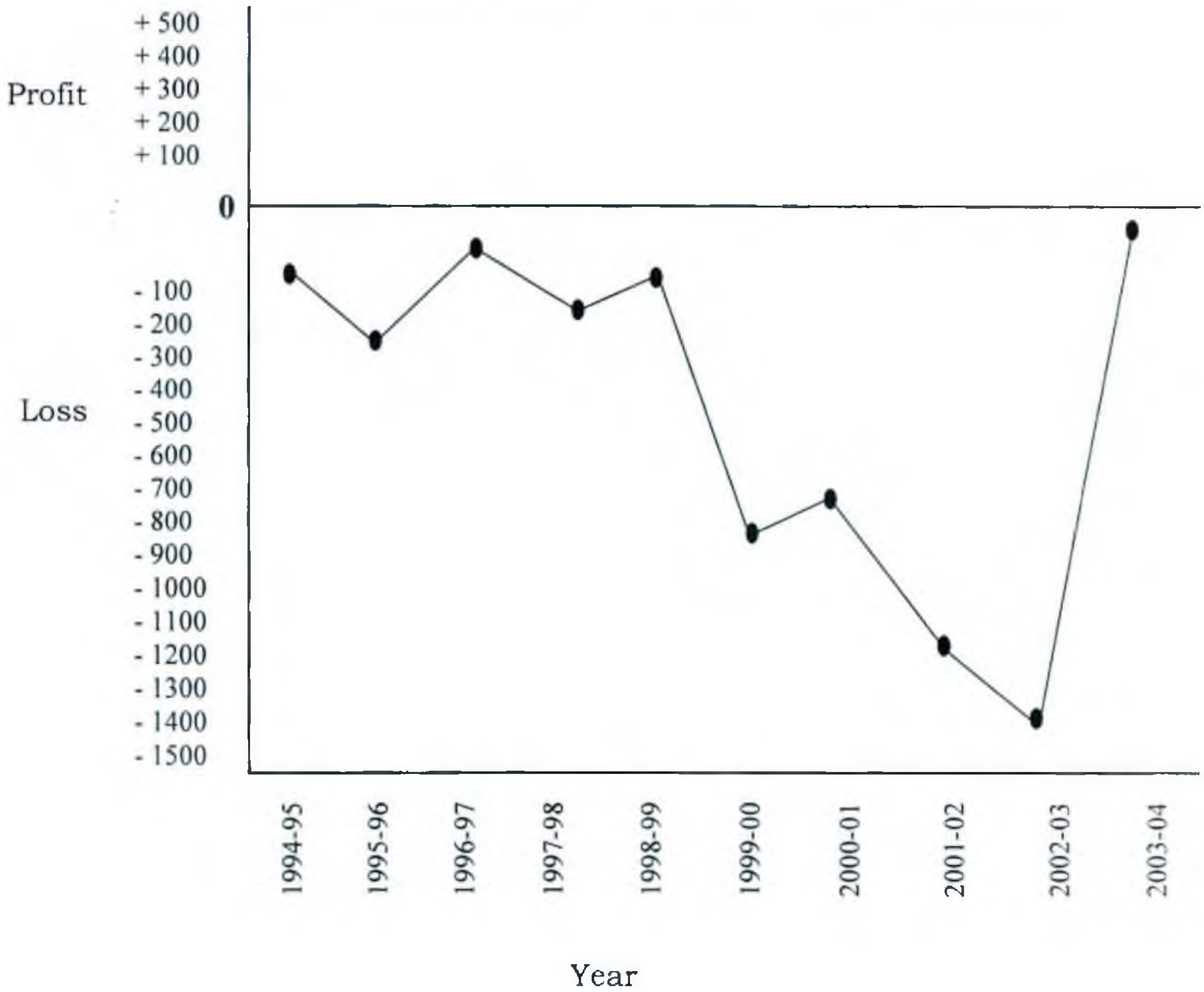
Source: 1. Statistical Pocket Book, 2005, Bangladesh Bureau of Statistics, p. 230

2. Bangladesh Economic Review, 2005, Ministry of Finance, Government of Bangladesh, June, p. 20.

It has been observed from the foregoing analysis that most of the SOEs under reference have shown increasing trends of losses. The biggest losers are the Bangladesh Textile Mills Corporations (Tk. 116.6 crore), Bangladesh Steel and Engineering Corporations (Tk. 80 crore), Bangladesh Sugar and Food Industries Corporations (Tk. 65.0 crore), and Bangladesh Jute- Manufacturing Corporation (Tk. 58.7 crore) during the period under review. The profitability trends of all the SOEs totaling 29 have also been graphically projected in graph-1.

Graph- 1

Profitability Profile of 29 SOEs for 1994- 95 to 2003- 04



It may be inferred from the foregoing tabular analysis and graph that the financial performance of the SOEs has been widely wavering for the period under review. The main reasons for lack luster performance are attributable, to lack of direction and autonomy, poor management, low productivity, rapid real wage growth, revenue pilferage, low prices and rapid built-up debt service obligations. The losses registered by the SOEs are regularly covered by the government directly through capital infusions or indirectly through write-offs of banking credits.

In table-3, a comparison has been made regarding the financial profitability of 121 private and 159 public manufacturing enterprises during 1994-04. It is noticeable from the table that the profits of 159 SOEs are 43 per cent as compared to 74 per cent of 121 private sector enterprises. It has also been observed that in all the industries under review like Textiles, Engineering, Food and allied activities, Pharmaceuticals and Chemicals etc., Private sector firms have gained higher production and have earned higher profits than public sector firms.

Table- 3

Profitability of Private Enterprises Compared With SOEs During 1994-2004

Sectors	Private Enterprises			State- Owned Enterprises		
	Total Units	Profitable Units		Total Units	Profitable Unites	
		No.	Percent		No.	Percent
Textile	19	10	53	42	9	20
Engineering	16	12	75	20	9	43
Food and Allied Activities	22	13	59	21	10	48
Pharmaceuticals and Chemicals	16	13	81	23	14	61
Miscellaneous	48	41	85	53	26	49
Total	121	89	74	159	68	43

Source: Source: 1. Statistical Pocket Book, 2005, Bangladesh Bureau of Statistics, p. 234

2. Bangladesh Economic Review, 2005, Ministry of Finance, Government of Bangladesh, June, p. 24.

There are many factors which are responsible for the poor performance of SOEs, such as, weak management, bureaucratic red-tapism, political interference, over expenditure i.e. unlawful money spending etc. However these malaise, do not largely exist in the private sector enterprises.

Table - 4 shows the comparison of employment between public and private sector during 1994-1994 to 2003-2004, it is seen from the table that the employment in the public sector is much higher than the private sector i.e. higher by 2759 per cent. The same thing is being witnessed in case of all the years under reference. In 2003-2004, the average employment was 1371 in the public sector and only 31 in the private sector representing 4323 per cent higher employment rate in public sector than in the private sector. It is however indicative of the fact that the public sector employed much more employees and labours that was not needed. As a result, the government had to pay excess salary and wages which affected profits of the public enterprises.

Table- 4
Comparison of Employment Between Public and Private sectors During the Year 1994- 95 to 2003- 04

Year	Average Employment		% of higher employment in public sector than private sector
	Public	Private	
1994-95	1115	39	2759
1995-96	1134	42	2600
1996-97	1085	60	1708
1997-98	1142	64	1684
1998-99	1186	64	1753
1999-00	1252	58	2059
2000-01	1292	60	2053
2001-02	1335	58	2202
2002-03	1081	30	3503
2003-04	1371	31	4323

Source: 1. Statistical Pocket Book, 2005, Bangladesh Bureau of Statistics, p. 237
2. Bangladesh Economic Review, 2005, Ministry of Finance, Government of Bangladesh, June, p. 27.

It is further observed that in the private enterprises, the labours are kept under pressure and restrictions. The duties and responsibilities are clearly identified and accordingly they are liable to the higher authority. On the other hand, these things lack in the public enterprise management. Labours do not have any liability for not doing their assigned duties properly. So, their productivity is not as satisfactory as that of private sector.

CONCLUSION

It may be observed that most of the State-Owned Enterprises (SOEs) in Bangladesh are losing concern registering heavy losses, so much so that it reached about US$ 500 million, i.e. 45 per cent of annual aid disbursement of the government in 2000. These SOEs have become white elephants for the government as well as great hindrance towards poverty alleviation and economic development programmes due to chunking out a large amount from the national budget. These loss making SOEs are also damaging the financial viability of nationalized commercial Banks. The biggest white elephants SOEs largely exist in the manufacturing and utility sectors.

There was, therefore, no alternative way before the government except privatizing these SOEs in order to arrest the hemorrhage in national finance and making more funds available for poverty alleviation and human resource development programmes. There is also a consensus of opinion among the economists and planners that the privatization would bring about overall efficiency putting the entire economy on a more sound and efficient footing in general and making privatized SOEs in particular capable enough to be globally competitive.

From the very beginning of the Independence (December 1971) in Bangladesh, the successive governments declared different Industrial Policies. The first Industrial Policy of 1972 was the carrier of socialistic approach to the economy. The revised Industrial Policy of 1975 was the introducer of dis-investment policy. The New Industrial Policy of 1982 was the pioneer of privatization programme, which made the provision for denationalization of jute and textile mills. The door of privatization was opened in the Industrial Policy of 1986-making provision for 51-49 plan. Thus the privatization policy was confirmed for further continuation with the declaration of Industrial Policy of 1991. There was no proper institutional mechanism for effectively implementing the privatization programme. However, later on, the government set up the Privatization Board dissolving all previous committees.

About 565 enterprises were privatized during the three phases. In the first phase (1972-1975) 156 enterprises were privatized, 227 enterprises were privatized in the second phase (1976-1981) and in the third phase (1982-1989) 107 enterprises were privatized. After this, a vigorous privatization programme was chalked out for privatizing; a large number or SOEs. And accordingly larger number of SOEs were selected for disinvestment under different categories. In implementing privatization programme in Bangladesh, some burning issues cropped up; lack of proper valuation of assets, lack of transparency in the procedure, lack of regulatory environment, lack of strong capital market, lack of co-ordination among the concerned authorities etc. are some of the prominent issues which need to be solved.

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CHAPTER - FOUR

PRIVATIZATION: GLOBAL PERSPECTIVE

PREFACE

Privatization is now a global phenomenon. There is now almost concensus among the various sections of the academia that no economy whether developed or developing can afford to compete with global economies without resorting to the process of privatization.

PRIVATIZATION IN DEVELOPED AND LESS DEVELOPED COUNTRIES

In the succeeding paragraph, an assessment is made with regard to the gains and losses of the privatization in some selected but important countries of the world.

UNITED KINGDOM

After devastating second world war, government of the rulling labour party nationalized almost all industries like-Coal, Steel, Electricity Generation, Gas Supplies, Railways, Docks, Cannals and Trucking (John, 1992) and the British Telecommunication, Air Craft and Ship Building, North Sea oil and Silicon chip production were State Owned Enterprises. But total performance of these enterprises were sluggish and they were running with negative return on capital, Low productivity, high cost, high prices, bad labour relations, inefficient use of resources and unsatisfactory customer services (John, 1992).

In 1979, Thatcher government of the conservative party, decided to transfer these loss oriented enterprise to the private sector and at that time the seedlings of privatization in United Kingdom was grown up and continued till 1991. Privatization programme in United Kingdom has been with a view to attaining the following main objectives :

- To reduce involvement of the state or public sector in economic activity (Sherry, 1991).

- To improve productivity and efficiency through competition (Dalal, 1991).
- To augment government income through sale of stock in nationalized corporations and thus helps lowering taxation which had reached very high levels (Dalal, 1991).
- To reduce borrowings.
- To encourage employees to own shares in the company in which they work (Gerry, 1994).
- To boost the level of share ownership in the general economy.
- To strengthen the capital market, and
- To gain domestic and international prestige.

Various Methods of privatization have been followed in regard to privatization in United Kingdom depending upon the company concern. Its structure, size and the competitive environment in which it operated (Sherry, 1991). However some of the methods are as follows :

Denationalization : It means transferring of ownership of a public enterprise to the private sector or the return of a state owned corporation or industry to free enterprise(Ramanadham, 1994). Some other terms have also been used in denationalization, such as :

- Allotment of share for small applicant.
- Rationing-Allotments were characterized by some kind of rationing (e.g. those who applied for up to 1,000 share were allotted 100 shares and those who applied for more were to receive nothing).
- Limits were placed on individual share holding (e.g. not more than 15 per cent of the voting shares) (Ramanadham, 1994).

- ❖ Management buy-out technique was followed in a few cases, such as National Freight Corporation.
- ❖ Free share : Shares are offered to the employees or pensioners of the enterprises at government expenses.
- ❖ Matching shares : It is similar to free share usually placed in a trusteeship scheme.
- ❖ Special share : Here government retains some shares by which it preserves veto power in case of sudden disposal of any property of the enterprises or disclosure of the enterprises. But it does not have right to interfere to the management affairs. Government holds a special share of some enterprise, such as- Amersham International P/C, British Aerospace P/C, British telecommunication P/C etc.

Deregulation : It means the flexibility of government controlling over the enterprise. This has been pursued in certain sectors, which bring the competition. The government deregulated long distance coach services, increase competition on air routes within the U.K. and between certain European countries.

Different techniques of public sale may be inferred from the privatization measures in Britain, such as :

- ❖ Offer a sale at fixed price, as Asociated British Ports holding P/C's first issues in 1983, British Telecommunications P/C in 1984 and British Gas P/C in 1986.
- ❖ Sale by tender, with the minimum price fixed as Associated British Ports holdings P/Cs second issue in 1984, British petroleum company P/C and Enterprise oil P/C in 1984.
- ❖ Public sales have been underwritten.

- In certain cases, the sale of a part or a whole of the firm was offered to a single bidder. In the case of National Freight company and Red Head Ship repairer yard, the entire firms were sold to its workers. In the case of cross channel Hovercraft service, the enterprise was handed over (rather than sold) to its employees (Sherry, 1991).
- There was a ceiling on foreign participation in equity holdings like 15 per cent.

Finally, government of United Kingdom had taken a wide spread information campaign and sale of shares for getting support of general public in favour of privatization programme. The outcome of the British Privatization programme is fruitful and it has become a mile-stone in the history of Privatization in the world. About two third of the state owned Enterprises (SOEs) have been transferred to the private sector and the proportion of individual citizens holding shares directly has risen from 1 in 14 to 1 in 4 (John, 1992). In 1979, the small group of individual share holders were 7 per cent of the British population which became more than 25 per cent in 1991 (John, 1992).

Some of the positive points as regards the successfulness of Privatization programme in United Kingdom are adumbrated as follows (John, 1992):

- **Productivity And Efficiency :** Productivity and efficiency go hand in hand. Productivity will not raise without increasing efficiency in performing the works. So, efficiency ensures more productivity and productivity ensures more profits. At British air ways and British Gas, Productivity of per employee rose by

20 per cent. In British telecommunication overall call failure has dropped from 1 in 25 to 1 in 20.

- **Service To The Customer :** Private Enterprises take care of their Customers. They try to retain customers good will because they have to survive with customers. So, they respond to the customer's need and thus customers get the best possible value of money (conservative Manifesto, 1987).
- **Labour Relations :** When employees come to know that they are the owner of the enterprise, they try to work sincerely to gain more profits. So, there is no industrial disorder in Privatization. At Associated British Ports, labour unrest was daily matter which disappeared after Privatization of the enterprise (John, 1992).
- **Government Budgets:** Through Privatization Programme, a reduction in pressure on the public budget could be ensured. U.K. Privatization is the glaring example of this.

To sum up, it may be said that British Privatization is a successful one and an ideal symbol for other countries of the world. Since it has an established capital market, well learned citizens, well coordinated planning for Privatization and at the same time sophisticated publicity campaign, which cumulatively contributed tow wards the successful implementation of the Privatization programme.

FRANCE

The wind of Privatization touched France also after election in 1986. Privatization was launched by the then prime Minister Jacques Chirac and it continued for two years. Though it was a little attempt, however, a considerable amount of equity transfer had been accomplished in a short period of time (Sherry, 1991).

Privatization programme in France had been adopted in order to achieve the following objectives.

- To improve the economic and financial performance of state owned enterprises.
- To develop financial markets to expand popular share holding.
- To relieve the state treasury from the burden of chronic deficits accumulated by certain state owned enterprises (SOEs) and
- To reduce the involvement of the state or public sector in economic activity (Sherry, 1991).

Successfulness Of The Progamme : The successfulness of the French privatization programme can be enumerated as under :

- Reduced budget Deficit : The programme heldped the goverment to reduce indebtedness. As a result of Privatization, the budget deficit fell from 3.3 percent of GDP in 1985 to 2.3 percent in 1987.

- Increased Ownership : Privatization programme has substantially increased the number of shareholders amongst the general public there were over 8 million shareholders in 1987, which reporesented a multiple of four in just one decade and over one out of eight persons owning private stock.

- Increased Importance of Paris : By dint of successful Privatization programme, the importance of Paris increased in the international financial markets. "In France Privatization represented a 30 percent increase in the capitalization of the Paris stock market over only a two year period." It has been gained through financial deregulation and removal of capital controls.

In France, though Privatization programme was held in a shorter period of time, it was a successful campaign because it was well accepted by the people as well as well-absorbed by the financial markets.

UNITED STATES OF AMERICA

United States of America is an individual country where the concept of Privatization has been adopted in different way, forms and models. Indeed, the U.S.A. adopted the move of Privatization on account of deregulation policy of the movement in the following sphares of public activities.

- Contracting out public services to the private sector.
- Letting out on the basis of contracting the various significant services to the private sector. The services include urban services, collection of garbage, disposal of wastage, electricity and public transport.
- Health and human services i.e. hospitals etc. largely belong to the private sectors.

CANADA

Crown Corporation of Canada is a central government corporation, which includes railways, airlines, post office, cultural institutions and Agricultural Marketing Board. It used to receive a total of about $8 billion annually in government support and employed more than 250,000 Canadians (World Bank, 1991). In 1987 Canadian Government owned 54 per cent crown corporation with 114 subsidiaries and 183000 employees and assets were valued at about Canadians $ 60 billion. The privatization effort in Canada began in

1984 and gained momentum in 1985 after issuing budget. There were three objectives or goals of Canadians privatization :

- ❖ To manage crown owned assets more efficiently
- ❖ To make markets more competitive and fair, and
- ❖ To offer new opportunities for Canadians to share in the growth of these companies.

To gear up the privatization process, the following administrative and institutional arrangement have been followed.

- ❖ In August 1986, A Cabinet Committee on Privatization, Regulatory. Affairs and Operations (CCPRAO) was formed by the Prime Minister.
- ❖ In December 1986, an Office of Privatization and Regulatory Affairs (OPRA) was set up to provide essential support for the privatization, effort.
- ❖ Privatization procedures were entertained also covering all aspects of privatization in the same year.

The government decided to create a separate Ministry of Privatization to make this effort a more centralized approach. Two main mechanisms have been followed in Canadian privatization process such as :

- ❖ Sale of shares/ assets by the government to a single buyer.
- ❖ Sale of shares to the public and in some cases, partial sales to employees.

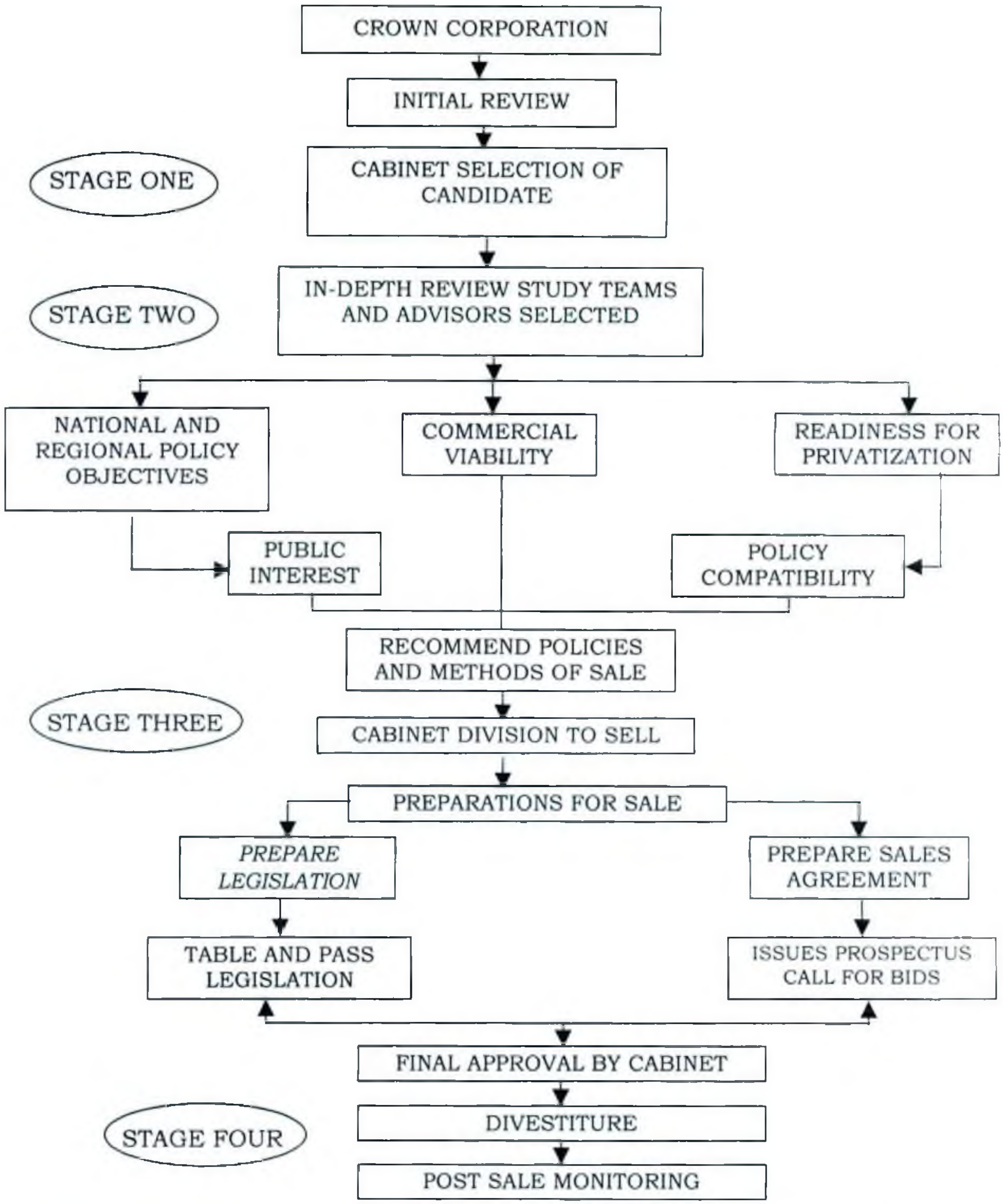
  There were other instruments also like-
- ❖ Bonus shares to residents.
- ❖ Issues of shares in installments to increase marketability.
- ❖ Schemes to allow particular groups the opportunity to gain control of specific corporations.

About 11 major federal government SOEs have been privatized since 1985. About nine have involved single buyers, while two have relied on sales of shares to the public and/ or employees. Of the total sales value of about of shares to the public and/or employees. Of the total sales value of about \$ 2 billion for these 11 enterprise, single buyers have been involved in purchases worth about \$ 1.5 billion, public share buyers about \$ 0.5 billions. The procedures adopted for privatization in Canada consist mainly the following four stages:

- **Initial Review And Selection Of Corporations:** The main function of this stage is to apply criteria for determining the privatization potential of crown corporations, i.e. role in support of national and regional policy objectives, potential for commercial viability, company readiness for privatization, appropriateness with other policies and effect on interested parties.
- **In-Depth Review:** When a company is selected be privatized, an in depth review is undertaken in order to examine all the issues associated with the privatization of each enterprise. After complication of the analysis, recommendations are made and presented by the Minister to the cabinet for discussion and approval.
- **Preparation For Sale:** After taking approval of the cabinet, the essential legal, financial and legislative steps are taken. These include valuation of the company, announcement of a sale, tabling of a bill in Parliament and the selection of the winning bid or the issuance of public share.
- **Post Sale Monitoring:** After the sale, the government monitors the performance and success of the enterprises.

The procedure is shown in following chart- 2

HOW PRIVATIZATION WORKS



SOURCE: Office of the Minister of State (Privatization and the Minister responsible for regularly affairs in Nankani Helan, "Techniques of Privatization of State Owned Enterprise, volume II, The World Bank, 1989, P.4

The following observations emerged from the Canadian (federal Government) experience:

- ❖ The setting up the CCPRAO was more structured process to moderate privatization approach.
- ❖ It is clear from the experience that people are more conscious about the sale of state enterprises to foreigners, specially American owners.
- ❖ Canada began its privatization's with the companies that were running with weak performance.

It may be observed from the above discussions that Canadian privatization process was systematic and well structured. The process was well documented also.

GERMANY

The main objective of the privatization programme adopted in Germany is to integrate a developed market economy rather than transformation of socialist economy into market economy.

There is no special privatization law in Germany. The institution has been established "Treuhandanstalt" which manages and sells the property in accordance with the rules applicable to any owner. It is a unique institution and a state agency for privatization. It has more than 3000 experts. It is responsible for speeding up privatization and reorganization of its companies.

The "Treuhandanstalt" is organized as a joint stock company. It has an executive board of directors and a steering committee composed of representatives of various Ministries, Trade unions and experienced businessmen. It has a several directorates covering individual industries and they are empowered to assume a sectoral programme of privatization. Various methods of privatization, which have been followed in this country, are: commercialization, sale of companies, restoration etc.

- Commercialization of Companies: Commercialization is the first step toward privatization in Germany. The Main component of commercialization is to ensure sufficient capital structure in these companies which are to be restructured.

- The Treuhandaslt's privatization policy : The main policy of this institution regarding privatization is to try to sell the company as a whole, not a part of the company as well as to avoid privatization by allowing private equity into state owned companies which lead to joint ventures between the public and the private sectors. In order to attract foreign investors, this institution participates in various trade fairs, Sometimes, it sells company at the least prices for the sake of negotiations that the owners must ensure the successful operation of the company in future, For this, new buyers must also be contractually bound to fulfill their promises of future investment and job creation. This institution also follows management buy-out technique in the area of small and medium enterprises. 800 companies under this programme were sold.

ITALY

Italy has a largest number of public sectors. It accounted for 15 per cent of GDP and about 25 per cent of value added in the early 1980s, as well as 70 per cent of Banking and 60 per cent of steel production. Commercial Banks used to invest in the industrial sector in Italy.

After the second world war they took over a number of major companies, hence a large proportion of their capital was tied up in equity and they became sick. In 1933, IRI (Institute Industrial Reconstruction) was set up to rescue the banks from sickness. In 1937, IRI was turned into a permanent body to take care of these enterprises. It is said that 'IRI took this opportunity to turn its business into a model of entrepreneur ship as example to the private sector.

Until the early 1960s, the performance of State Owned Enterprises (SOEs) was positive. SOEs capacity for self-financing was quite high about 50.2 per cent in 1956 and 47.5 per cent in 1961. Towards the latter half of the 1960s, the performance of the Public enterprises sector began to deteriorate due to many causes and it became a continuous trend of losses. In 1978, the losses reached a high of 1,407 billion lire (US $ 2.7 billion). In 1979, a Mediobanca survey showed that the debt /equity ratio for state controlled companies was 13.2 as compared to 3.5 for the private sector. Between 1978-81, the public sector's aggregate losses amounted to about 6 per cent of GDP. As a result of mounting losses of SOEs, the government has taken some steps for improving the financial condition of enterprises, such as i) Substantial recapitalization ii) Debt restructuring and (iii) Divestiture.

SPAIN

Spain does not have a large public enterprise sector. Its public enterprises are organized under three major state holding, i.e. the Institute National de Industrial or National Institute of Industry (INI), the Institute National de Hirecarbures or National Institute of Hydrocarbons (INH), and A conglomerate with a state monopoly in the

Tobacco and Telephone subsections (Patrimonie). These three holding account for 90 per cent of all public enterprises. INI and INH represent 55 per cent of the public enterprise sector, while Patrmonie has 34 per cent (not including Rumasa Group) and the other 11 per cent is represented by Public Radio and Television, national railways and minor state commercial services.

The performance of the public sector has been disappointing. A study showed that by 1983, total accumulated losses for the public enterprise sector were US $ 30 billion, with those of INI alone equal to US $ 2.8 billion and in 1985, INI companies lost US $ 1.3 billion.

The privatization effort in Spain was initiated on the expropriated Rumasa Group and on INI enterprises. The INH group has not yet developed a privatization programme, rather it has plans to sell equity in its companies in the stock market.

Rumasa Group was set up as a private company in 1961 with an initial investment of about US $ 5000. After 2 years it became a holding company with about 800 companies employing 45000 people. In February, 1983, it was expropriated by the government and placed under the management of Patrimonie, reprivatization took place from 1984-1986.

To reprivatize the Rumasa Group, some steps had taken by the government, such as first, the number of entities belonging to or associated with the group had to be identified. Second, the Rumasa reprivatization unit was established with a view to take care of the divestiture effort as well as to make the procedure transparent. Third, an action programme was set up for the sale of the enterprises, such as, the financing of privatization, valuation of companies prior to sell, analysis of labour related issues and identification of potential investors.

NEW ZEALAND

The poor performance of SOEs incurred a heavy losses and drained down state resources, as a result, the government of New Zealand was compelled to adopt privatization programme in 1987. The government started corporatizing its SOEs by adopting reforms that made these companies legal entities with clear objectives, operational autonomy and accountability.

This initiative of Corporatization brought out good result. Before Corporatizing, New Zealand postal service was not economically viable. But in the first year after corporatization, New Zealand post generated an after tax profit of $ 72.1 million, and it has been operating profitably ever since. Similarly, in just one year the Electricity Corporation cut the real cost of electricity production by 11 per cent and increased power generation per employee by 19 per cent.

JAPAN

The largest SOEs of Japan were incurring heavy financial deficits because of centralised decision making process, bad labour-management relations, the size of the enterprises i.e. as big as it was beyond the capability of managing well. Oil crisis occurred two times. However, the government attempted for reform of these enterprises, Consequently, the Adhoc Commission on Administration Reform was formed. Examining the condition of all the largest SOEs (JNR, NTT, TOBACCO), the Commission recommended some steps for taking reform programme.

Before Privatization, the JNR incurred an annual deficit of y^2 trillion. After privatizing it shifted from JNR to JR which generated profits amounting to 148 billion during fiscal year 1990 (Ichi-Yo, 1993). The JNR was transformed into six JR firms for passenger and one JR firm for Cargo. The JR not only made profits it solved many problems also.

The NTT, Tobacco have also been privatized in the same way. The Privatization programme of Japan has been successful because the business leaders, workers as well as management, government administration were in same line and were committed for achieving wellbeing of the entire nation.

HUNGARY

Hungarian State-Owned Enterprises were characterized by wasteful production, over employment and poor quality of marketing and management. They have been also suffering from high internal and external debts. So, The major objective of privatization in this country was to use the proceeds from sale of these enterprises to reduce the country's foreign and domestic debt (Marko, 1993). Different ways have been adopted in privatizing SOEs in Hungary which areas follows:

- **Small Privatization:** A special law of 1990 regulates privatization of shops, restaurants and other service sector activities. Sale of small units was carried out through public auction and more that 700 retail shops and small enterprises were sold by the end of 1991.

- **Spontaneous Privatization:** In this system two forms have been used as-sale of the enterprises assets and sale of its shares. In case of sale of shares, the enterprises must first be transformed into a corporation. By the end of 1991, 104 enterprises has been transformed according to this method, 53 joint ventures with foreign partners and 54 joint ventures with domestic partners had been established and 128 companies had been sold through sale of shares.

- **Active Privatization:** The SPA may initiate privatization of a company. This was as attempt to attract investors who were not linked with Hungarian Companies. In 1991 three extensive programmes and two sectoral programme of active privatization were taken including about 124 large enterprises.

- **The First Privatization Programme :** About 20 large and well performing enterprise were slated for privatization programme through tenders.

- **The Second Privatization Programmes:** The aim of this programme was to analyse, from organizational, financial and legal aspects, the performance of the holding company. Analyses were continued in 12 companies, some of them were liquidated and others were being prepared for privatization.

- **Sectoral Privatization Programme:** With a view to accelerate the privatization programme as well as to reduce the constancy costs this programme has been adopted, specially in agriculture and wine production which in all included 15 companies.

- **Investor-Led Privatization :** In this programme, the SPA introduced at the beginning of 1991 a special privatization method allowing investors to initiate the process.

- **Self Privatization :** Under this method, the SPA has granted licenses to 80 consultancy organizations that will have the right to prepare and implement privatization programme for individual companies on behalf of the SPA.

- **Employee Share Ownership:** Before turning into market economy, the employees and managers played an important role in the decision making process. So, in the privatization process, government passed the regulation for employee buy-out. In most cases, employees have the right to buy up to 10 per cent of the value of the company on favorable terms: guideline adopted by the Parliament concerning privatization to allow insiders to purchases up to 50 per cent of all the shares on favorable terms.

POLAND

Privatization in Poland was launched in as early as 1980s. The law was accordingly introduced regarding state enterprise that attempted to decentralize decision making and to increase autonomy. Two laws were introduced for regulating the privatization of companies, i.e. law on Managing State Enterprises and the Law of privatization of State Enterprises. The law particularly defines the managers and workers council's rights in the management of enterprises. There is now a separate Ministry of Privatization which formulates and implements the strategy of privatization.

By the end of 1991 around 8000 shops had sold in small privatization. More than ten large enterprises were sold through public offerings. But Poland did not succeed in the area of selling enterprise to the foreign strategic investors. In 1991, there were around 670 cases of management buy-outs and 1000 similar transactions were planned for 1992.

With the aim of speeding up privatization process, the Polish government has decided to introduce mass privatization Programme that would include free distribution of shares to the people. According to Polish government, mass privatization should be carried out in the following stages.

- ❖ At The First Stage, the government would establish up to 25 Mutual Funds which would be controlled by Polish Supervisory Boards and managed by International Banks and Private management companies.

- ❖ At The Second Stage, the government would distribute special certificates to each adult citizen, one for each newly created Mutual Fund.

- ❖ At The Third Stage, the government would distribute shares in selected Stated Owned Enterprise (SOEs) among the Mutual Funds-33 per cent to the leading Mutual Fund and 27 per cent among other funds, 10 per cent of the shares would be distributed to the workers and 30 per cent would remain in the hands of the government which would later either find a strategic investors or transfer these shares to pension funds.

In order to minimize the consultancy costs from foreign consultants, Sectoral Programmes of Privatization has also been chalked out and 35 sectors with around 500 enterprise are to be included under this programme.

CZECH AND SLOVAK FEDERATION

The main objective of the Czech and Slovak privatization programme is to increase efficiency of companies and reduce subsidies as well to bring change in the socio-economic system. Various methods of privatization have been followed but special emphasis has been given on voucher privatization. About 90 per cent of companies have been decided to be sold through this method.

Several laws have been introduced for this programme of privatization viz. the law on small denationalization, followed by the law on small privatization and the law on denationalization of large enterprise linked to the law on privatization of larges enterprises. A large number of Committees were set up with full powers to carry out the process. Not only the Ministry of Finance was given responsibility of implementing the programme successfully but special Ministries for privatization have also been created for the implementation of the privatization programme. Three basic methods of privatization adopted in this country are as follows:

- Restitution of naitonalised property.
- Sale of companies to domestic and foreign investors through different privatization methods, and
- Voucher privatization, where property is given for symbolic value to those citizens who have decided to take part in the programme.

LAOS

Laos is a centrally planned economy. The major portion of the enterprises in this country are run by the government. Reform of SOEs was started in 1988 onward by increasing autonomy of the

SOEs and privatizing selected enterprise with a view to increasing financial solvency and performance. As of the end of 1988, 400 SOEs had been granted such autonomy (John, 1991). In this regard, Decree No. 19, has greatly expanded the operational planning and budgeting, procurement, personnel and financial management.

Privatization programme in 1989 was adopted separately and for limited areas. This programme had applied only to industrial and commercial concerns. The main procedure was labeled "disengagement" which consisted of variety of forms, like-the contracting our, leasing, allowing private investment in the public firms, partial or full sales; closures and liquidations, sub contracts of certain activities to foreign firms. A 1989 decree clarified the rights of foreign investors to enter the Laotian market.

MOZAMBIQUE

In Mozambique the government introduced the Economic Rehabilitation Programme in 1987 on account of disappointing performance of SOEs from the mid 1980s onward. The aim of this programme purported mainly to increase enterprise autonomy, accountability and simplified access to foreign exchange allocation and at the same time, to increase financial strength and reduce budgetary support. Recently the government has set up enterprise Restructuring Technical Unit in the Ministry of Finance which is accountable for reviewing rehabilitation and restructuring plans submitted by the enterprise. The investment law has also been brought out to encourage competition from both foreign and domestic sources.

Different methods of privatization followed in this country include sales, partials sales, joint venture etc, Several liquidations were planned, but none took place at all. In the period of 1986-88, 25 full sales and 20 partial sales-were reportedly transacted. Privatization in this country has taken place on a case by case basis involving small and medium sized commercial and industrial firms. Foreign investors have also been encouraged to come in on a joint venture basis. It has been decided that "up to 75 per cent of SOEs can be sold to a foreigner and 100 per cent to domestic purchaser."

CROATIA

Croatia after having won independence from Yugoslavia, has made its own law on privatization and its privatization efforts have made the greatest progress. Two laws have been made in Croatia. The first law is no so specific for privatization but the second law is more specific for privatization. In accordance with the second law, two institutions have been made in all the republics on their territories for assisting the privatization process. The first institution is an 'agency' for restructuring and recapitalization, to oversee the privatization process. The second is a "fund for development which is meant to receive the funds generated through privatization" (Branko, 1991). Four methods of privatization have been followed in Croatia, such as:

- Sale of the whole enterprise or part of it.
- By making an additional investment in the enterprise and corresponding participation in the share capital of the enterprises.
- Transformation of assets already invested into share capital or existing claims into capital participation.
- Through transfer of ownership to the Croatian fund and to other funds without compensation.

Whatever the methods or types of privatization selected, the enterprises will be transformed either into joint stock companies or into companies with limited liability.

RUSSIA

Russia was the pioneer of creating public enterprises and state control system. They believed in command economy instead of market economy unfortunately, the public enterprises phenomenon began to change due to nagging performance of public enterprises and Russia embarked upon reform programme by disintegrating itself in 1989. The privatization effort began in 1991 which gained impetus in 1993. The privatization was the most popular reform of the Russian government. Most of the people i.e. more that 60 percent of the Russian people supported privatization. The Russian privatization programme may be divided into some steps, such as:

Firstly: small firms, shops were sold by cash and vouchers.

Secondly : The programme delineated large firms into those subject to mandator privatization which included firms in light industries, including textiles, food processing and furniture.

Thirdly : All large and medium sized firms were to be corporaized i.e. tye were transformed into joint stock cmpnaies. In corporatized firms, managers any workers had three options to pick:

The first option gave workers 25 per cent of the shares of the enterprise for free. An additional 5 per cent so shares could be obtained by managers and workers at low prices through the Employee stock ownership plan (ESOP).

Second option gave managers and workers together 51 per cent of the equity at nominal price.

Third options allowed the managers to buy up to 40 per cent of the shares very low prices.

By July 1, 1993, out of 1972 large enterprises slated for mandator privatization, 2918 enterprises were decided to be privatized by State Committee on the Management of state property (Maxim, 1993).

INDONESIA

After independence in 1945, the government took over all the corporation through nationalization. But the State Enterprises were claimed with inefficient and mismanagement. The government attempted to liberalize the policy and to reduce the government's control over the public enterprise sometimes. But it was hindered on account of many reasons.

There was no strong institutional arrangements, however, in 1987 a committee was set up by the president Suharto, which included the Economic Minister, the National Developed planning Minister and the Finance Minister of study plans regarding selling the public enterprises. The committee instructed to chalkout the method of divestiture.

The committee suggested many ways of privatization, viz, Deregulation, sale of shares, Mergers, joint ventures with private sector liquidation etc. It was decided to attract and encourage foreign investors also (Habir, 1989).

First-Suharto government (1967), took the policy to encourage foreign investments and at the some nationalized industries were also returned to the previous owners. According to the recommendation of the Cnetre for Strategic and International Studies (CSIS), the government took active programme of privatization during the period of 1982-86 in expectation of generating funds needed for the country's developed. As a part of the privatization programme the government began to deregulate the financial sector and planed to privatize the Jackarata Stock Exchange in the early 1990. However, Indonesia also faced some problems in implementing the privatization programme, such as:

- Obstacles from opposite political parties.
- Lack of an active viable capital market.
- A more important obstacle to find potential buyers, the lack of investor's confidence in the capital market as well as the lack of understanding of the operations and possible profits.

PHILIPPINES

There was a large number of State Enterprise in Philippines in the 1970s and the early 80s. They did not however perform well incurring heavy losses. According to one significant study it was disclosed that by profitability and productivity measures the public enterprise sector is generally inefficient (Manasan, 1988). So, president Acquino has adopted a 5-year campaign to sell some enterprise of US $ 32.5 billion.

In 1986, president Acquino formed a cabinet level policy making committee on privatization (COP) and policy implementing arm "The Asset Privatization Trust" (APT), headed by the Finance Minister to oversee the divestment of state assets. The methods of privatization adopted were sale of assets, and divestiture. There were many problems in implementing the privatization schemes, such as:

- There was no interested investors to whom assets could be sold.
- There was a technical problem regarding valuation and audit, the legal preparation of the assets for sale etc.
- If the government stepped into to evaluate the properties or to veto any particular sale, it would inevitably into conflicts among potential buyers, raising other political objections and risking the programmes credibility among investors (Haggard, 1988).
- There was a conflict of which private sector groups would be allowed to gain access to the companies and on what terms. The most contentious questions surrounded competing domestic claims, particularly from previous owners. There was a strong sentiment that Macros cronies and their fronts should not be allowed to purchase companies being privatized.
- Another problem was relating to finance. The domestic capital market was not able to provide sufficient funds for purchase of assets.

THAILAND

In Thailand, Public enterprises have played a dominant role in the economic development. The objective of public enterprises is to achieve commercial as well as social benefits. But as ill luck would have it, achieving this objective is often hindered owing to inefficiency, mismanagement etc. Before the oil crisis of 1973; the public enterprise were not draining down the government exchequer rather they were contributing revenues in favour of the government treasury. As a result of oil crisis, operating costs increased, specially in the fuel consisting industries. So, they had to depend on debt financing. In 1986, the government reviewed the performance of all the loss making public enterprises in order to attempt the privatization programme.

For privatization programme in Thailand, no specific institutional arrangement was made, however, the government set up a National Public Enterprises Committee with a view to improving the efficiency of the public enterprise. The government also declared that inefficient public enterprises would be liquidated and it was recommended that to increase efficiency, existing enterprises should be undertaken privatization schemes like management contracting, leasing or liquidating loss making units (Kawe, 1988).

SINGAPORE

Since independence, (1965), Singapore has gained all-around success as a result of efficient public enterprise system. But in the mid 1980s, the performance of the Singapore economy slowed down. For this a special high level Economic Committee was formed to examine the long-term problems and to define new strategy for promoting growth, so, it was decided that Singapore has always been a free enterprises economy, the private sector should continue to play the leading role (Singapore Economy, 1986).

On the basis of the recommendation of the Economic Committee, a Special public sector divestment Committee was formed to identify opportunities for strengthening stock market, to identify government linked companies, to chalkout a programme with appropriate timing etc.

MALAYSIA

In 1983, the Prime Minister announced the government's privatization policy. In accordance with those guide lines the objectives of privatization in Malaysia are summarised as follows (Guideline of Privatization, 1985).

- ❖ To relieve the financial and administrative burden of the government with respect to public enterprises.
- ❖ To promote competition, improve efficiency and increase the productivity of these enterprises.
- ❖ To stimulate private entreprieurship and investment in order to accelerate the rate of growth of the economy.
- ❖ To assist in reduction of the size of the public sector and its monopolistic and bureaucratic tendencies and
- ❖ To contribute toward the objectives of the New Industrial policy (NIP), with particular attention on the role of Buniputera (indigenous, mostly malay) entrepreneurship).

After issuing the guidelines on privatization, the government established an institutional machinery for privatization, named "the Privatization Committee under the chairmanship of the Director General of the Economic Planning Unit (EPU). It has overall responsibility for planning, monitoring, coordinating an evaluating the privatization programme. In addition to the main committee, the is a privatization secretariat under the Director of the Privatization Task Force. The Secretariat basically works as the organizational hand of the main committee. The four additional technical committees were also set up to conduct privatization studies. After completing analysis of the background reports by the technique committees, interested private sector members are invited to presented this case recommendations are sent to the main committee for analysis and detail negotiations. Finally, the Cabinet has to give its stamp of approval. The techniques of privatization followed in Malaysia are as follows (Ramanadham, 1994) :

- ❖ Sale of Shares or partial privatization: In this form, the government retail a portion of the ownership of the enterprise. Joint ownership covers case where the ownership of the share capital is on a 50:50 (Per cent) basis.

- ❖ Selective privatization: An agency responsible for certain services or inter may sell or lease or a part of its services while retaining the remaining service under public ownership, control and management.

- ❖ Management Privatization: The management expertise and know how of the private sector has been invited through a management agreement.

- ❖ Contract Privatization: There is private-sector involvement in provision of certain services or activities, but there is no change in organizational set up of the government agency responsible for the service.

- ❖ Leasing Privatization: For financial or other reasons, leasing should considered by the parties involved but the responsible agency will have evaluate the cost and benefits of leasing and to indicate whether it will permanent feature or only a phase in its privatization plan.

INDIA

In India, with the announcement of the New Economic Policy on July, 24, 1991 and the sub-sequence successive four budget proposals, the wind of privatization has started blowing vigorously. In India, the move of privatization was primarily mooted to raise resources to fill up the budgetary deficit, to encourage wider public participation and to promore greater accountability.

The technique adopted for privatizing public sector enterprises in India is partial disinvestment of shares. It was therefore, in consonance with this policy, up to 20 per cent of the government equity in selected public enterprises was contemplated to be offered to Muitual Funds, Financial/Investment Institutions, Workers and general public.

In first phase, the government selected 31 public sector enterprises with good track record of performance and offered a part of their equity in the range of 7 per cent to 20 per cent of the government equity in selected public enterprises was contemplated to be offered to Mutual Funds, Financial Institutions. The total number of shares disinvestd during 1991-1992 constituted only 8 percent of the government holdings in 30 public enterprises, with the total value of Rs. 3038 crores.

The second phase of disinvestment took place during 1992-1993. During this period the government was able to mop of an amount of Rs. 1912 crores by disinvesting the shares of public sector enterprises. This amount constituted approximately 5 per cent of the equity holding of the 16 selected public sector enterprises.

PAKISTAN

In Pakistan, the government played a vital role to its industrial sectors independence in 1947. The Pakistan Industrial Development Corporation was established in 1950 with a view to accelerating the private sector and at the same time, Pakistan Industrial Credit and Investment Corporation and Industrial Development Bank of Pakistan were also established. So, enormous wealth had been accumulated and got concentrated in a view hands, so much so that 22 families or industrial groups controlled 66 percent of the national wealth and 80 percent of the financial assets (Shafqat, 1989). This trend changed during Z.A, Bhutto rezime, with the promulgation of the Economic Reforms Order of 1972, through which 33 indigenously owned industrial units, all local banks, 32 life insurance companies, shipping companies, 26 vegetable oil factories, petroleum making companies and over 2000 cotton ginning and rice husking mills were nationalized (Husain, 1987). But this trend or nationalization was stopped by General Zia-ul-Haq in 1977 and the very process of privatization was started by returning a few industries to their original owners, like, cotton ginning and rice husking mills, Ittefaq foundries; Nowshera Engineering etc, During this martial law regime, Privatization movement however did not get speed, only 4 industrial units were privatized (Jafri, 1994). From this period onward, the privatization process has been continuing till date by the successive governments.

At the end of Zia Regime, Benziar Bhutto came into power in 1988 and interdicted the privatization programme vigorously. To gear up this programe, a foreign consultant M/S Rothehild was hired to identify units for privatization. Benazir Bhutto announced that some key industries would be privatized though only 49 percent of their shares would be sold. However her government had time only to sell

10 percent of P.I.A. shares, but could not follow up its progarmme (Privatization policy, 1991).

Nawas Sharif came into power in December, 1990 and took the privatization policy vigorously to attract more foreign investment and stem flight of capital. This government thus declared to privatize 100 State Owned Enterprises (SOEs) within a year. This programme was partially successful.

In 1991 a privatization commission (PC) was formed consisting of four full-time and four part-time members assigned by a secretariat. A Cabinet Committee On Privatization (CCOP) was created to ensure government approval for proposals brought forth by the PC, and a high powered Inter-Ministerial Committee was also authorized to negotiate a settlement with labour to facilitate the process of privatization. The methodology for implementation of privatization programme included the following (Syed, 1994) :

- Wide spread ownership, special treatment for management and employees.
- Total transparency in the process of sale and transfer.
- Public awareness and support
- Thoroughness in preparation, utilizing the services of outside consultants.

About 65 units were sold and transferred by PC in less than two years. Among them seven units were sold to the employees, Five were bought out by foreign investors, ten were bought by well established large groups an d five by old owners and the remaining thirty seven units were new investors.

SRILANKA

Srilanka has a large number of State owned Enterprises (SOEs) that account for about 40 per cent of the gross output in manufacturing, 38 per cent of manufacturing value added and over 40 per cent of employment in manufacturing (Tissa, 1994). But the performance of this larger sector in terms of productivity and efficiency has been total disappointment. So, the government was forced to adopt the policy of privatization in 1977.

In 1980, a Committee on Public Enterprises (COPE) was appointed consisting of 10 members from Parliament and finance Ministry (Helen 1988). Two bills companies by the Public Enterprises Division of the treasury with the help from COPE which were enacted on May 15, 1987, and in the same year 'The Presidential Commission on Privatization' was also formed.

Three types of techniques were adopted for privatization. viz. (1) complete or partial transfer of ownership, (ii) Joint ventures and (iii) Management contracts.

Inspite of taking all possible measures for privatization, there were some problems also, such as The Institutional framework was not clear and sufficient, eligibility of investors was not clear, there was no policy at all on Foreign Direct Investment; Under valuation of shares, Labour unrest; the programe was not speedy etc.

NEPAL

The Government of Nepal announced its privatization policy in 1991 (Rabindra, 1994). With a view to upgrading a dynamic economy by creating a healthy private sector. They primary objectives of privatization policy in Nepal are as follows.

- To relieve the financial and administrative burden of the government and to release funds for better alternative uses.
- To improve efficiency and productivity.
- To facilitate economic growth, and
- To reduce the size and presence of the public sector in the economy.

Following these objectives, the government of Nepal tried to go in for privatization phase wise. In the first phase, three public enterprises have been privatized, in the second phase out of 32 public enterprises identified for privatization, 14 enterprises were undertaken for privatization. In the third phase, 18 enterprises have been reported to be privatized started from February, 1994. 'The entire phase of the above privatization is expected to be completed by July, 1986.

BHUTTAN AND MALDIVES

Bhuttan and Maldives have not yet advanced towards the massive programme of privatization like other member countries of the SAARC. However, the case of privatization in Road Transport, Recreation facilities, Fish and Food processing are bright in these countries.

TOGO

In 1975, the government of Togo initiated expansion of State-Owned Enterprises (SOEs). But the performance of SOEs was not satisfactory. Most SOEs money from the government exchequer. Then the government undertook steps to rationalize the SOEs. A Ministry of State Enterprises (MSE) was established in the late 1984, for monitoring the performance of SOEs. After some days of its establishment, Ministry of State Enterprises (MSE) made a broad based classification of SOEs, dividing them into three main groups.

- Enterprise which are to be retained in the Public sector.
- Those which are to be liquidated and
- Those are to be privatized or restructured.

'Among 72 SOEs, 8 SOEs were slated to be liquidated and 24 were to be privatized and the 18 SOEs proposed for privatization in the initial phase (Helen, 1988). However, Togo was one of the first SSA State of turn to privatization for managing the inefficient public sector. Privatization has covered various industrial units also which were 100 per cent government ownership as well as joint venture with the private sector.

GHANA

In Ghana, the state enterprise sector includes more than 340 enterprises in the mining, energy, utilities, business and financial sectors of the economy. But the performance of a large number of SOEs was so poor that they had become a threat to the economic and financial stability of the country.

Subsidies and loans to SOEs averaged some 12 percent of total government expenditures during 1980-1982 (Adda, 1991). In these circumstances, the reform programme was adopted with a view to achieving objectives viz: to improve the efficiency of the economy by encouraging private sector participation, to develop a domestic capital market, to motivate the private sector, to reduce the fiscal deficit and to raise foreign exchange.

In the first phase, 32 SOEs were divested (liquidation or privatization and a second group of 42 pubic enterprises were identified for divestiture in 1988. Another 39 divestitures were completed through there first quarter of 1991. These included 22 liquidation, 12 out right sales, 2 joint venture and 3 lease arrangemens.

Ghanaian Privatization could not show much success as expected. Among 28 privatized enterprises, only four firms continued to operate Profitably; two others were operating close to the break-even point. Nine of the remaining enterprises never resumed operations after sale, and the remaining thirteen were in difficulty because of procurement problems, limited export markets, lack of working capital, and limited access to government subsidies and commercial credit (World Bank, 1992).

CHILE

During 1970-73, the Allende government sought to convert Chile in to a fully socialist economy and as a result, the number of state-owned Enterprises (SOEs) increased. By the end of 1973, there were 600 SOEs, among these, 350 had been nationalized during the preceding three years and others were created. By 1983, SOEs accounted for 40 percent of GDP and more than 80 percent of mining and financial service3s. In 1973, the military government came into power and initiated a policy of financial and trade liberalization. "A policy of public sector retrenchment was undertaken as part of an effort to reduce the fiscal deficit, which amounted to about 25 percent of GDP" (Helen, 1988).

In order to gear up the privatization programme, and administrative structure for privatization was set up within CORFO in the early

1970s. CORFO was considered the more effective institution to control the divestiture of all state enterprises.

MEXICO

In Mexico, 'government transfers and subsidies to SOEs amounted to more than 3 per cent of GDP in 1982'. As a result, SOEs became an unbearable burden on the budget. 'So, the government was compelled to chalkout privatization programme. In 1984, more than 400 SOEs have been sold or liquidated in a wide range of sectors, like, telecommunications, airlines, sugar, mining, manufacturing and services and an additional 400 SOEs have been merged or have been transferred to municipalities. '62 privatized petrochemicals and auto parts firms increased investments to as much as 75 per cent, adopt better financial management techniques, improve the technology, and reduce the numbers of managerial staffs.

MAJOR FINDINGS OF GLOBAL PERSPECTIVE

From the foregoing review, it may be observed that the effectiveness of privatization depends on various factors under various situations. Some of these factors arc briefly analyzed as under:

1. **Privatization Leads To Better Efficiency and Productivity:** It starts from an ideology that private ownership works better than government ownership. It was Adam Smith who put forward his argument that no two characters seem more inconsistent than those of trader and sovereign (Adam, 1993). People are more prodigal with the wealth of others than with their own. Public administration is negligent and wasteful because public employees do not have a direct interest in the commercial out come of their actions. In State Owned Enterprises (SOEs), neither management nor employees or trade

unions belong to the enterprise hence they have no responsibility about the performance of the enterprise and they are very much reluctant about their duties.

In private enterprises, the condition is just reverse. Its management and employees own the shares of the enterprise, they all become very careful about the performance of the enterprise. Because if the enterprise runs with profit, they will be gainer so that they try their level best to increase efficiency and productivity. Further more, without increasing efficiency productivity they can not exist in the competitive market.

The main motive of the private enterprise is to maximise profits, so the cost is minimized that is not practiced in the SOEs. Because public enterprise decision makers lack incentives to control cost. One of the important reasons for this is the fact that it is hard to distinguish good from bad managerial performance, since there were both legitimate and illegitimate reasons for saving money.

2. **Success Depends On Socio-Economic Factors:** Experience from different countries evidenced that privatization was intensely political. Political implication is a must to succeed any programme of privatization. The U.K. privatization has succeeded because they had strong political willingness. Salinas de Gortari in Mexico and Menem in Argentina have sought to reverse gears of government intervention in their respective economics and the basic ideology of their own political parties by making privatization a cornerstone of their own economic reform programmes.

Labour relation is also an important factor relating to success of privatization programme. Labour must accept and adapt with the change of the enterprise. For this, labour's interests must be protected. In all privatization schemes, labour relations problems are likely to arise, stemming from workers fears of job and income losses and a decrease in trade union influence (Johannes, 1993). They will never oppose privatization if their interests are protected.

3. **Competitive Situation and Market Discipline are Crucial for the Success of Privatization:** There should he a competitive environment for successful privatization where, public and private enterprises co-exist. Customers will loss their benefits if competition does not prevail in the market. At the same time, market discipline is not possible, under public enterprise, because private enterprises are enlisted to the stock market so that they must obey some rules and regulations. In order to attain market discipline and more competition, the legal aspect of marketing should be considered.

4. **Cost-benefit Framework can be used to assess the need for Privatization and Also Measure The Post Privatization Effects:** The policy makers should analyse the costs of privatization and potential benefits from it. By analysing costs-benefits theory one can ascertain whether SOEs should be sold or not; or to whom it should be sold and at what price it should be sold.

By using this analysis, post privatization performance can also be measured and can be assured whether privatization is really beneficial to the society or not.

CONCLUSION

From the foregoing analysis, it is observed that most of the countries of the world have started globalising their economy through liberalization of their business and trades since 1980s. Recently, with the signing of the Uruguay Round Trade Talks under GATT, all LDCs like Bangladesh and others have entered into a highly competitive global market and will have to face stiff competition worldwide. Accordingly, the government of Bangladesh looking around the advent of market economies the world over, has taken steps to encourage the private sector to come forward with investment toward development of the economy and has taken a mass privatization programme in its numerous forms.

The developed economies have taken lead in privatization for economic growth and stability. Britain illustrates the point. The privatization programme has gained tremendous success in Britain in all respects like, productivity, efficiency, customer service, labour relations, reducing government budgets to the SOEs, spreading ownership among the people etc. Following Britain's achievement, other developed countries like, USA, France, Canada, Italy, Spain, New Zealand etc. also adopted a vigorous privatization programme and they succeeded too.

The socialist countries, the symbol of public enterprise in the world, also accepted the move of privatization in order to fall in line with changing phenomenon blowing throughout the world, Russia, Hungary, Poland, Czech and Slovak Federation and other socialist counties introduced mass privatization programe, Among them Hungary, Poland and Germany were on the top embarking upon the privatization programme.

ASEAN countries have also been successful in privatizing their SOEs. They have followed different techniques of privatizing SOEs according to the nature of the project. Among the ASEAN countries, Malaysia is the mile-stone for Asian Nations as the privatization in this country has been quite successful. SAARC countries are also not exception to the privatization phenomenon. However, they have not been able to achieve notable success on account of certain inherent stumbling blocks.

The privatization phenomenon did not spare the Sub-Sahara African countries too. Ghana, Togo, Nigeria, Malawi etc. have also embarked upon a mass privatization programme, Latin American Countries were the symbol of reform programme of privatization. These nations followed a vigorous privatization programme and were able to reduce subsidies to SOEs. Mexico and Chile were the top among the Latin American Countries to successfully adapt to the privatization movement.

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CHAPTER – FIVE

EXISTING STATUS OF STATE OWNED ENTERPRISES IN BANGLADESH

PREFACE

It has been noted earlier that the performances of most of the State Owned Enterprises (SOEs) are sluggish incurring heavy losses every year. Heavy subsidy from the government exchequer has added fuel to the fire. In fact the damaging effects on the economy due to financial losses of State Owned Enterprises (SOEs) are four fold (Ramchandran, 1994): Firstly, it draws away resources from the highest priority poverty alleviation and human resources development programmes of the government of Bangladesh. Secondly: total State Owned Enterprises (SOEs) debts to the State Owned that the financial viability of those banks is threatened.

Over all performances of State Owned Enterprises (SOEs) in Bangladesh were very much depressed and in the recent times alone these State Owned Enterprises (SOEs) made significant losses to the exchequer to the tune of Taka. 2,500 crore annually (Bangladesh Bank Report, 2000). Thirdly: the quality of services provided by many State Owned Enterprises (SOEs) is poor and inadequate because of increasing production cost, goods and services have become incompetitive in domestic as well as international markets. Fourthly: in sectors where State Owned Enterprises (SOEs) co-exist with private enterprises, poor performance of State Owned Enterprises (SOEs) has tended to depress performance of private enterprises as well. It has happened in the Textile, Jute and Other sectors.

Bangladesh is a developing country with limited resources and with growing population (more than 2 per cent every year) with per capita income of US $ 460 only (World Bank, 2004). The economic growth of Bangladesh is hindered due to lack of food, cloth and shelter. According to the World Banks, (World Bank Report, 2000) "economic growth at the rate of 6 to 7 per cent in the medium to long run must be achieved just to sustain poverty alleviation.

The rate of economic growth can only be achieved by increasing investment by 17 to 19 per cent of GDP from present rate of 11 to 12 per cent. To achieve over all target growth rate of 6 to 7 per cent per annum, agricultural growth must increase to 3 per cent annum, while manufacturing growth mush reach 10 per cent per annum and must grow by 7 per cent per annum. However, this condition seems to have aggravated due to continuous increasing rate of subsidy to the State Owned Enterprises (SOEs).

EXISTING STATUS OF STATE OWNED ENTERPRISES IN BANGLADESH

It can be said that development of socio-economic condition of the country the government of the peoples republic of Bangladesh has taken steps for privatization of State Owned Enterprises (SOEs). Cited that, in this regard a full conception should be adopted of some State Owned Enterprises (SOEs) in Bangladesh is necessary. In this connection to get a vital conception of State Owned Enterprises (SOEs) which are lying under the different ministries and corporations of government of the peoples republic of Bangladesh. Among those the following State Owned Enterprises (SOEs) are:

- Jute Industries
- Textile Industries
- Sugar and Food Industries
- Chemical Industries
- Steel & Engineering Industries

Existing/ Present status of some state owned enterprises (SOEs) of different sectors are given below:

Existing status / Brief account of Some SOEs in Bangladesh

Sl. No.	Name and Location	Year of Establishment	Main Products	Manpower	Assets (in crore taka)	Liabilities (in crore taka)	Comments
01	Karim Jute Mils Limited, Demra, Dhaka	1954	Hessian, Sacking and Carpet Backing Cloth	Officer: 125 Staff : 303 Worker : 2463	127.56	135.76	Net Worth Decrease
02	Nishat Jute Mills Limited, Tongi, Gazipur	1957	Hessian, Sacking and Carpet Backing Cloth	Officer : 77 Staff : 239 Worker : 1870	47.91	60.96	Net Worth Decrease
03	Daulatpur Jute Mills Limited, Town Khalishpur, Khulna	1955	Hessian and Sacking	Officer : 72 Staff : 350 Worker: 1033	29.47	45.96	Net Worth Decrease
04	Hafiz Jute Mills Limited, Sonaichari, Bara-Awali, Chittagong	1962	Hessian and Sacking	Officer : 67 Staff : 250 Worker : 2751	96.15	55.14	Net Worth increase
05	Star Jute Mills Limited, Chandani Mahal, Khulna.	1958	Hessian and Secking	Officer : 101 Staff : 344 Worker : 3050	114.00	277.50	Net Worth Decrease
06	Bawa Jute Mills Limited, Modanganj, Narayanganj	1950	Hessian, Sacking and CBC	Officer : 79 Staff : 254 Worker : 1965	52.86	34.80	Net Worth increase
07	Munawar Jute Mills Limited, Siddhirgonj, Nararyangonj	1966	Carpet Backing Cloth	Officer : 59 Staff : 189 Worker : 1123	28.83	38.45	Net Worth Decrease

08	Rajshahi Jute Mills Limited, Shyampur, Rajshahi	1969	Hessian Sacking and CBC	Officer : 46 Staff : 222 Worker : 1324	39.96	55.23	Net Worth Decrease
09	Jessore Jute Mills Limited, Rajghat, Jessore	1970	Hessain, Sacking and CBC	Officer : 88 Staff : 360 Worker : 2148	60.93	74.16	Net Worth Decrease
10	Alem Jute Mills Limited, Atra industrial Area, Khulna	1968	Hessian And Sacking	Officer : 56 Staff : 189 Worker : 1207	28.66	30.01	Net Worth Decrease
11	Latif Bawani Jute Mills Limited, Demra, Dhaka.	1956	Hessian, Sacking and CBC	Officer: 152 Staff: 456 Worker : 4625	127.86	82.25	Net Worth increase
12	R.R. Jute Mills Limited, Banshbaria. Chittagong	1969	Carpet Backing Cloth	Officer : 39 Staff : 91 Worker : 504	26.86	47.03	Net Worth Decrease
13	Eastern Jute Mills Limited, Atra, Khulna	1967	Hessian, Sacking and CBC	Officer : 65 Staff : 235 Worker : 1616	61.74	59.75	Net Worth increase
14	Gul Ahmed Jute Mills Limited, Masajidda, Sitkunda, Chittagong	1968	Hessian, Sacking and CBC	Officer : 68 Staff : 218 Worker : 1749	58.63	35.46	Net Worth increase
15	Karnafuli Jute Mills Limited, Rangunia, Chittagong	1970	Carpet Backing Cloth	Officer : 52 Staff : 137 Worker : 593	57.33	43.96	Net Worth increase
16	Crescent Jute Mills Limited, Town Khalishpur, Khulna.	1954	Hessian, Sacking and CBC	Officer : 167 Staff : 601 Worker : 5456	277.20	292.88	Net Worth Decrease

17	M.M. Jute Mills Limited, Sitakunda, Chittagong	1971	Carpet Backing Cloth	Officer : 38 Staff : 88 Worker : 331	49.71	25.20	Net Worth increase
18	Amin Jute Mills Limited, Shola Shahar, Chittagong	1954	Hessian, Sacking and CBC Carpet, Mat, Tape	Officer : 158 Staff : 456 Worker : 5625	265.05	137.23	Net Worth increase
19	Peoples Jute Mills Limited, Khalishpur, Khulna	1956	Hessian Sacking and CBC	Officer : 141 Staff : 501 Worker : 5853	228.11	284.34	Net Worth Decrease
20	Quami Jute Mills Limited, Raipur, Sirajganj	1963	Hessian, Sacking and CBC	Officer : 92 Staff : 259 Worker : 2727	54.68	65.19	Net Worth Decrease
21	UMC Jute Mills Limited, Norshindhi	1963	Hessian, Sacking and CBC	Officer : 137 Staff : 455 Worker : 4546	154.53	137.94	Net Worth increase
22	Platinum Jute Mills Limted, Town Khalishpur, Khulna	1958	Hessian, Sacking and CBC	Officer : 126 Staff : 493 Worker : 4548	100.54	92.15	Net Worth increase
23	Carpeting Jute Mills Limited, Noapara, Jessore.	1966	Carpet Backing Cloth	Officer : 50 Staff : 141 Worker : 710	44.58	95.48	Net Worth Decrease
24	Tangail Cotton Mills, Gorain, Tangail	1961	Yarn	Officer : 15 Staff : 115 Worker : 670	9.45	43.36	Net Worth Decrease

25	Keriline Silk Mills, 5B Fauzderhat Industrial State, Chittagong	1964	Nylon Yarn	Officer : 12 Staff : 26 Worker : 87	5.47	8.81	Net Worth Decrease
26	Ahmed Bawani Textile Mills, Demra, Dhaka.	1954	Yarn and Cloth	Officer : 27 Staff : 177 Worker : 1263	11.27	52.94	Net Worth Decrease
27	The Chittaranjan Cotton Mills, Godnyle, Narayangonj	1929	Yarn and Fabric	Officer : 20 Staff : 176 Worker : 1269	17.04	28.46	Net Worth Decrease
28	Luxminarayan Cotton Mills, Godnyle, Narayangonj	1925	Cotton Yarn, Cotton Cloth Dyeing and Finishing	Officer : 28 Staff : 156 Worker : 707	12.92	23.69	Net Worth Decrease
29	R.R. Textile Mills, Sitakunda, Chittagong.	1963	Yarn and Cloth	Officer : 17 Staff : 157 Worker : 791	16.29	25.05	Net Worth Decrease
30	Amin Textile Mills Shola Shahar, Chittagong.	1961	Yarn	Officer : 23 Staff : 165 Worker : 1171	24.56	49.13	Net Worth Decrease
31	Darwani Textile Mills Darwani, Nilfamari.	1977	Yarn	Officer : 17 Staff : 136 Worker : 572	12.28	8.17	Net Worth increase

32	Olympia Textile Mills, Tongi, Gazipur	1952	Yarn and Fabric	Officer : 25 Staff : 175 Worker : 1291	63.14	47.25	Net Worth increase
33	Zeenat Textile Mills, Tongi Industrial Area, Gazripur	1954	Yarn and Fabric	Officer : 20 Staff : 168 Worker : 1048	14.68	40.36	Net Worth Decrease
34	Monno Textile Mills, Tongi, Gazipur	1961	Yarns of different counts	Officer : 20 Staff : 131 Worker : 945	61.72	35.24	Net Worth increase
35	Fine Cotton Mills Tongi, Gazipur	1961	Yarn	Officer : 14 Staff : 31 Worker : 404	11.67	9.31	Net Worth increase
36	Satrang Textile Mills Tongi Industrial Area, Gazipur	1965	Yarn	Officer : 16 Staff : 102 Worker : 420	4.48	20.64	Net Worth Decrease
37	Kokil Textile Mills Brammanbaria	1961	Yarn	Officer : 15 Staff : 86 Worker : 373	8.93	19.32	Net Worth Decrease
38	Meghna Textile Mills Tongi, Gazipur	1963	Year and Fabrics	Officer : 24 Staff :149 Worker : 844	83.80	112.07	Net Worth Decrease
39	National Cotton Mills Fauzderhat, Chittagong	1939	Yearn and Fabrics	Officer : 12 Staff : 116 Worker : 386	16.60	22.84	Net Worth Decrease
40	Kurigram Textile Mills Kurigram	1984	Yarn	Officer : 11 Staff :74 Worker : 422	11.17	39.52	Net Worth Decrease

41	Magura Textile Mills Magura	1981	Yarn	Officer : 12 Staff : 139 Worker : 736	19.07	59.34	Net Worth Decrease
42	Noakhali Textile Mills Limted Raipur, Lakshmipur	1977	Yarn	Officer : 10 Staff : 89 Worker : 566	8.63	38.25	Net Worth Decrease
43	Bangladesh Textile Mills Limited Dhamgor, Narayangonj	1954	Yarn and Fabrics	Officer : 14 Staff : 134 Worker : 678	18.90	29.65	Net Worth Decrease
44	Sylhet Textile Mills Limited Islampur, Sylhet	1978	Yarn	Officer : 15 Staff : 117 Worker : 573	52.82	50.41	Net Worth increase
45	Faridpur Sugar Mills Limited Modhukhali, Faridupur	1976	Sugar	Officer : 69 Staff : 848 Worker : 484	44.76	30.26	Net Worth increase
46	Jaipurhat Sugar Mills Limited Jaipurhat	1962	Sugar	Officer : 68 Staff : 1165 Worker : 564	38.99	50.16	Net Worth Decrease
47	Kushtia Sugar Mills Limited Jagati, Kushtia	1965	Sugar	Officer : 68 Staff : 960 Worker : 483	24.39	34.50	Net Worth Decrease
48	Rajshahi Sugar Mills Limited Rajshahi	1965	Sugar	Officer : 163 Staff : 1222 Worker : 611	66.77	83.58	Net Worth Decrease
49	Rangpur Sugar Mills Limited Mohimagonj, Gaibanda	1957	Sugar	Officer : 121 Staff : 932 Worker : 509	38.52	80.66	Net Worth Decrease

50	Setabgonj Sugar Mills Limited Setabgonj, Dinajpur	1982	Sugar	Officer : 55 Staff : 739 Worker : 481	43.69	70.35	Net Worth Decrease
51	Thakurgaon Sugar Mills Limited Thakurgaon	1958	Sugar	Officer : 139 Staff : 800 Worker : 747	51.36	85.23	Net Worth Decrease
52	Zeal Bangla Sugar Mills Limited. Dewanganj, Jamalpur	1958	Sugar	Officer : 63 Staff : 744 Worker : 355	14.09	36.00	Net Worth Decrease
53	Shyampur Sugar Mills Limited. Shampur, Rangpur	1965	Sugar	Officer : 41 Staff : 677 Worker : 375	20.75	46.69	Net Worth Decrease
54	Usmania Glas Sheet Factory Ltd., Kalurghat, Chittagong	1959	Sheet Glass	Officer : 40 Staff : 50 Worker : 117	64.68	46.78	Net Worth increase
55	Chhatak Cement Factory Chhatak, Sunamgonj	1941	Cement	Officer : 72 Staff : 277 Worker : 523	80.38	95.39	Net worth Decrease
56	Chittagong Chemical Complex Barabkund, Chittagong	1966	Caustic Soda, Bleaching Powder, etc.	Officer : 91 Staff : 133 Worker : 343	38.77	47.87	Net worth Decrease
57	North Belgal Paper Mills Paksey, Pabna	1970	Paper	Officer : 44 Staff : 303 Worker : 618	62.47	39.00	Net worth increase
58	Sylhet Pulp and Paper Mills Chhatak, Sunamgonj	1975	Pulp	Officer : 98 Staff : 316 Worker : 426	116.82	124.97	Net worth Decrease

59	Dhaka Leather Company Ltd. Nayarhat, Dhaka	1984	Wet Blue & Finished Leather	Officer : 31 Staff : 28 Worker : 4	70.20	76.23	Net worth Decrease
60	Engineering Industries Limited, Markun, Tongi, Gazipur	1967	Textile Machinery, Industrial Machinery Spares	Officer : 12 Staff : 20 Worker : 52	5.56	2.26	Net Worth increase
61	Bangladesh Diesel Plant Ltd. Joydevpur, Gazipur	1968	Diesel Engines	Officer : 45 Staff : 76 Worker : 117	22.20	42.53	Net Worth Decrease
62	Bangladesh Blade Factory, 265-266 Tongi Industries Area, Gazipur	1984	Stain Less Steel Razor Blade.	Officer : 17 Staff : 33 Worker : 57	23.04	25.91	Net Worth Decrease
63	Gazi Wires Limited Kalur Ghat Industrial Area, Chittagong	1966	Electric Cables	Officer : 35 Staff : 62 Worker : 110	12.90	10.72	Net Worth increase
64	Dockyard & Engineering Works Ltd. Sonakanda, Narayangonj	1925	Building & Repair of different types of river going & coastal vessels	Officer : 66 Staff: 277 Worker: 243	22.60	71.17	Net Worth Decrease
65	Khulan Shipyard Limited Rupsa, Khulan	1954	Building and Repair River going and Coastal Vessels	Officer : 84 Staff: 230 Worker: 386	16.54	54.14	Net Worth Decrease

66	Pragoti Industries Limited Barabkund, Chittagong	1966	Assembling of Bus, Truck, Jeep, Pickup etc.	Officer : 110 Staff: 230 Worker: 326	93.07	101.96	Net Worth Decrease
67	Eastern Cables North Patenga, Chittagong	1970	Electric Cables	Officer : 92 Staff : 90 Worker : 291	71.50	30.57	Net Worth increase
68	Matalex Corporation Ltd. Tongi, Gazipur	1965	Electric Fan, FT Choke etc.	Officer : 15 Staff : 24 Worker : 98	4.69	26.94	Net Worth Decrease
69	Atlas Bangladesh Ltd. Tongi, Gazipur	1966	Honda Motor Cycle, and Auto Rikshow (Mishuk)	Officer : 44 Staff : 62 Worker : 92	28.49	18.35	Net Worth increase
70	Renwick Janeswar & Co. Ltd. Renwick Road, Kushtia	1881	Mechanical goods	Officer : 21 Staff : 94 Worker : 219	23.29	25.42	Net Worth Decrease

Sources:

1. Management Information of System of BJMC, BTMC, BCIC, BSEC and BSFIC.
2. Bangladesh Bank Report, 2000, January.
3. Privatization Board, 2000, September, Dhaka.
4. Privatization Commission, 2002, September, Dhaka.
5. Bangladesh Bureau of Statistics, 2005, Dhaka.

CONCLUSION

The picture of 70 (Seventy) SOEs we have quoted above, among those it visible that:

- ❖ Out of 23 jute industrial units 12 jute industrial units has decreased net worth.
- ❖ Out of 21 textile industrial units 15 textile industrial units has decreased net worth.
- ❖ Out of 09 Sugar & Food industrial units 08 Sugar & Food industrial units has decreased net worth.
- ❖ Out of 06 Chemical industrial units 04 Chemical industrial units has decreased net worth.
- ❖ Out of 11 Steel & Engineering industrial units 08 Steel & Engineering industrial units has decreased net worth.

The State Owned Enterprises (SOEs) which are executing their activities under the deferent ministries and corporations of government, it is seen that entire activities of most of those SOEs specially, financial aspects are not satisfactory. In this regard it is stated that, logistics supports (Such as:- Road Connection, Rail, River, Gas/Boiler, Electricity, Officer's Quarter, Staff Quarter, Labour Colony, Health facilities, Education facilities etc.) of those sectors were satisfactory.

N.B: If the liabilities is more than assets it means that, net worth decreased. Net worth decreased means that, normally a sign of technical insolvency. And if the liability is less than of assets- it means that net worth increased. Net worth increased means that, normally a sign of technical solvency.

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CHAPTER – SIX

EFFECTS OF PRIVATIZATION PROGRAMME IN BANGLADESH (BEFORE AND AFTER)

PREFACE

After introducing privatization programme, some privatized enterprises of different sectors have been selected for this comparison. After the establishment of privatization Board (Now, privatization commission) in 1993, the State Owned Enterprises (SOEs) has been privatized in between 1993 to 2003 - out of those establishments the following establishments are selected for comparative study (before and after privatization programme) by applying judgement sampling. The selection criteria were:

- Amount of loss incurred,
- Number of Employees,
- Concentration ratio,
- Changing importance of business,
- Government priority sector toward privatization.

The selected establishments are:

- Chittagong cement clinker Grinding company limited.
- Bangladesh cycle Industries Limited.
- Eagle Box and cartoon Manufacturing company limited.
- Dhaka Vegetable oil Industries Limited.
- Kohinor chemicals (Bangladesh) Limited
- Quantum pharmaceuticals Limited
- Star Roller Flour Mills Limited
- Kishorganj Textile Mills Limited
- Kohinoor spinning Mills Limited
- Style Fabrics Embroidery Limited
- Madaripur Textile Mills Limited
- Barisal Textile Mills Limited

EFFECTS OF PRIVATIZATION PROGRAMME (BEFORE AND AFTER)

Among the twelve (12) enterprises, no enterprise did provide enough co-operation, especially on the financial or picuniar matter. The data and information of privatized enterprises are available before and after privatization periods included:

- Sales
- Gross profit
- Gross profit margin
- Net working capital
- Current assets and current liabilities
- Net worth
- Current Ratio
- Current asset turnover
- Total asset turnover
- Employees statistics

Findings from comparative study of twelve privatized enterprises are given below:

Sales: In regards to sales-information, data of twelve (12) privatized enterprises before and after privatization are given below :

Table of Sales (Million Taka)

Name of the enterprises	Before privatiza tion	After Privatiza tion	Comments
Chittagong Cement Clinker Grainding Company Limited	493.50	607.82	Improved
Bangladesh Cycle Industries Limited	21.84	32.00	Improved
Eagle Box And Cartoon Manufacturing Company Limited	60.52	61.78	Improved

Dhaka Vegetable Oil Industries Limited	693.26	447.04	Declined
Kohinoor Chemicals (Bangladesh) Limited	257.42	292.04	Improved
Quantam Pharmaceuticals Limited	36.80	24.35	Declined
Star Roller Flour Mills Limited	73.82	101.89	Improved
Kishoreganj Textile Mills Limited	81.70	75.11	Declined
Kohinoor Spinning Mills limited	77.37	90.20	Improved
Style Fabrics Embroidery Limited	18.76	22.96	Improved
Madaripur Textile Mills Limited	73.51	76.80	Improved
Barisal Textile Mills Limited	66.48	72.66	Improved

Source: World Bank,-2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 15.

It can been seen that sales of three (3) enterprises, namely:- (1) Dhaka Vegetable Oil industries Limited (2) Quantam Pharmaceuticals Limited (3) Kishoreganj Textile Mills Limited has been declined after privatization. These three enterprises has been started their production within short period, for which sales may be declining. It is also to be noted that these three enterprises could not started their production hundred per cent (due to short period of privatization). Management of this establishment however, is optimistic that their sales will develop in the near future/short period.

Gross profit : In regards to gross profit, information of twelve (12) privatized enterprises before and after privatization are given below:

Table of Gross Profit (Million Taka)

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	87.52	165.74	Improved
Bangladesh Cycle Industries Limited	0.24	0.60	Improved
Eagle Box and Cartoon Manufacturing Company Limited	3.38	6.32	Improved
Dhaka Vegetable Oil Industries Limited	25.96	10.86	Declined
Kohinoor Chemicals (Bangladesh) Limited	12.25	24.31	Improved
Quantam Pharmaceuticals Limited	18.32	8.36	Declined
Star Roller Flour Mills Limited	-15.12	10.65	Improved
Kishoreganj Textile Mills Limited	-11.16	-0.80	Improved
Kohinoor Spinning Mills Limited	-11.95	9.56	Improved
Style Fabrics Embroidery Limited	0.56	0.98	Improved
Madaripur Textile Mills Limited	-16.14	6.06	Improved
Barisal Textile Mills Limited	9.56	12.87	Improved

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 15.

In the above table of gross profit it has been seen that gross profit of two (2) enterprises :- (1) Dhaka Vegetable Oil Industries Limited (2) Quantam Pharmaceuticals Limited out of twelve (12) establishments has been declined after privatization. It can be mentioned here that the above two (2) establishments have invested huge amount in different sectors of establishments after privatization period. Management of the above two (2) establishments is also optimistic that their gross profit will increase within short period of time.

Gross profit margin: In regards to gross profit margin, information's of twelve (12) privatized enterprises before and after privatization are given below:

Table of Gross Profit Margin

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	17.73	22.95	Improved
Bangladesh Cycle Industries Limited	2.02	20.00	Improved
Eagle Box And Cartoon Manufacturing Company Limited	5.58	11.85	Improved
Dhaka Vegetable Oil Industries Limited	2.91	2.43	Declined
Kohinoor Chemicals (BD) Limited	4.76	18.60	Improved
Quantam Pharmaceuticals Limited	39.15	39.16	Improved
Star Roller Mills Limited	-20.48	5.45	Improved
Kishoreganj Textile Mills Limited	-13.66	-1.07	Improved
Kohinoor Spinning Mills Limited	-15.45	5.00	Improved
Style Fabrics Embroidery Limited	-17.60	-3.74	Improved
Madaripur Textile Mills Limited	5.70	9.88	Improved
Barisal Textile Mills Limited	3.30	7.67	Improved

Source: World Bank-2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 16.

From the above table, it can be seen that Gross profit margin of Dhaka Vegetable Oil Industries Limited has been declined, because the establishment have invested huge amount in different sectors of establishment after privatization period. Management of this establishment is hopeful that gross profit margin will increase within short period.

It should be noted that post privatization gross profit and gross profit margin are qualitatively better than those in the pre-privatization years. It is also less likely to be affected by higher ending inventories and accounts receivables. There are more cash inflows rather than accounting flows. Such improvements in profit performance after the different year of transition and the arduous process of privatization are clear demonstration of the dynamism of private owners.

Net working capital : Net working capital information of twelve (12) privatized enterprises before and after privatization are given below :

Table of Net Working Capital (Million Taka)

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	93.85	107.56	Improved
Bangladesh Cycle Industries Limited	2.44	9.00	Improved
Eagle Box and Cartoon Manufacturing Company Limited	-14.83	-39.23	Declined
Dhaka Vegetable Oil Industries Limited	182.88	120.49	Declined
Kohinoor Chemicals (Bangladesh) Limited	-33.87	28.71	Improved
Quantam Pharmaceuticals Limited	32.88	1.93	Declined
Star Roller Flour Mills Limited	-209.57	3.76	Improved
Kishoreganj Textile Mills Limited	-158.85	-42.43	Improved
Kohinoor Spinning Mills Limited	-329.20	38.59	Improved

Style Fabrics Embroidery Limited	20.83	22.44	Declined
Madaripur Textile Mills Limited	-148.48	12.10	Improved
Barisal Textile Mills Limited	-177.33	28.77	Improved

Source: World Bank- 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 16.

It is learned that these state owned enterprises had been operating with capital shortages because of losses and in some causes because they have been paying taxes and dividends to the exchequer due to faulty accounting profit calculation. Net working capital table shows that seven (7) enterprises:- (1) Eagle Box and cartoon Manufacturing company limited (2) Kohinoor chemicals (Bangladesh) limited (3) Star Roller Flour Mills Limited (4) Kishoreganj Textile Mills Limited (5) Kohinoor Spinning Mills Ltd. (6) Madaripur Textile Mills Limited (7) Barisal Textile Mills Limited have had negative net working capital ranging from Tk. –14.83 million to Tk. –329.20 million. After privatization, only two enterprises showed negative net working capital of Tk. – 39.23 and Tk. – 42.43 million.

Current assets and current liabilities : Current assets and liabilities- data and information of twelve (12) privatized enterprises before and after privatization are given below :

Table Of Current Assets and Current Liabilities (Million Taka)

Name of the enterprises	Before privatization		After privatization		Comments
	current assets	current liabilities	current assets	current liabilities	
Chittagong Cement Clinker Grainding Company Limited	299.13	205.28	476.10	368.54	Improved

Bangladesh Cycle Industries Limited	22.18	19.75	41.50	32.50	Improved
Eagle Box and Cartoon Manufacturing Company Limited	54.26	69.08	57.5	66.72	Improved
Dhaka Vegetable Oil Industries Limited	413.38	230.50	591.01	470.52	Declined
Kohinoor Chemicals (Bangladesh) Limited	208.56	242.43	203.27	179.56	Improved
Quantam Pharmaceuticals Limited	34.9	12.02	24.99	23.07	Declined
Star Roller Flour Mills Limited	43.91	53.48	33.85	20.09	Improved
Kishoreganj Textile Mills Limited	66.14	224.99	40.22	82.65	Improved
Kohinoor Spinning Mills Limited	157.99	487.19	145.86	320.75	Improved
Style Fabrics Embroidery Limited	58.77	68.65	34.98	56.07	Declined
Madaripur Textiles Mills Limited	77.54	164.44	60.73	79.88	Improved
Barisal Textile Mills Limited	69.66	148.53	40.37	79.07	Improved

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 17.

Table shows that the current assets and current liabilities figures are better than before privatization period.

Net worth : In regards net worth- data and information of twelve (12) privatized enterprises before and after privatization are given below :

Table of Net Worth (Million Taka)

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	125.71	338.18	Improved
Bangladesh Cycle Industries Limited	33.50	64.00	Improved
Eagle Box and Cartoon Manufacturing Company Limited	-12.66	-54.97	Declined

Dhaka Vegetable Oil Industries Limited	-72.15	-191.23	Declined
Kohinoor Chemicals (Bangladesh) Limited	-91.43	-137.02	Declined
Quantam Pharmaceuticals Limited	-53.79	37.62	Improved
Star Roller Flours Mills Limited	-147.55	2.84	Improved
Kishoreganj Textile Mills Limited	-102.35	-55.10	Improved
Kohinoor Spinning Mills Limited	-53.68	9.77	Improved
Style Fabrics Embroidery Limited	30.34	44.37	Improved
Madaripur Textiles Mills Limited	-78.98	16.68	Improved
Barisal Textile Mills Limited	-86.76	15.36	Improved

Source:, World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 18.

In the above mentioned table shows nine (9) enterprises out of twelve (12) enterprises had negative net worth before privatization, ranging from Tk. –12.66 to Tk. – 147.55 million. In computing net worth, we must remember that it equals total assets minus total liabilities of a company as reported in their balance sheets. In other words, the value of assets was less than the value of liability, resulting in negative net worth. Negative net worth- is normally a sign of technical in solvency.

In the above mentioned table shown net worth increased sharply for Chittagong Cement Clinker Grainding Company Limited and Bangladesh Cycle Industries Limited; on the other hand, it decreased substantially for Kohinoor Chemicals (Bangladesh) Limited, Dhaka Vegetable Oil Industries Limited and Eagle Box Company Limited. As we noted earlier, both mills have been operating under most unfavorable business conditions after privatization. Earlier, Kohinoor

Chemicals (Bangladesh) Limited had a minus net worth of Tk. -91.43 million. That turned into a bigger minus of Tk. -137.02 million. Dhaka Vegetable Oil Industries Limited also had negative net worth of Tk.-72.15 million, which turned to a huge negative of Tk. -191.23 million. There has been substantial injection of fresh equity capital in the case of Chittagong cement clinker Grainding Company Limited, Bangladesh Cycle Industries Limited and the Quantum Pharmaceuticals Limited.

Current Ratio: In regards current ratio-data and information of twelve (12) privatized enterprises before and after privatization are given below:

Table of Current Ratio

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	1.46	1.29	Declined
Bangladesh Cycle Industries Limited	1.12	1.28	Improved
Eagle Box and Cartoon Manufacturing Company Limited	0.79	0.55	Declined
Dhaka Vegetable Oil Industries Limited	1.79	1.26	Declined
Kohinoor Chemicals (Bangladesh) Limited	0.86	1.16	Improved
Quantam Pharmaceuticals Limited	17.28	1.08	Declined
Star Roller Flour Mills Limited	0.17	1.19	Improved
Kishoreganj Textile Mills Limited	0.29	0.49	Improved
Kohinoor Spinning Mills Limited	0.32	0.29	Declined
Style Fabrics Embroidery Limited	0.76	1.05	Improved
Madaripur Textiles Mills Limited	1.60	1.78	Improved
Barisal Textile Mills Limited	0.88	1.00	Improved

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 18.

In the above table of twelve (12) enterprises- current ratio of the enterprises of before and after privatization has been presented.

In the above table it has been seen that of current ratios have improved for seven (7) enterprises :- (1) Bangladesh Cycle Industries Limited (2) Kohinoor Chemicals (Bangladesh) Limited (3) Star Roller Flour Mills Limited (4) Kishoreganj Textile Mills Limited (5) Style Fabrics Embroidery Limited (6) Madaripur Textile Mills Limited and (7) Barisal Textile Mills Limited out of twelve (12) enterprises. But for five (5) enterprises:- (1) Chittagonj Cements Clinker Grainding Company Limited (2) Eagle Box and Cartoon Manufacturing Company Limited, (3) Dhaka Vegetable Oil Industries Limited, (4) Quantam Pharmaceuticals Limited, (5) Kohinoor Spinning Mills Limited. Once again, there is likely to be more qualitative improvement since the value of privatization period.

Current assets turnover : In regards current asset turnover- data and information of twelve (12) privatized enterprises before and after privatization are given below:

Table of Current Assets Turnover

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	1.64	1.79	Improved
Bangladesh Cycle Industries Limited	0.53	0.77	Improved
Eagle Box and Cartoon Manufacturing Company Limited	1.12	1.30	Improved

Dhaka Vegetable Oil Industries Limited	2.16	0.76	Declined
Kohinoor Chemicals (Bangladesh) Limited	1.23	1.40	Improved
Quantam Pharmaceuticals Limited	1.34	0.85	Declined
Star Roller Flour Mills Limited	1.68	4.27	Improved
Kishoreganj Textile Mills Limited	1.24	1.87	Improved
Kohinoor Spinning Mills Limited	0.49	0.37	Declined
Style Fabrics Embroidery Limited	1.38	1.68	Improved
Madaripur Textiles Mills Limited	0.66	0.59	Declined
Barisal Textile Mills Limited	1.18	1.22	Improved

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 19.

In the above mentioned table of twelve (12) enterprises-current assets turnover of the enterprises of before and after privatization has been presented.

In the above mentioned table it has been seen that current asset turnover have improved for eight (8) enterprises :- (1) Chittagong Cement Clinker Grainding Company Limited (2) Bangladesh Cycle Industries Limited (3) Eagle Box and Cartoon Manufacturing Company Limited (4) Kohinoor Chemicals (Bangladesh) Limited (5) Star Roller Flour Mills Limited (6) Kishoreganj Textile Mills Limited (7) Style Fabrics Embroidery Limited and (8) Barisal Textile Mills Limited out of twelve (12) enterprises. This must be considered inadequate for smooth operations.

Total assets turnover : In regards total asset turnover-data and information of twelve (12) privatized enterprises before and after privatization are given below :

Table of Total Assets Turnover

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	1.08	1.03	Declined
Bangladesh Cycle Industries Limited	0.51	0.33	Declined
Eagle Box and Cartoon Manufacturing Company Limited	0.49	0.61	Improved
Dhaka Vegetable Oil Industries Limited	1.48	0.58	Declined
Kohinoor Chemicals (Bangladesh) Limited	0.67	0.72	Improved
Quantam Pharmaceuticals Limited	1.00	0.12	Declined
Star Roller Flour Mills Limited	0.61	1.07	Improved
Kishoreganj Textile Mills Limited	0.61	0.65	Improved
Kohinoor Spinning Mills Limited	0.66	0.54	Declined
Style Fabrics Embroidery Limited	0.67	0.72	Improved
Madaripur Textiles Mills Limited	0.48	0.45	Declined
Barisal Textile Mills Limited	0.61	0.65	Improved

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 20.

In the above mentioned table total asset turnover of the twelve (12) establishments of before and after privatization has been presented.

In the above table it has been seen that total asset turnover have improved six (6) enterprises:- (1) Eagle Box and Cartoon

Manufacturing Company Limited (2) Kohinoor Chemicals (Bangladesh) Limited (3) Star Roller Flour Mills Limited and (4) Kishoreganj Textile Mills Limited (5) Style Fabrics Embroidery Limited (6) Barisal Textile Mills Limited out of twelve (12) enterprises. Hence It can be mentioned that the above six (6) establishments have invested huge amount in different sectors of establishments after privatization period. Management of the above six (6) establishments optimistic that their total asset turnover will increase with in short period/time.

Employees statistics: In regards employees statistics- information and data of twelve (12) privatized enterprises before and after privatization are given below:

Table of Employees Statistics

Name of the enterprises	Before privatization	After Privatization	Comments
Chittagong Cement Clinker Grainding Company Limited	316	258	Reduced
Bangladesh Cycle Industries Limited	262	196	Reduced
Eagle Box and Cartoon Manufacturing Company Limited	264	174	Reduced
Dhaka Vegetable Oil Industries Limited	525	295	Reduced
Kohinoor Chemicals (Bangladesh) Limited	880	798	Reduced
Quantam Pharmaceuticals Limited	283	156	Reduced
Star Roller Flour Mills Limited	1,115	742	Reduced
Kishoreganj Textile Mills Limited	1,202	665	Reduced
Kohinoor Spinning Mills Limited	1,020	550	Reduced
Style Fabrics Embroidery Limited	1,366	746	Reduced
Madaripur Textiles Mills Limited	982	554	Reduced
Barisal Textile Mills Limited	1208	658	Reduced

Source: World Bank, 2000, "Privatization in Bangladesh: Success or Failure", February, Dhaka, p. 11.

In the above table of twelve (12) enterprises- Employees statistics of the enterprises of Before and after privatization has been presented. In the above table it has been seen that figure of number of employees of twelve (12) establishments has been reduced after privatization period.

CONCLUSION

It is seen from the above statement/study that the State Owned Enterprises (SOEs) which are controlled by the concern ministries and corporation are not over all satisfactor- especially in the financial conditions /sides.

The table and information's we have received from the different enterprises, it can be said that the condition and actual picture is privatized establishments are more better then the state owned enterprises (specially in the financial sector/condition). From the above study at last it can be said that or it is expected that the privatized establishments will take a vital role in the field of socio-economic and prosperity of Nation. At last we can say that:

- Increase of sales indicate- viability of operations
- Gross profit also indicate- viability of operations
- Gross profit margin increase indicate- realized in cash flows
- Increase of Net working capital indicates- improved liquidity
- Increase of current assets against current liabilities indicate- strong financial structure of establishment.

- Increase of Net worth indicates- current assets in stronger then current liabilities.
- Current ratio is normally used as an indicator of liquidity and financial solvency.
- Increase of current asset turnover is considered for smooth operation.
- Total asset turnover is normally used as an indicator of more efficient asset utilization.
- Employees statistics indicate that over staffing is one of the major cause of reduce of profit.

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CHAPTER – SEVEN

PERFORMANCE, STRATEGIES AND POSSIBILITIES OF PRIVATIZATION PROGRAMME IN BANGLADESH

PREFACE

Since the beginning of the eighties significant reform measures as regards privatization of Public Enterprises have been introduced in economies around the world. Bangladesh is no exception to this changing phenomenon. The current reform measures are focussed on "Liberalization" and market oriented policies and instruments with some general features, such as: more intensive use of private agents, encouragement of competitive markets by decontrol, deregulation, disinvestment and adoption of an outward-looking trade regime and less use of subsidies etc.

Keeping these facts in view, the government of Bangladesh adopted a vigorous reform programme of privatization through numerous Industrial Policy announcements. The disinvestment of State Owned Enterprises (SOEs) in Bangladesh has been mainly performed in three important phases i.e. from 1972-75, 1976-81 and from 1982-89. In all, 565 SOEs were privatized during these phases. From the National Industrial Policy (NIP) of 1991, some more SOEs have been privatized under different categories viz. through Disinvestment Board and Sale of government shares in Multinational Companies etc. However, the programme of privatization in all has not been so successful as expected. In fact, the plan, method and procedure of privatization were found to be faulty resulting into emanation of numerous burning issues in implementation of privatization programme in Bangladesh. A pragmatic approach is needed to deal with these issues. The succeeding paragraphs are devoted to evolve a set of strategy to deal with these issues for effective future privatization in Bangladesh.

APPROACHES OF PRIVATIZATION

Privatization throughout the world is being carried out through various techniques. There may not be limited techniques for a workable privatization programme rather it should be a composite and wide range of techniques realized to meet the country's needs. Specifically in Bangladesh, whice method would be adopted mainly depends on acceptability of markets, financial conditions, size of the SOEs and above all, the objective to be achieved from privatization. Multidimensional modalities are better than limited modalities to meet the specific objective. However, some common modalities have been discussed in the forthcoming paragraphs which are adopted and followed in the different countries of the world. A set of modality has also been recommended to be adopted in Bangladesh for effective privatization of SOEs in future.

♦ **Sale of Equity :** Sale of equity is one of the techniques to transfer three components of organization, viz. responsibility, assets and personnel in partial or complete form. Malaysian government adopted this method for privatizing its power, telecommunication sectors, air lines and shipping corporations to its best advantage.

In Bangladesh, sale of equity concept may be adopted in case of telecommunication and power through Dhaka Stock Exchange which alone would be able to absorb about US $ 50 to US $ 60 million per annum (World Bank report, 1994).

♦ **Sales of Assets :** This method can be applied to any SOEs. This refers to the sale of physical assets of the company rather than shares. The assets can be sold individually or collectively and they may be sold through competitive bidding by auction or to a selected party after direct negotiation.

Assets sales may be appropriate where an entire company is not saleable as a going concern. This method can be applied to privatize any SOEs.

♦ **Management Contracts :** It refers to the contracting of private sector management expertise to manage SOEs for a fee. In involves the transfer of management responsibility and may or may not involve the transfer of personnel. It does not entail the transfer of assets. Malaysia has adopted this method in case of water treatment plant. In Bangladesh, it may be followed specifically for the power sector and service sector as it bright about efficiency through competition. In this method, in fact, the private party always keeps firms competitive in price and quality both to win a contract or to run the risk of loss. Labour and capital are used efficiently in order to lower down the costs. Experience has shown that, 'the immediate savings to governments and tax payers is normally in the range of 20-40 per cent (ICC, 1990).

♦ **Lease of Assets :** This model of privatization indicates the transfer of right to use assets for a specific period of time in return for certain payments. The lease period depends on the type of project. It is usually applicable in case of fixed assets. Lease rentals are based on future business prospects and not on the current value of the assets and payments are calculated based on a stream of income and expenditure flows over the lease period (Sawal 1993). The private party ascertains the commercial risk of operation and maintenance of assets. In Bangladesh 'this method could be useful for operation and maintenance of highways, parks, ports, museums and airport (Dowlah, 1995).

♦ **Concessions :** In this form of privatization, the private sector bears all liabilities and responsibilities regarding capital expenses and investment. For this, they use to anticipate the bulk of risks. In Argentina, this technique has been used for privatization of telecommunication and railways. In Bangladesh too, this method might be used in the utility, infrastructure like power, telecommunications and transpiration sector.

♦ **Public Sale of Share :** In this method, the share of SOEs are sold to the public at large, partially or wholly through stock exchange. Wide spread ownership is extended by this method and people can participate directly in the success of industry by which they are encouraged to know the company's affairs i. e. how company works into the process of wealth creation and into the need for profits and efficient management.

'Public offerings demand that the enterprise be a going concern with a reasonable earnings record or potential, that a full body of financial, management and other information is available, that there is discernible liquidity in the local market, and that the equity markets are developed'.

♦ **Private Placement of Share :** This method refers to sell shares of SOEs to a more selected group of potential buyers instead of at the public at large. The buyers can either be another entity or a group of investors. The privatization can be full or partial. Adhoc procedures are followed to identity potential buyers. Basically, this method may be applied in the absence of developed equity market. This method does not create a broad-based interest group to support privatization. Sometimes, for gaining support from management and workforce, some shares are allocated to them.

♦ **Management /Employee Buy-out :** In this technique, management or employees or both together can buy the majority shareholding of the companies to be privatized. This is an important tool for gaining political support for the privatization without which the process may be blunt. The public may expect better service from them. Many countries of the world had adopted "Employee Stock Ownership Plan" (ESOP) and this was proved to be effective method. Bangladesh can also apply this method vigorously in privatizing the different SOEs.

♦ **Dilution of Public Ownership :** In this strategy, some equities of SOEs are sold to the private party. But it rarely changes ownership and control, and thus it is only a partial water-down form of privatization. This method is used only when the government has doubts about privatization and lack of sufficient support for it.

This method can be useful it Bangladesh government desires to introduce some private capital know-how to a public enterprise. But it can be only an intermediary step on the path of full privatization.

♦ **Liquidation :** It means to close down the economically unlivable enterprises. Sometimes, it is difficult to perform for the government because it is a question of failure. It allows government to sell the components of the assets separately. In this method, government or owner is usually responsible for any liability of the enterprise remaining after the end of the process of liquidation and the dissolution of the enterprise. In Bangladesh, this technique can be applied for financially and economically unviable enterprise. Liquidation often enables quick and efficient divestiture without the trooping and sophistication of bankruptcy, as such, divestiture technique is preferred in many developing countries. (Pirre, 1992).

♦ **Marginalization :** It entails gradual reduction of an SOE's budget and operations and escalating a replacement in the private sector. Sometimes it is called 'quiet liquidation'. This method has been proved useful in many cases in many countries of the world. "It is politically less volatile than outright divestitures" (clare, 1992).

♦ **Re-privatization :** It means that a business enterprise that was originally in the private sector and was nationalised afterwards, is turned over to the private sector again. This method has been applied in many developing countries because of lack of worthy capital markets. In Bangladesh this method was followed at early privatization programme in the form denationalization.

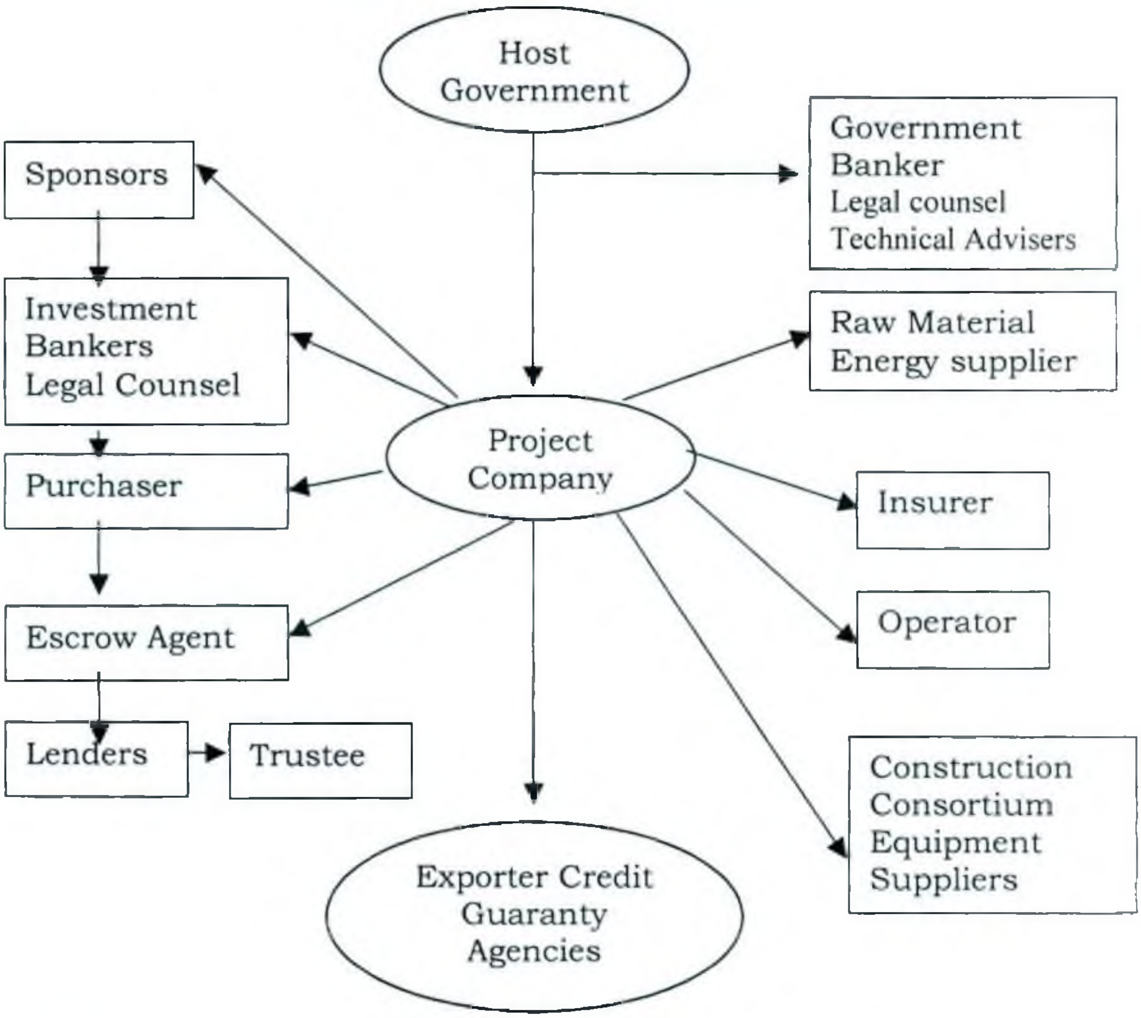
♦ **Back Door Privatization :** The concerned ministry of a certain type of economic activity may decide to lease it to some individual or a group of individuals which is not performing well. For example, in Bangladesh the tourism Ministry may transfer a poorly run hotel to private party who can make it remarkable change in order to improve services.

♦ **Boo and Bot :** In BOO **(Build-Operate-Own),** the private company builds and operates a project and retains the ownership for unlimited or indefinitely. In BOT **(Build-Operate-Transfer)** after building a project by a private company is transferred to the government or to a local company after a certain period of time (generally 10-35 years). This period must be sufficient for getting back of project financing and to earn a reasonable return from the project. Under this techniques, the private sector project company is usually a foreign or joint venture consortium of engineering, construction and supply firms. They arrage the finance for the project from commercial lenders, often supported by bilateral and multilateral institution. The suitable fields of applying these techniques are roads and highway, water supply, ports, airports, bridges, power projects, telephone system, electricity generation, gas distribution etc. Many Asian countries have applied these techniques.

In BOO-BOT techniques, various individuals or institutions are involved in implementing these projects, government usually performs some formalities regarding concession or incentive agreements as well as performance or delivery agreements with the project company to ensure high quality of services delivered by that company.

The chart-3 shows the structure of BOO-BOT project.

BOO-BOT Project Structure



SOURCE : World Bank, 1994, "Bangladesh: From Stabilization to Growth" p.89.

The essential features of BOO-BOT arrangement are summarized as follows (Mathew and Edward 1993) :

1. Project risk are clearly separated from country risk, lender advance money against the cash flow of the project rather than the government's sovereign guarantee.

2. The equity contribution of the consortium members, usually between 10 per cent- 30 per cent of the total project cost, represents an expression of commitment to the project and serves as a cushion against bankruptey.

3. The nature and structure of BOT schemes vary from project to project, but all are highly complex, but if designed and implemented well, these schemes could have broader application in almost all the developing countries, like Bangladesh. The World Bank's report in implementing BOO-BOT techniques are as follows (World Bank, 1994):

i. The central BOO-BOT implementing agency must have adequate authority.
ii. Initially, at least, BOO-BOT transactions should be limited to modest size and relatively simply projects.
iii. Government will need to protect the public interest through exercise of its inherent regulatory function.
iv. BOO-BOT models should be flexible, fast responding and highly professional.
v. BOO-BOT models can fit well with the application other privatization techniques.

It may be useful for Bangladesh to follow the experiences regarding BOO-BOT from different countries like, United Kingdom, Pakistan, Philippines, Strilanka, Malaysia etc. who have successfully applied these strategies in their privatization programme.

♦ **Contracting Out :** In this form of privatization, there is a contract between government and the private firm to deserve the right to produce and sell the services selected on the basis of competitive bidding and the government bears all the costs of providing service. By creating greater competition among the bidders, government can save funds from contracting out. Though competition will keep the contractor on his toes for fear of losing the contract. (Batler, 1986).

All the approaches discussed above are being used in almost all the countries of the world. However, the strategies of privatization should be selected on the basis of calculation of value, considering the line of business and proper identification of buyers.

At present in Bangladesh, two methods of privatization are being followed :

Sale by International Tender : Local and foreign private buyers may participate in all such tenders- Association of workers employees and officers of the tendered enterprises may also offer bid for purchase of the enterprise.

Sale by Public Offer of Shares : Government owned shares in different companies and share of the SOEs converted into public limited companies may be sold to the general public either directly or through the stock exchange. 'Tender method has the advantage of fairness and certainty in terms of timing but has the disadvantage of not necessarily maximizing the price (World Bank, 1994).

For successful privatization, some other set of model can be adopted in Bangladesh, like open auction, transfer of shares through the securities market, employee takeover, management contract, joint public-private ownership, BOO-BOT, leasing out etc. Successfully privatization programmes of other countries can be observed such as, Malaysia, Argentina, Mexico etc. However, it is noticeable that recently new privatization policies have been passed and there have been provisions for the sale of share of the units to be privatized through the stock exchange employee take over that workers and employees can purchase these units by adjusting their gratuity and provident fund dues (poole, 1987).

Regarding that, the proper set of model for privatization may vary from case to case and country to country. Much more depends on the sophistication and condition of the local economy in general. The goal will have to be built up on a broader, and more dynamic economic base.

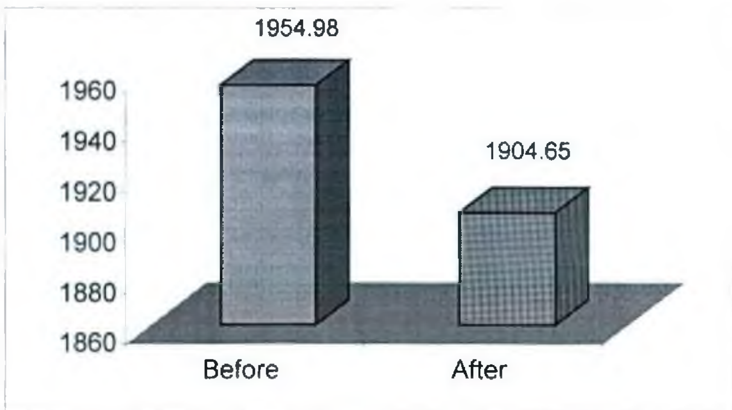
PERFORMANCES OF PRIVATIZATION

To evalute the performance of privatization programme in Bangladesh we consider some sector or area of privatized enterprises. Considerable factors / elements are;

- Sales
- Gross profit
- Net working capital and
- Net worth.

In view of these area/sector it can be said here that in every privatized enterprises it is counted within the limited of four to five years (after into privatized from state owned enterprise) and an word. It can be said different achievement's are noticed after privatization from state owned enterprise and we observed this trend of achievements are continuing (which has been described in the previous chapter). To evalute the performance of privatization programme we considered / assessed twelve (12) privatized enterprise. The assessed result of different factors of twelve (12) establishment are appended below :

Sales : It has been observed in the previous chapter ("Effect of Privatization Programme in Bangladesh: Before and After") that, the sales of assessed enterprises become declined/reduced after privatization. Total sales process of twelve (12) assessed establishment were 1954.98 (Million Taka) before privatization and 1904.65 (Million Taka) after privatization- which are shown in the following diagram:



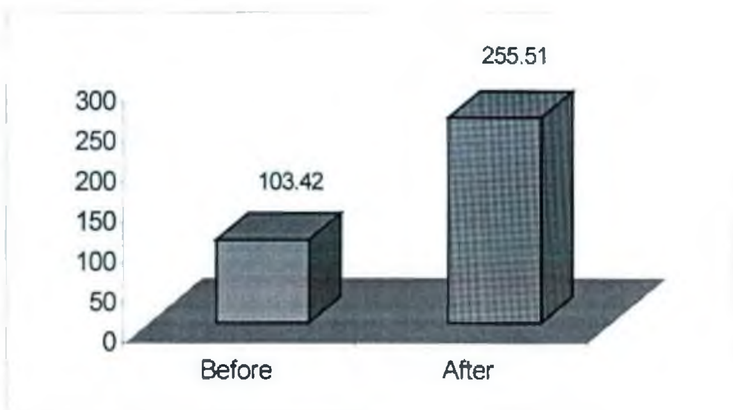
For evaluating performance first stage is sales. Sales means marketing proceedings. It is clear from the diagram that the sales proceeds are less than the before privatization of after privatization. Out of twelve (12) assessed establishments sales proceed of nine (9) establishment has been increased and sales proceeds of other three (3) establishment has been declined/reduced. Because after privatization over all production of three (3) establishments has fallen down. The causes for reduced proceeds are, period of privatization is short and their contribution is less than the previous period. After privatization the privatized enterprises come to the market within a short period. Thought they come to the market in a limited period but the management/authority are satisfied with their such achievement. The management/authority of reduceds establishment believe/confirm that their sales will develop/increase or they will able to reach their target within short period when they can properly advertise their products.

Besides this, the management of declined establishment also pointed that every establishment has many more items to run in the market. But they could not produced every items of goods due to short period. But they are optimistic that they will produce their entire product in the near future and their sales will be enhanced from that period.

In fact, it is apparently observed that every establishment has produce more then one items, but all those items are not running equally. The management of declined establishments said that they could not marketized all the items within this minimum period. But they are hopeful that they will over come this crises in a short time. In conclusion, it can be said that out of twelve (12) assessed establishments nine (9) establishments sales are satisfied and the rest will be also satisfied when they will overcome from that identified shortage (which they have traced out). At last, from this observation, it can be said that in fact, privatization will take a vital role regarding sales of commodities and it will be better then this state owned enterprises situation.

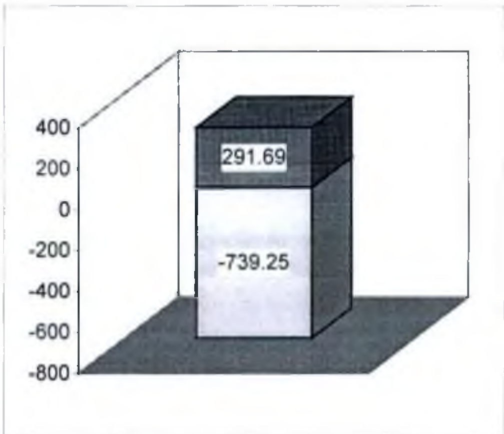
In the end, in view of evaluating performance of privatization programme in Bangladesh is more significant then the period of state owned enterprises condition and it will gradually developed (it is the actual picture and thinking of management /authority of privatized establishment).

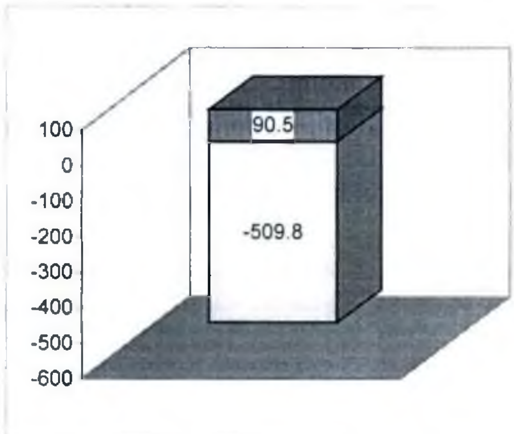
Gross profit: Gross profit has been selected as an important criteria or important element for performance appraisal. In there regard out of twelve (12) privatized establishments it has been seen/observed that in the previous chapter ("Effect of Privatization Programme in Bangladesh (Before and After") total gross profit is before privatization is 103.42 (Million Taka) and after privatization is 255.51 (Million Taka). Gross profits picture of privatized establishments is shown in the following diagram :



In the above diagram it is seen that assessed twelve (12) establishments gross profit is better after privatization than before the privatization period.

Net Working Capital and Net Worth : Net working capital and Net worth-both of the element has been selected as an important criteria for performance appraisal of privatized establishments. It has been observed in previous chapter ("Effect of Privatization Programme in Bangladesh 'Before and After') that, the net working capital of assessed enterprises before privatization is –739.25 (Million Taka) and after privatization is 291.69 (Million Taka) and Net worth of assessed enterprise before privatization is –509.80 (Million Taka) and after privatization is 90.50 (Million Taka). Net working capital and Net worth's picture of privatized establishments is shown in the following diagram.





In the above diagram it is observed that assessed twelve (12) establishments Net working capital and Net Worth is better after privatization period then before the privatization period.

STRATEGIES OF PRIVATIZATION

The government of Bangladesh should continue privatization programme with the following set of strategies.

- ❖ An active employee supporting programme should be adopted and voluntary departure schemes should also be strengthened.
- ❖ Retraining and credit based employment schemes should be chalked out and implemented.

- A detailed financial analysis should be conducted in all cases of privatization for proper valuation of assets.

- It should be assured that no implicit guarantees exist in respect of SOEs.

- Credit provided by government for financing privatization must be on a fully commercial basis.

- A public relation programme is necessary to build a broad-based support for the programme.

- Privatization must be opened upto segments of the society who have not previously participated in the programme i.e. middle class, labours, employees and emerging entrepreneurs.

- Some of the larger SOEs like utilities and infrastrcture should be involved with the privatization programme in parallel with other sectors.

- Government should formulate an SOEs policy and introduce a time bound programme of reforms.

- A post privatization monitoring system should be developed to evaluate the performance of privatized enterprises.

- A smooth suitable regulatory climate should be provided for the private sector.

- ❖ The Privatization commission should be strengthened on sound footing giving more autonomy to conduct their activities.

POSSIBILITIES OF PRIVATIZATION

To realize the potentials of privatization, it essential to understand its impediments first. Various misconnects preached about relative efficiency of the public and private sectors by the defenders of public authority and cotrol, various legal, economic and institutional barriers act as obstacles to smooth functioning of the private enterprise system. So, in assessing the potentials of privatization one must be careful about those factors. However, the future potentials of privatization in Bangladesh are brighter subject to the following conditions :

The people of the country must understand regarding the concept and rationale of the privatization programme in the country as well as they must have strong belief that the programme will bring significant benefit both to the government and the nation as a whole.

Government has to provide a suitable environment for running the private sector, specifically an appropriate regulatory framework has to be established and strengthened so that the private enterprises can work smoothly and consumer's interest are protected in terms of price, quality and reliability of service as well.

Government has no layout a road map that where it is and where it wants to go, i. e. Industries have to be specified to be privatized and chalkout a plan that how they would be privatized.

Government should follow an approach of "perform or perish" i. e. government will clarify a few enterprises which will remain in the state sector for a certain period of time. If those enterprises fail to achieve their objectives set for them within that period of time, then they must be divested. This approach of "perform or perish" is the most appropriate way to manage the transition in the phasing of the government's privatization programme (World Bank, 1994).

For every government, it may be essential to keep some industries in the public sector for political and social purposes. So, government should think for another wasy to encourage, assist and co-operate with the private sector in new growth area.

In privatizing politically powered SOEs, government can also employ the marginalization and 'quiet liquidation' technique, used so effectively in other counties and that has been so successful in the local fertilizer distribution project (clare, 1992).

Government should carefully define the complimentary roles of the public and private sectors in the economy. Special attention must be accorded to ensure forceful and coordinated implementation of privatization and private sector development programmes.

SOEs assets should be valued realistically. Since the valuation is a very complex and technical matter, so extra care should be taken in valuing the assets of SOEs. It should not be too low or too high. The government should take care that the transaction would be a way to obviate losses and therefore should make it clear. It should be mentioned here that 'valuation of assets must be done properly and they should be offered for sale based on the net worth estimated by the experts, not as political expediencies' (Hafiz, 1990).

The labour question is one of the most vital and disputable issues concerned with privatization of SOEs. Labour would never oppose privatization if their interests are protected. So, research should be conducted on labour and employee aspects of privatization and accordingly privatization should be adopted.

In a number of countries, developed and developing, ESOP (Employee Stock Option Programme) has been useful tool for lessening labour's fears and criticisms of privatization. Workers become stake holder in the enterprise in this plan. So, being owner, they work diligently and change their attitudes towards management. In Bangladesh, this method may be applied in privatizaing SOEs. Recently, the government revised the privatization policy and there is an option for workers that they can participate in bidding and own the enterprise. This is a good attempt, but it should be implemented properly to reap the benefits of this method.

An education programme should be chalked out in order to apprise people of privatization. No government of Bangladesh did it in the past. In this way, government can appraise the opinion from different corner which might be convenient and influential for privatization.

The relationship between SOEs and the private sector should be improved. For this, government should stimulate the public sector organization to co-operate with the private sector in moving up economic progress. Keeping this in view, the government should strive to ensure that of favouritism is not shown to SOEs over private enterprises in the allocation of resoruces, purchasing, sales contracts and the like.

Experience from other Asian countries could be followed in Bangladesh where the privatization programme have successfully been carried out such as, South Korea, Taiwan, Malaysia, Singapore, Thailand, Japan, Philippines, Srilanka etc. It may be the most productive to visit these countries and observe the aspects of privatization and private sector development.

'Internship of three to six months should be explored, especially for Bangladeshi civil servants dealing with privatization matters'. The Privatization commission may be the agency to co-ordinate this type of programme with those countries.

A post privatization monitoring programme should be adopted with a view to evaluating the performance of privatized enterprises as well as to disclose it to the people of the country so that they can put their opinion in regards to any post privatization difficulties.

Co-operation between the privatization commission, Ministry of finance and Ministry of Commerce must be maintained in order to speed up the programme. It is most important prerequisite to successful privatization in Bangladesh.

Privatization will become more attractive to prospective investors once it is broad to include both manufacturing and non-manufacturing profitable and loss making enterprises for disinvestment.

There should be a provision for private enterprises both indigenous and foreign to operate the reserved sectors where SOEs operate in a strong oligopolistic environment, like energy, telecommunication and communications.

A specific and realistic time frame should be defined to privatize all SOEs and the criteria for selecting enterprises for early privatization will have to be defined and declared as well. There should be regulations that no SOEs can take borrowings to recapitalise in order to make up their failure to achieve specific goals.

Regulations will have to be promulgated and methods will have to be defined which will ensure complete transparency of the valuation, bidding and contracting in the disinvestment process.

Provision should be made in the rules and regulation under which foreign investors can participate in bidding for on non-discriminatory terms, can own and operate the divested enterprises and regulation should also allow them to establish, own and operate new units.

The public enterprises which are not viable financially and economically and do not bear any hope for the future, should be liquidated. This will minimise government losses.

Before selecting buyer, a proper investigation should be conducted for examining the entrepreneurship background and capabilities of the interested parties. The decision makers should not biased with political pressure.

In all privatization, in all counties, the transaction must be transparent (sunita, 1992). In order to make it fully transparent, the prospective buyers/bidders should be provided with all information regarding the tendered SOEs and they should also be encouraged to make independent evaluation of SOEs they are bidding for.

The primary objective of privatization should be to increase efficiency not to maximise revenue.

The more market friendly a country's policy frame work- and appropriate policy is correlated with capacity to regulate the less difficulty it will have in privatizing an SOEs, and the higher the likelihood that the sale will turn out positively.

Privatization Master Plan is needed in Bangladesh which will formulate all the strategies in regard to gradually privatizing SOEs, Such a Master Plan however should be reached in the basis of consensus reached among all major political parties and in active consultation with the private sector (Dowlah, 1995).

Capital market development is an essential factor of accelerating privatization by which all entrepreneurs can contribute to the national economy. But as ill luck would have it, the capital market in Bangladesh is not as large and developed as needed. There is limited number of shares which is the main causes of slow expansion of the capital market. This should be overcome by taking necessary measures, stated bellow (DCCI, 1995) :

- ❖ That accelerated privatization is a prerequisite to the expansion of the capital market and privatization of the SOEs and government run utilities sectors will not only unload the burden of the exchequer but will also attract large investment in the capital market.

- ❖ That the State Owned Enterprises (SOEs) and the large public sector corporations should be restructured and their shares be floated in the capital market.

- That Matual Funds through massive local and foreign private participation be introduced in the share markets.

- That 100 per cent foreign owned large firms in the Export processing Zones (EPZs) should be persuaded to be enlisted with the Stock Exchanges.

- That the utility sectors like gas, electricity, telecommunication etc. should be opened to the private sector as soon as possible through flotation of shares.

- That disparity in the tax structure has been discouraging the secondary stock market. It is therefor, recommended that no capital gain tax should be applied to the transaction in secondary market.

- That the difference of tax between the listed and non-listed companies should be minimum fifteen per cent.

- That in order to cope with the global changes to attain international standards, the foreign audit firms be allowed to participate in audits and according of companies coming into public issues.

- That saving is one the major factors increasing investment. The contribution of savings to the GDP (Gross Domestic Products) is low in Bangladesh in comparison with other South and South East Asian countries. The present tax policy discourages savings. So, levey and excise duties on small savings should be withdrawn.

- That entrepreneurs having no track record or history of performance but rich in knowledge, know-how and technology be allowed to com up with "Green Field" projects in the Capital Market.

- That the merchant banks and asset management companies should be encouraged of function as soon as possible.

- That in order to sustain buoyancy in the capital market, new securities instruments such as government bonds, housing bonds and municipal bonds etc. may be introduced.

- That the relevant law should be amended to bring trust funds such as pension, gratuity and provident fund into the capital market.

- That policy making functions of Stock Exchanges should be separated from their day to day operational and executive functions in order to make their works transparent and systematic.

In order to lessening the labour unrest, the interests of the workers should have to be protected and keeping this view, the government should fix up their wages after discussing the matter with the representatives of the private sector.

With a view of to developing the labour management relations a consultative management system should be introduced or encouraged. This will help to remove the crisis of industrial relations in both public and private sectors. Further, if privatization policies are to be carried through with a minimum economic, social and political stability and efficiency, it is indispensable to promote a close, constructive dialogue between public authorities, employers organizations and trade unions and this dialogue must be maintained before, during and after privatization (Johannes, 1993).

The effective strategies like, BOO-BOT should be applied in order to attract foreign private investments, joint venture etc. which would be helpful for the economic development of the country.

The professional efficiency is a vital factor to be increased by providing necessary training. In this regard, the government as well as all development agencies should come forward through serving business information giving consultation service and providing training to entrepreneurs.

The Privatization commission should be provided sufficient authority for its effective performance. It should also be given autonomy to take any decision regarding management, co-ordination and implementation of privatization policy. In case of small industrial enterprises, it may privatize those units directly and in case of large units, it should take the advice from cabinet division.

Support for privatization from general mass is a vital factor for making the programme of privatization successful. So, there may be agent from the public sector. And if necessary professionals and intellectual can be appointed.

CONCLUSION

From the foregoing discussion it may be observed that success of privatization depends on adoption of appropriate strategies, regulatory and enabling environment. Appropriate method of privatization would depend on specific areas of privatization ; in this regard successful privatization programme of other countries could be supportive. Further, macro-economic policy and national political commitments to privatization are very essential for the success of privatization. In Bangladesh, to make the programme of privatization a success, following strategic measures, inter alia should essentially be adopted.

That privatization is a total economic system and not confined to disposal or transfer of few State-Owned Enterprise (SOEs) from the public sector to private sector. Unfortunately in Bangladesh privatization has remained restricted to SOEs being transferred to private sector and, that too, only in respect of sick, financially losing and technologically obsolete industrial units. This is rather a negative approach to privatization policy. This attitude should be changed for rapid privatization.

That political support which is fundamental to any policy of privatization is lacking in Bangladesh. Political leadership should have clear vision of what is expected through the process of privatization. The present half-hearted support is doing more harm than good and helps to keep the genuine buyers away. Total political support irrespective of parties is needed for privatization.

That a reform in the bureaucratic set up and system is essential to expedite the reforms aimed at privatization.

That laws on liquidation and bankruptcy should be brought into being without any further loss of time. Sick SOEs should be liquidated rather than sold in an unfriendly market.

That large highly sensitive sectors of economy such as telecom, energy, transport including air transport, radio and television, highways, seaports and airports etc. are required to be privatized which will enhance liquidity in the capital market.

That in order to expedite the privatization process, close co-ordination between the Privatization commission (PC) and the concerned industries should be ensured to make the process transparent, accountable as well as for paying off the workers/employees of the privatized SOEs.

That in order to bring about a discipline in the banking sector reform must be made to fix responsibilities and ensure accountability.

That in order to bring about privatization of the economy the necessary apparatus should be structured in such a way that it is representative of strong political will and the attendant supportive rules and regulations. To achieve that goal, an immediate action plan involving both public and private sectors should be framed to accelerate the process of privatization.

The heart of successful privatization is development of strategy, formulation of policies evolution of right type of bureaucracy to suit the emerging global economic culture.

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CHAPTER – EIGHT

PROBLEMS FACING BY THE PRIVATIZED ENTERPRISES

problems to the newly privatized enterprises. After receiving these man powers on the basis of available records and relevant date of concerned officers and staff the privatized enterprises classified them in several classes. The classes were: (1) Age, (2) Total working period (3) skill ness- (a) skilled (b) some what skilled (c) skilled in other field (d) sportsman and artists etc. The above persons were more then adequate for the privatized enterprises. Therefore the authorities of privatized enterprises selected required number of manpower from them and the rest were sacked with golden hand shake.

It may be quoted here that many privatized enterprises had to appoint specialized persons from outside providing more facilities, because they were not included in the SOEs. Moreover, many enterprises took initiatives to send the manpower abroad for higher training to improve their professional capability in respective branches/fields.

In fact it can be said that these were the big and stern problems for the newly privatized enterprises (such as Lira Enterprise and Eagle Box Ltd.) But these was not a significant problem for the ancient/old privatized enterprises. Because they had already overcome this problems.

- Presently majority of the State Owned Enterprises (SOEs) do not have some sufficient structural facilities for their officers and staffs which are required. And the authorities even could not able to provide those facilities to the concerned officers and staffs. Though the authorities gave some facilities but those were not enough and adequate. In this situation, when those establishments were privatized then the authorities of that enterprises took initiatives to provide favorable environment to develop working atmosphere for officers and staffs for smooth working situation. Structural facilities usually helps to increase production and quality of inputs of day to day functions in an establishment.

In this stage, structural incapability was a major problem for those establishments which had been newly formed from the state owned enterprises. Other establishments which had crossed some times as privatized enterprises, they had less structural problems. Development of structural facilities was encouraged not only the work quality but it also geared up the mental satisfaction of the officers and staffs.

♦ The enterprises which were recently privatized had received inheritably some tools, plants and machineries from their parents establishments, which were used to produce goods and commodities. But there were two old and back dated, as a result full sewing production could not be achieved by those old machineries. On the other hand, to operate and maintain those back dated machinies it required excessive fuel and other lubricant beyond the expectation. As a result, expenditure increased manifolds. However, many other enterprises used latest technologies and modern machineries. These machineries had high production capacity with less maintenance costs.

The newly privatized enterprises which possessed old tools, plants and machineries should abandon them and procure latest technologies and modern machineries for more profit earning and to survive in this contesting situation. But to procure latest technologies and modern machineries could be a major problem for the newly privatized enterprises. Where as, the old enterprises which had been already established, had overcome these problems. At last it can be said that latest technologies and modern machineries do not only helps to increase the productivity of the employees. But also helps to earn more profit and goodwill of the enterprises.

♦ The privatized enterprises had to utilize land, river, sea and air port to import raw materials for production and to export their finished products to abroad. During utilizing these ports facilities the privatized enterprises had been facing lot of formal and informal problems these were as follows :

a) The existing structural facilities of the ports were not adequate.
b) To import raw materials and other essential items for their productions the privatized enterprises had to pay approved and unapproved charges. As a result, cost of imported raw materials and other items had increased. More ever while exporting the finished goods the same extra costs and unnecessary long time had been spent. As a result, it influenced on the value of commodity, profit and goodwill of the concerned enterprises.

Muzaffor (2004) disclosed a report in a press conference at National Press Club, Dhaka, on 12.09.2004- were he pointed that in Chittagong port for import and export of any item illegal money is to pay to the concerned officers and staffs of the port. But the Ministry of Inland River Transport regreted this matter.

♦ In many cases the privatized enterprises have to borne unexpected expenses, which are not fixed. But expenditure head is fixed and for that budget provision was allocated. Budget also allocated for social welfares, social activities and religious functions of officers and staffs. But the establishment very often is to pay unexpected subscription to different social, political and other organizations which are beyond budgeted. As a result, total expenditure of the enterprises increased and this also influenced directly to the profit.

♦ Privatized enterprises are to attend different concerned government ministries, directories and related different offices for import and export purposes. But they are not getting their valuable advices and opinions in time from the concerned government departments and offices. As a result, due to bureaucratic complicacies privatized enterprises face much troubles. It can be said this hindrance hampers to a great extant for smooth functioning of privatized enterprises.

♦ The privatized authorities has identified dual tax system as a major problem. Dual taxation is not applicable to some countries for some specific goods. Besides, most of the countries is to pay dual taxation in import and export in both the countries. For this reason value of imported raw materials increases to some extent, where as value of export goods is fixed. In fact, value of products of privatized enterprises are increased due to dual taxation though it is not logical.

♦ The workers of State Owned Enterprises (SOEs) used to enjoy monthly salary. After privatization, many enterprises paying contract rate system in lieu of monthly salary to the workers. Authorities of privatized enterprises assumed that this system of payment is though informal but effective. However, some workers are not satisfied for this system. The authorities of privatized enterprises noticed that those who are comparatively slow, their wages is less, even though this system helps to increase the productivity of workers.

♦ Another problem of most privatized enterprises is to determine the value of produced goods. In this regard it is said that the concerned enterprises sometimes compelled to sell out their commodities to the market below their production cost. The reasons are:

a) When some enterprises come up with a new product or when some new enterprises enter into the market they try to draw prospective customers attraction by reducing price of the commodities.
b) The price of some products are to fix lower than the production cost in comparison to that price of similar product of other companies to make it competitive.

♦ The authorities of privatized enterprises feel that present law and order situation, terrorism and forceful collection of subscriptions by some miscreants are also prevailing in the country which is a threat for privatized enterprises. In fact, law and order situation influenced the production activities of the privatized enterprises.

♦ According to their opinion, sometimes SOEs enjoy some flexibility from the government, which privatized enterprises are not entitled. Therefore, the authorities of privatized enterprises expressed that there should be a harmonized business policy for both SOEs and privatized enterprises. So that they can flourish their enterprises.

♦ There is no sufficient central warehouses in the country for privatized enterprises to accommodate their imported and exported goods. And as a result, the privatized enterprises cannot store their goods when they cannot export them. Similarly, they cannot import more goods at a time due to lack of sufficient central warehouse facilities. In their opinion every sector should have separate warehouse (such as sugar, food, paper, jute, cloth, steel etc.), so that enterprises can store their surplus raw materials and excess products in that central warehouses.

If central warehouses are available then the enterprises will not face any trouble for want of raw materials and will not sustain any loss due to excess supply of goods in the market. They will not also face any problem for supplying the product in its peak demanding period. As per their version every principal enterprise should have their own central warehouses for different goods. They expressed their opinion that operation and maintenance should be borne by the government or privatized enterprises for these warehouses within a particular rules agreed by both the parties.

♦ The existing political crises in one of the key problem to run the privatized enterprises total activities smoothly. In their opinion, to gear up the economic sector of the country, the privatized enterprises should have some particular responsibilities and liabilities. However, for the present political situations the privatized enterprises cannot play the exact role in this regards. They expect full co-operation from the political parties in this regard.

♦ Due to electricity deficit the production activities are disrupted most of the time, which is a another vital problem for privatized enterprises. This is a major concern of the privatized enterprises.

♦ According to the authorities of privatized enterprises, change of Government is also a major problem for the privatized enterprises. According to them in this regard there should have a permanent policies and guideline, so that problem of changing the Government will not adversely affect to the privatized enterprises. As per their view, policies and guidelines changed just after change of Government. For that- private enterprises face problems to adjust their work manual.

♦ To sustain in the open market the privatized enterprises should get support from the Government in the form of regular power supply, port facilities, export- import flexibilities, political stability and so on and so forth. The developed countries are enjoying these facilities which facilitate them to enter into the open market easily. Whereas due to lack of these facilities, the privatized enterprises of Bangladesh cannot enter into the open market economy easily.

♦ The authorities of privatized enterprises pointed out a special problem that the Embassies of Bangladesh situated in the foreign countries are not taking active part for promoting Bangladeshi commodities abroad. It is a complain against them that when authorities of privatized enterprises take personal initiative and sought their cooperation then they are not willing to provide necessary co-operation to them. It means that they take inactive role in this regard.

♦ Besides, the authorities of privatized enterprises has identified another problem that when the authorities of privatized enterprises require urgent visa for emergency business tour, they do not get it easily. In this respect, they demanded the help and co-operation from the foreign and home ministries of Bangladesh.

♦ Some authorities of privatized enterprises tried to present one of their major problem that officers, staffs and workers of ancient enterprises are wanting to introduce Trade Unions facilities. In this regard, the authorities of privatized enterprises think ahead that how long they will be able to maintain their enterprises for not permitting the workers to have Trade Union in their establishment.

♦ The authorities of privatized enterprises have successfully drawn an attention towards this problem that the countries around the boarder some essential commodities entered in our country by black marketing such as sugar, food grains, small and medium size spare parts, chemicals, wearing apparels and other essential products. These goods are sold at cheaper price than the goods are produced in our country. As a result, the commodities produced by the privatized enterprises become less demanding article and for this reason the privatized enterprises are deprived from its genuine benefits.

CONCLUSION

The problems in this chapter are reflected after elaborate discussions with the authorities of different privatized enterprises. In case of small and newly established privatized enterprises some problems are very large than the problems of old and ancient privatized enterprises.

In course of time and age some privatized enterprises can not realize the problems mentioned so far. On the other hand these problems are very painful to the newly formed privatized enterprises. In this regard problems such as over staffing, less structural facilities and old machineries may he quoted here. These problem are very vigorous problems for those establishment which have come from the State Owned Enterprises (SOEs) newly. On the other hand, these problems of ancient and old privatized enterprises are gradually decreasing and at this moment this problems are near to be exhausted. However, these problems are not equally important to all enterprises. The newly privatized enterprises are facing these problems seriously, while the ancient and old privatized enterprises are not facing these problems so seriously.

Privatized enterprises, which produce food items, textiles and cosmetics are facing the problem due to smuggled goods of the same items from the neighboring countries. As a result, they are losing the local market.

At last it could be concluded that privatized enterprises should be encouraged by the government to overcome the existing problems, so that they can sustain in this free economy of the world and can contribute to the GDP of national economy.

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CHAPTER – NINE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

SUMMARY AND CONCLUSIONS

After the devastating Second World War, most of the countries of the world began to create State-Owned Enterprises (SOEs) with a view to attaining economic growth and social objectives. The SOEs phenomenon got the requisite impetus in the decades of 1960s and 1970s occupying the status of the "commanding height of the economy" all over the world, either socialist or capitalist countries, developed or developing countries.

Regarding that, unfortunately, after 1970s this SOEs phenomenon started to change chiefly because of nagging performance of SOEs as they were proved inefficient and unproductive. Even, in many countries, SOEs became an unsustainable burden to the government. Therefore, in the decade of 1980s the refrom programme was introduced in the form of privatization of SOEs. United Kingdom was the pioneer in this arena. All developed countries, such as Italy, France, Australia, Canada, America and other alike countries had followed this programme as remedial measure of SOEs as well as panacea for the economcy as a whole. Since all developing countries of the world were trapped in the quagmire of SOEs, sombre performance phenomenon, they also embarked upon the privatization movement.

Regarding that, due to disintegration of USSR and reunification of Germany in 1989 and 1990 respectively the dominant role of public enterprises was substantially curtailed. Further more, on account of creation of North America Preferential Trade Agreement and signing of Uruguay Round Talk under GATT, all countries of the world almost became free to market economy leaving no room for continuance of laggard and haggard SOEs. Keeping this point in view, almost all the countries of the world adopted vigorous reform programme of privatization. The outcome of adoption of the privatization in some of the western countries has been quite successful and proved to be boom for the economic progress and prosperity.

Privatization means transfer of ownership, control and management and decision- making power from public enterprises to private enterpreneurs. However, there are various forms and techniques of privatization which are being adopted for privatizing SOEs all over the world such as, sale of assets, management contract, lease of assets public sale of shares, management employee buyout, liquidation, reprivatization, BOO-BOT etc.

In Bangladesh, the process of privatization began in the decade of early 1980s mainly owing to recurring heavy losses by the SOEs. This was beyond the capability of the government to bear the brunt of these ailing enterprises. It has also been observed from the analyses and interpretations of data in the present study that SOEs in Banladesh have been incurring losses every year that reached up to US $ 500 billion in 2002 and exerted a heavy pressure on the national exchequer. At the same time, they were endangering the economic viability of the nationalized commercial banks taking loans that amounted to US $ 47 billion as of June 2002 and not paying interests as well as principal. Most of the SOEs were overstaffed and suffered from various problems in their operations, which as a result, impinged adversely on the profitability, productivity and efficiency of the enterprises.

A study conducted on the comparative performance appraisal of SOEs vis-a-vis private sector enterprises suggest that private sector enterprises are faming far better than that of SOEs interms of profitability, fixed assets, value added as well as productivity of labours.

From the very beginning of the programme of privatization in Bangladesh, the government embarked upon the very method of denationalization i.e. to return the units to Bangladeshi former owners who were deprived of these units on account of war of 1971 resulting into creation of Bangladesh. Disinvestment was another method which was taken up by selling off abandoned units of those who migrated to Pakistan, through public tenders. In 1986 the government further endorsed the "51-49 plan" i.e. 51 per cent of share to be retained by the government and the rest 49 per cent shares to be unloaded for public subscription through Stock Exchange and Investment Corporation of Bangladesh.

Finally in 1991, a crucial decision was taken up to abolish all the previous provisions by making a new provisions to sell the enterprises wholly through international tender and also sale by offer of shares to the general public either directly or through the Stock Exchanges. A provision for employees- workers buyout also introduced.

The introductory chapter of the present study has evolved, in general, with couple of hypotheses in broad spectrum of the functioning of SOEs in Bangladesh. The hypotheses are :

- ❖ That the private enterprises perform more efficiently than public enterprises.
- ❖ That the state-owned enterprises have considerably improved their performances after they were privatized.

On the basis of the data collected for the study purpose, and their thread bare analyses helped to draw the inference regarding proof or disproof of the statement of the hypotheses and are summarized as under:

♦ **Hypothesis one :** The findings support the first hypothesis that the private enterprises perform more efficiently and productively than the public enterprises. It has been observed that interms of profitability, labour productivity, value added etc., the private enterprises have fared exceedingly well as compared to public enterprises during the period under reference in the present study.

♦ **Hypothesis two ;** It has been noticed from the analyses that State-Owned enterprise (SOEs) have presented better accounts of performance, after they have privatized. The privatized enterprises have been able to respond to the changing time. The management of the privatized enterprises are now enjoying full authority to take spot decision if necessary which the management of SOEs could not have. Further, the privatized enterprises have successfully come out the morass of over staffing that SOEs had. The management as well as employees and workers have now the requisite accountability to the higher authority which in general did not exist in case of SOEs. These finding also support the second general hypothesis that the SOEs have considerably improved their performances after they have been privatized.

After 1991 onward the government of Bangladesh embraced a mass privatization programme. It is seen that from 1972 to 1989 about 565 enterprises were privatized during three phases. In the first phase (1972-75) there was no specific and declared disinvestment programme. Afterwards a vigorous programme of privatization of SOEs was chalked out by the 'Disinvestment Board'. Further, regarding privatization of SOEs the Disinvestment Board formulated appropriates polices and plans. 'The Disinvestment Board' under the

Ministry of Industries implemented the process of privatization with the approval of the cabinet.

In the second phase in 1986, two committees were formed as 'Executive Committee' and 'Working Committee' to help the Disinvestment Board. Yet, the privatization process did not get the required momemtum. So, in 1993, Privatization Board was formed to gear up the process.

Finally, in the third phase, the government established the 'Privatization commission' dissolving all the previous committees in 2000. The commission now has been empowered to undertake all those requisite measures regarding privatization programme whatever seems better and whenever needed.

But as ill luck would have it, the privatization programme did not get as much momentum as was expected. Because the government followed modalities which were limited in their scope and applicability in privatizing SOEs. Regarding that, the previous privatization programme of Bangladesh faced various kinds of problems which were needed to be solved in order to make the programmes of privatization successful.

In most of the previous privatization programme of SOEs, the appropriate methods of valuation of assets and liabilities were not followed which resulted in an unrealistic valuation of assets of enterprises for privatization. At the same time, the procedures of privatization were not transparent. Because, the buyers were not furnished with real information rather often they were saddled with unrealistic obligations and non-existent assets. There was no proper policy of selecting capable buyers also.

The privatization programme faced resistance from various corners, such as bureaucrats of the controlling ministries, management of SOEs, leaders of trade unions, political parties and also resistance from labours. They all were opposing privatization on account of losing their vested interests. Labours were afraid of retrenchment and shrinking of extra incomes.

The proper co-ordination of the concern authorities is a must to make the programme successful. The Privatization Commission, SOEs, the Ministry of Finance, the Ministry of Industries and the Ministry of Commerce are required to have proper co-ordination among themselves which was absent. These resulted in a policy anomalies and a gap between announcement of policies and actual implementation.

Again, privatization needs a strong political commitment to be successful which was absent in Bangladesh. There was also no proper institutional mechanism. As a result, the process of privatization was slowed down.

Further more, there was lack of proper regulatory framework and enabling environment, and developed 'Capital Market' which created obstacles in the process of implementation of privatization programme. A public education programme regarding privatization and post privatization monitoring system were also largely absent in Bangladesh on account which privatization programme did not gain much support from the public at large.

Finally, privatization 'Master plan' containing appropriate kind of strategies and action plan for privatizing SOEs is absent.

It is now crystal clear that the privatization programme in Bangladesh needs right kind of strategies ensuring sound regulatory environment and political commitment.

RECOMMENDATIONS

The following recommendations have been made on the basis of the study findings. These recommendations may be the guideline for successful privatization programme in Bangladesh.

The government must assess present status of privatization, specially it should identify those enterprises which are to be privatized. The government also needs to develop a "road map" for future course of action on privatization.

An enabling and regulatory mechanism must prevail so that the full benefits of privatization process can be reaped. Without a strong and effective regulatory mechanism, best performance can not be expected from privatization programme.

SOEs assets must be valued realistically. It should not be very high or very low. The concerned authority must remember that the assets must be offered for sale in which price should be estimated by the experts, not by the political decisions.

Privatization is an intensely political process and involves significant social engineering. So without clear cut political mandate, it is extremely different for a privatization programme to proceed. So, political commitment from both the ruling party as well as opposition parties is essential.

A post privatization monitoring programme may be carried out in order to evaluate the performance of privatized enterprises as well as to disclose it to the people of the country so that they may be influenced with privatization and may also express their opinion in regard to any post privatization difficulty. Government should also retain power to cease the authority of management of the privatized enterprises if there are sufficient evidence of any activity that goes against the interests of that enterprises.

A proper criteria should be adopted for selecting a real buyers as well as a proper investigation should be conducted for testing the entrepreneurship background and capabilities of the interested buyers. The decision makers should not be influenced with political pressure.

An education programme may be taken up describing the reasons of privatization, gains of privatization, concept of ownership, what benefits can be reaped from ownership etc. In such a way, government can get support from general public.

In privatizing SOEs, transaction must be transparent. In order to make it fully transparent, all kinds of requisite information's should be available to the prospective buyers so that they would be able to make independent valuation of SOEs. as well as prepare themselves for buying SOEs.

The labour questions is one of the moot issues concerned with privatization of SOEs. Labours interest must be protected at all costs. In this regard, Malaysian model could be instructive. Further there should be a close, constructive dialogue between public authorities, employer's organizations and trade unions and this dialogue must be maintained before, during and after privatization. ESOP (Employee Stock Ownership Plan) may also be effective in this regard.

Government should follow a set of modalities instead of a limited modalities. Each technique must be selected and applied properly for each case. In means a mix privatization strategies, which will include employee buyouts, share market operations, management contracts, Boo-Bot, Private participation in sectors of state monopoly, joint public-private ownership etc. Should be considered for the purpose.

In case of privatizing politically powered SOEs, government can employee marginalization and 'quiet liquidation' technique.

A strong and capable capital market is a pre-requisite for success of privatization programme vis-a-vis accelerated privatization of SOEs. So, necessary steps should be taken for development of the capital market.

The economically non-viable and sick public enterprises should be liquidated which will minimized government costs.

Laws on liquidation and Bankruptcy should be regulated which will simplify the process of privatization to a great extent.

Brureaucratic red-tapism should be remove in order to speed up the privatization programme.

Privatization programme should be carried on to all sectors like, utility, transport, energy, port and shipping as well as profitable and loss making SOEs also, in such a way privatization will become more attractive to prospective investors.

In order to accelerate the process of privatization, a close coordination between the 'Privatization commission' and the concerned industries as well as the Ministries should be ensured. This will make the process transparent, accountable as well as paying off the workers employees of the privatized SOEs.

The Privatization commission will have to be given more autonomy. It should be given the power to take decision regarding management, coordination and implementation of privatization policy.

A particular time frame should be defined to privatize all the SOEs and the criteria for selecting enterprise for early privatization will have to be decided and declared.

Legislation should be enacted to allow private enterprises both indigenous and foreign, to operate in the reserved SOEs which are enjoying strong monopoly or oligopoly. Regulation should also allow foreign investors to establish, own and operate new units. This provision will attract Foreign Direct Investment (FDI).

Experience from other Asian countries could be considered in Bangladesh where the privatization progrmme have successfully carried out, such as Malaysia, Philippine, South Korea, Japan, Singapore, Srilanka, Tailand etc.

An approach that 'perform or perish' may be followed in case of a few SOEs which would remain in the public sector for a certain period of time. If those enterprises fail to achieve the objectives set for them within that particular time, then they must be divested or privatized.

In case of large SOEs having negative networth, it may better to disinvest them by other techniques like leasing, management contract etc. than full privatization.

Privatization is a complex and difficult process. So, the government should keep the pressure on the process instead of fixing artificial time tables for its implementation, i.e. continuation of the process is a must to achieve success of the programme.

Government should also define the complementary role of the public and private sector. It may me noted that privatization is a complement to, not a replacement for the other aspects of the development of the private sector.

It should be kept in view that economic reform including creation of condition for a stable macro-economic environment, trade liberalization, price liberalization, financial sector reform, elimination of subsidies and regulatory reform may be important elements for successful privatization programme.

An internship programme may be conducted regarding the observation that how they have implemented their process of privatization and Privatization commission can arrange this type of progrramme.

A privatization 'Master Plan' is needed containing all the strategies regarding privatization of SOEs. Such a 'Master Plan' Should be made on the basis of concensus from all stake- holders of the country.

Finally, in a nutshell, it may be inferred that the privatization is not a panacea for the ills of a sick State- Owned Enterprises (SOEs). It is a means not an end. When combined with other policies and institutional reforms, privatization and private sector development can play a vital role in the economic development in Bangladesh. The opportunity for playing that role will now be greater than ever with right kind of strategies as recommended in the foregoing paragraphs. These may be followed for effective implementation of the privatization programme in Bangladesh.

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