CHAPTER - VI

STRATEGIES AND POSSIBILITIES OF FUTURE PRIVATIZATION PROGRAMME IN BANGLADESH

In the previous chapter, a detailed analysis as regards privatization programme adopted by the government of Bangladesh and emerging issues thereof were critically discussed. The present chapter analytically deals with the approaches of privatization, strategies and future potentials of the privatization programme in Bangladesh. The subject-matter of this chapter has been designed in the following manner:

6.1 Introduction
6.2 Approaches Of Privatization.
6.3 Strategies And Possibilities Of Future Privatization Programme In Bangladesh.
6.4 Conclusion.
References.
6.1 Introduction:

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

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

6.2 Approaches of Privatization:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The chart - 1 shows the complicated structure of BOO-BOT project.

The essential features of BOO-BOT arrangement are summarised as follows:

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

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

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

i. The central BOO-BOT implementing agency must have adequate authority.

ii. Initially, at least, BOO-BOT transactions should be limited to modest size and relatively simple projects.

iii. Government will need to protect the public interest through exercise of its inherent regulatory function.

iv. BOO-BOT models should be flexible, fast responding and highly professional.

v. BOO-BOT models can fit well with the application of other privatization techniques.

It may be useful for Bangladesh to follow the experiences regarding BOO-BOT from different countries like, U.K. Pakistan, Philippines, Srilanka, Malaysia etc. who have successfully applied these strategies in their privatization programme.
15. Contracting Out: In this form of privatization, there is a contract between government and the private firm to deserve the right to produce and sell the services selected on the basis of competitive bidding and the government bears all the costs of providing service. By creating greater competition among the bidders, government can save funds from contracting out. 'Tough competition will keep the contractor on his toes for fear of losing the contract.'

CHART - 1

BOO-BOT Project Structure

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

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

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

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

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

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

6.3 **Strategies And Possibilities Of Future Privatization Programme In Bangladesh:**

**Future Privatization Strategies**:

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

An active employee supporting programme should be adopted,
and voluntary departure schemes should also be strengthened.

Retraining and credit based employment schemes should be chalked out and implemented.

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

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

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

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

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

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

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

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

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

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

Possibilities:

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

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

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

Government has to layout a road map that where it is and where it wants to go, i.e. Industries have to be specified to be privatized and chalk out a plan that how they would be privatized.

Government should follow an approach of "perform or perish" i.e. government will clarify a few enterprises which will remain in the state sector for a certain period of time. If those enterprises fail to achieve their objectives set for them within that period of time, then they must be divested. This approach of "perform or perish" is the most appropriate way to manage the transition in the phasing of the government's privatization programme.¹⁶

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

In privatizing politically powered SOEs, government can also employ the marginalization and 'quiet liquidation' technique, used so effectively in other countries and that has been so successful in the local fertilizer distribution project.¹⁶

Government should carefully define the complimentary roles of the public and private sectors in the economy. 'Special attention must be accorded to ensure forceful and coordinated implementation of privatization and private sector development programmes.'¹⁷

SOEs assets should be valued realistically. Since the valuation is a very complex and technical matter, so extra care should be taken in valuing the assets of SOEs. It should not be too low or too high. The government should take care that the transaction would be a way to obviate losses and therefore should make it clear. It should be mentioned here that 'valuation of assets must be done properly and they should be offered for sale based on the net worth estimated by the experts, not as political expediencies'¹⁸:
The labour question is one of the most vital and disputable issues concerned with privatization of SOEs. Labour would never oppose privatization if their interests are protected. So, research should be conducted on labour and employee aspects of privatization and accordingly privatization should be adopted.

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

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

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

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

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

A post privatization monitoring programme should be adopted with a view to evaluating the performance of privatized enterprises as well as to disclose it to the people of the country so that they can put their opinion in regards to any post privatization difficulties.
Co-operation between the privatization Board, Ministry of finance and Ministry of Commerce must be maintained in order to speed up the programme. It is most important prerequisite to successful privatization in Bangladesh.

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

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

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

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

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

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

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

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

'The primary objective of privatization should be to increase efficiency
not to maximise revenue.\textsuperscript{25}

'\textbf{The more market friendly a country's policy frame work - and appropriate policy is correlated with capacity to regulate the less difficulty it will have in privatizing an SOEs, and the higher the likelihood that the sale will turn out positively.}\textsuperscript{26}

\textbf{Privatization Master-Plan is needed in Bangladesh which will formulate all the strategies in regard to gradually privatizing SOEs, 'Such a Master Plan however should be reached in the basis of consensus reached among all major political parties and in active consultation with the private sector.}\textsuperscript{27}

\textbf{Capital market development is an essential factor of accelerating privatization by which all entrepreneurs can contribute to the national economy. But asill luck would have it, the capital market in Bangladesh is not as large and developed as needed. There is limited number of shares which is the main causes of slow expansion of the capital market. This should be overcome by taking necessary measures, stated bellow:\textsuperscript{28}}

\begin{itemize}
\item[a.] that accelerated privatization is a prerequisite to the expansion of the capital market and privatization of the SOEs and government run utilities sectors will not only unload the burden of the exchequer but will also attract large investment in the capital market.
\item[b.] that the State-Owned Enterprises (SOEs) and the large public sector corporations should be restructured and their shares be floated in the capital market.
\item[c.] that Mutual Funds through massive local and foreign private participation be introduced in the share markets.
\item[d.] that 100% foreign owned large firms in the Export Processing Zones (EPZs) should be persuaded to be enlisted with the Stock Exchanges.
\item[e.] that the utility sectors like gas, electricity, telecommunication etc. should be opened to the private sector as soon as possible through flotation of shares.
\item[f.] that disparity in the tax structure has been discouraging the secondary stock market. It is therefore, recommended that no capital gain tax should be applied to the transaction in secondary market.
\item[g.] that the difference of tax rate between the listed and non-listed companies should be minimum fifteen per cent.
\end{itemize}
i. that in order to cope with the global changes to attain international standards, the foreign audit firms be allowed to participate in audits and according of companies coming into public issues.

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

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

l. that the merchant banks and asset management companies should be encouraged to function as soon as possible.

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

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

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

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

With a view to developing the labour-management relations, a consultative management system should be introduced or encouraged. This will help to remove the crisis of industrial relations in both public and private sectors. Further, if privatization policies are to be carried through with a minimum economic, social, and political stability and efficiency, it is indispensable to promote a close, constructive dialogue between public authorities, employers organisations and trade unions and this dialogue must be maintained before, during and after privatization.29

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

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

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

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

6.4 Conclusion

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

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

b. That political support which is fundamental to any policy of privatization is lacking in Bangladesh. Political leadership should have clear vision of what is expected through the process of privatization. The present half-hearted support is doing more harm than good and helps to keep the genuine buyers away. Total political support irrespective of parties is needed for privatization.
c. That a reform in the bureaucratic set up and system is essential to expedite the reforms aimed at privatization.

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

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

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

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

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

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

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