

# **Globalization and Privatization Policy of Bangladesh**

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for the Degree of Master of Philosophy (M. Phil.)**

**GIFT**

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## Declaration

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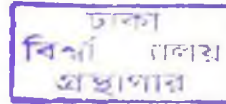
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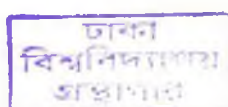
## Abstract

The thesis studied privatization policy of Bangladesh in the context of current form of globalization based on neo-liberal beliefs. Many scholars powerfully challenge the ideological basis of globalization. Impacts of the agenda promoted by globalization forces, of which privatization is one of the foremost, range from hindered national growths and increase in inequality to blatant economic disasters around the globe.

It is shown that, even though privatization could be considered one of the foremost of globalization agenda, concepts related to it are quite varied in meaning and treatment. Mainstream thinking lacks definition, moderates confines it mainly to enterprises level and political economists requires more focus on the issue. Seemingly a comprehensive understanding calls for a comprehensive theoretical framework, which the model of Savas apparently have.

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Treating privatization basically as a governance issue, Savas model tried to understand it from the critical point of view of choice of right mode of service delivery for the various goods and services a society needs. Classifying, with its exclusion and consumption criteria, all the goods and services in four groups - private, toll, common pool and collective - the model identified that market mechanism could not provide two of the classes - common pool and collective goods. It was argued that more and more, in civilized societies, private and toll goods assume the characteristics of collective goods to be arranged and provided by the government and paid for with taxes on behalf of the citizens. The model



identified ten service delivery modes - government service, intergovernmental arrangement, government vending, contract, grant, voucher, franchise, market, voluntary, and self-service and defines privatization as the movement in service delivery from a mode up in the order to a lower one is privatization. The decision to privatize or not is dependant upon factors relating to the case at hand and not on any predetermined rule. The deciding factors may include social desirability of the particular service delivery mode depending upon the prevailing values of the society. In this thesis we have tried to employ Savas model to understand the phenomena of privatization.

To establish the two main propositions of the thesis - globalization dictated the privatization policy of Bangladesh and privatization can be better understood employing Savas model - we have analyzed four privatization related policies of Bangladesh and examined a case - privatization of fertilizer distribution.

The findings of this research, as presented below, lend support to the theses:

1. The policy analysis presented clearly showed that Bangladesh have embraced an all out privatization policy in line with thought of the globalization forces. The dictates of globalization forces are also evident. But, despite taking this policy stance, analysis of government expenditure and income data reveals that the size of the government is growing over the period in question. This indicates that even though public is paying more, they are getting less from the government day by day under the current privatization regime. This may

provide an indication to the deeper contradiction of the current globalization dictated privatization policy of Bangladesh.

2. The case of privatization of fertilizer distribution vividly showed that a major privatization move initiated totally on ideological grounds and no analysis was conducted as to the feasibility or impact of the program. Employing Savas model it was shown that, that there was no scope for bringing in market efficiency argument in this particular case which composed of intergovernmental arrangement and government service. Role of market mechanism was nowhere in the scene. The impacts of the privatization move, almost solely dictated by a globalization force brought disastrous results - cost of distribution increased, fertilizer prices went up and its use reduced. The case study suggests that Savas model may serve as an analytically useful tool as it can provide better insights to the activities involved in the privatization process. As the studied case was a major one and presumed to have typical characteristics, the findings lend support to the proposition and may have general applicability.

In conclusion, it is argued that the privatization policy of Bangladesh needs re-thinking in the light of the new understanding.

## **Acknowledgements**

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Finally, I must mention that I have benefited from the ideas of many but any error in this thesis are entirely my own.

M. Abdullah Saadi  
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# Table of Content

## **Abstract**

## **Acknowledgements**

## **Chapter 1: Introduction**

1.1 Background	...	...	...	...	...	...	...	...	1
1.2. Globalization	...	...	...	...	...	...	...	...	4
1.1.1 Concepts of Globalization									
1.1.2 Concerns About Globalization									
1.3.1 Concept of Privatization: Analysis of Various Schools of Thoughts	...								9
1.3.1.1 Privatization: Mainstream Thinking									
1.3.1.2 The Moderates									
1.3.1.3 The Political Economists									
1.3.2. Savas Model of Privatization: Analytical Framework for the Study									
1.4 Link Between Globalization and Privatization Policy	...	...	...						20
1.5 Methodology of the Study	...	...	...	...	...	...	...	...	21
1.6 Limitations of the Study	...	...	...	...	...	...	...	...	22
1.7 Outline of the Thesis	...	...	...	...	...	...	...	...	23

## **Chapter 2: The Privatization of Bangladesh**

2.1 Plan of the Chapter	...	...	...	...	...	...	...	...	25
2.2. Poverty Reduction Strategy: A Misnomer	...	...	...	...	...	...	...	...	26
2.2.1 PRSP: 'Old' Neo-liberal Lessons in 'New' Package for Bangladesh									
2.2.2 Privatization, PRSP and the Recent Trend of Globalization									
2.3 Privatization Act 2000	...	...	...	...	...	...	...	...	31
2.4 Industrial Policy 2005 of Bangladesh and Privatization	...	...	...						34
2.5 National Agriculture Policy 1999 and Privatization	...	...	...						36
2.6 Privatization and the Size of Government of Bangladesh	...	...	...						39



**Chapter 3: Privatization of Fertilizer Distribution in Bangladesh: An Evaluation**

3.1 Plan of the Chapter	...	...	...	...	...	...	...	45
3.2 Overview of Agriculture Sector in 1977-78	...	...	...	...	...	...	...	46
3.3 Fertilizer Distribution: Before Privatization	...	...	...	...	...	...	...	48
3.4 The Privatization Move by Globalization Force	...	...	...	...	...	...	...	50
3.5 Privatization of Fertilizer Distribution: What Really Happened	...	...	...	...	...	...	...	53
3.6 The Impact of Privatization of Fertilizer Distribution	...	...	...	...	...	...	...	55
<b><u>Chapter 4: Conclusion</u></b>	...	...	...	...	...	...	...	58

**List of Tables**

Table 2.1: Total Expenditure and GDP (1992-04)	...	...	...	...	...	...	...	40
Table 2.2: Total Revenue and GDP (1992-2004)	...	...	...	...	...	...	...	42
Table 2.3: Annual Development Plan and GDP (1992-2004)	...	...	...	...	...	...	...	44

**List of Figures**

Fig. 2.1: Growth of Total Expenditure (1992-2004) in current prices	...	...	...	...	...	...	...	41
Fig. 2.2: Growth of Revenue (1992-2004) at current prices	...	...	...	...	...	...	...	43

**List of Diagrams**

Diagram 3.1: Fertilizer Marketing System Up to 1977-78	...	...	...	...	...	...	...	49
Diagram 3.2: Marketing System After Privatization in 1978	...	...	...	...	...	...	...	51

**Bibliography**

**Glossary**

## **List of Abbreviations**

- ADP** – Annual Development Program
- BADC** – Bangladesh Agricultural Development Corporation
- FDI** – Foreign Direct Investment
- GDP** – Gross Domestic Product
- IFDC** – International Fertilizer Development Center
- IMF** – International Monetary Fund
- KSS** – *Krishi Samabay Somiti*
- MDG** – Millennium Development Goal
- NMS** – New Marketing System
- OMS** – Old Marketing System
- PDP** – Primary Distribution Point
- PRSP** – Poverty Reduction Strategy Paper
- SOE** – State Owned Enterprise
- TCCA** – Thana Central Cooperative Association
- TSC** – Thana Sales Center
- USAID** - United States Agency for International Development

# Globalization and Privatization Policy of Bangladesh

*'... in the long run an ideology can survive only if it facilitates the smooth and efficient functioning of the economy. If it hampers that, the society - and with it the ideology - must perish in the end. But the reckoning may be long postponed'. - Gordon Childe<sup>1</sup>*

## **Chapter I: Introduction**

### **1.1 Background**

The privatization-debate is not dead, or even, the issue, decided. On a global level, concerns for greater role of states in securing supply of important goods and services, such as the oil and gas, education and healthcare, are coming back into debate. Apparently, the sign of pressures against privatization policy is not emanating only from ideological grounds but from pragmatic and populist concerns of protecting national interest and welfare of the people<sup>2</sup>. Recent tussles on port privatization in Bangladesh also show that the issue is alive, and more importantly, needs further careful consideration.<sup>3</sup>

In Bangladesh context, it is more important because privatization policy bears the legacy of nationalization process, which began early after independence and

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<sup>1</sup> Childe, *What Happened in History*

<sup>2</sup> *Wikipedia, the free encyclopedia*, s.v. "Hugo Chavez."

<sup>3</sup> "Save Chittagong, Save Country," Open World Conference Website

socialism was enshrined as a basic national goal in the constitution. Later event suggests that the global forces had acted upon Bangladesh and eventually stage was set to kill the then president and overthrow the regime committed to greater state-role<sup>4</sup>.

That is why global context is also important in examining privatization policy of Bangladesh. Though globalization process, as a positive phenomena, can be traced back into history in the way of spreading fruits of knowledge from one region of the world to other, it is the one specific doctrinal sense of economic globalization which particularly calls for focused attention in the context of privatization policy of Bangladesh as because, we will see later, privatization is an integral part of the agenda of this particular form of current globalization which is alleged to have a very strong influence over the formation and implementation of privatization policy in Bangladesh.

In this thesis we will try to explore privatization policy of Bangladesh from a conceptual framework, which has possibly never been employed to examine the issue. The phenomenon of globalization, in the sense we will use here and which will be elaborated in the next section, is strongly related to the issue of privatization policy of Bangladesh on the ideological plane. In fact, privatization agenda appears to be

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<sup>4</sup> Sobhan, *Crisis of External Dependence*

the heart of the doctrine espoused by the current globalization based on neo-liberal beliefs.

The doctrinal approach to privatization in Bangladesh, dictated by the globalization forces, caused serious problems; the issue of privatization can be better understood and managed employing the conceptual framework of Savas, which views the issue from the angle of suitability of various institutional arrangements to provide different kinds of goods to the society<sup>5</sup>.

We are not suggesting that the issue of privatization is in any way limited to academic debates or intellectual exercise. We all know that it is a real life issue centrally related to economic management and development approach of the nation. Apparently, as we will see in a coming chapter of this thesis in some detail, Bangladesh has overwhelmingly embraced the privatization in its national policies stipulated by globalization.

Though globalization is a well known, almost household word nowadays, for our purpose, in the next section, we will discuss it in detail, specifying the meaning, related ideology and its implications to privatization and privatization policy of Bangladesh.

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<sup>5</sup> Savas, *Privatization*

## 1.2. Globalization

### 1.2.1 Concepts of Globalization

Globalization in a general sense means ‘international integration’<sup>6</sup>. Two major connotations of globalization may be identified. One is the long historic process of global integration that “contributed to the progress of world through travel, migration, spread of cultural influences and dissemination of knowledge (including science and technology)<sup>7</sup>”. In the other sense, and this is the sense which we will be more concerned for this study, globalization refers to “a very specific form of international economic integration ... namely based on the priority given to investor rights not rights of people ... within a general neo-liberal framework, roughly the so-called Washington Consensus<sup>8</sup>” and championed by Bretton Woods Institutions and its allies. The former sense may be designated as ‘globalism’ to distinguish it with the ‘doctrinal’ globalization.<sup>9</sup>

It may be argued that the current form of globalization started in full swing from the year 1979, the year Margaret Thatcher became the Prime Minister of UK<sup>10</sup>.

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<sup>6</sup> Chomsky and Mandic, “On Globalization”

<sup>7</sup> Sen, “How to Judge Globalism”

<sup>8</sup> Chomsky and Mandic, “On Globalization”

<sup>9</sup> Sen, “How to Judge Globalism ” and Chomsky, “From Colonialization to Globalization”

<sup>10</sup> Milanovic, “Two Faces of Globalization”



Incidentally, in the previous year (1978)<sup>11</sup>, USAID (United States Agency for International Development) launched a project in collaboration with Bangladesh Agricultural Development Corporation (BADC) to privatize the fertilizer marketing in Bangladesh and the rationale and language in support of the project was quite similar to the political rhetoric employed by the Iron Lady in dismantling the SOEs (State Owned Enterprises) of the UK<sup>12</sup>.

### 1.2.2 Concerns About Globalization

Main concerns about the current form of doctrinal agenda based globalization are as follows:

1. The ideological premises of globalization, based on neo-classical economics, are highly questionable. According the precepts of this school, people only have rights up to the extent what they can acquire from the market. If they can't it's their problem and let them left alone and perish<sup>13</sup>.

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<sup>11</sup> The year 1978 is also significant for Bangladesh from privatization perspective on another ground that on September 9, 1978, the then Minister of Industries announced a policy package for attracting private investment at a Press Conference. Please see Zohir, *Industrial Policy of Bangladesh*

<sup>12</sup> In a paper, USAID acknowledged that 'the program [privatizing fertilizer distribution] was ideologically driven to some extent'. In fact, the program was totally based on neo-liberal beliefs in 'market efficiency' and private sector 'superiority', as we will see in Chapter 3. Please see "USAID Evaluation Highlights."

<sup>13</sup> Galbraith, *History of Economics* and George, "Short History of Neo-liberalism"



2. The teachings of neo-classical economics has been powerfully challenged by Marx, Keynes and Sen from their respective point of views:
  - a. Extending the classical model, Karl Marx showed, from historical materialistic perspective, that the system which classical economy is presenting is not sustainable and at one stage hinders further development of productive forces, by proposing his refined form of theory of value and a theory of social progress based on dialectic relationship between capital and labor. The Marxian challenge eventually established a new school of political economy, many variants of which now exists in the thoughts of left thinkers<sup>14</sup>.
  - b. John Menard Keynes showed that economies tends to operate at a lower than full employment equilibrium and it is the government, who can, through fiscal measures, bring back the economy to full employment levels, thus breaking the potentially sustaining recessive situation of capitalist economies. So, role of the government is not residual (in the sense of correcting 'market failures') but decisive factor for economic development<sup>15</sup>.
  - c. Amartya Sen showed that the basic premises of welfare economics based on neo-classical concepts of Benthamian utility is untenable and decisions of societal welfare and progress can not (and should not) be grounded on these highly unrealistic assumptions. He proposed a new

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<sup>14</sup> Galbraith, *History of Economics*

<sup>15</sup> Galbraith, *History of Economics*

development paradigm based on concepts of capability, entitlement, and well-being of man<sup>16</sup>.

- d. It was pointed out that the 'autonomous sphere of exchange relationship' as proposed by neo-classical school can not tell us much about economic development and its alleged autonomy is highly questionable. The claim that economic propositions possess 'universal and necessary' characteristics is similar to the absurdity of '*synthetic a priori propositions*'. In reality economic propositions are *aposteriori* in nature and undeniably verifiable empirically<sup>17</sup>.

3. Neo-classical doctrines lend heavily on the monetarism advocated by Milton Friedman. It was argued that monetarism in its core concept is socially biased. It operates against inflation by raising interest rates, which, in turn inhibit bank lending and resulting deposits - that is, money - creation. High interest rates are wholly agreeable to people and institutions that have money to lend. The applicability of the theoretical apparatus of monetarism, the equation of exchange of Irving Fisher, is questionable on the grounds that what is defined as money could be controllable. Moreover, the attempt to control money supply can adversely affect transaction itself, that is industrial output and employment<sup>18</sup>

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<sup>16</sup> Sen, "*Jibonjatra O Orthony*" (in Bengali)

<sup>17</sup> Dobb, *Studies in the Development of Capitalism*. Here Dobb is particularly referring to Friedrich A. von Hayek's claim.

<sup>18</sup> Galbraith, *History of Economics*

4. The results which globalization has produced since 1978 clearly call for its rejection as mentioned below:
  - a. Studies showed that globalization has produced strong divergence of income inequality and hinder growth, compared to previous decades<sup>19</sup>.
  - b. Studies carried out on the East Asian crises in the late 90s showed that IMF and World Bank prescribed policies (privatization is a part of the agenda<sup>20</sup>), particularly trade and financial liberalization, was mainly responsible for the economic disaster. Most importantly, the role of IMF explicitly protected the role of Wall Street Investors by totally disregarding the interests of the concerned countries. It was also alleged that US Treasury, Wall Street Bankers and US Chamber of Commerce are the guiding force in formulating IMF policies<sup>21</sup>.

From the above arguments, it may be concluded that the globalization, as we understood it, is based on questionable ideological basis and did produce undesirable effects over the globe, through its policy agenda, among which privatization is the foremost.

Like globalization, the concept of privatization also needs to be clarified. In the following section we will elaborate and specify the issue for our purpose and present the conceptual model to understand it properly. In doing so, first we will discuss

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<sup>19</sup> Milanovic, "Two Faces of Globalization"

<sup>20</sup> IMF Staff, "Globalization: Threat of Opportunity?"

major schools of privatization thoughts and present briefly the critical analysis of these schools. This would possibly lead to strengthening the position, which we would be holding in this thesis.

### **1.3.1 Concept of Privatization: Analysis of Various Schools of Thoughts**

Privatization, like globalization, needs clarification. There are many connotations of privatization such as denationalization, disinvestments, deregulation and liberalization. As this is one of the key agenda of current form of globalization and indeed a highly debated one, understandably there exist multiple analytic point of views. We may classify these schools of thoughts with regard to privatization in three broad categories such as: the neo-liberal mainstream, the left, and the moderate. Let us start the explore with the mainstream first:

#### **1.3.1.1 Privatization: mainstream thinking**

Mainstream thoughts on privatization are represented by the Bretton Wood Institutions its associates. As we have already mentioned, this school believes that privatization is a necessary good. The proposition is based on the assumption of neo-classical economics of superior capability of private sector and market mechanism in terms of efficient use of resources. There standard argument is: as the private sector is more efficient in everything it should be in charge of everything. Therefore,

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<sup>21</sup> Jomo, *Tigers in Trouble*

privatize everything. The concern of this school about privatization not to understand it, as it starts with the faith that government is evil, the main concern is how to privatize. As privatization involves transfer of billions of dollars of public assets into private hands, understandably modalities are important, not to mention the importance of handling critical political oppositions. Efforts are also made to lend empirical support to the privatization claim. Here we will examine one of the main publications in support of privatization, which contains the standard arguments and findings with its criticisms.

*Bureaucrats in Business, The Economics and Politics of Government Ownership (BB)*<sup>22</sup> is basically an advocacy for privatization and how to do it properly. Though it does not formally define privatization, it is apparent that here privatization means taking anything out of government modalities of which includes outright sale, management contract, performance contract, regulatory contract etc. *BB* does not, in fact, say anything about the concept of privatization apart from its doctrinal standpoint and basically it is concerned about state-owned enterprises. For this reason, the objections which has been presented earlier in section 1.1.2 on current globalization can also be similarly argued against this line of privatization thinking.

The empirical claims suggesting benefits of privatization in *Bureaucrats in Business* lend heavily from an earlier World Bank sponsored study done by a team composed of Ahmed Galal and three other researchers and presented in a book titled *Welfare*

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<sup>22</sup> *Bureaucrats in Business*



*Consequence of Selling Public Enterprises. An Empirical Analysis*<sup>23</sup>. M.M. Akash critically examined these claims and established, using the same set of data, that they are not well grounded, that it can not be said, even under the unrealistic World Bank assumption of comparing private and public sector in the same manner, that privatization has brought benefits<sup>24</sup>.

It may be pointed out that *Bureaucrats in Business* testifies an important fact, privatization has to be properly understood in the light of values of respective societies, particularly the political ones. In the Foreword of the book, the then Chief Economist of the Bank, Michael Bruno observed:

But why haven't more governments privatized or otherwise reformed state-owned enterprises? Reform entails political cost. Because politics is integral to reform, a study of reform in public ownership cannot exclude political analysis.<sup>25</sup>

This acknowledgement is important because, like any other national economic policy, privatization, inevitably impacts upon millions of lives, possibly more than any other policies. But, arguably, lack of consideration for social aspects and concern for people is, possibly, the most critical element of neo-liberal privatization agenda as we have shown earlier.

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<sup>23</sup> Galal, Jones, Tandon and Vgelsang, *Welfare Consequences*

<sup>24</sup> Sobhan, Akash and Akram, *Reform of State Owned Enterprises*

<sup>25</sup> *Bureaucrats in Business*

Let us conclude this section by mentioning the recent position of the Bank, which apparently backtracked from its earlier strong privatization stand<sup>26</sup>. Now it acknowledges that privatization has not brought benefits to infrastructure sector and employing this policy is dependant to local conditions. We now turn to the next class of privatization thoughts, as we have discussed this new position of the Bank and its implication in more detail in section 2.2.4.

### **1.3.1.2 The Moderates**

This class of thoughts draws from neo-classical thoughts but it tries to rationalize the further. Unlike the mainstream, they also deal with the ‘what’ and ‘why’ in addition to the ‘how’ questions. There are two distinct categories in this class – the one which considers equity in their analysis and which employs only economic arguments. Let us examine them in turn.

#### **Equity based Moderates**

We take the thinking of V.V. Ramanadham to explore the privatization proposition of this school. Ramanadhan defines privatization as ‘... not merely in the structural sense of who owns and enterprise, but in the substantive sense of how far the operation of an enterprise are bought within the discipline of market force<sup>27</sup>.’ The problem with this definition is its narrow scope within enterprise. It appears that the

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<sup>26</sup> The World Bank, “World Development Report 2006”

<sup>27</sup> Ramanadham, *Privatization in Developing Countries*



concerns of privatization could be (and is) much broader. Limiting the role of government (rolling back the frontiers of state) is the spirit of privatization.

The main characteristic of this thought is that they recognize that there are important equity considerations in evaluating privatization, which includes a range of factors such as income and social welfare. Though this is a significant moving away from neo-liberal mainstream, as it apparently does not have a positive analytical framework for dealing with privatization apart from the neo-classical economics, it basically could not add much to the understanding of the issue. The importance of this thought lies in its acknowledgement of social values and realities in choosing privatization decision.

### **Rational Moderates**

This sub-class also believes in neo-classical precepts but it has a seemingly more rational approach to deal with privatization. But they do not consider equity or social justice into their analysis. We take a work of Leroy P. Jones and two other researchers to represent this type<sup>28</sup>. Holding the assumption that public enterprise is less cost efficient, they emphasize that proper valuation of public enterprise is necessary to reach a win-win situation while privatization. Though, this effectively means valuing public enterprise differently from a private firm, it fails to recognize

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<sup>28</sup> Jones, Tandon and Vogelsang, *Economics of Privatization*

that public enterprises possibly have many other objectives to fulfill rather than earning profits. This schools also adds little to the understanding of privatization.

### **1.3.1.3 The Political Economist**

The thinking of this school are related, directly or indirectly, to Marxist thoughts but we classify them mainly on the ground that they do not unquestionably believe in neo-liberal assumptions, particularly the one of superior efficiency of private sector and market mechanism compared to the public sector. Moreover, they examine the issue not only from economic point of view, socio-political factors are of vital significance in these analysis.

This class of analysis holds that in deciding the public-private divide in an economy, it is necessary to consider the role of state in a particular stage of societal development from a historical perspective coupled with the interactions between interests of various classes based on ownership of means of production. This analysis could be instrumental in identifying and deciding relative values of various arrangements for service delivery and their political and social feasibility. The analysis is not basically focused on privatization phenomena and it highlights more on the importance of role of state and public enterprises and how to improve its performance rather than just selling it to private sector.<sup>29</sup>

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<sup>29</sup> Ahmad, *State and Development* and Sobhan, *Privatization in Bangladesh*.

The three main schools mentioned above may have useful insights into understanding the privatization phenomena, particularly the motives, which drives the recent globalization based privatization policy of Bangladesh, and impacts. But evidently, these schools of thoughts lack to provide a comprehensive understanding of privatization. To respond to the call of Rehman Sobhan<sup>30</sup>, one of the main proponents of political economy school, to formulate an appropriate privatization policy for Bangladesh may require an alternative model. Savas has proposed one such conceptual framework, which we are going to present next.

### **1.3.2. Savas Model of Privatization: Analytical Framework for the Study**

The framework proposed by Savas<sup>31</sup> to understand privatization appears to be to be more exhaustive to the concept's various nuances. Emphasizing that privatization is basically a governance issue, Savas defines privatization as: 'the act of reducing the role of government, or increasing the role of private sector, in and activity or ownership'. He identifies four major forces behind privatization - pragmatic (in the sense of better government), ideological (less government), commercial (more business), and populist (better society). It is mainly the ideological force, which connects privatization with globalization, though other three forces also play important roles in formulating privatization policy.

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<sup>30</sup> Sobhan, *Privatization in Bangladesh*

<sup>31</sup> Savas, *Privatization*

In determining the appropriate role of government Savas then classified goods and services into four categories based on two criteria: exclusion and consumption. Exclusion means whether it is possible to exclude potential consumers from obtaining the product and consumption denotes how the product is consumed – individually or jointly. The categories are:

- Private goods (exclusion feasible, consumption individual)
- Toll goods (exclusion feasible, consumption joint)
- Common pool goods (exclusion infeasible, consumption individual)
- Collective goods (exclusion infeasible, consumption joint)

He goes on to point out that market mode of service delivery cannot (and will not) supply collective and common pool goods. But government can (and does) through collective action (taxes and laws).

Societal services (including the act of governance) as a whole can also be viewed as a collective good since no one can be excluded and consumption joint. And government provides it by collective will, action and agreement.

It may be noted that Savas points out that some goods, though in ordinary sense belong to private or toll category, migrated to collective good category. These goods ' are so worthy that their consumption should be encouraged regardless of the

consumers ability to pay'. The process of migration from private and toll to collective goods happens when --

1. Society acting through government decided to provide certain private or toll goods completely or partly at collective expense
2. Everyone benefits to some degree when these 'worthy goods' are consumed (i.e., there are positive externalities) and so their consumption can be considered partly joint and exclusion has been abandoned because these are worthy.

Tracing the societal values it can be said that more and more private and toll goods are becoming collective goods (education, healthcare, food for poor, shelter, support to agriculture are few major examples), as the civilized societies decided that they are worthy goods. In USA alone such worthy goods (that is re-designated collective goods) account for 45% of all government spending (1989) up from 31% in 1960. They represent 62% non-defense, non-interest spending, up from 51%<sup>32</sup>.

In order to identify the basic institutional service delivery arrangements the model then goes on to designate three participants in the service delivery process as: consumer, service producer, and service arranger or provider. Based on this distinction of participants, the basic institutional arrangements for service delivery are classified as follows:

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<sup>32</sup> Savas, *Privatization*



1. Government service: It denotes “ the delivery of a service by a government agency using its own employees; government acts as both the service arranger and the service producer.”<sup>33</sup> Government services may be paid by taxes and with or without user fees.

2. Intergovernmental arrangement: In this arrangement a government agency hires or pays another government to supply a service.

3. Government vending: When consumer arranges to purchase goods and services from a government agency.

4. Contract: When governments contract with private firms and non-profit organization for delivery of goods and services. Here private organization is the producer and government is the arranger, which pays the producer.

5. Grant: “Under a grant system, the subsidy is given by government to the producer. The grant may be in the form of money, tax exemption or other tax benefits.”

6. Voucher: The voucher system subsidizes the consumer.

7. Franchise: In this arrangement, privileges are awarded to a private firm to supply a particular service.

8. Market: In this arrangement, “the consumer arranges for service and selects the producer, which is a private firm. Government is not involved in the transaction in any significant way, although it may establish service standard.”

9. Voluntary: In this arrangement, the voluntary mutual-aid association acts as service arranger and either produces the service directly, using its members or employees, or hires and pays a private firm to do the work.

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<sup>33</sup> All the quotes used to describe the ten arrangements are taken from: Savas, *Privatization*

10. Self-service: “The most basic delivery mode of all is self-help, or self-service.”

Here the consumer arranges and produces the service for himself.

The model argued that any movement in service delivery from an upper arrangement to a lower one is privatization.

The model then sets some factors for evaluating and comparing these alternative arrangements for delivering goods and services to a given society and in case of deciding privatization alternatives. The model articulates that privatization decisions is be made on the basis of analysis of the case at hand, not on any predetermined rule.

This model appears to capture most of the relevant features in deciding privatization policy, more pragmatic in its approach and most importantly, puts appropriate importance of social values in deciding among the available service delivery arrangements.

This conceptual understanding will be of used for our purpose to examine the privatization policy of Bangladesh and to examine a specific case of implementation of the policy - privatization of fertilizer distribution - in Bangladesh.



#### **1.4 Link Between Globalization and Privatization Policy**

Considered separately, privatization and globalization seems unrelated issues. But if we consider the privatization policy of Bangladesh, in the context of doctrinal globalization, there possibly exist strong link, which we may identify in more detail.

Generally, the link between privatization policy and globalization is in the ideological plane (less government). In practice, privatization created huge opportunities for FDI (Foreign Direct Investment)-, less regulation means free market operation by multinationals and their domestic allies. Less trade restrictions means free flow of goods from industrialized nations. Free capital account means mobility of capital at will and make the country more vulnerable.

Privatization of state-owned assets has opened up enormous investment opportunities for multinational corporations. In many developing countries foreigners bought most of the things that has been privatized. The share of FDI in privatization revenues is much larger in developing countries. Privatization revenues increased from \$69 billion to \$ 88 billion from 1995 to 1996<sup>34</sup>. Some critics even call the globalization phenomenon as 'short for global privatization'<sup>35</sup>.

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<sup>34</sup> ILO, "National Framework for Globalization"

<sup>35</sup> The Brandt Equation, "21<sup>st</sup> Century Blueprint"

We have so far discussed about the conceptual aspects of the thesis – about globalization and privatization, theories related to these and what are the senses we will employ them. Now we will discuss below how we are going to present the case to lend support to the basic arguments of the thesis.

### **1.5 Methodology of the Study**

We have employed two methods to establish the theses. One is the policy analysis and the other is case study. We have analyzed major privatization related policies of Bangladesh (PRSP, Privatization Policy, Industrial Policy and Industrial Policy) and shown that these are in line with the stipulates of globalization forces. Then, we have gone to explore a privatization-case in Bangladesh, privatization of fertilizer distribution. The reason we choose this case are as follows:

1. This could be considered as a typical privatization case on the ground that it was initiated, like most privatization cases under globalization, on ideological basis, employing the standard neo-liberal arguments and not empirically supported.
2. This was a major privatization case, particularly after the regime change in 1975. It was also a very important one as it impacted the lives of millions of farmers of Bangladesh as it covers the whole country. It involved a cost of US\$ 222 million.

Based on the above, we may argue that the observations of the policy analysis and case-study may lend empirical support to the thesis.

## **1.6 Limitations of the Study**

Following may be identified as the limiting factors of the study:

1. The case we have studied is a historical one, it relates to events of about 28 years back. The organization (International Fertilizer Development Center, IFDC) that implemented the program (privatization of fertilizer distribution) no longer operates in Bangladesh and access to the documents of this organization, apart from the ones available in the net, is very difficult.
2. The documents under the possession of government of Bangladesh are, apparently, equally inaccessible, not due to unavailability, but due to a sort of ‘unofficial ban’ on disseminating information on fertilizer sector. Government officials are also generally very tight-lipped about this issue.
3. Many of the source documents related to the study are available only in the net. But due to the poor quality of Internet services, it was, sometimes, very difficult to scan the documents appropriately.

We now conclude the introduction section by presenting an outline of the thesis next.

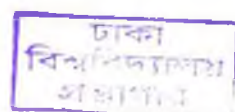
## 1.7. Outline of the Thesis

**Chapter 2** will review the privatization situation in general with focus on policy aspects and its link with globalization forces. PRSP will be briefly examined to show that it is in fact a re-packaging of structural adjustment policy of the Bank and followed almost 100% the dictations of the Bank, which is provided in the volumes of PRSP preparation guidelines. Also to identify that the lack of understanding about the character of goods and corresponding suitable service delivery arrangements resulted in conclusions potentially dangerous for the development of Bangladesh. It will also be revealed that poverty alleviation is only a mere rhetoric considering the PRSP focus.

449237

Then Privatization Policy will be examined to identify its very narrow focus (sale of government assets) and all out bias to the dominant paradigm, which is a clear indication of the lack of understanding of nature of goods and services, the privatization process and, not the least important, any value based approach. Faith in market is evident.

Then two important policies: Industrial Policy and Agricultural Policy will be examined. It will be shown that, even though both the policy, particularly the Agricultural Policy, showed some pragmatism these mainly hold similar views, with regard to privatization, as mentioned above with regard to PRSP and Privatization Policy.



**Chapter 3:** Chapter 3 will investigate in detail the privatization process of fertilizer marketing as outlined in the above application of the framework.

The study is mainly based on published documents (studies, reports, government memos etc.) collected from various sources (mainly from Ministry of Agriculture) to gather relevant information on fertilizer marketing. Interviews were also conducted to get clarification and opinions from relevant stakeholders.

So far, the privatization policy in Bangladesh has not been viewed from this particular approach. As the analytical framework appears to be more pragmatic and exhaustive compare to other models, and more management oriented, it is expected the study would likely to add some value to the existing body of knowledge.

#### **Chapter 4: Conclusion**

Conclusions will be drawn on the basis of analysis of the research findings presented in the earlier chapters. Arguments will be summarized as to how far the findings lend support to the propositions presented in the thesis and their significance. Emphasis will be given that the privatization policy of Bangladesh possibly needs to be reviewed in new lights in the face of challenges posed by dynamic forces of globalization.



## Chapter 2: The Privatization of Bangladesh

*'It shall be a fundamental responsibility of the State to attain, through planned economic growth, a constant increase of productive forces and a steady improvement in the material and cultural standard of living of the people, with a view to securing to its citizens -*

- (a) the provision of the basic necessities of life, including food, clothing, shelter, education and medical care;*
- (b) the right to work, that is the right to guaranteed employment at a reasonable wage having regard to the quantity and quality of work;*
- (c) the right to reasonable rest, recreation and leisure; and*
- (d) the right to social security, that is to say, to public assistance in cases of undeserved want arising from unemployment, illness or disablement, or suffered by widows or orphans or in old age, or in other such cases.'*

*- Section 15, The Constitution of the People's Republic of Bangladesh<sup>36</sup>*

### 2.1 Plan of the Chapter

An analysis of the privatization policy of Bangladesh will be presented in this chapter to show, *inter alia*, that the focus of development policy of Bangladesh has shifted from the active role of state to ensure basic necessities of goods and services to the citizens to fostering market economy oriented private sector growth. Even though Bangladesh aggressively pursued privatization policy during the last three decades under the behest of globalization forces, the size of the government has grown continuously during the same period.

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<sup>36</sup> *Constitution of Bangladesh*

Attention will be given to current policies making reference to the previous ones. PRSP, the prime economic policy document of Bangladesh now will be examined along with three policy documents - the Industrial Policy, the Agriculture Policy and Privatization Policy. It may be mentioned here that Privatization policy deals with only one, but significant in terms of government ownership, form of privatization (sale of government assets). It is necessary to review the other policy documents also to get a broader view of privatization, the sense, which is under study in this paper (as described in Chapter 1).

## **2.2 Poverty Reduction Strategy: A Misnomer**

The Government of Bangladesh no longer produces national economic plans in the form of five-year plans, it chooses, apparently at the dictate of the donor alliance<sup>37</sup>, to guide its economic activities on a set of 'strategies'. The document titled 'Unlocking the Potential'<sup>38</sup> and sub-titled 'National Strategy for Accelerated Poverty Reduction' and popularly known as PRSP (Poverty Reduction Strategy Paper) is now the apex economic policy document of Bangladesh based on which all other policies are supposed to be formulated.

The advantage of the adoption of such a title (PRSP) for the national economic policy document abandoning the clearly understood and well-known term 'plan' is not

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<sup>37</sup> Sobhan, *Bangladesh's Political Economy*

<sup>38</sup> *Unlocking the Potential*



readily understood. The document has identified objectives, set priorities, strategies, goals and targets and developed a hierarchy of policy matrices, based on which action plans will be devised<sup>39</sup>, to integrate and coordinate activities. All these clearly fall under standard definition of planning<sup>40</sup>. The time frame of the policy document also correspond to a medium-term to long-term planning horizon which are 2005- 2007 for macro-economic framework and 2005-2015 for attainment of Millennium Development Goals (MDG).

In addition to the misleading title of document, the following major criticisms may be made about the PRSP from privatization point of view:

### **2.2.1 PRSP: 'Old' Neo-liberal Lessons in 'New' Package for Bangladesh**

Poverty reduction as the prime objective of development strategy of Bangladesh, is not a new thing, it has been the focus of national economic planning since independence<sup>41</sup>. What is new is the explicit attempt to teach the basics of neo-classical economics, and more importantly, to formalize the standard Bank-Fund approaches in the national policy document of Bangladesh.

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<sup>39</sup> The process of formulation of Action Plans based on PRSP at ministerial level has initiated in mid-2006.

<sup>40</sup> Robbins, and Coulter, *Management*

<sup>41</sup> *Report of the Task Force*. The Report also mentioned the other two main objectives during the period: greater self-reliance in development process and ensuring a process of sustained growth for the economy.

'Private sector development in a holistic manner', 'more liberalized trade regime' and 'continuing reform of financial sector' are the core focus of PRSP which goes in line with donors agenda of *Structural Adjustment Reforms*<sup>42</sup>, specific components of which are expanding role of private sector in a market led economy, denationalization and privatization, withdrawal of subsidy and numerous other sectoral and institutional reforms. Poverty may or may not reduce but not as a result of these policies. On this assertion of the link between poverty reduction and market-oriented growth, PRSP appears to hold quite a qualified position.

The scope of the paper does not permit us to go into that detail. We would focus on PRSP by examining its view on privatization and some related issues.

### **2.2.2 Privatization, PRSP and the Recent Trend of Globalization**

In line with its general conviction, PRSP recommends privatization whenever it gets a scope to propose it. Let us see some examples:

- a. **SOE Reform** - PRSP advocates standard Bank-Fund argument of using its *a-priori* assertion of greater private sector efficiency<sup>43</sup>. This argument was not supported by empirical evidence<sup>44</sup>. Most interestingly, PRPS proposes to set up a 'commission' to gear up the pace of privatization, which in PRSP view is very

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<sup>42</sup> Sobhan, *Bangladesh's Political Economy*

<sup>43</sup> *Bureaucrats in Business*

slow. One Privatization Commission is functioning since 2000. It is not possible to understand why PRSP proposes to form another commission for the same objective. Another 'interesting' proposal is to allow prospective buyers to float 'privatization bonds' in the capital market to finance the SOE purchase bill to pave the way that one can become the owner of an SOE without committing any fund of his own. PRSP is not concerned with this 'efficient' and 'stake-less' private buyer's incentive to perform at the PRSP supposed level of efficiency, assuming that he would perform at all at any level in the first place. PRSP make no effort to differentiate the SOEs in terms of profitability or externalities or 'worthy goods', not to mention the governance point of view.

- b. **Agriculture Input Distribution** - PRSP asserts that distribution of irrigation, farm equipment, fertilizer and pesticide distribution will remain as a private sector activity. Private sector will be encouraged to develop quality seed and its marketing. And, in order to spread the irrigation in private sector adequate paddy price support will be given in main *boro* harvest season. PRSP did not choose to mention any supporting argument as to why all distribution will remain in private hands. We will examine in detail in the next chapter the distribution and marketing of fertilizer and will see that the casually made assertion by the PRSP is loaded with complex issues to consider on which the decision of privatization could have been grounded; decisions which affect the life and death of farmers of Bangladesh and the real prospect of any poverty reduction. In fact, for irrigation and farm equipment, not only distribution, but the whole business, import/

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<sup>44</sup> Sobhan, Akash, and Akram, *Reform of State-Owned Enterprise*

production, distribution/ marketing and after sales services, is in private sector for long. It is not clear whether PRSP intends to take back the production/ import and after sale services from the hands of government.

- c. **Power/ gas/ mineral resources/ port** - PRSP identifies government ownership as a generic cause of all evil in these sectors (notably 'poor performance'). And gives the generic prescription of privatization with out any supporting argument or evidence, No consideration was made based on the desirability of protection of national interest or necessity to ensure access and availability of infrastructure services all to all citizens. The point is that roads are virtually collective good (as exclusion is not feasible in most cases and consumption joint) in Bangladesh, gas is a non-replenishable common pool good to be managed carefully for the generations to come, and electricity deserves to be an worthy good (for the poor, at least) considering the urgent necessity of it for irrigation and other development purposes.

Finally, it may be mentioned that the 'doctrinal globalization' forces which dictated the PRSP document<sup>45</sup>, has stepped back a little from its 'pure' form by accepting the fact that: equity (not to be equated with equality and defined in terms of 'equal opportunity' and 'avoidance of deprivation in outcome') consideration is important for its own sake in development planning and, more relevant for the present study, that (with regard to infrastructure privatization) 'Privatization are therefore a classic case

of policy that may or may not make sense, depending on the local context' and recognizes the fact that 'In some cases post-privatization increases in prices more than outweighed gains from quality and coverage, leading to widespread popular discontent'<sup>46</sup>. It may be argued that if the Bank acknowledges this for infrastructure there is no valid ground not to extend the acknowledgement to other sector since the ill effects of privatization have been conclusively shown in many studies not only for infrastructure but also of many other sectors of the economy<sup>47</sup>. It is yet to be seen to what extent these assertions reflect in the Bank-Funds policy orientations and guidelines. And also it remains to be seen how the changed focus 'trickles down' from Washington to Dhaka and changes the current version of PRPS.

Now we will briefly examine three national policies of Bangladesh - Privatization Policy, Industrial Policy and Agriculture Policy - from our perspective.

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<sup>45</sup> Klugman, *Source Book for Poverty*. This two volume document is meant for would be PRSP composers around the globe, but PRSP Bangladesh version lacks the sophisticated subtlety of the Source Book.

<sup>46</sup> The World Bank, "World Development Report 2006"

<sup>47</sup> For example: a. Ahmed, *The Impact of Privatization* b. Hossain & Malbon *Who Benefits from Privatisation* and c. Sobhan, *Privatisation in Bangladesh*



### **2.3 Privatization Act 2000**

Privatization Act 2000<sup>48</sup> was passed in the parliament of Bangladesh. Unlike the other two - industrial and agriculture - policies to be discussed, privatization policy is legally binding. The other two are administrative formulations. Following are the basic feature of the policy:

- I. The Act defines privatization as 'the hand over of governmental industrial or commercial enterprises' where 'hand over' include sale, lease or transfer of ownership, interest or transfer rights or its culmination, and also include hand over of management or board.
- II. The Privatization Commission, set under the Act can take measures to corporatize or commercialize the enterprise in order to privatize the enterprise.
- III. Privatization Rules states that the government is committed to quickly privatize industrial, commercial and service sector enterprises under its ownership, in order to strengthen the role of private sector in the national economy, to establish the private sector as prime vehicle for development, and in the context of deteriorating and sick condition of SOEs. It goes on to state that if privatization is done carefully and efficiently, and balancing the interests of various classes of the society, it would achieve the following objectives: i. generate social welfare by increasing efficiency, ii, attract foreign investment, enhance efficiency, and development of mutual

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<sup>48</sup> Privatization Act



relationship, iii. generation of revenue, and iv. Investing the resources to various social sectors, and v. generation and sustaining of employment through fostering competition.

This Act coupled with Privatization Rules formed a legal basis for privatization but the fact is, vast majority of privatization of SOEs were done long before the passing of this Act. And the residual SOEs, which could not be privatized for political or other strategic reasons, appears to be resistant to privatization after the formalization of privatization policy. One of the reason, in addition to the one mentioned above, appears to be that after the formalization of procedure under an Act, accountability increased and consideration to maintain all legal requirements puts a limit on the pace of privatization<sup>49</sup>.

Even though the law stipulates, there exist no mechanism in Privatization Commission to monitor the performance of privatized units as to what extent the objectives of privatization are achieved<sup>50</sup>.

Privatization Act canonized the Bank-Fund perception of privatization in the legal structure of Bangladesh. The Bank appears to have changed its position somewhat with regard to infrastructure privatization now as mentioned 2.2.4 above. It remains

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<sup>49</sup> Gazi, personal interview

<sup>50</sup> Gazi, personal interview

to be seen if there be any reflection of the Bank's changed views in the privatization policy of Bangladesh.

Privatization Act deals with particular forms of privatization (that is move from governmental services/ government vending to contract/ franchise/market arrangements), it does not recognize, in line with the Globalization forces, the necessity to view privatization from the perspective of providing / arranging goods and services to the citizens and selecting the right mode of delivery for each provision.

#### **2.4 Industrial Policy 2005 of Bangladesh and Privatization**

Industrial policies of various regimes of Bangladesh bear the testimony of evolution privatization (mainly in sense of selling SOEs to private sector) in Bangladesh. The evolution of Privatization Policies also indicates about the shifting role of government in terms of goods and services delivery, by way of 'reserve lists', list of sectors reserved for government<sup>51</sup>. In three other ways Industrial Policies of Bangladesh denotes privatization policy - i. limiting the role of government in approval of investment proposals, ii. Policies/incentives for foreign investment to imply the necessity or choice of policy makers to induce foreign investment in the economy, and iii. by way of investment ceiling restrictions implying the desired role of

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<sup>51</sup> Zohir, *Assessment of Industrial Policy*

government and private sectors. In all these aspects, industrial policy of 1991, with regard to privatization, opened up the economy of Bangladesh for private sector.

Following are key features of Industrial Policy 2005<sup>52</sup> in terms of implication to privatization:

- I. Industrial Policy 2005, in line with other national policies, stated above, commits to increase the privatization process to pursue the same objectives (Section 2.3).
- II. Government will take initiative to ventures in industrial sector, jointly with private sector or, if that is not possible, on its own, in the sectors where private investment is not forthcoming, but the establishment of the industry is important and necessary to advance the economic growth of the country. (Section 2.4)
- III. Non-profitable SOEs will be privatize quickly and in phase. State will continue investments only in those sectors which are not safe in the hands of private sectors. (Section 3.16)

Now, these are important breaks from the 'all out' privatization. Important in the sense that some rationality and pragmatism, though very limited, is applied in forming the policy. At least we got few criteria, profitability, protecting national economic interest, and lack of private sector initiative, to identify some sectors in

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<sup>52</sup> Industrial Policy

which privatization may not be feasible. There could be many reasons for inclusion of this as follows:

1. Still, state has significant involvement in industrial sector and there are some pragmatic, strategic, and political pressures to continue the role, withstanding the globalization dictates<sup>53</sup>.
2. There are still 4 sectors 'reserved' for government - defense industry, atomic power, security printing and minting, and mechanized timber extraction in forest conservation and forestation.
3. A sense of 'philanthropy' worked in the minds of some bureaucrats to include such statements<sup>54</sup>.

## **2.5 National Agriculture Policy 1999 and Privatization**

Bangladesh is still predominantly an agricultural economy. Though the share is declining, broadly, agriculture (includes crops and vegetables, livestock, forestry and fishery) contributes about 22.83% of GDP and, more importantly, accounts for 62.3% of employment. The crop & vegetable sub-sector, which accounts for 57% of the agriculture, forestry and fishery sector GDP and about 12.94% of total GDP still remains the single largest economic activity in the country<sup>55</sup>. For these reasons

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<sup>53</sup> Rahman, personal interview

<sup>54</sup> Rahman, Mustafizur, personal interview

<sup>55</sup> All figures are from Bangladesh Economic Review 2004, Economic Advisor's Wing, Finance Division, Ministry of Finance, GoB

Agriculture Policy of Bangladesh<sup>56</sup> deserves special attention. It is also important for our study perspective, as we will explore in some detail, the privatization of fertilizer marketing in next section.

With regard to broad privatization scenario, following are the major features of Agriculture Policy of Bangladesh:

1. Agriculture policy acknowledges that privatization of input distribution system led to difficulties at farmer's level in terms of availability and fair price. It is also mentioned that 'the privatization process has given rise to considerable in efficiency in some cases, such as, marketing and distribution of minor irrigation equipment and fertilizers'. The policy states that 'It is alleged that he privatization process has also been accompanied by non-availability, price rise, smuggling and quality degradation of fertilizers' (Sections 2.1 and 3.4).
2. In light of the above observations, the Policy stipulates that government will ensure necessary input supplies at fair prices. Towards this end the government will 'establish and consolidate the distribution system for irrigation equipment, fertilizers, seeds and credit in the light of farmer's need and 'ensure responsibility and accountability of the private sector through strengthening of the relevant legal framework and its enforcement'.

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<sup>56</sup> National Agriculture Policy



Given the pervasive presence of single-tracked policy orientation (that privatization is universally good), in both national and global level, articulation of the above observations and steps about privatization in a policy document of Bangladesh is a remarkable evidence of courage and pragmatism and commitment to protect the national interest.

It is important also to note that the policy recognized the supply and distribution issue from the 'need of the farmer' point of view, not a 'market' point of view, as we have noted earlier (Chapter 1), market is one of the many institutional arrangements of delivering goods and services.

It may be argued that from a 'farmer's need' point of view a vast majority of farmers possibly are unable to bear the cost of agricultural inputs (to include technology and extension services in addition to seeds, fertilizer, irrigation, pesticide and credit) as the farming is predominantly a subsistence activity in Bangladesh. Given the prevalence of extreme poverty among the farmers, agricultural inputs, are to be treated as 'worthy goods'. Though the market mode of service delivery can supply some of these goods and services, government needs to play major role in providing/arranging these necessities.

Finally, it may be mentioned that the observations on privatization (as mentioned above) in the Agriculture Policy is most likely represent the facts which are closer to reality because in the face of unconditional support for privatization, well



documented in the other national policy documents mentioned above it is unlikely that the composers of the Policy include those generalized statements without adequate evidence.

Now, we will examine some macro economic data to get to know how the privatization policy impacted upon the size of the government.

## **2.6 Privatization and the Size of Government of Bangladesh**

Under the conditionally imposed by the globalization forces. Bangladesh has been pursuing privatization policy for the last three decades. Let us now examine, how it impacted upon the size of the government.

The size of the government is defined here as 'the volume of resources use by the public sector as measured by the magnitude of public expenditure'.<sup>57</sup> Table 2.1 shows the public expenditures of Bangladesh<sup>58</sup>.

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<sup>57</sup> Chowdhury, "Changing Role of Government." The present section draws from the methodology of this study.

<sup>58</sup> Source of all data used in this section is Bangladesh Economic Review 2004. Economic Advisor's Wing, Finance Division, Ministry of Finance, GoB

**Table 2.1: Total Expenditure and GDP (1992-04)**

Year	Total Expenditure in Current Price (in billion Taka)	Growth rate of Expenditure (%)	GDP at Current Price (In billion Taka)	Expenditure as % of GDP
1992-93	162.50		1253.70	12.96%
1993-94	203.70	25.35%	1354.10	15.04%
1994-95	220.10	8.05%	1525.20	14.43%
1995-96	231.60	5.22%	1663.20	13.92%
1996-97	240.80	3.97%	1807.00	13.33%
1997-98	258.60	7.39%	2001.80	12.92%
1998-99	297.80	15.16%	2197.00	13.55%
1999-00	344.60	15.72%	2370.90	14.53%
2000-01	374.00	8.53%	2535.50	14.75%
2001-02	407.60	8.98%	2732.00	14.92%
2002-03	439.00	7.70%	3005.80	14.61%
2003-04	493.70	12.46%	3325.70	14.84%

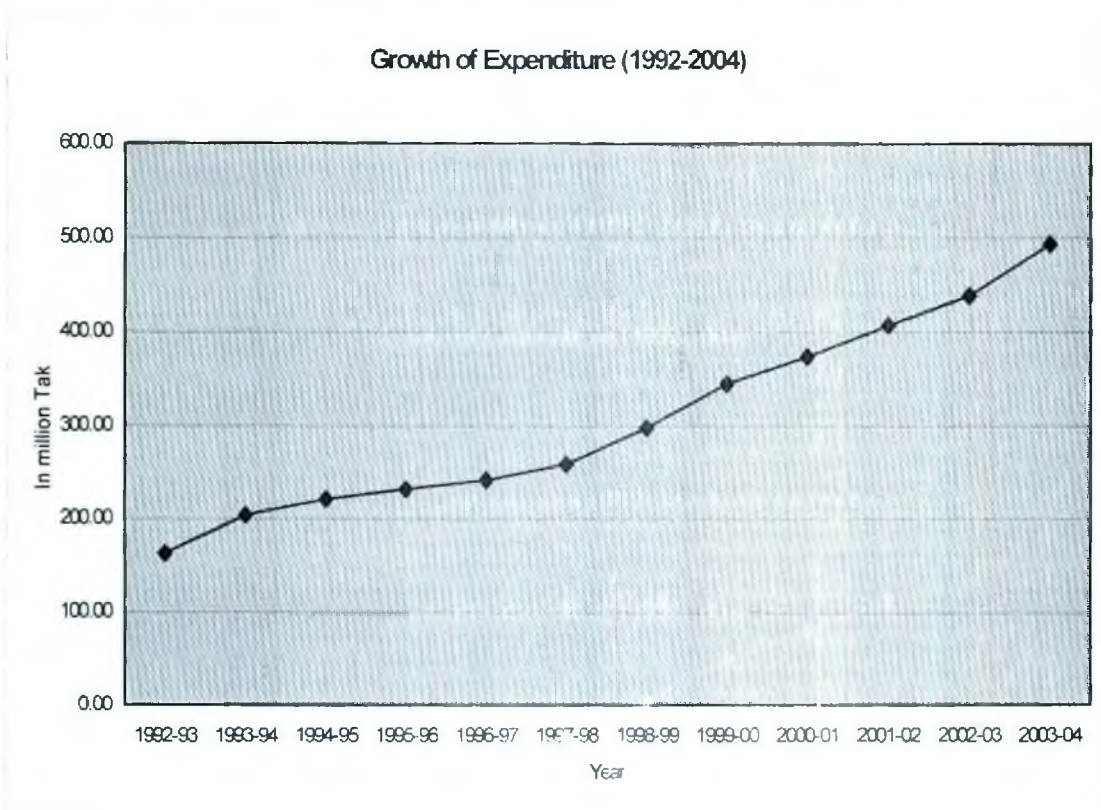
Total expenditure figures in Table 2.1 show that total expenditure has constantly increased. On the average it has grown at the rate of 9.9% during the period under review (1992-2004). Total revenue as a share of GDP has shown some fluctuations, but it has gone up from 12.96% in 1992 to 14.84% from 1992 to 2004. The size of the government has grown during the period in both absolute and relative terms. Another similar study findings<sup>59</sup> showed that the size of the government has grown steadily also during the period 1975-76 to 1993-94. Based on the findings of both the studies it may be concluded that despite the adoption of all out privatization policy, the size of the government has grown steadily since 1975-76 to 2004.

Figure 2.1 shows the smooth upward trend of total expenditure in graphical form.

<sup>59</sup> Chowdhury, "Changing Role of Government."

As funds for expenditure is expected to come mainly from revenue in an economy, in Table 2.2, total revenue figures are shown for the period 1992-2004. Revenue figures also show similar trend like expenditure, with slightly higher growth rate. It has gone up from Tk. 114.5 billion to Tk.354 billion during the period under review. Year to year growth rate is also positive for the whole period with average growth rate of 10%.

**Figure 2.1: Growth of Total Expenditure (1992-2004) in current prices**



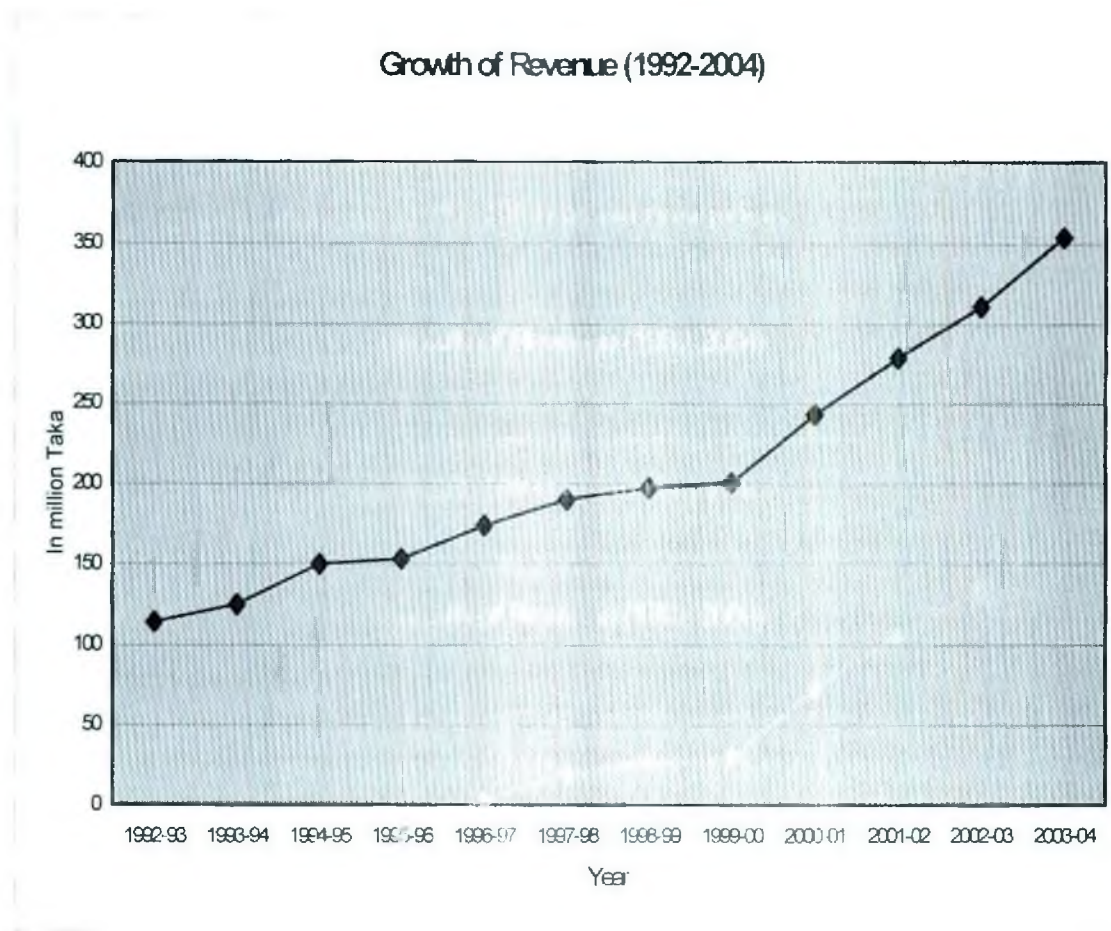
**Table 2.2: Total Revenue and GDP (1992-2004)**

Year	Total Revenue at Current Price (in billion Taka)	Rate of growth of total Revenue (%)	GDP at Current Price (in billion Taka)	Revenue as % of GDP
1992-93	114.5		1253.70	9.13%
1993-94	124.9	9.08%	1354.10	9.22%
1994-95	150.1	20.18%	1525.20	9.84%
1995-96	153.3	2.13%	1663.20	9.22%
1996-97	173.9	13.44%	1807.00	9.62%
1997-98	190.2	9.37%	2001.80	9.50%
1998-99	197.7	3.94%	2197.00	9.00%
1999-00	200.7	1.52%	2370.90	8.47%
2000-01	243.4	21.28%	2535.50	9.60%
2001-02	278.9	14.59%	2732.00	10.21%
2002-03	311.2	11.58%	3005.80	10.35%
2003-04	354	13.75%	3325.70	10.64%

Figure 2.2 graphically presents the revenue growth trend. The trend reflected the increasing trend of internal resource mobilization.



Fig. 2.2: Growth of Revenue (1992-2004) at current prices



Since a part of the government expenditure is expected to be used for capital formation (both human and physical), it will be useful to see the trend of Annual Development Program (ADP) which is presented in Table: 2.3. It may be seen from the figures that the relative size of ADP (as % of GDP) has gone not shown any upward trend during 1992-2004. Instead, ADP size has fluctuated during the period around the average of 5.8%. It never reached the highest size of 6.64% (1994-95) in recent years.

**Table 2.3: Annual Development Program and GDP (1992-2004)**

Year	Annual Development Program (Allocation) (in billion Taka)	GDP at Current Price (in billion Taka)	ADP as % of GDP
1992-93	62.9	1253.70	5.02%
1993-94	87.7	1354.10	6.48%
1994-95	101.2	1525.20	6.64%
1995-96	98.7	1663.20	5.93%
1996-97	108.9	1807.00	6.03%
1997-98	108.7	2001.80	5.43%
1998-99	123.3	2197.00	5.61%
1999-00	152.2	2370.90	6.42%
2000-01	159.0	2535.50	6.27%
2001-02	150.5	2732.00	5.51%
2002-03	169.0	3005.80	5.62%
2003-04	190.0	3325.70	5.71%

It may be concluded from the above analysis that the expansion of a private sector dominated economy of Bangladesh occurred side by side with the expansion of the size of the government without increased investment in capital formation. Also the findings imply that, as the increased revenue collection funds the expenditures and the major share of revenue in Bangladesh comes from indirect tax, which is regressive in nature, the people of Bangladesh has paid additional amounts for the expansion of the size of the government without the possibility to receive any gain out of it.

In the next chapter we will examine the case of privatization of fertilizer distribution to know the implementation aspects of the privatization policy of Bangladesh under globalization.



## Chapter 3: Privatization of Fertilizer Distribution in Bangladesh: An Evaluation

*'Indeed our agriculture system needs to be revolutionized ... The entire land system has to undergo a radical reorientation in the interest of the actual tillers of the land.... Agriculture must be modernized. The obstacle presented by fragmentation and sub-division of landholdings must be overcome. An immediate step in the right direction would be to induce the tillers to group their holdings under multipurpose cooperatives. Government could provide effective inducement for this purpose by funneling through such cooperatives vital inputs, such as irrigation, embankment, drainage, deep tube wells, power pumps, fertilizers, improved seeds, agricultural implements and machinery, credit and instruction in modern agricultural techniques.'*  
- Sheikh Mujibur Rahman. Election Broadcast on October 28, 1970<sup>60</sup>.

### 3.1 Plan of the Chapter

As we have seen in Chapter 2, Bangladesh accepted 'all out' privatization as a national policy in order to develop private sector of the country at the behest of the globalization forces namely the World Bank, IMF and the donors. One of the earliest (1978) implementation of the privation policy, outside the SOE dis-investment, was carried out in the area of fertilizer distribution. We choose to examine the event because it was the one, which affected the vast majority of the people of Bangladesh, particularly, all farmers, directly. The event of privatization of fertilizer distribution is also important because it is the privatization of a service which has many issues imbedded in it that are complex and sensitive and crucial to the well being of the vast majority of people of Bangladesh.

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<sup>60</sup> Majumder, Sheikh Mujibur Rahman

We organize the Chapter as follows:

1. It will be shown that there was no apparent reason to go for the privatization option to enhance the efficiency of the then existing distribution system under BADC.
2. Then we will briefly narrate the features of the then existing system and the one, which was introduced.
3. We will make an evaluation of the privatization based on the analytical framework employed in the study to get an idea about its efficacy.

### **3.2 Overview of Agriculture Sector in 1977-78**

It may be useful to present some basic features of Bangladesh in general and agriculture, in particular, during the period when initiative was taken to privatize fertilizer distribution system. It will help us to assess the prudence of the decision to introduce the systems.

With a total land area of 35.2 million acres, in 1977 Bangladesh, administratively the country was divided into 4 divisions, 19 districts, 63 sub-division, 419 thanas, 4426 unions, and 64,493 villages. She had an estimated population of 82 million with an annual compound growth rate of 2.8% and was the eighth most populous country in the world. 95% of the total population lived in rural areas. The farm population was

estimated to be 73 million and the number of farm families including land-less, was approximately 12 million.

In 1978, the country had a cultivable area, including fallow land, of almost 22.56 million acres (64% of total area). Irrigation was available for 2.7 million acres. Allowing for a cropping intensity of intensity of about 135% the total cropped area comes to about 30.43 million acres. The potential for development of new arable land was limited, less than 740,000 acres. One third of cultivable land was affected by flood each year<sup>61</sup>.

Majority of farms belonged to less than 2.5 acre group<sup>62</sup>. Farms were heavily fragmented, with one third of them divided into ten plots or more. About half of the farms were cultivated by owners and half by tenant farmers and hired labor. Most owner-cultivators were small subsistence farmers. The majority of tenant farmers were share croppers, although some lease the land with a fixed rental at the beginning of each crop season. Most of the sharecroppers pays for all agricultural inputs, assumes all investment risks, and share the harvest with the landowner on a 50-50 or 60-40 basis.

The country predominantly produced rice, which was grown on 80% of the annually cropped acreage, and jute on 5.3%; other crops occupied the rest. In 1977-78, the

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<sup>61</sup> Chuang, Hill, and Barnett. *Bangladesh Fertilizer Sector*

<sup>62</sup> Alamgir, "Some aspects of Bangladesh Agriculture"

country produced 13.13 million ton of cereal (rice and wheat) and imported another 1.64 million ton.

Per capita GDP (at 1972-73 prices) was Tk. 734 in 1979<sup>63</sup>. In 1977-78, 77.45% of rural population live in absolute poverty (consume below the 'minimum consumption bundle' leading to bare physiological survival. The country suffered a famine during the year 1974-75.

### **3.3 Fertilizer Distribution: Before Privatization**

BADC, (Bangladesh Agriculture Development Corporation) a government organization under Ministry of Agriculture, handled fertilizer distribution before privatization (which is referred to as Old Marketing System, OMS). The main features of the system are as follows<sup>64</sup>:

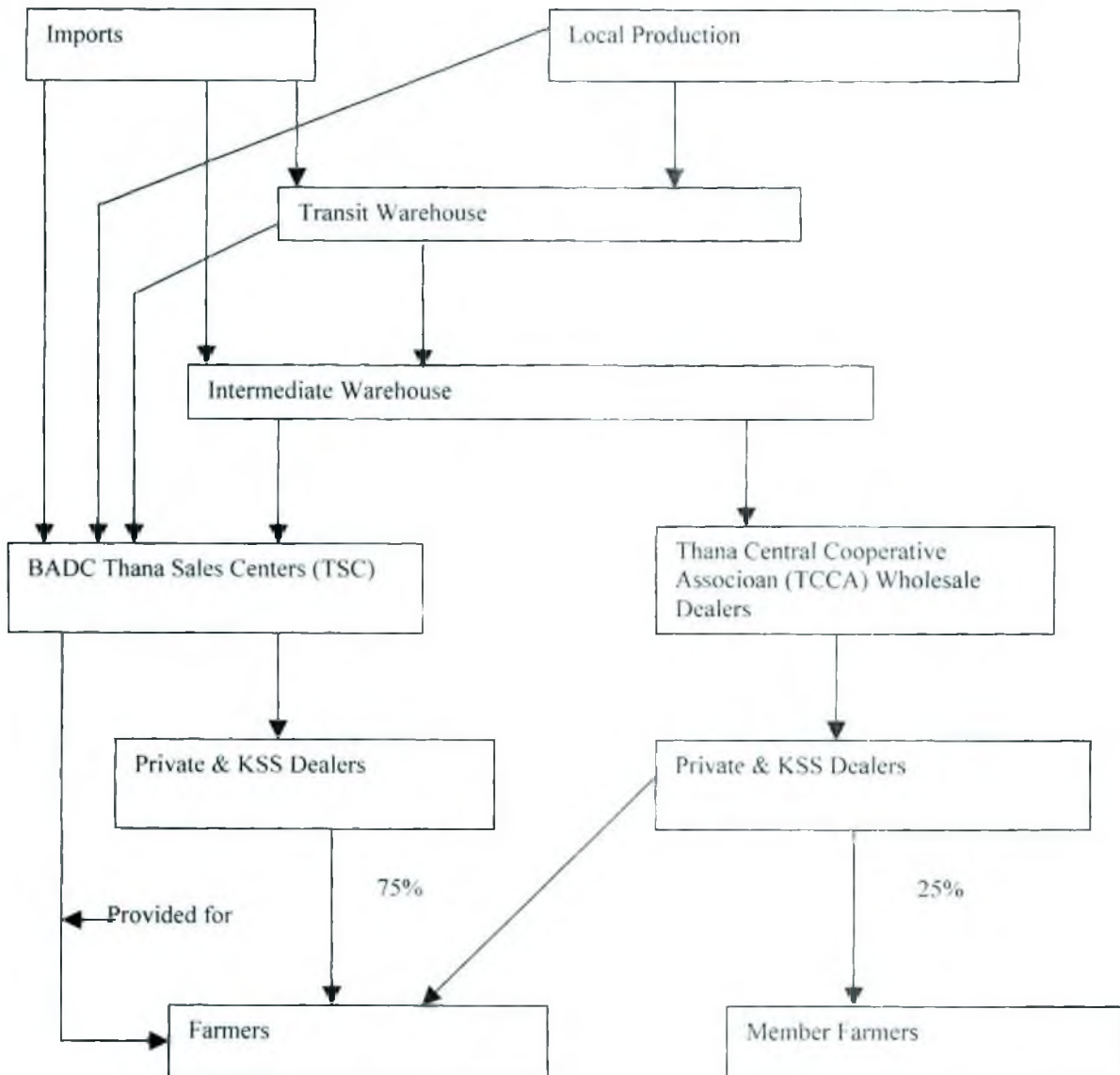
1. BADC arranged fertilizer based on projected demand from local government owned factories (Bangladesh Chemical Industries Corporation under Ministry of Industries) and by import.
2. At its own cost, BADC delivered the fertilizer up to Thana level where it was distributed to dealers by BADC's Thana Sales Centers (TSC) and by Thana Central Cooperative Associations (TCCA) to private retail dealers and Krishi Samabay Somiti (KSS, village level cooperatives).

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<sup>63</sup> Islam, *Development Problem of Bangladesh*

<sup>64</sup> *Third Evaluation*

**Diagram 3.1: Fertilizer Marketing System Up to 1977-78**



3. Private retail dealers and KSS then sell the fertilizer to farmers and members of KSS.
4. Retail dealers worked on commission and were supposed to charge a government controlled price to farmers.
5. Dealers were subject to various restrictions - they had to sell in their own Union and buy from a designated BADC's TSC or TCCA's TSC. Their books are



- subject to BADC inspection and dealership would be terminated if rules were violated.
6. As of 1978-79 there were 322 BADC TCSs, 97 TCCA TCSs and about 43,000 retail dealers excluding farmers' cooperatives.
  7. Total fertilizer consumption in 1978-79 was about 745,497 MT.

The distribution system is diagrammatically presented in Diagram 3.1.

### **3.4 The Privatization Move by Globalization Force**

The fertilizer distribution system was working satisfactorily in terms of increased rate of growth of fertilizer sales, availability and uniform price in all areas of the country. No evidence is there that any concern was raised about the distribution system's performance<sup>65</sup>. The pressure to change the system, in the name of privatization, came solely in the form of a condition to a grant to finance fertilizer import by USAID to be implemented through its 'Fertilizer Distribution Improvement Project I'<sup>66</sup>. The only ground for this propose change seemed to be 'general faith in the virtues of the free market'.<sup>67</sup> Apparently, the then government accepted the condition, which would affect

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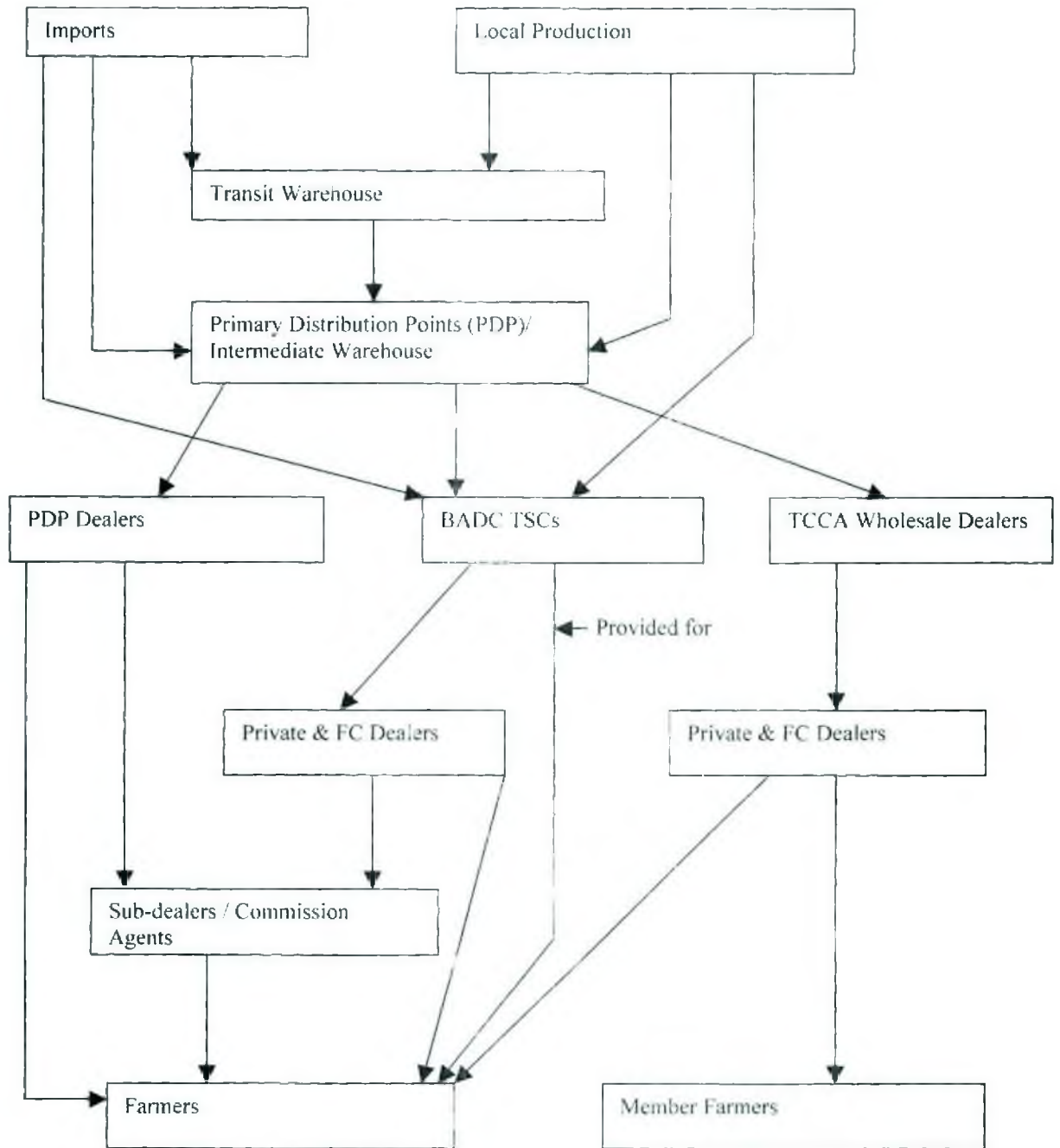
<sup>65</sup> Chuang, Hill, and Barnett, *Bangladesh Fertilizer Sector*

<sup>66</sup> Abdullah, "Fertilizer Distribution System"

<sup>67</sup> Abdullah, "Fertilizer Distribution System"



Diagram 3.2: Marketing System After Privatization in 1978



the vast majority of people of Bangladesh, without intending to go for any rationale for the change and without consulting any part of the populace. The project was launched in December 1978<sup>68</sup>.

Main features of the new distribution system, which was referred to as New Marketing System (NMS), in brief, are as follows<sup>69</sup>:

1. BADC would no longer maintain sales outlets (TSCs) at Thana levels. BADC now still sells wholesalers from newly created wholesale centers called Primary Distribution Points (PDP). Number of total PDP was 79.
2. But later, it was accepted that BADC would continue its TSCs in remote areas where private dealers would not be interested. And BADC would close down its TSCs if the sale falls below 50% level of pre-NMS sales. In effect most TSCs were operating side by side with the new system, only 11 was closed.
3. AT PDPs BADC would sell at reduced wholesale rates for large (which was initially 3 metric ton) volume purchase. Its resale price to the farmers was still restricted up to the established administered price.
4. BADC significantly increased its gross discounts (commission) to retail and wholesale dealers.
5. Dealer licensing was replaced by a simpler registration process.

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<sup>68</sup> Quasem, Barakat, and Khan. *Impact of the New System*

<sup>69</sup> *Third Evaluation*

6. Restriction with regard to movement and sales area was withdrawn.

### **3.5 Privatization of Fertilizer Distribution: What Really Happened**

Now let us examine the privatization of fertilizer distribution from our study perspective. To do that, first, let us first break down the process of for fertilizer delivery from production level to farmer and see the delivery arrangements involved. Under both OMS and NMS, following transactions occurred:

**Delivery Mode 1:** Intergovernmental Agreement - BADC procure fertilizer (also imports) from BCIC Factories at a government determined price lower than cost (government makes up the loss, but also supplies the factories natural gas at a 'cheap' rate).

**Delivery Mode 2.a:** Government service - BADC transport fertilizer at its cost to Thana level (in OMS) and to PDP (in NMS).

**Delivery Mode 2.b:** Government service, with payment - BADC sell fertilizer to selected dealers at a discounted rate to be resold to consumers (farmers) at a fixed price to cover his transport cost and some margin.

We divided the Delivery Mode 2 into two categories (a and b) for analytical purpose only; conceptually it is only one mode. We have done it for the present purpose to locate the change form OMS to NMS.

It may be noted that even though we have used the term 'price' and 'sell', market mode of service delivery is not involved here. The 'prices' are fees fixed by the government in return to delivery of fertilizer; demand/ supply has no role to play. How the government decides the rate for the exchange, at, above, or below cost, is also a separate issue, and does not involve 'profit' considerations. Moreover, government also decides long before how much to supply based on various 'non-market' consideration such as actual need, promotional target, availability of budgetary/ foreign resources and, not to mention, political considerations. Therefore, our analysis shows that there is no scope of bringing in 'market efficiency' argument to evaluate the transformation of OMS to NMS. The point is important because 'market efficiency' argument was opposed by the critics of privatization of fertilizer distribution and the promoters of the initiative defended it<sup>70</sup>.

To extend the argument, it is also not logical to use the term 'monopoly', in the economic sense, because government is not doing business here; government is assigned by the society to perform a role of delivering socially necessary service for

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<sup>70</sup> Abdullah, "Fertilizer Distribution System"

well being of the society. Thus, use of the term ‘monopoly’ in this situation is not valid.

The fact that the dealers may or may not sell it at fixed prices (rates), for various inducements ranging from outright greed to taking opportunity of scarcity, do not indicate involvement of market mechanism. This was a violation of law.

Keeping the above analysis in mind let us see what has happened from OMS to NMS. In the new system the only difference, from our point of view, BADC sells from PDP instead of TSC. In the sense that it reduced government activity it is privatization. Now, we will examine what was outcome of this act of privatization, which involved a direct cost of US\$ 222 million<sup>71</sup>.

### **3.6 The Impact of Privatization of Fertilizer Distribution**

Many studies have been carried out till date to show that the privatization of fertilizer negatively impacted on fertilizer distribution in Bangladesh<sup>72</sup>. Even the proposers of the new system was unable to establish any positive impact<sup>73</sup>. Let us summarize the major identified negative impacts below.

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<sup>71</sup> *Bangladesh Fertilizer Distribution, Final Draft*

<sup>72</sup> For example: a. Quasem, . Barakat, and Khan. *Impact of the New System* b. Abdullah. “Fertilizer Distribution System”

<sup>73</sup> *Joint Bangladesh and U.S.*



- a. Cost of distribution increased under NMS. The nominal objective of the privatization resulted in the opposite. This was actually predictable in a way that BADC enjoyed economy of scale in moving bulk amount of fertilizer, which the small dealers did not have<sup>74</sup>.
- b. Fertilizer price has increased as result of inability of private dealers to distribute to remote areas, lower availability, and increased cost of distribution. It was also identified that by the privatization initiative congenial environment was created for greedy dealers to charge prices higher than prescribed level at farmer level<sup>75</sup>. The increased price resulted in lower use of fertilizer, particularly, by the small farmers, who are the majority<sup>76</sup>.

The above points captures the immediate economic impacts, whereas, the process would have generated many other potentially negative socio-political effects which are yet to be accounted for.

In any case, the event of privatization of fertilizer distribution has illustrated that privatization policy induced by doctrinal globalization forces on Bangladesh has the

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<sup>74</sup> Quasem, Barakat, and Khan *Impact of the New System* and Abdullah, "Fertilizer Distribution System"  
and Abdullah

<sup>75</sup> Quasem, Barakat and Khan, *Impact of the New System; Fertilizer Price Decontrol*; Hussain, "Transformation of Agriculture System." Referred in Saha, "Distribution System of Agricultural Inputs"

<sup>76</sup> Saha, "Distribution System of Agricultural Inputs"

potential to do more harm than good, if it is not adopted on careful considerations based on careful and objective analysis and taking care equity consideration.

## **Chapter 4: Conclusion**

We have presented and evaluated various concepts related to globalization and privatization and a conceptual model to deal with privatization more effectively, analyzed the policies related to privatization in Bangladesh and dissected a case - privatization of fertilizer distribution. In this concluding section we would mainly like to evaluate how far we have achieved to establish our theses and what are the significance of the findings.

We have shown that that the current form of globalization based on neo-liberal beliefs, distinguished from the positive concept of globalism, are highly questionable. The ideological basis of it are successfully challenged by scholars such as Marx, Keynes and Sen. Impacts of the agenda promoted by globalization forces, of which privatization is one of the foremost, range from hindered national growths and increase in inequality to blatant economic disasters around the globe.

We have also seen that, even though, privatization could be considered one of the foremost of globalization agenda, concepts related to it are quite varied in meaning and treatment. Mainstream thinking lacks definition, moderates confines it mainly to state owned enterprises and political economists, with their broader conceptual hemisphere, needs more focus on the issue. Seemingly a comprehensive understanding calls for a comprehensive theoretical framework, which the model of Savas apparently have.

Treating privatization basically a governance issue. Savas model tried to understand it from the critical point of view of choice of right mode of service delivery for the various goods and services a society needs. Classifying, with its exclusion and consumption criteria, all the goods and services in four groups - private, toll, common pool and collective - the model identified that market mechanism could not provide two of the classes - common pool and collective goods. It was argued that more and more, in civilized societies, private and toll goods assume the characteristics of collective goods to be arranged and provided by the government and paid for with taxes on behalf of the citizens. The model identified ten service delivery modes - government service, intergovernmental arrangement, government vending, contract, grant, voucher, franchise, market, voluntary, and self-service and defines privatization as the movement in service delivery from a mode up in the order to a lower one. The decision to privatize or not is dependant upon factors relating to the case at hand and not on any predetermined rule. The deciding factors may include social desirability of the particular service delivery mode depending upon the prevailing values of the society. In our research we have tried to employ Savas model to understand the phenomena of privatization.

To establish the two main propositions of the thesis - globalization dictated the privatization policy of Bangladesh and privatization can be better understood employing Savas model - we have analyzed four privatization related policies of Bangladesh and discussed a case - privatization of fertilizer distribution.

Let us now briefly recast the findings of this research below to see how significantly the theses are supported through this venture:

1. The policy analysis presented clearly showed that Bangladesh has embraced an all out privatization policy in line with the thoughts of the globalization forces. The dictates of globalization forces are also evident. But, despite taking this policy stance, analysis of government expenditure and income data reveals that the size of the government is growing over the period in question. This indicates that even though public is paying more, they are getting less from the government day by day under the current privatization regime. This may provide an indication to the deeper contradiction of the current globalization dictated privatization policy of Bangladesh.
2. The case of privatization of fertilizer distribution vividly showed that a major privatization move initiated totally on ideological grounds and no analysis was conducted as to the feasibility or impact of the program. Employing Savas model it was shown that there was no scope for bringing in market efficiency argument in this particular case which composed of intergovernmental arrangement and government service. Role of market mechanism was nowhere in the scene. The impacts of the privatization move, almost solely dictated by a globalization force brought disastrous results - cost of distribution increased, fertilizer prices went up and its use reduced. The case study suggests that Savas model may serve as an analytically useful tool as it can provide better insights to the activities involved



in the privatization process. As the studied case was a major one and presumed to have typical characteristics, the findings lend support to the proposition and may have general applicability.

The above discussion coupled with the reminder of the thesis has shown some of the challenges of globalization in terms of privatization policy of Bangladesh. It would be pragmatic to review the privatization policy postures in the light of the new understanding of this research. Market mode of service delivery has its role to play in a country's development, however, other modes of delivering the goods and services to the citizen are to be carefully considered before making privatization decisions. Our analysis supports the view that there is no universal rule for privatization. The decision whether to privatize or not depends on the specific case at hand. Therefore, careful analysis of the situation is crucial before taking any step towards that end. While streamline the government could be desirable objective, equity considerations are of paramount importance for a country like ours. The government, mandated, as a representative of the society to take decisions to ensure well being of the citizens, must act prudently.

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